



A STUDY ON SOME KEY ASPECTS OF INDIAN MSME SECTOR

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Abstract

MSMEs is an acronym for Micro, Small and Medium Enterprises. In Today's era of economic advancement, MSMEs are regarded as growth engine of Indian economy. They actively promote infrastructural development and technical advancement in the nation. MSMEs have played a significant role in building resilient and self reliant India. They have ignited the modernisation of the nation. Due to minimal investment requirements, flexibility in operations and ability to develop appropriate indigenous technology, MSMEs have impelled India reach new heights. Considering the importance of MSMEs in accelerating the rate of economic development of the nation, Indian Government has initiated a no. of initiatives from time-to-time to boost the MSME sector. But inspite of this, MSMEs have to confront several constraints. These issues are required to be properly dealt with so that MSMEs will be able to operate businesses with greater efficiency. Through this paper, an attempt has been made to emphasize some crucial aspects of Indian MSME sector.

Keywords: MSME, Sector, Growth, Economy, Employment, Government.

Introduction

In accordance with the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the Indian government has introduced Micro, Small and Medium Enterprises. MSMEs are managed and governed under the Ministry of MSME (MoMSME). MSMEs are broadly regarded as the core of the economy. These are the driving force behind economic expansion. They foster the growth of entrepreneurship. The growth of any nation's industrial sector relies heavily on MSMEs. Due to the predominance of labor-intensive industries and minimal capital investment in less developed regions, MSME sector may significantly contribute to the creation of employment.(Khatri, P. 2019).MSME sector is complementary to large enterprises and industries, providing them with the ancillary products. It not only creates employment opportunities but also contributes to the advancement of the nation's rural and underdeveloped regions. There are 7.9 million registered Micro, Small and Medium Enterprises(MSMEs)

in India. Over 120 million jobs across industries and regions are supported by the MSME sector, which amounts for about 33% of the nation's overall GDP.(Sharma,A.2023).The sector also includes often undervalued and small-scale business entrepreneurs including women, marginal entrepreneurs, local craftspeople etc. who contribute to wealth creation.

Indian MSMEs have contributed substantially to the socioeconomic growth of the nation. Indian MSMEs and startups have a key role to play in the Government's AtmaNirbhar mission and Make In India vision. Both these initiatives aims to increase employment, boost exports, raise the standard of living for millions of Indians and strengthen India's position on the global level. The Ministry of MSME runs a number of programmes aimed at providing credit and financial aid, training for skill development, infrastructure development, technological and quality upgradation, marketing support and other services for MSMEs across the nation. As an effort to improve MSMEs ease of doing business, the Udyam Portal was introduced in 2020 by the Government. Entrepreneurs can take advantage of the Ministry of MSME schemes through the portal and can also take benefit of bank lending to priority sectors. Despite various initiatives and schemes available, MSMEs have to face several constraints, the most common of them are-lack of sufficient market connections, timely access to financing and lack of novelty. For sustained growth and survival in a highly competitive world, it is imperative and strategically important to build and promote MSMEs all over the world.

Review of Literature

Das, P. (2017) had studied the Opportunities, Issues & Challenges for MSMEs in India. He stated that MSMEs constitute the backbone of an economy and play a significant role in sustaining a noticeable growth rate and creating employment opportunities. He highlighted some major challenges and constraints that MSMEs have to face in successfully operating their businesses and also suggested some measures that may be considered to deal with these challenges and constraints.

Kumar, V. (2017) analyzed the growth of MSMEs in India and their contribution in employment and GDP of the Nation. He concluded that MSMEs provide a substantial contribution to the nation's overall GDP. The Indian government has undertaken several measures and is now working to boost the growth of MSMEs throughout the nation. Moreover, the Indian government is forming several alliances and partnerships with NGOs. But for the successful implementation of the initiatives undertaken by the Government, it is necessary that the government agencies, ministries, departments etc., that are connected with the implementation of these measures provide their considerable support for the same.

Zanjurne, P.(2018) evaluated the overall growth and development in the Indian MSME sector. She stated that MSME sector has prominent role in Nation's inclusive growth agenda. She has made a descriptive analysis of various aspects of MSME sector. She concluded that MSME sector has considerable contribution in accelerating the manufacturing output and exports of the Nation.

Khatri, P. (2019) conducted an exploratory study on the Challenges of the Indian MSME sector. She revealed that the MSME sector of the Indian economy is a thriving and dynamic one. Due to its substantial contribution to the national GDP, industrial production, export revenues, regional growth and social stability, the MSME sector is very crucial to the economy. The economic growth of the nation may be accelerated by providing sufficient support to the MSME sector. She suggested some measures that may be undertaken to create a conducive environment for Micro, Small and Medium Enterprises.

