

## Analysis of MSME Sector in India

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**Abstract** An important part of the Indian economy is the Micro, Small, and Medium-Sized Enterprises (MSMEs). Approximately 8% of the nation's GDP, 45% of manufacturing output, and 40% of exports are attributed to this industry. The industry confronts many obstacles despite its importance, such as poor UDYAM Platform registration, heterogeneity, fragmentation, and informalization. The present study aims to study role of MSME in Indian economy. This paper explores various problems and challenges faced by MSME sector. It also presents some policy based suggestions to resolve such issues which hinders the growth of MSMEs sector.

**Keywords** MSMEs, Growth, GDP, Economy, Export, Employment.

### Introduction

Over the past fifty years, the Micro, Small, and Medium-Sized Enterprises (MSME) sector in India's economy has become a highly dynamic and lively one (Murthy, 2016). With their successful, efficient, adaptable, and creative business endeavours, they also significantly contribute to the growth of the economy (Dey, 2014). The MSME sector is recognized for creating the highest rate of job creation and for making up a sizable portion of industrial production and exports. It also makes a considerable contribution to the nation's manufacturing output, employment, and exports. Because of their size, they have certain advantages over others. They have a labour-to-capital ratio that is relatively high, require less time to mature, concentrate on smaller markets, require fewer investments, guarantee a more equitable distribution of the nation's income, make it easier to effectively mobilize capital and huskill resources that might otherwise go underutilized, and encourage the rise of industrial entrepreneurship. The MSME sector in India exhibits significant heterogeneity with respect to enterprise size, range of products and services offered, and technological proficiency. It is a major contributor to the nation's socioeconomic development and works in tandem with big industries as supporting units.

Micro, Small, and Medium Enterprises (MSMEs), a widely acknowledged "engine of economic growth," have drawn the attention of policy makers since the introduction of India's planned economic structure. This is because MSMEs have the ability to generate substantial output with a lesser investment. Through the creation of jobs and income, the promotion of rural people's economic independence, and support for sustainable development, this labour-intensive industry has the potential to lessen regional disparities. Tamilnadu, Uttar Pardesh, Gujarat, and West Bengal are the leading states in MSME sector.

**Objective of study**

1. To analyse the role of the MSME sector in the Indian economy.
2. To highlight the issues and challenges faced by Indian MSMEs
3. To suggest possible measures to provide a more supportive and conducive environment to the MSMEs.

### Review of Literature

**Zanjurne Priyadarshani** (2018) focus on evaluate the overall growth and development in the MSMEs sector in India. This paper is to focus on performance of MSME & growth and opportunities. They concluded that this sector significantly contributes in employment, exports and manufacturing output.

**Dey Sanjeeb kumar** (2014) examined the present status of performance of MSMEs in India & future prospects. They concluded that this sector contributes significantly to manufacturing output, employment, exports of the country.

**Khatri Pooja** (2019) presents the role of MSME sector in the Indian economy. The vibrant sector also faces a number of challenges despite various initiatives taken by the concerned ministries. The present study aims to explore various problems and challenges experienced by the MSME sector. They reveals various aspects related to problems of finance, marketing, technology, human resource , operations and export potential based on secondary data. They also presents some policy based suggestions to resolve such issues which hinders the growth potential of MSME units

**Raghuvanshi et al** (2017) studied to identify and rank the enablers of innovation in Indian MSME. This paper proposes a hierarchical structure which is based on ISM approach to prioritise. MICMAC analysis has been conducted to examine driving and dependence power.

**Athaide Malcolm and Pradhan HK**(2020) examined credit constraints using standard models inhighly constrained Micro, Small, Medium Enterprises (MSMEs) sector in India. The mixed results may not be reflective of MSMEs in India, as the standard models have been developed for much larger firms in western markets having lower information asymmetry than Indian firms. So they proposed an augmented model of investment sensitivity based on the framework of the Fazzari and Petersen model. They found the augmented model also called the Deficit Financing Model, robust for ascertaining credit constraints of Indian MSME firms and its variables consistent with available literature.

