



The Impact of Micro, Small and Medium Enterprises (MSMEs) on Indian Economy in India

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ABSTRACT

Micro, Small and Medium-Sized Enterprises, or MSME, are the lifeblood of Indian business. It is appreciated that they are a part of the Indian economy. In addition to creating jobs, their primary function is to encourage less skilled workers to start out as entrepreneurs. This study's goal is to examine how MSMEs contribute to job creation, the economy of India (2020–2021), and the estimated number of these businesses. Almost 32 million people are employed by MSMEs, making them the second-largest employer after agriculture. In the current study, tables and charts were used to illustrate the analysis of the MSMEs' annual report (2020–2021). This has demonstrated the critical role the MSME sector plays in the expansion and development of the Indian economy, as well as its contribution to the creation of jobs in both urban and rural areas. The survey additionally identified the proportion of top industries in the MSME sector.

Keywords: MSMEs, Employment generation, Economic growth

1. INTRODUCTION

The micro, small, and medium-sized industries in the Indian economy have significantly improved during the past few decades. These are the business innovators responsible for numerous changes in a nation's economy. It more precisely accelerates financial growth in both wealthy and underdeveloped nations. They have unique advantages due to their size, relatively high labor-capital ratio, brief development period, focus on relatively small markets, need for fewer resources, assurance of more equitable distribution of national revenue, assistance in the effective utilisation of investment resources and underutilised services, and

encouragement of business entrepreneurship. In terms of the size of the enterprises, the variety of goods and services, and the levels of technological competence, the MSME sector in India is incredibly diverse. It greatly advances the nation's socioeconomic development and strikes a balance between large corporations as primary components. They provide opportunities for employment to people and raise the living standards of both business owners and employees. Micro businesses are typically centred on artisans and located in rural or semi-urban settings. These firms make use of local or national experience, skills, and resources to trade the products across borders. Furthermore, it has been

discovered that these industries can hire workers and provide them with jobs on a big scale with only a minimal investment in machinery.

These industries include, among others, handlooms, Khadi, sericulture, coir, embroidery, knitting, wood carving, and other handicrafts (Mohanty, 2018)^[1].

What is the impact of micro, small, and medium firms on the Indian economy? This study has brought to light various difficulties that need to be taken into consideration.

Table 1

Manufacturing sector	
Category	Plant and machinery's Investment
Micro industry	(not >25,00,000) , Does not Exceed 25 Lakhs
Small industry	(>25,00,000 but not >5 crore rupees) , More than 25 Lakhs but does not exceed 5 Crore
Medium industry	(>5 crore rupees but not >10 crore rupees) , More than 5 crore but does not exceed 10 crore

Source: msme.gov.in, Annual report

Table 2

Service sector	
Category	Equipment's investment
Micro industry	(not > 10,00,000) , Does not Exceed 10 Lakhs
Small industry	(>10,00,000 but not > 2 crore rupees), More than 10 Lacks but does
Medium industry	(>2 crore but not >5 crore), More than 2 crore but does not exceed 5 crore

Source: msme.gov.in, Annual report

Literature review

According to Venkatesh and Muthiah (2012)^[2], the manufacturing sector contributes significantly to small and medium-sized businesses. The Indian economy is growing, and various industries, including industrialization, food processing, fabric and fashion, wholesale, information technology, pharmaceuticals, farming, and service sectors, are advancing quickly. The SMEs are faced with both opportunities and challenges as a result of the shifting economic climate. The assistance provided by the national and public administrations to SMEs is insufficient to address their

problems. Fostering this sector is crucial for the nation's financial health, as is quite evident.

In order to identify the elements influencing the performance of MSME's, Kamunge, Njeru, and Tirimba (2014)^[3] conducted a study. According to the findings of this study, the most important socioeconomic factors influencing a business' performance are its ability to acquire capital and its administration's involvement. The effectiveness of these two may be improved. Access to corporate data, government strategy and directives, and access to organisations are other significant aspects that have been discovered to significantly impact how MSMEs operate in Limuru Town Market.

Chapke (2015)^[4] investigated the situation of jobs produced by MSMEs in the Vidarbha region. They discovered a link between the MSMEs and new jobs created in the Vidarbha region. The area is protected from corporate growth, yet MSMEs are starting to emerge here. MSMEs support Vidarbha by creating jobs and utilising the local natural and human resources. The connection between the employment opportunities produced by MSMEs is very strong, positive, and unchanging. Job opportunities increase along with the MSMEs industry.

Katyal and Xaviour (2015)^[5] conducted a study in which they made some suggestions for ways to resolve the issues with human resource management that MSME's encounter. The statistics indicate that only a small percentage of MSME's have formal human resource departments, and in small businesses, the founders are responsible for HR matters. To fix this, business owners should receive the appropriate training in their fields, mainly in managing human resource operations and understanding the role of HR in administrations.

Subala (2017)^[6] The MSME sector is shown to offer the most chances for both employment and self-employment. Modern small and medium-sized businesses must compete fiercely on a local, national, and worldwide scale. In this fiercely competitive environment, they need to implement new change and technology to maintain their position for the long term.

Boateng, Nagaraju and Sodem (2019)^[7] shown how MSMEs' involvement in trade operations affects the sector. In India, rural areas account for 51% of MSME activity, with urban areas accounting for the remaining 49%. MSMEs are therefore necessary to sustain India's economy's tremendous expansion.

Tripathy and Bisoyi (2021)^[8] It has been stated that 35% of MSME's and their self-employed units in India's manufacturing industries are on the point of closing down, giving them little chance to recover or revamp. Additionally, the MSME sector encounters a number of problems when paying employees and paying for fixed expenses like rent, energy, and other similar expenses.