Ajit, S.(2021) examined the theoretical basis, growth and performance of MSMEs in the Indian economy. He revealed that the development of MSMEs is crucial for the nation's future. Although the MSME sector is growing, there are still several problems. The Government should put in place appropriate policy measures to alleviate the situation.

Dey,M., Biswas P.(2021)conducted a study on Women Entrepreneurship in MSMEs in India. They concluded that in present era, women entrepreneurs who were previously confined to their homes are capable of managing both their families and businesses because MSME sector has provided a platform to them, where they can run small businesses with low cost investment. Although Government has undertaken a no. of initiatives to enhance Women Entrepreneurship but still there are various obstacles that Women Entrepreneurs have to confront. The difficulties they are currently facing, can be alleviated if society extends their cooperation towards them.

Objectives of the study

- To study the significance, constraints and prospects of Micro, Small and Medium enterprises in India.
- To study various initiatives and policy measures taken by the government to enhance the MSME sector in India.
- To suggest some measures for further advancement of MSME sector in India.

Methodology

The study is entirely based on secondary data and information that was collected from annual reports of the Ministry of MSME, various research papers, journals, editorials, blogs, published reports, websites of different departments and handbook of statistics of Indian economy.

Analysis of Indian MSME sector

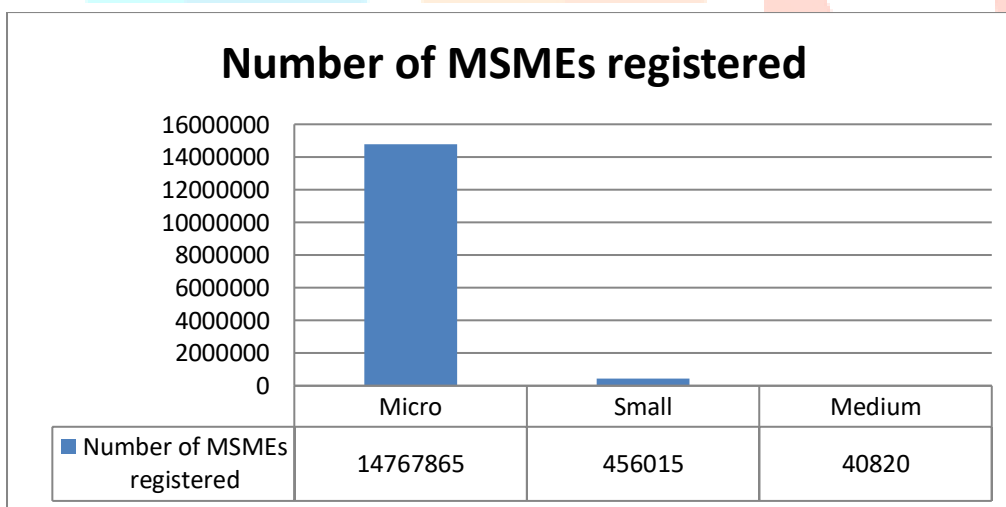
■ Classification of MSMEs

MSMEs stands for Micro, Small and Medium Enterprises. The criteria for classification of micro, small and medium enterprises is as follows:

	Manufacturing Enterprises and Enterprises rendering Services		
	Micro	Small	Medium
Investment in Plant and Machinery or Equipment	Not more than Rs. 1 Crore	Not more than Rs. 10 Crore	Not more than Rs. 50 Crore
Annual Turnover	Not more than Rs. 5 Crore	Not more than Rs. 50 Crore	Not more than Rs. 250 Crore

Source: The Gazette of India, Notification dated 01.06.2020
https://msme.gov.in/sites/default/files/MSME_gazette_of_india.pdf

■ Number of MSMEs registered on Udyam portal till March,2023



Source:<https://udyamregistration.gov.in/>

8.59 lakh women-led MSMEs got registered on the Udyam portal in Financial Year 2022, which represents 17% of total MSME registration. In India, 6.11% of the manufacturing GDP and 24.63% of the services GDP is contributed by around 63.4 million MSMEs.(Sharma,A.2023).