**Moon Urmila** (2012) analysed trends, performance and growth of MSMEs. The paper also makes an attempt to understand various problems faced by this sector. An attempt is made to offer few suggestions to augmented the success of this sector.

#### **Methodology**

This study is based on secondary data. The relevant data is collected from various industry Journals, annual report of 'Ministry of Micro, Small and Medium Enterprises', Statistics on Indian economy, online articles and newspapers have been used for analysis.

#### **Analysis**

In India MSMEs 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.

A revision in Micro,Small and Medium Enterprise(MSMEs) definition was announced under the Aatmnirbhar Bharat Abhiyan scheme on May 13, 2020. The Ministry of Micro, Small and Medium Enterprises vide its gazette notification dated June 1, 2020 has announced the upward definition and criteria of the MSME. The new classification for MSME came into effect from July 1, 2020. Therefore According to the new classification of Micro, Small and Medium Enterprises (MSMEs) under the Aatmnirbhar Bharat Abhiyan scheme enterprises are defined based on the investment criteria in plant and machinery & turnover.

The MSME classification Into Micro, Small, and Medium Enterprises based on investment in plant and machinery equipment are as follows:

Micro – the investment in plant and machinery equipment will not be more than 1 crore, and annual turnovers will not be more than 5 crores.

Small – the investment in plant and machinery equipment will not be more than 10 crores, and annual turnovers will not be more than 50 crores.

Medium – As per the MSME classification criteria, the investment in plant and machinery equipment of Medium enterprises is not more than 20 crore, and the annual turnover is not more than 100 crore.

#### **Significance of MSME sector for India**

1. **Boon for rural development** – MSMEs contributed to the industrialization of rural areas at the lowest possible capital cost as compared to large corporations. With 51% of MSMEs situated in rural areas, this sector has supplemented large industries and significantly aided in the rural socioeconomic expansion of the nation.
2. **Simple management structure for Enterprises-** Given the middle class economy in India, MSME's flexibility allows them to begin with little capital under the owner's control. Making decisions becomes simple and effective after this.

3. **Economic growth and leverage exports** – With a GDP contribution of 8%, it is India's most major driver. GVA (gross value added) was made up of 26.8% MSMEs in 2020–21. August 2022 saw a 42.6% share of MSMEs in exports. 38.4% of India's total manufacturing GVA in 2020–21 came from manufacturing MSME contributions. By 2025, the Ministry of MSME hopes to have increased its share of high GDP to 50%, with the Indian economy on track to become worth US \$5 trillion.
4. **Creation of Employment** – Aside from agriculture, MSMEs employ the majority of people in India. 45% of all workers, or over 11.1 crore, are employed by them, and their capital and technological needs are modest. The mission of "make in India" revolves around MSMEs.
5. **Innovation promotion** – They provide opportunities for prospective entrepreneurs to create cutting-edge goods, assist in the mobilization of local resources, and strengthen rural industrial development. It offers a great deal of potential to link big businesses and India's MSME sector.
6. **Social Inclusion:** Socially disadvantaged groups had over 66.27% of MSMEs, according to the Ministry of MSMEs' Annual Report for 2021–2022. Socially disadvantaged groups owned approximately 73.67% of MSMEs in rural areas. The development of a sustainable and inclusive society can be greatly aided by MSMEs. Gender parity, the utilization of banking services and products, and balanced regional growth are all encouraged. As the "growth engine of the nation," MSMEs have the potential to flourish in light of the facts above.

