



# MSME and its Importance to the Indian Economy

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## ABSTRACT

*MSMEs are a vital part of the Indian economy and have made significant contributions to the country's socio-economic growth. They create job possibilities and contribute to the development of the country's backward and rural areas.*

*MSMEs are the backbone of the Indian economy. They provide employment to more than 12 crore Indians across the country. MSMEs are widely regarded as a source of economic growth and a way of achieving more equitable development. They are recognized for having the highest rate of economic growth in India. MSMEs have propelled India to new heights due to their low investment requirements, flexibility in operations, and ability to develop suitable native technology.*

**Key Words:-**MSME, Indian Economy, Entrepreneurial Endeavors, Employment, GDP.

## INTRODUCTION

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavors through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. The MSMEs in India are playing a crucial role by providing large employment opportunities at comparatively lower capital cost than large industries as well as through industrialization of rural & backward areas, inter alia, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

The Micro, Small, and Medium Enterprise development (MSMED) act, 2006, was adopted by the Indian government. It defines **micro, small and medium enterprises (MSMEs)** as the businesses involved in the

manufacturing, processing, or preservation of items. As per the new classifications of *aatma nirbhar bharat abhiyan 2020*, MSMEs are classified as

- **Micro Enterprise:** any business with an investment of not more than INR 1 crore is termed a micro-enterprise or micro-business.
- **Small Enterprise:** any business with an investment of more than INR 1 crore, but less than INR 10 Crore is termed as a small business or small enterprise
- **Medium Enterprise:** any business with an investment of more than INR 10 crore, but less than INR 50 crore is termed a medium scale business.

The government has constantly been emphasizing the growth and development of this sector. This is done as it acts as a significant source of employment to the economically backward regions and helps grow the country's exports.

1. MSMEs aim to make workers' lives better. They help them by providing jobs, loans, and other services.

2. MSMEs contribute to the advancement of innovative technologies, the expansion of infrastructure, and the modernization of the sector as a whole, all of which improve labourers' working conditions.

3. They also offer high-quality certification services and state-of-the-art testing labs.

4. MSMEs are now supporting product development, design innovation, intervention, and packaging in keeping with current trends, ensuring that clients receive the highest quality products.

5. The prime minister's employment generation programme scheme, which was created by the Indian government and is handled by the ministry of MSME, is a financing facility for ambitious entrepreneurs who want to start a Micro business. It also aids in the improvement of the lives of rural people.

#### *Role and Importance of MSME in the Indian Economy*

MSMEs are a vital part of the Indian economy and have made significant contributions to the country's socio-economic growth. They create job possibilities and contribute to the development of the country's backward and rural areas. MSMEs contribute almost 8% of the country's GDP, around 45% of manufacturing production, and about 40% of exports. With this significant contribution, it isn't an exaggeration to call them the 'backbone of the country.'

A. Micro sector with 630.52 lakh estimated enterprises provided employment to 1076.19 lakh persons that in turn accounts for around 97% of total employment in the sector. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs provided employment to 31.95 lakh (2.88%) and 1.75 lakh (0.16%) persons of total employment in MSME sector, respectively. Economic Stability

MSME's contribution to manufacturing, exports, and jobs, it benefits other industries. MNCs frequently purchase semi-finished and additional items from small businesses, such as clutches and brakes, by vehicle manufacturers. Even after the GST is implemented, it helps bridge the gap between small and large companies. 40% of the total MSME sector has also implemented GST registration, which has increased the government's revenue by 11%.

One of the critical challenges in large-scale firms is to retain human resources through effective human resource management professionals. However, when it comes to MSME, the labor requirement is lower, and it does not necessitate the use of a highly skilled laborer. as a result, the owner's indirect expenses are also minimal.

#### *Large-scale Employment Generation*

MSMEs seek to improve the lives of workers by offering employment, loans, and other services. Furthermore, it provides many opportunities for unemployed people to take advantage of. India produces over 1.2 million graduates annually, with approximately 0.8 million engineers.

So far, no economy has been able to offer such a vast number of freshmen in a single year. MSMEs play a significant role in supporting India's young talent as they join the workforce.

#### *A Significant contribution to "make in India."*

Thanks to MSMEs, the prime minister of India's trademark campaign, "make in India," has been simplified. It serves as a foundation for making this ambition a reality. Furthermore, the government has urged the banking institutions to offer more credit to small and medium-sized businesses.

The MSME sector plays a vital role in the lives of ordinary people and the country's economic growth. In recent years, many youths have been inclined toward entrepreneurship, and MSME sectors are fully supporting it.

#### **CHALLENGES OF MSMEs IN INDIA**

There is no denying that our country's growth is heavily reliant on micro, small, and medium enterprises (MSMEs), which generate mass employment in every corner of the country and contribute significantly to the GDP.

Despite having great potential, various obstacles stand in the way of this sector's reaching greater heights. So, what are these challenges that are hindering the growth of MSMEs? Continue reading to learn about the most prevalent issues faced by MSMEs in India.

#### *B. Rising Competition*

Ecommerce and globalization have made the competition tough for MSMEs. The MNCs have great

financial strength that enables them to supply goods at lower prices. The survival of small businesses has become very tough nowadays. Lack of credit another obstacle to the MSME sector's getting a timely loan at a reasonable rate of interest. This has reduced the chances of rapid expansion. The covid 19 pandemic has a negative impact on MSMEs. The MSME usually suffers from a liquidity crunch.

#### *C. Collateral required for loans*

*Traditionally, lenders ask for Collateral for business loans. The majority of small businesses do not have the required collateral in India.*

#### *D. Productivity issues*

MSMEs are often not highly productive because they are operating at low volume, which subsequently inflates their cost of production. The profit margin is also not very high. This has put them at a disadvantage, especially when they are competing against larger enterprises.

#### *Marketing obstacles*

The MSME sector's progress is being limited by a lack of marketing capabilities. The majority of small businesses don't have a skillful marketing team. Absence of proper market research, using age old marketing strategies, etc., has made them weak in the prevailing market.

#### *Insufficient infrastructure*

MSMEs' productivity and profitability are harmed by poor infrastructure facilities. MSMEs' competitiveness is primarily dependent on the availability of trained labour, electricity, and other basic resources. The infrastructure in rural areas suffers more than in urban areas from this specific problem.

#### *Lack of latest technology*

They lack the necessary knowledge, skills, and technical knowledge, which are prerequisites for running a successful business. Upgrades in technology can provide endurance and a competitive advantage in the context of global competition.

## **CONCLUSION**

Despite all the efforts, the MSME sector tends to struggle in several areas. The government is trying to layout a road map for this industry that will overcome all

impediments and encourage growth. However, the desired results still have not been achieved. MSME owners should devote some time to exploring the prevailing government's schemes and policies.

MSMEs work to improve the lives of employees and artisans. They assist them by providing jobs, loans, and other services. MSMEs provide banks with credit limits or financing assistance. They encourage the growth of entrepreneurship as well as the upgrading of skills by establishing specialized training Centers. They are in favour of improving developmental technology, expanding infrastructure, and modernizing the sector as a whole. MSMEs are dedicated to providing fair assistance in gaining access to domestic and international markets. They also have quality certification programmes and modern testing facilities. MSMEs are also supporting product creation, concept creativity, engagement, and packaging, in line with recent trends.

## **Conflict of interest statement**

Authors declare that they do not have any conflict of interest.

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