■ Significance of MSME sector for India

The MSME sector in India benefits Indian economy in a number of ways.(IBEF¹ Knowledge Centre, 2022). Some of the benefits are given below:

- **The MSME sector's contribution to the Indian Economy:**MSME sector has a considerable positive impact on the economy of the nation. According to the Ministry of Statistics & Programme Implementation, the MSME sector contributed 30% of the Gross Value Added (GVA) to the GDP of the nation in FY 2020. In FY 2020, the sector's share of the total manufacturing gross value production in India was 36.9%. This percentage represents the sector's contribution to India's economic growth.
- **Creation of employment opportunities:** By establishing an MSME, owners would have a job, avoiding them from seeking employment elsewhere.They are also able to create employment opportunities for others. In rural and remote regions of the country, the industry has played a significant role in creating job prospects. In FY 2022, 93,94,957 persons were employed by MSMEs that have registered on the Udyam Portal of the Ministry of MSMEs.
- **Linking backward and remote areas to the rest of the country and the world:** MSMEs in backward and distant regions help link these places to the rest of the country and the world by preparing vital raw resources and finished items with worldwide demand.
- **Simple management structure for enterprises:** Given the middle-class economic situation in India, MSMEs offer the flexibility to begin with meager resources under the owner's control. Consequently, making decisions becomes simple and effective. In contrast, due to its complicated organisational structure, a huge firm needs an expert for every departmental function.
- **Raising people out of poverty and improving standard of life:** The MSME sector in India plays a significant role in raising people out of poverty and improving standard of living by generating job opportunities and linking backward areas. The sector therefore promotes greater equality among residents and helps to reduce regional disparities across the nation.
- **Contributes to rural development:**As compared to major corporations, MSMEs were more advantageous for rural development since they require less money to help industrialize rural regions. The MSME sector has supplemented other sectors and considerably contributed to the socio economic development of rural areas across the nation.
- **MSMEs contribution to export:** India's MSME sector is one of the nation's major exporters. Exports of certain MSME related products made up 49.5% of all exports from India in FY 2021.Among the top exports from the Indian MSME sector are- rice, castor oil, various types of shoes, textiles and apparel.

¹India Brand Equity Foundation (IBEF) is a Trust established by the Department of Commerce, Ministry of Commerce and Industry, Government of India. Global investors, international policy-makers and the world's media may find up-to-date, precise and extensive information about the Indian economy, states and sectors at www.ibef.org

- **Leading contender for the 'Make in India' initiative:** Government of India aims that the products that are 'Make in India' are also 'Made for the World,' upholding high standards of quality across the world. In the said mission, MSMEs is taking centre stage. It is regarded as the foundation for making this idea a reality.

Due to the following aspects, the MSME sector has a wide range of development prospects, which makes it a more lucrative investment option:

- Less capital requirement as compared to large enterprises
- Less operational requirements
- Act as complementary units to large scale enterprises
- The domestic market's demand is expanding
- Export Promotion
- Promotion and assistance from the Government
- Financial and subsidy support
- Opportunities for women entrepreneurs to run small level business

■ **Constraints related to MSME sector in India**

MSME sector confronts a no. of issues and challenges. (Das, P. 2017). Some of the major challenges that MSMEs have to face includes :

- **Financial obstruction:** In the Indian economy, access to financing has long been a problem for smaller enterprises. For businesses and the MSME sector specifically, this is a significant obstacle. The most concerning aspect is that a small no. of SMEs have timely access to financing, which forces small and medium-sized businesses to rely on their own resources. In order to grant credit, banks and other financial intermediaries demand collateral. MSMEs might have to face problem in obtaining loan, if they are unable to produce any collateral.
- **Infrastructural constraint:** Because of inadequate physical infrastructure, many productive activities are obstructed in MSME sector. One of the major constraint in this regard is power. The availability of water is a significant infrastructure constraint in many small scale industrial units, specifically those that deal with tobacco and allied goods, beverages, printing and publishing, medicines and drugs, paints and varnishes and basic chemicals.
- **High cost of raw material due to tariff:** A significant portion of the nation's export revenue is generated by small enterprises. A no. of these industries have to import raw material and intermediate products from other countries. Tariff rate on some of these products and material is very high. It hampers the operational activities of these enterprises.

