



# An Overview of MSMEs in the Indian Economy

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## ABSTRACT

MSMEs contribute around 30 per cent to India's GDP, employ about 11 crore people, constitute nearly 40 per cent of total exports, and more than half of them are located in rural India. The government is keen to rev up this sector to achieve inclusive growth, thereby attaining self-reliance. According to the Invest India portal maintained by the Government of India, MSMEs account for 95% of all industrial units and employ over 100 million people across the country, second only to the agricultural sector. The growth of the MSME sector is crucial to widening the industrial base of the state, enhancing livelihood opportunities, and fostering entrepreneurship and productivity in upstream and downstream sectors. The MSMEs sector is the backbone of the national economic edifice and has unremittingly acted as the fulcrum for the Indian economy, providing it resilience towards global financial shocks and hard times. With approximately 63.4 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities, as well as 33.4% of India's manufacturing output. Further, there is a vision to enhance MSMEs' contribution to India's GDP to over 50% from the current 29% and that for the Indian economy to scale the \$5 trillion mark, the contribution of the MSME sector will be crucial. Over the last five decades, the micro, small and medium enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. MSMEs not only play a crucial role in providing large employment opportunities at comparatively lower capital costs than large industries but also help in the industrialization of rural and backward areas, thereby, reducing regional imbalances and assuring a more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units, and this sector contributes enormously to the socio-economic development of the country. This paper focused on the growth of MSMEs and outlined the opportunities available for MSMEs in the Indian economy.

**Key Words:** Micro, Small and Medium Enterprises, employment opportunities, service activities.

## Introduction

In India, MSMEs contribute nearly 8% of the country's GDP, around 45% of the manufacturing output, and approximately 40% of the country's exports. It won't be wrong to refer them as the 'Backbone of the

country. 'The Government of India has introduced **MSME or Micro, Small, and Medium Enterprises** in agreement with Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. These enterprises primarily engaged in the production, manufacturing, processing, or preservation of goods and commodities. MSMEs are an important sector for the Indian economy and have contributed immensely to the country's socio-economic development. It not only generates employment opportunities but also works hand-in-hand towards the development of the nation's backward and rural areas. According to the annual report by the Government (2018-19), there are around 6,08,41,245 MSMEs in India. The number of MSMEs in India increased by a CAGR of 18.5% from 2019 to 2020. In FY21, the loan disbursements to MSMEs stood at Rs. 9.5 trillion (US\$ 128.06 billion), a 40% increase compared with Rs. 6.8 trillion (US\$ 91.66 billion) in FY20.

### **Role of MSMEs in Indian Economy**

Since its formation, the MSME segment has proven to be a highly dynamic Indian economy sector. MSMEs produce and manufacture a variety of products for both domestic as well as international markets. They have helped promote the growth and development of khadi, village, and coir industries. They have collaborated and worked with the concerned ministries, state governments, and stakeholders towards the upbringing of rural areas. MSMEs have played an essential role in providing employment opportunities in rural areas. They have helped in the industrialization of these areas with a low capital cost compared to the large industries. Acting as a complementary unit to large sectors, the MSME sector has enormously contributed to its socio-economic development. MSMEs also contribute and play an essential role in the country's development in different areas like the requirement of low investment, flexibility in operations, mobility through the locations, low rate of imports, and a high contribution to domestic production.

With the capability and capacity to develop appropriate local technology, provide fierce competition in domestic and international markets, technology-savvy industries, a contribution towards creating defense materials, and generating new entrepreneurs by providing knowledge, training, and skill up-gradation through specialized training centers.

The MSME Ministry is comprised of four statutory bodies: the Khadi and Village Industries Commission (KVIC), which is responsible for promoting and developing khadi and village industries in order to provide employment opportunities in rural areas, thereby strengthening the rural economy; the Coir Board, which is responsible for promoting the overall development of the coir industry and improving the living conditions of coir workers; and the National Small Industries Corporation Limited. On line system of MSME/Udyam Registration launched by the Union MSME Ministry, w.e.f. July 01, 2020, successfully registered >1.1 million MSMEs until November 2020. In June 2021, the Ministry of Micro, Small and Medium Enterprises extended the validity of the Udyog Aadhaar Memorandum from March 31, 2021, to December 31, 2021.

