



The Development Of The Digital Economy In Msmes

Dr. Ratna Verma

Assistant Professor, Department of Economics

Mata Gujri Mahila Mahavidyalaya,(Auto.),Jabalpur,(M.P.)

Abstract :

This study aims to describe the development of Micro, Small and Medium Enterprises (MSMEs) business based on the digital economy in the regional economy. MSMEs are the new pillars of the Indian Economy, and they have turned out to be crucial in the growth of our country. These sectors have helped immensely in uplifting the socio-economic sectors of India. Digital platforms can bring drastic changes for small businesses as they are valuable platforms that, with the help of pertinent strategies, can help you progress. The Ministry of MSMEs provides learning programs and schemes to help you adapt to the ever-evolving digital technologies. They even have a registration portal named Udyam, where you can register yourself to know about the beneficial policies that the government provides. Conventional businesses are now warming up to the concept of new digital technologies as they understand their benefits better.

Digital economy-based MSME businesses have been able to create new types of businesses that are able to encourage the development of regional economic activities more dynamically. In relation to the development of MSME business based on digital economy in the region, a policy is needed in strengthening business competitiveness, providing infrastructure, business capital assistance and improving the quality of human resources.

Keywords: Digital Economy, Micro Small, and Medium Enterprises, Regional Economy, Information Technology.

Introduction

In the context of regional economic development, developments in the digital economy can provide acceleration in achieving regional economic performance. The era of implementing the Law on Regional Autonomy since 2000 has implications for regional independence in carrying out various breakthroughs in improving regional economic performance. However, because it is faced with the external conditions of the global economy that are increasingly transparent and limited regional financial capacity, not all development programs can be implemented properly. In this case, the regional government is required to be able to develop its local economic potential in improving its economic performance. In relation to the use of IT in economic activities, the regional government together with economic actors can work together in their activities. The existence of a digital economy can provide a multiplier effect and also a spill over effect in regional economic development.

The development of human civilization is marked by the use of technology in meeting the needs of the community. Globalization becomes a new civilization that demands adjustments in the system of public relations both individually and nationally and stately. The community produced from the globalization era is a society with a rational consumptive type.

Concept of MSME

In India, MSMEs contribute nearly 8% of the country's GDP, around 45% of the manufacturing output, and approximately 40% of the country's exports. It won't be wrong to refer them as the 'Backbone of the country.'

The Government of India has introduced **MSME or Micro, Small, and Medium Enterprises** in agreement with Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. These enterprises primarily engaged in the production, manufacturing, processing, or preservation of goods and commodities.

MSMEs are an important sector for the Indian economy and have contributed immensely to the country's socio-economic development. It not only generates employment opportunities but also works hand-in-hand towards the development of the nation's backward and rural areas. According to the annual report by the Government (2018-19), there are around 6,08,41,245 MSMEs in India.

MSMEs Redefined

A proposal was made to redefine MSMEs by the Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018, to classify them as manufacturing or service-providing enterprises, based on their annual turnover.

Classification of enterprises into Micro, Small and Medium enterprises (in Rs)

Kind of enterprise	Act of 2006		Bill of 2018
	Manufacturing	Services	All enterprises
	Investment towards plant & machinery	Investment towards equipment	Annual Turnover
Micro	25 lacs	10 lacs	5 Cr
Small	25 lacs to 5 Cr	10 lacs to 2 Cr	5 Cr to 75 Cr
Medium	5 Cr to 10 Cr	2 Cr to 5 Cr	75 Cr to 250 Cr

Benefits of the above-proposed reclassification

According to the proposed reclassification or the new classification, there would be no need for frequent inspections to check the investment in plant and machinery. Also, the operations of MSMEs would be transparent, non-discriminatory, and objective in nature.

Highlights of new MSMEs

'Atma Nirbhar Bharat Abhiyan' or the Self-Reliant India Scheme of 2020 by the Government of India has given a new definition for MSMEs.

