



# MSMEs Sector in India: Growth and Future Prospects

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## ABSTRACT

*The Micro, Small and medium enterprises of India is an important driving factor for the growth of Indian Economy. These MSMEs not only provide the employment opportunities but helps in the process of industrialization in rural areas simultaneously reducing the unequal income distribution among the residents. The MSMEs contribute significantly in the development of Indian economy through export production, domestic production, low investment requirements, operational flexibility, technology oriented enterprises etc. In India, after agriculture, small business is the second largest employer of human resources. This paper attempts to focus on the contribution of MSME towards the growth of Indian economy as well as its present scenario in the country.*

**Key words:** MSMEs, Indian economy, Employment, GDP

## 1. INTRODUCTION

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring 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. Some of the important institutional setups are as: Micro, Small and Medium Enterprises Development (MSMED) Act 2006, Khadi & Village Industries Commission (KVIC), Coir Board, National Small Industries Corporation

(NSIC) Ltd., Mahatma Gandhi Institute for Rural Industrialization (MGIRI), National Board for Micro, Small and Medium Enterprises (NB MSME), and National Institute for Micro, Small and Medium Enterprises.

### Definition of MSMEs

The broad classification of Indian enterprises is mainly catering towards manufacturing and service rendering organizations. This is further categorized as Micro, Small and Medium enterprises. As per the Development Commissioner of MSME, 2009, MSMEs under manufacturing sector are categorized based on their investment in plant and machinery and it is on equipments for the service rendering firms.

The 73rd national Sample Survey (NSS) estimated that there were more than 6.33 crore non-agriculture micro,

small and medium enterprises (MSME's) engaged in various services and manufacturing industries. Over 99% of these are micro-enterprises. Between 2006-07 and 2015-16, the number of MSME's grew from 3.62 to 6.33 crores.



**Table: 1 classification of MSME**

	Old definition (Inv.)		New definition	
	Manufacturing	Services	Investment	Turnover
<b>Micro</b>	□25 lakhs	□10 lakhs	□1 crore	□5 crore
<b>Small</b>	□5 crore	□2 crore	□10 crore	□50 crore
<b>Medium</b>	□10 crore	□5 crore	□50 crore	□250 crore

## 2. LITERATURE REVIEW

MSME is the backbone of our Indian economy and it is facilitating a sustained growth over the years both in terms of employment and economic growth. Its role in exports and industrial growth is significant

**Shashikala S.R, (2020)**, the paper outlines the public authority plans for the advancement of new-age business visionaries in India. In the present India setting, work open doors in the open area and huge scope area are contracting and vast valuable open doors emerging from globalization are standing by the exploited entrepreneurs can truly take more time to the statutes of turning into very financial power.

**Subramanian et al (2019)** has pointed that the importance of MSME has been recognized in recent years in both developed and developing countries for its significant contribution in gratifying various socio-economic objectives such as higher growth of employment, output, promotion of exports and fostering

entrepreneurship. They play a crucial role in the industrial development of any country. The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy. This sector even assumes greater importance now as the country moves towards a faster and inclusive growth agenda.

**Ujjal Bhuyan (2016)** has analysed that 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 crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring 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.

**Paramasivan C & Mari Selvam P (2013)** has explained the contribution of micro, small and medium enterprises (MSME) sector to manufacturing output, employment and exports of the country is quite significant. According to estimates, in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 percent of the total exports of India. The MSME sector employs about 42 million persons in over 13 million units throughout the country. There are more than 6000 products, ranging from traditional to high-tech items, which are being manufactured by the Indian MSMEs.

**Singh et al. (2012)** analyzed the performance of SSI in India and focused on policy changes which have opened new opportunities for this sector. This study concluded that SSI sector has made good progress in terms of number of SSI units, production and employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

**Dr. Meeravali S., K.Ramesh et al. (March 2017)** found that though MSME total working enterprises, employment and market value of fixed assets grown at CAGR of 4.39%, 4.75% and 6.64% respectively, the contribution from manufacturing and service sector MSME contribution to GDP is -1.53% and 1.82% respectively. Researchers also suggest that government has to adopt integrated policy, promote skill development to increase productivity and also



providing accessible credit through government sponsored agency exclusively to MSME is essential to increase productivity and contribution to economic growth.