Table 1

**MANUFACTURING SECTOR**

<b>Enterprises</b>	<b>Investment in Plant &amp; Machinery</b>
1. Micro Enterprises	Does not exceed Rs. 25 lakhs.
2. Small Enterprises	More than Rs. 25 lakhs but does not exceed Rs. 5 crore.
3. Medium Enterprises	More than Rs. 5 crore but does not exceed Rs. 10 crore.
<b>Service Sector</b>	
1. Micro Enterprises	Does not exceed Rs. 10 lakhs.
2. Small Enterprises	More than Rs. 10 crore but does not exceed Rs. 2 crore.
3. Medium Enterprises	More than Rs. 2 crore but does not exceed Rs. 5 crores.

Indian MSMEs comprises three sub-sectors:

1. Predominantly rural based, traditional household industries.
2. Small and medium industries, functioning with relatively obsolete technologies.
3. Modern, small and medium enterprises, which are owned and operated by techno-entrepreneurs operating in new industries such as software and bio-technology, among others.

**Need of MSMEs**

Indian economy is highly dependent on the growth of MSMEs. Almost more than half of all the global businesses are coming under MSME sector and it is still more than half in some parts of the developed countries of the world. It is very easy for the policy makers to take a strategic decision to promote MSMEs as it is very evident that its growth is directly affecting the economy. There exists a difference in the definition of MSMEs across the globe and as well among the industries catering to different sectors. As a result this small sector needs at most importance from the policy makers towards achieving higher returns. These intermediaries are there in all countries but vary in their role towards these small sectors.

**Review of Literature**

**Sonia Mukhrejee (2018)** researched about the challenges faced by MSMEs in India and observed that more efforts on the part of both the government and the entrepreneurs have to be invested into the

sector for improvement of the competitiveness of the MSMEs in India. The researcher opined that efforts in the form of investing in advanced technology, and R&D, higher usage of technology and digital enabled platforms, technology transfer, investing in human resource, improving access to finance, closing the infrastructure gap, and reducing the cumbersome and stringent business regulations. The researcher was of the view that if the above measures are paid attention to, it will improve Indian MSMEs to have access to the global market.

**Surendar Gade (2018)** attempted to examine the contribution of MSMEs sector towards the growth of India and highlighted the areas, which needs to be strengthened for the sector to continue with its contribution to the development of the nation. The author found out from the study that the MSMEs could be the boon and future hope of the economy. In addition, MSMEs were found to provide equal development opportunities to the society and can also be a strong means of utilizing the available natural resources in India.

### **Objectives of the Study**

1. To analyze the overview of MSMEs in India.
2. To discuss the role of MSMEs in Indian economy

### **Methodology**

The research is based on secondary data. It's an exploratory and descriptive in nature given the nature of the present study, it was required to collect information from the secondary sources. Secondary information was collected from research studies, books, journals, newspapers, Government Websites, Press Releases, Media Reports, Deloitte Report ongoing academic working papers and websites of governments of India.

MSMEs have been playing a significant role in Indian economy. A catalyst for socio-economic transformation of the country, the sector is critical in meeting the national objectives of generating employment, reducing poverty and rural-urban migration. These enterprises help to build a thriving entrepreneurial eco system, in addition to promoting the use of indigenous technologies. Further, it reduces inequalities in the economy by contributing in distribution of wealth.

The number of MSMEs registered on Udyog Aadhaar Memorandum (UAM) portal till July 12, 2018 (since September 2015) is 48.40 lakh. However, as per the 73rd round of the NSS data, the total number of MSMEs in the country was 633.88 lakh. India's export of products from the MSMEs increased to \$ 137.1 billion in 2016-17, registering a growth of 4.8 per cent which was an improvement from the negative growth of 5.9% in 2015 – 16.

According to the Ministry of MSME (2017) MSMEs provide employment to 8 crore people. They provide over 6000 products which account for 8% of the GDP, 45% of manufacturing output and 40 per cent exports. Thus, MSME sector has been contributing to gross volume of output, employment and exports etc., MSMEs also play a considerable role in nation development through high contribution to domestic production, export earnings, low investment requirements, operational flexibility, low intensive imports, import substitution etc., India has been the breeding ground ideas and entrepreneurs in the recent past. Start-up activity is at an all-time high.