#### **Challenges faced by the MSME sector**

1. **Financial Constraint:** Smaller businesses and industries in the Indian economy have always had trouble getting finance. For businesses as well as the MSME sector, this poses a serious challenge. The fact that just 16% of SMEs have timely access to funding, which forces small and medium-sized firms to rely solely on their own resources, is the most concerning statistic.
2. **Lack of Innovation:** Most products made by MSMEs in India are not innovative and rely on outdated technologies. The dearth of entrepreneurs in this field has made it difficult for new tools and technologies to be adopted MSMEs have so suffered from outdated technology and poor productivity, especially when compared to larger companies. Another significant element is ignorance, which reduces desire to spend money on innovative technology solutions
3. **Majority of Small Firms:** Among MSMEs, micro and small businesses make up more than 80%. Consequently, a communication gap and lack of awareness prevent them from taking use of the government's stressed asset relief, fund of funds operation, equity participation, and emergency line of credit.
4. **Absence of Formalization in MSMEs:** The credit gap is also caused by MSMEs' lack of formalization. Approximately 86% of MSMEs in the manufacturing sector in the nation are not registered. Only over 1.1 crore MSMEs are currently registered under the Goods and Services Tax framework, and significantly fewer of them file income taxes. The credit needs of Indian MSMEs have not been fully satisfied due to outdated underwriting practices, restricted data availability, and restricted access.
5. **Skill Development:** Unskilled workers are essential to the expansion of businesses. Acknowledging this, multinational corporations (MNCs) integrate on-the-job training into the core of their business operations. Sadly, small businesses let their employees become less skilled, which hurts them without realizing it.
6. **Creativity:** Companies are becoming more knowledge-based, and creativity and innovation are essential to their survival and success. MSMEs need to understand and use the innovation process into their everyday operations in order to stay competitive. They do not, however, have the means or ability to innovate.
7. **Competition:** Indian MSMEs are having trouble selling their goods in both domestic and foreign markets as a result of heightened competition. Due to their enormous operational scale, small-scale businesses must contend with fierce competition from both domestic and international giants (big corporations). Even though these small enterprises are protected by the government, competition is still mostly one-sided.
8. **Red-Tapism:** MSMEs must get many clearances, and entrepreneurs must deal with multiple government agencies to enforce contracts, start a firm, pay taxes, and conduct cross-border trade. Furthermore, MSMEs' ability to scale up is constrained by policy uncertainty and regulatory uncertainties.

#### **Govt. initiatives**

1. **Prime Minister's Employment Generation Programme:** The scheme, implemented by the KVIC, aims to generate employment opportunities in rural and urban areas by setting up new self-employment ventures/projects/micro enterprises. The programme also aims to provide continuous sustainable employment to prospective artisans and unemployed youth and increase the wage-