**Srinivas K T, (2013)** has studied the performance of micro, small and medium enterprises, and their contribution in India's economic growth and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

### 3. OBJECTIVES OF THE STUDY

The current study aims to fulfill following objectives:

- To study the current status and growth of MSMEs in India.
- To understand the Growth and future prospects of MSMEs in India.

### 4. RESEARCH METHODOLOGY

The study is based on secondary data that has been collected from various secondary sources such as magazines, annual reports, department of MSMEs & various other published reports. The data has been presented in the form of table and interpretations have been made in light of the objectives of the study cited above.

#### MSME Sector Boosting the Indian Economy

- The MSME sector is giving a much-needed boost to the Indian Economy. Around 63 mn MSMEs operating pan India contributed 30.5% to the nation's GDP in FY 2019 and 30% in FY2020.
- It has also created ample job opportunities across different sectors. As per the Ministry of Statistics & PI data released in 2016, the MSME sector had created around 111 million jobs in India.
- When contrasted with the large entities, MSMEs have played a prominent role in the industrialization of rural areas without conceding too much capital cost.
- The sector has made considerable contributions to the nation's socio-economic growth and supported prominent industries. Presently, the MSME sector accounts for 40 percent of the nation's overall export and around 25 percent of GDP from the service sector.

### 5. FUTURE POTENTIALS IN MSME's

The lots of potentials are available in the field of MSME'S. The prospectus of this sector are explained as under-

**1. Employment generation-** There is numerous possibilities in the field of manufacturing and service rendering of MSME'S. In recent year, the MSME IS are generating different and ample amount of employment in the field of retail and manufacturing sector. The rate of employment generation extended more by promoting the Indian MSME's. 1. Customer satisfaction oriented- The MSME'S produce goods according to the needs or expectations of the customers. Primarily, the MSME'S manufacture goods considering the taste and preferences, liking and disliking of the local consumer .So, the MSME'S can be ore customer satisfaction oriented.

**2. Minimization of regional imbalance-**The MSME'S can be a good vehicle to minimize or remove the regional imbalances. The rural areas of the nation can equally developed through the running of MSME units in such areas. The MSME'S will utilize the work force of rural areas and lead to the removal of regional imbalance.

**3. Enhancement of export-** The MSME'S can be a mean to enhance the export of India. There will be a great demand of Indian product at international level of market. The Indian items like –dari, kaleen, wooden items and other hand- made souvenir articles demanded in the world.

**4. Attraction to the foreign investment** –Though, the Indian MSME'S are the booming field and the growth rate and return on investment is satisfactory. This sector is more responsive than other sector of economy. Therefore, this sector might be a source to attract foreign investment in India.

**5. Amicable industrial policies:** Relaxed industrial policies have played a key role in boosting the MSME sector in India. The amicable norms pertaining to labor and regulatory requirements have enabled this sector to grow healthy.

**6. Encouragement of FDIs:** The influx of overseas players has poured considerable investment into the MSME sector. This aids MSMEs in adopting better technologies and resources, thereby ensuring improved productivity and competitiveness in the given marketplace.

7. **Technology:** The advent of cutting-edge technologies and improved production methods have aided MSMEs in improving their overall supply chain and productivity.

8. **Access to capital:** Several credit schemes launched by GOI are backing up MSMEs with adequate financial support to meet productivity needs with ease and maintain a healthy interplay with suppliers.

## 6. GOVERNMENT SCHEMES AND POLICIES AVAILABLE FOR MSME FINANCING

➤ As on July 8, 2022 the number of loans sanctioned under the Pradhan Mantri MUDRA Yojana (PMMY) scheme was 10.03 million and the amount disbursed was Rs. 73,199.89 crore (US\$ 9.15 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.