- **Regulatory issues:** Because of the overabundance of laws and regulations, the majority of Indian start-ups have to face problems during the initial stages. Often, the inability to obtain loan and concerns regarding contract enforcement dissuade entrepreneurs from forming an enterprise.
- **Intense competition:** Large enterprises and multinationals that are equipped with greater technology, management abilities, trained labour, better quality goods, marketing skills and a wide variety of goods compete fiercely against MSMEs. Due to the rising number of merger and acquisition cases, small enterprises find it challenging to continue operating.
- **Lack of adequate managerial skills:** Indian people have a great potential to develop small scale industries. But to successfully run these enterprises, adequate managerial skills are required. The uneducated people may have lack of these kind of skills, due to which, operation of MSMEs in India is hampered.
- **Lack of novelty:** The majority of the items produced by Indian MSMEs are based on outdated technology due to lack of innovation on their part. This industry suffers from a significant dearth of entrepreneurs, which has hampered the adoption of new tools and technology. As a result, MSMEs have had to contend with out-of-date technology and poor levels of productivity, especially when compared to large enterprises.
- **Adverse effects of Globalisation:** Although Globalisation has introduced significant advancement in Indian economy, but it has adverse effects also. Due to Globalisation, dependence on imports has increased. Indian people are attracted towards foreign goods. This factor has adverse impact on the performance of MSMEs.
- **Lack of formalisation amongst MSMEs:** Due to lack of formalisation amongst MSMEs, the credit gap is exacerbated. Throughout the nation, unregistered MSMEs in manufacturing are about 86% of the total. Just 1.1 crore MSMEs are currently registered for the Goods and Services Tax.

Apart from above, there may be other constraints also that MSMEs have to face in successfully operating their business.

■ Initiatives by the government to support MSMEs

Considering the MSMEs crucial role in expediting India's progress and accelerating the rate of GDP of the nation, The Indian government has undertaken several measures to support the growth of MSMEs throughout the nation. The following are some initiatives undertaken by the government to strengthen and assist the MSME sector in India(Sharma, A. 2023) (IBEF):

- Collateral Free Automatic Loans of INR 5 lakh crore for business, including MSMEs.
- "Udyam Registration" for MSMEs.
- No global tenders for procurement up to Rs. 200 crores.

- Launched an online portal 'Champions' covering various aspects of e-Governance such as grievance resolution and support for MSMEs.
- The MSMEs sector received 6.55 billion US dollar under Emergency Credit Line Guarantee Scheme (ECLGS) allocation in the Union Budget for 2022–2023.
- As of July 8, 2022, 10.03 million loans have been approved under the Pradhan Mantri MUDRA Yojana (PMMY) plan, with a total disbursement of Rs. 73,199.89 crore (US\$ 9.15 billion).
- The Indian government allocated Rs. 6,062.45 crore (\$808 million) on March 30, 2022 for the Raising and Accelerate MSME Performance (RAMP) programme. The programme intends to increase market and finance access, promote center-state links and cooperation, address issues with late payments and promote green MSMEs. It also aims to strengthen institutions and governance at the centre and state levels.
- The Special Credit Linked Capital Subsidy Scheme (SCLCSS), a programme by the Indian government to support the services industry, was introduced in November 2021. This programme intends to assist enterprises in the services industry in meeting various technological requirements.
- The Ministry of MSME launched SAMBHAV in November 2021, a nationwide awareness campaign to encourage indigenous production and entrepreneurship in order to boost economic growth.

■ Schemes Related to MSMEs

A no. of schemes have been introduced by the Government to enhance the MSME sector in India. Some of the major schemes are:

- PMEGP(Prime Minister's Employment Generation Programme)
- CGTMSE(Credit Guarantee Trust Fund for Micro & Small Enterprises)
- MSE-CDP(Micro & Small Enterprises Cluster Development Programme)
- SFURTI(Scheme of Fund for Regeneration of Traditional Industries)
- ESDP(Entrepreneurship and Skill Development Programme)
- PMS(Procurement and Marketing Support) scheme
- ASPIRE(A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship)
- CGSSD(Credit Guarantee Scheme for Subordinate Debt for Stressed MSMEs)
- RAMP(Raising and Accelerating MSME Performance) scheme
- Self Reliant India (SRI) fund

Source: <https://www.msme.gov.in/whatsnew/e-book-schemes-msme>

Some key points regarding Indian MSMEs

As per the data and statistics by Ministry of Statistics & Programme Implementation, Directorate General of Commercial Intelligence and Statistics, the following facts are revealed (IBEF²) (pib³.gov.in):