Small scale industries can mobilise a good amount of savings and entrepreneurial skill from rural and semi-urban areas remained untouched. Further, MSMEs playing an important role is dispersing the industrial units of the country in the various parts of the country. The SSIs are monitoring better industrial relations between employers and employees and this led to less number of industrial disputes.

### **Importance of MSMEs for the Indian Economy**

Across the globe, MSMEs are accepted as a means of economic growth and for promoting equitable development. They are known to generate the highest rate of growth in the economy. MSMEs have driven India to new heights through requirements of low investment, flexible operations, and the capacity to develop appropriate native technology.

- MSMEs employ around 120 million persons, becoming the second-largest employment generating sector after agriculture.
- With approximately 45 lac units throughout the country, it contributes about 6.11% of GDP from manufacturing and 24.63% of the GDP from service activities.
- MSME ministry targets to increase its contribution towards GDP by up to 50% by 2025 as India moves ahead to become a \$5 trillion economy
- Contributing around 45% of overall Indian exports
- MSMEs promote all-inclusive growth by providing employment opportunities, especially to people belonging to weaker sections of the society in rural areas.
- MSMEs in tier-2 and tier-3 cities help in creating opportunities for people to use banking services and products, which can amount to the final inclusion of the contribution of MSMEs for the economy.
- MSMEs promote innovation by providing an opportunity to budding entrepreneurs to help them build creative products they and thereby boost competition in business and fuel the growth.
- The Indian MSME sector provides silent support to the national economy and acts as a defense against global economic shock and adversities. Hence, we can say that India is propelling towards a robust global economy through a silent revolution powered by MSMEs

### **Current status of MSMEs in India**

The Micro Small and Medium Enterprises (MSMEs) sector is a major contributor to the socio-economic development of the country. In India, the sector has gained significant importance due to its contribution to Gross Domestic Product (GDP) of the country and exports. The sector has also contributed immensely with respect to entrepreneurship development especially in semi-urban and rural areas of India.

### **Market Size**

India has approximately 6.3 crore MSMEs. As per the MSME Ministry data, as of May 16, 2021, the Udyam Registration portal registered 30,00,822 MSMEs, which replaced the former process of filing for Udyog Aadhaar Memorandum (UAM). Registered micro-enterprises stood at 28 lakh (93%), followed by small enterprises at 1.78 lakh (6%) and mid-sized enterprises at 24,657 (1%). The Indian MSMEs sector contributes about 29% towards the GDP through its national and international trade.

The BSE SME (small and medium enterprises) platform is expected to witness >60 SMEs to enter the market in one year (2021-22) to bring up equity funds for meeting their business requirements. The initial public offering (IPO) route witnessed 16 SMEs enter the market; they raised Rs. 100 crore (US\$ 13.74 million) in 2020. In June 2021, Bombay Stock Exchange (BSE) announced that it has collaborated with Electronics and Computer Software Export Promotion Council (ESC) to build awareness among small businesses and start-ups about advantages of listing.

MSMEs are being encouraged to market their products on the e-commerce site, especially through Government e-Marketplace (GeM), owned and run by the government, wherefrom Ministries and PSUs (public sector undertakings) source their procurement. As of June 25, 2021, GeM portal has served 6.87 million orders worth Rs.116,291 crore (US\$ 15.67 billion) from 2 million registered sellers and service providers for 52,651 government buyers.

Domestic business requires a strong financial stimulus with concessional working capital loans to ensure adequate liquidity is maintained in business operations from the government and financial institutes.

### **Government Policies**

The Government of India has designed various policies for the growth of MSMEs in the country.