Objectives:

On the basis of previous reviews our study has highlighted some primary goals of the investigation which are given below:

1. To assess the economic impact of Micro, Small, and Medium-Sized Enterprises (2014-2021).
2. To determine the proportion of top industries in the sector of micro, small, and medium-sized businesses.
3. To estimate the number of Micro, Small, and Medium-Sized Businesses (Activity and Area wise).

Research methodology

This study is entirely supported by secondary data that was gathered from the ministry of micro, small, and medium enterprises of India's Annual Report for 2020–2021. 2012 to 2021 is taken into account in the analysis. Through the use of MS Excel, we have used tables and charts to present the results of our study's data analysis. The relevant data has been processed and provided in the following tables for examination of the performance of MSMEs in India:

Data Analysis and interpretation:

Table 3: MSMEs contribution in Country's Economy 2014-2020

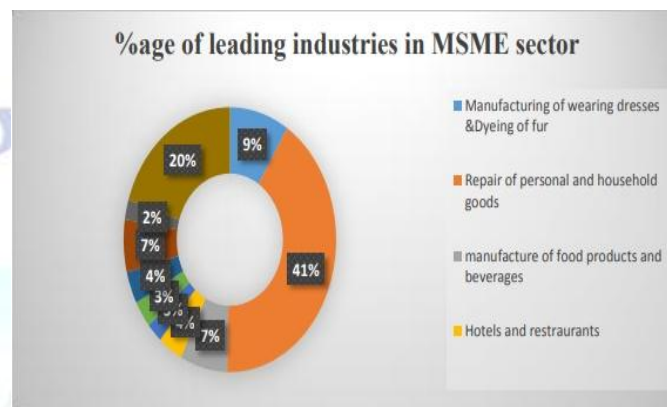
YEAR	MSME Gross Value Added	Growth %	Total GVA	Share of MSME GVA(%)	Total gross domestic product	Share of MSME In GDP (%)
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

Source: Annual Report 2020-2021, msme.gov.in

The MSME sector is now a significant factor in the GDP of the country. The growth of MSME's share of the GDP is shown in Table 3. According to Table 1 of the Ministry of Micro, Small and Medium Enterprises' Annual Report for the Financial Year 2020–21, MSME's percentage contribution of the country's GDP has changed over

time. In 2014–15, the MSME GDP increased by 29.39%. From 2015 to 2018, the GDP of MSME increased a little. While the percentage of GDP climbed to 30.27% in 2018–2019.

Figure 1: Percentage of leading industries in MSME sector



Source: Annual Report 2020-2021, msme.gov.in

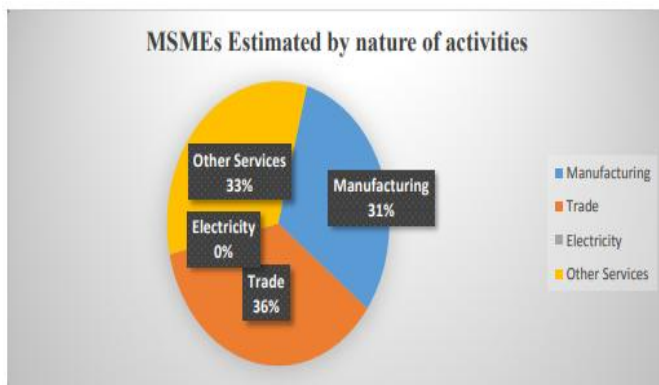
Figure 1: Percentage of leading industries in MSME sector

According to the Ministry of Micro, Small, and Medium Enterprises' MSME Annual Report of Financial Year 2020–21, 41% of industries are involved in the repair of personal and household goods, 20% are involved in other leading industries, 9% are involved in the production of clothing and the dyeing of fur, 7% are involved in the production of food products and beverages, 7% are involved in other service activities, and less than 5% are involved in other leading industries like the hotel and restaurant sector.

Table 4: Estimated number of MSMEs (activity and area wise)

Category	Estimated number of industries (In lakhs)			Shares(%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Electricity	0.03	0.01	0.04	0
Other Services	102.00	104.85	206.85	33
All	324.88	309.00	633.88	100

According to Table 4, there are an estimated 196.65 MSMEs (in lakhs) in rural and urban areas, divided by activity and area. A total of 230.35 lakh MSMEs are thought to exist in both urban and rural trade service regions. While the anticipated number of MSMEs in rural and urban areas is 206.85 lakh, the total number of people who receive electrical service in these locations is 0.4 lakh.



Source: Annual Report 2020-2021, msme.gov.in

Figure 2: %age of estimated MSME by nature of activities (in lakh)

In terms of activity and region, Figure 2 showed that the estimated percentage of MSMEs in the manufacturing service sector is 31%. 36% of MSMEs are thought to work in trade services. Electricity service makes up 0% of the total, leaving 33% for other services.

Conclusion

MSMEs, businesses, are essential to the Indian economy. The current study helps to identify the estimated employment generations, estimated number of micro, small, and medium-sized firms in India, and the influence of MSME's on the Indian economy. Therefore, it is clear from the secondary data that MSME's businesses are essential to a nation's economic development and that both employment and business growth rates are steadily increasing. Additionally, the importance of Micro, Small, and Medium-Sized Enterprises is growing quickly. The MSMEs have both opportunities and challenges as a result of the changing economic climate. Thus, it is also shown that the development of micro, small, and medium-sized firms is influenced by economic growth. The study paper's conclusions are only supported by secondary data. Future studies can employ primary data to produce more tenable results since the current study is totally reliant on secondary data.

Conflict of interest statement

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

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