- MSME sector is playing a significant role in accelerating the growth of Indian economy. In FY 2019 and FY2020, approximately 63 million MSMEs operating in India contributed 30.5% and 30%, respectively, to the GDP of the country.
- The percentage of MSME related items in overall exports from India for the years 2016–17, 2017–18, 2018–19, 2019–20 and 2020-21 was 49.69%, 48.56%, 48.10%, 49.66 % and 49.8% respectively, as per statistics of the Directorate General of Commercial Intelligence and Statistics (DGCIS). These figures demonstrate the enormous potential MSMEs have to attract foreign investment in India.
- The loan disbursements to MSMEs were Rs. 9.5 trillion (US\$ 128.06 billion) in FY21, which is around 40% more as compared to Rs. 6.8 trillion (US\$ 91.66 billion) in FY20.
- Budgetary allocation to MSME sector increased significantly from Rs. 7,572 crore (US\$ 1.03 billion) in FY21 to Rs. 15,700 crore (US\$ 2.14 billion) in FY22.
- As of July 8, 2022, 10.03 million loans have been sanctioned under the Pradhan Mantri MUDRA Yojana (PMMY) and Rs.73,199.89 crore (US\$ 9.15 billion) had been distributed.
- To boost credit to the MSME sector, a revamping credit guarantee scheme was announced by the Finance minister, Mrs. Nirmala Sitharaman in the Budget 2023 with an infusion of US\$ 1.1 billion (Rs. 9,000 crores) into the corpus, effective from April 1, 2023.
- Indian MSMEs are gradually switching from cash to digital payments. Compared to 28% of cash transactions, 72% of payments are made digitally. Due to this, there is potential for future growth in the sector.



Initiative for enhancing Women Entrepreneurship

A "New India" may be created by rural women, who are the real pioneers for social, economic and environmental transformation. Around 80% of rural Indian women work in agriculture. Via government beneficiary programmes, rural women today have access to healthcare, education, a range of livelihood opportunities, productive resources, capacity building and skill development.

On the occasion of International Women's Day 2022, the Minister of Micro, Small, and Medium Enterprises, Mr. Narayan Rane and the Minister of State for MSME, Mr. Bhanu Pratap Singh Verma,

²IndianMSME Industry Analysis

Available at: <https://www.ibef.org/industry/msme-presentation>

³The Press Information Bureau (PIB) is the nodal agency of Government of India to disseminate information to the print and electronic media on Government Policies, programmes, initiatives and achievements. PIB disseminates information through different modes of communication viz. press releases, press notes, feature articles, photographs and databases.

launched a Special Entrepreneurship Promotion Campaign for Women, "SAMARTH" in New Delhi.(IBEF Knowledge Centre, 2022). Through self-employment, this campaign attempts to assist women in becoming independent. Through the SAMARTH programme, the following advantages will be made available to potential and present women entrepreneurs:

- In free skill development programmes offered under the Ministry's skill development initiatives, around 20% of the seats will be set aside for women.
- A distinctive initiative has been initiated by Udyam Registration to register MSMEs owned by women.
- Several women will have the opportunity to market their goods in regional, national and worldwide events.

On the basis of the aforementioned facts, it can be said that the MSME sector has significant future prospects.

Suggestions to improve performance of MSME sector

The following are some suggestive measures that may be adopted to enhance the Indian MSME sector:

- Government subsidies for globally accessible technologies might help MSMEs use their current resources to produce better products.
- In order to increase the competitiveness of Indian MSMEs in the international market, the government is required to make modifications to the sector's import and export tariff structure.
- Supply chain financing may assist MSMEs in meeting their immediate working capital needs, enabling them to make advance payments or have quick access to funds they are owed.
- To enhance the performance of MSME sector, government should invest in developing more back-end services.
- The government must implement regulatory safeguards to protect MSMEs from economic shocks and create an independent organisation to advise and consult MSMEs.
- By connecting Government projects with local MSMEs, the government may play a significant role in enhancing domestic manufacturing capabilities.
- E-Courts may be developed for quicker case resolving.
- A dramatic transformation may be introduced in MSME sector by incentivizing digital adoption.
- Merely creation of number of financing bodies is not the solution. It will be important to give much consideration to the processes, regulations, guidelines and practices that control capital issuance.

Conclusion

The MSME sector has effectively evolved over the years despite the numerous difficulties it confronts. The government's initiatives have stimulated the expansion of MSMEs, resulting in numerous employment opportunities for the nation. The government and the general public are now supporting it more than ever before. The industry has also received recognition on a worldwide scale and plays a significant role in alleviating poverty and enhancing standards of living. The enormous growth potential in MSME sector is crucial to the overall development of the nation. For enhancing the performance of MSME sector from its present state, there is a need of funding structure that is well-designed and well suited and it will also be important to give much consideration to the processes, regulations, guidelines and practices that control capital issuance.

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