- earning capacity of artisans and contribute to the growth of rural and urban employment.
2. **Credit Linked Capital Subsidy Scheme:** Its objective is to facilitate technology upgrade among MSEs (Micro and Small) by providing capital subsidy of 15% (on institutional finance of up-to ₹ 1 crore availed by them) for induction of well-established and improved technology in the specified 51 sub-sectors/products.
  3. **Special Credit Linked Capital Subsidy Scheme (SCLCSS):** This scheme will help enterprises in the services sector meet various technology requirements. It also has a provision to grant 25% capital subsidy for procurement of plant & machinery and service equipments through institutional credit to MSMEs owned by SC/ST entrepreneurs without any sector specific restrictions on technology upgradation.
  4. **Raising and Accelerating MSME Performance (RAMP):** The scheme aims at strengthening institutions and governance at the Centre and State, improving Centre-State linkages and partnerships and improving access of MSMEs to market and credit, technology upgradation and addressing issues of delayed payments and greening of MSMEs.
  5. **Mudra Loan Scheme:** It was launched in April, 2015 for providing loans up to INR 10 lakh to the non-corporate, non-farm small/micro enterprises. It encompasses 3 financing loans: Tarun (loans up to INR 10 Lakhs), Kishore (loan up to INR 5 Lakhs), Shishu (loan up to INR 50,000).
  6. **A Scheme for Promotion of Innovation, Rural Industry & Entrepreneurship (ASPIRE):** The objectives of this scheme are to create new jobs, promote entrepreneurship culture in the country, promote innovation in the MSME sector.
  7. **Entrepreneurship and Skill Development Programmes (ESDP):** Under this, the Ministry of MSME has been organising several programmes focussing on the process of improving skills and knowledge of entrepreneur, and enhancing the capacity to develop, manage and organise a business venture.
  8. **Scheme of Fund for Regeneration of Traditional Industries (SFURTI):** The objectives are to organise traditional industries and artisans into clusters to make them competitive and provide support for their long-term sustainability, enhance marketability of products of such clusters, build innovative products, improve technologies etc.
  9. **Financial Support to MSMEs in ZED Certification:** The scheme promotes Zero Defect and Zero Effect (ZED) manufacturing among MSMEs. It provides ZED Assessment for their certification to encourage MSMEs to constantly upgrade their quality standards in products and processes, promote adaptation of quality tools/systems and energy-efficient manufacturing.
  10. **Digitalisation:** Government initiatives such as the Digital Saksham and the interlinking of the Udyam, e-Shram, National Career Service (NCS), and Atmanirbhar Skilled Employee-Employer Mapping (ASEEM) portals show the promise of targeted digitalisation schemes.
  11. **Building Awareness on Intellectual Property Rights (IPR) for MSMEs:** It has been launched to promote awareness about IPRs among MSMEs by assisting them in technology upgrade and enhancing competitiveness and effective utilisation of IPR tools.
  12. **Trade, Import and Export for MSMEs:** MSME support and development organisation, National Small Industries Corporation (NSIC), will assist MSMEs working with the Agricultural and Processed Food Products Export Development Authority (APEDA) across multiple areas.

### Suggestions

1. **Regulatory Mechanism:** The growing importance of the data economy necessitates the government creating an independent body to advise and offer consultancy to MSMEs and establish regulatory measures to protect them from economic shocks.
2. **Supply Chain Finance:** It can help MSMEs meet urgent working capital requirements and allow them to make early payments or have quicker access to funds that they are owed and to inculcate Zero Defect & Zero Effect (ZED) practices in manufacturing done by Indian MSMEs. Technology-enabled platforms to automate transactions can be created making it easier for MSMEs to track payments. With such seamless and quick funding, MSMEs can easily invest in business expansion, procure new raw materials, or update their inventories.
3. **Linking Government Projects with Local MSME:** The government can play a crucial role in creating domestic manufacturing capabilities by the leverage of proposed public procurements and projects. For instance, public projects such as Sagarmala, Bharatmala, and industrial corridors can be linked with the MSME sector.
4. **Industry-Academia Channel:** A greater connection between government industry-academia is required to identify the evolving requirements in manufacturing and prepare an employable workforce, contributing to Industrial Revolution 4.0.
5. **Dedicated MSME Portal:** A portal can be created for MSME formalisation and registration. It will not only bring transparency but also help in reducing frauds and

misappropriation of data. And it can also be developed as a full-fledged marketplace for MSMEs through which sellers can develop forward and backward linkages. Aadhaar or PAN can be used as a unique identifier for all compliance purposes and annual registration process as a vendor must be simplified or can be done with this identifier.

6. **E-Courts for Dispute Resolution:** Often the National Company Law Tribunal (NCLT) proceedings lead to drainage of precious financial resources for MSME sector. To push for faster resolution of cases, there is a need to strengthen the NCLT framework with introduction of alternate methods of debt resolution, such as via e-courts.
7. **Incentivising Digital Adoption within the Sector:** By incentivizing digital adoption within this sector, particularly disruptive technologies such as artificial intelligence and quantum technology, the industry can experience a technological boom

## Conclusion

The foundation of the Indian economy, MSMEs offer resilience against shocks to the world economy. Reviving the economy and addressing the issues MSMEs confront requires a comprehensive strategy that includes lowering regulatory burdens, providing financial support, and guaranteeing fair competition. India can unleash the full potential of MSMEs and promote inclusive growth by giving their interests first priority.

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