- As of March 2022, the number of loans sanctioned under the Pradhan Mantri MUDRA Yojana (PMMY) scheme was 48.92 million and the amount disbursed was Rs. 3,02,948.49 crore (US\$ 39.90 billion).
- In the Union Budget of 2022-23 MSMEs sector was allocated an Emergency Credit Line Guarantee Scheme (ECLGS) of Rs. 50,000 crore (US\$ 6.55 billion).
- On March 30 2022, the Indian government allocated Rs. 6,062.45 crore (US\$ 808 million) for the scheme Raising and Accelerating MSME Performance (RAMP). The programme aims to improve market and credit access, strengthen institutions and governance at the centre and state levels, improve centre-state connections and partnerships, resolve late payment difficulties, and green MSMEs.
- In November 2021, the Indian government launched the Special Credit Linked Capital Subsidy Scheme (SCLCSS) for the services sector. This scheme will help enterprises in the services sector meet various technology requirements.
- In November 2021, the Ministry of Micro, Small and Medium Enterprises launched SAMBHAV, a national-level awareness programme to push economic growth by promoting entrepreneurship and domestic manufacturing.
- In September 2021, Union Minister for MSMEs, Mr. Narayan Rane introduced 'India Export Initiative' and 'IndiaXports 2021 Portal'. This initiative will help exports reach its Rs. 2,928,000 crore (US\$ 400 billion) target by the end of FY22 and further push it to Rs. 7,320,000 crore (US\$ 1 trillion) by FY27.
- In September 2021, Khadi and Village Industries Commission (KVIC) established the first 'Silk Yarn Production Centre' in Odisha to boost the local silk industry and generate employment.
- In September 2021, Union Minister for MSMEs, Mr. Narayan Rane inaugurated Rohtak Technology Centre, which is expected to train >8,400 trainees annually.

- In September 2021, Khadi and Village Industries Commission (KVIC) launched SPIN (Strengthening the Potential of India) scheme and built a pottery cluster under SFURTI Scheme in Varanasi to support >1,100 individuals of the marginalised potters' community.
- In July 2021, Lok Sabha passed a bill on 'Factoring Regulation (Amendment)' to expedite the payments ecosystem for MSMEs.
- Budget allocation for MSMEs in FY22 more than doubled to Rs. 15,700 crore (US\$ 2.14 billion) vis-à-vis Rs. 7,572 crore (US\$ 1.03 billion) in FY21.
- The government also announced Rs. 3 lakh crore (US\$ 40.85 billion) collateral-free automatic loans for businesses.
- In Union Budget 2021, the government announced funds worth Rs. 10,000 crore (US\$ 1.36 billion) for 'Guarantee Emergency Credit Line' (GECL) facility to eligible MSME borrowers, giving a major boost to the sector.

### **Government Initiatives for the Growth of MSME Sector**

In November 2018, Government of India made various key announcements for faster growth of this sector and for promoting ease of doing business that included in principal approval for loans upto Rs. 1 crore within 59 minutes through on line portal. Interest subvention of 2% for all GST registered MSMEs on incremental credit upto Rs. 1 crore is also being provided and will be in operation for a period of 2 financial years 2018-19 and 2019-20 with an allocation of Rs. 975 crore. SIDBI acts as the nodal agency for implementation of the scheme.

The government has under taken a number of schemes/programmes like the Prime Minister's Employment generation programme, Credit Guarantee Trust Fund for Micro and Small Enterprises, Credit Linked Capital Subsidy scheme for technology upgradation, Scheme of Fund for Regeneration of Traditional Industries and Micro and Small Enterprises Cluster Development programme for the establishment of new enterprises and development of existing once.

### **Achievements in MSMEs Sector**

The Ministry of MSME runs numerous schemes targeted at providing credit and financial assistances, skill development training, infrastructure development, marketing assistance, technological and quality upgradation and other services for MSMEs across the country.

**Developing Bond Market:** With India's bond markets starting to take shape, promotion of SME bond issuances can provide a fillip to debt capital markets participation of MSMEs.

While such issuances will provide lower interest rates for MSMEs than other financial intermediaries charge, they will also be a viable high-yield instrument for informed and educated investors operating in the bond market.

**Creation of Independent Regulator:** Given the growing importance of the data economy, it is paramount that the government creates an independent body which can advise and provide consultancy to MSMEs and enable them to win in this new, digital world.

**Reforming Labour Laws:** Labour laws are not very conducive to MSME growth. They must strike the right balance between providing a growth-oriented framework for MSMEs to run in and providing sufficient protection for the rights of workers.

**Improving Regulation:** While Ease of Doing Business has been a focus area, the reporting, approval and compliance requirements for small businesses continue to border on the higher side. If we truly want to create a country where MSMEs can influence our economic destiny, it is imperative that they are provided with a hassle-free regulatory framework which works for them rather than against them.