### ➤ MUDRA Scheme for MSMEs

Under the Micro Units Development & Refinance Agency scheme, the public sector or Government banks provide up to Rs.10, 00,000 as loans.

MUDRA provides 3 Main types of loans based on the phase of the startup:

- **Shishu Plan:** Under this scheme, the new MSMEs and Startups can avail of loans up to Rs.50,000

- **Kishor plan:** Under this scheme, the mid-range MSMEs and Startups avail of loans up to Rs.5, 00, 000.

- **Tarun plan:** Under this scheme, the established MSMEs and Startups avail of loans up to Rs.10,00,000

➤ **CGFMSE:** Launched by MSME and SIDB, Credit Guarantee Fund Scheme for Micro and Small Enterprises Scheme lends loans to small enterprises and businesses up to Rs.10 Lakhs without collateral.

## 7. Growth of MSMEs in India

According to the new definition, export revenue is deducted from total sales while estimating the turnover of MSMEs, which is a positive sign not only for the sector but also for exports.

(i) **Ease of doing business:** MSMEs should have better access to efficient factors of production through industry-friendly labor reforms, proper land acquisition policy, free access to capital, vibrant entrepreneurship culture, modern technology, enabling infrastructure, and simplified tax policy.

(ii) **Export of services:** The world is moving towards a clean, green, and lean corporate regime to achieve the triple bottom line — Planet, People, and Profits. Since India has a comparative advantage in services sector, entrepreneurs of MSMEs may be re-oriented in this direction to enhance export of services by capitalizing on the revised definition.

(iii) **Leveraging PLI scheme:** Recently, the government introduced Productivity Linked Incentive Scheme with a total outlay of ₹1.97 lakh crore to boost 13 industry sectors with a view to harnessing Make in India, thereby enhancing our manufacturing prowess and export potential. As part of this, the government announced three schemes for automotive industry wherein manufacturing of electric vehicles will be incentivized to reduce carbon footprint, import of fuel, and enhance competitiveness and growth.

(iv) **Promoting start-ups:** According to Nasscom, India has 66 unicorns till date and is still counting. With a market capitalization of \$18 billion, Byju's has become the largest and most valuable Edu-tech company in the world. Similarly other decacorns namely Paytm and Flipkart have market capitalization of over \$10 billion mainly due to burgeoning domestic market, massive funding opportunities, and evolving technology.

(v) **Market linkages:** The Covid-19 crisis should be converted into an opportunity by going digital. There should be a virtual platform exhibiting crafts,

handlooms and frugal innovations of MSMEs, to reach out to the broader national and international markets thereby enhancing their revenue. As most of the MSMEs don't have adequate market linkages and branding for their products/services, the government may promote (RURBAN) clusters thereby building synergy and sustainable value chains in the ecosystem.

(vi) **Emulating best practices:** Turkey has introduced 'TURQUALITY', a state sponsored scale up programme meant for SMEs to transform themselves into global players.

(vii) **Financial literacy and education:** MSMEs should be imparted with financial/digital education to make use of digital channels including trends platform for speedy realization of their receivables.

## 8. CONCLUSION

Micro, Small and Medium Enterprises contributes to economic development of India in various ways such as employment generation in rural and urban areas, providing goods and services at affordable costs. The government is making a constant endeavor to incentivize this sector by introducing export-based initiatives and other growth-driven schemes. The sector is yet to achieve its full potential despite witnessing consistent growth in the past few years. This slow surging growth is mainly attributed to dependence on lackluster technologies, reluctance to boost R&D activities, and lack of quality standard certification. Distribution of enterprises owned by male and female entrepreneurs was running to medium scale industry in majority of male category. It is suggested that government has to adopt integrated policy, providing sound data with efficient governance, promote skill development to increase productivity and providing accessible credit through government sponsored agency exclusively to MSME is essential to increase productivity and contribution to economic growth.

## Conflict of interest statement

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

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