### **Schemes and Programs of the GOI for the sustainable growth of the MSME sector**

To promote and support MSMEs, GOI are taking various initiatives along with running schemes and programs on following areas

1. Credit & Finance
2. Competitive Technology
3. National Manufacturing Competitiveness Program (NMCP)
4. Skill Development
5. Marketing and Procurement
6. Export Promotion
7. Infrastructure Development
8. Fiscal Concessions
9. Micro, Small and Medium Enterprises Development Act, 2006

In some countries such as Singapore and Taiwan ; the SMEs are base of economy. While in countries like Japan and Korea base of economy are big companies and small companies operate as their support. Globalization and India's robust economic growth have opened up several latent business opportunities for this sector. With all these developments, there is a huge scope for MSMEs to enter in international markets, explore opportunities abroad and make the „Made in India“ tag global. India has registered a high economic growth (6-9%) consistently over the last one decade. For the sustainability of this kind of growth proper nurturing of MSME sector is imperative. The need of the hour is to empower the MSME Sector so that it is able to take its rightful place as the growth engine of the economy.

Apart from various schemes offered by the Government of India to strengthen the sector, the following key initiatives under unique and innovative 'Atmanirbhar Bharat' approach, i.e. Rs. 3 Lakh Crores Collateral-free Automatic loans for businesses, including MSMEs due to the menace of COVID 19, to provide additional funding in order to meet built up operational liabilities, procure raw materials and restarting of business; Allocation of Rs. 20,000 Crores Subordinate Debt for stressed MSMEs. Under this arrangement, equity assistance would be provided to the stressed MSMEs; Government of India will facilitate provision of Rs.20,000 Crore as subordinate debt; MSMEs which are functioning and currently having non-performing assets (NPAs) or stressed will be eligible to seek assistance under this arrangement; Government of India will provide a support of Rs. 4000 Crore to CGTMSE; CGTMSE to provide partial Credit Guarantee support to banks; Promoters of the MSMEs will be provided debt by banks, which will then be infused by promoter as equity in the business unit. It is heartening to note that this initiative will benefit approximately two lakhs MSMEs across the country. Another significant measure under 'Atmanirbhar Bharat' is Rs. 50,000 Crore equity infusion for MSMEs through Fund of Funds in view of the fact that MSMEs witness acute paucity of equity. In this initiative, a Fund of Funds with corpus of Rs.10,000 Crores will be established to provide equity funding to MSMEs with growth potential and



feasibility. In order to make this approach viable, Fund of Funds will be operated through a Mother Fund and few Daughter Funds. This initiative will assist the MSMEs substantially in expanding their business as well as capacity and foster MSMEs to get listed on main board of Stock Exchanges. Further, as discussed above that MSME sector is poised for huge growth in view of the forecasted trends of micro, small and medium enterprises in terms of both numbers and activity-wise coupled with the prevailing schemes and initiatives announced under Atmanirbhar Bharat will pave the way for a gigantic growth of MSME sector in India and in this phenomenon of growth, the Governance Professionals, i.e. Company Secretaries will play a key role in various dimensions of the business activities of the micro, small and medium enterprises.

### Conclusion

The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. This sector even assumes greater importance now as the country is moving towards a faster and inclusive growth agenda. Moreover, it is the MSME sector which can help realize the target of proposed National Manufacturing Policy of raising the share of manufacturing sector in GDP from 16% at present to 25% by the end of 2022. However for the sector to fully utilize its potential, it is essential that the entrepreneurs along with the government support take necessary steps for further development. It is quite evident that, nurturing this sector is essential for the economic wellbeing of the nation. It is essential to take care of the sector to enable it to take care of the Indian economy. The government of India has envisioned doubling the Indian economy to US \$5 trillion in five years. In order to achieve this goal, career opportunities for the young population have been generated, and MSMEs have the potential to serve as a key employment generator. Therefore, the government has taken up the promotion of MSMEs in order to create new jobs in the sector. Further, the government aims to enhance MSME's share in exports and its contribution to GDP. In order to achieve these targets, the government should invest in providing more back-end services to improve the performance of the MSME sector as it supplies goods and services to big industrial enterprises. Lack of technology-based production activities and low investment in R & D activities are bottlenecks hindering the sector from becoming competent. Globally available technology could be subsidised by the government so that the product quality of MSME players can be improved using the existing resources. This also requires the help of academic institutions in the form of providing research and development (R & D) services for product innovation.

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