Key Features

As the above MSME definition shows, MSMEs are primarily involved in producing, manufacturing, processing, or preserving goods. For more clarity on 'What is MSME?', consider the following essential elements of MSMEs -

- MSMEs aid workers' and artisans' welfare by increasing employment opportunities and providing loans and other services
- These enterprises encourage entrepreneurship and project technical training centres
- They support infrastructure development, technological development, and the sector's modernisation
- They assist the domestic and export markets
- They provide modern testing facilities
- They provide quality certification services

Factsheet of MSME Registration (2022-23)

Total MSME Registration – 1,34,84,325		
Micro	Small	Medium
1,29,33,143	4,38,952	39,992

Source: Udyam Registration's Official website. – Updated as on April 2023.

Estimated numbers of MSMEs in India – 2021-2022

Activity Category/Sector	Estimated Number of Enterprises (in lakh)	Share
Manufacturing	196.65	31%
Trade	230.35	36%
Services	206.85	33%
All	633.88	100%

Source: <https://msme.gov.in/> (Last updated as on April 2023)

Addition Under MSMEs

Detailed guidelines on MSMEs are updated intermittently. The Indian government has redefined MSMEs in the Atmanirbhar Bharat package after 14 years since the MSME Development Act, 2006. The primary objective of refining the MSMEs was to ease business activities, attract more investments, and create more employment in the MSME sector.

As per the **new definition** of MSME, the Ministry of MSME now includes both retail and wholesale trade under MSME to strengthen the sector and boost economic growth. With such inclusions under MSME, the

ministry was intended for the limited purpose of Priority Sector Lending from banks under the regulations of the Reserve Bank of India (RBI).

MSMEs are classified into two categories, as per MSMED Act, 2006:

Manufacturing Enterprises

- Companies engaged in the manufacturing or producing goods for industries listed under Schedule I, Industries (Development and Regulation Act, 1951, come under the purview of the MSME
- Companies adding value to finished products by employing plants and machinery are included in this category

Service Enterprises

- These are the enterprises engaged in rendering services. As per the definition of "enterprise" under the MSMED Act, the service provider should be an industrial undertaking/concern/establishment. An individual service provider would not be qualified as a service provider
- For example, an individual Chartered Accountant (CA) practising without establishment is not considered a service enterprise. They should have an office to be considered as a service enterprise

These enterprises can be registered on the Udhyaam portal under micro, small or medium categories. They should match the composite criteria of equipment investment and turnover for MSME classification.

Following are some of the essential elements of MSMEs –

1. MSMEs work for the welfare of the workers and artisans. They help them by giving employment and by providing loans and other services.
2. MSMEs provide credit limit or funding support to banks.
3. They promote the development of entrepreneurship as well as up-gradation of skills by launching specialized training centers for the same.
4. They support the up-grading of developmental technology, infrastructure development, and the modernization of the sector as a whole
5. MSMEs are known to provide reasonable assistance for improved access to the domestic as well as export markets.
6. They also offer modern testing facilities and quality certification services.
7. Following the recent trends, MSMEs now support product development, design innovation, intervention, and packaging.

Overview and Performance of the MSME Sector

Role of MSMEs in Indian Economy -The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours 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.

Since its formation, the MSME segment has proven to be a highly dynamic Indian economy sector. MSMEs produce and manufacture a variety of products for both domestic as well as international markets. They have helped promote the growth and development of khadi, village, and coir industries. They have collaborated and worked with the concerned ministries, state governments, and stakeholders towards the upbringing of rural areas.

MSMEs also contribute and play an essential role in the country's development in different areas like the requirement of low investment, flexibility in operations, mobility through the locations, low rate of imports, and a high contribution to domestic production.

With the capability and capacity to develop appropriate local technology, provide fierce competition in domestic and international markets, technology-savvy industries, a contribution towards creating defense materials, and generating new entrepreneurs by providing knowledge, training, and skill up-gradation through specialized training centers.

The below-mentioned data, represented in a tabular format, is by the Central Statistics Office (CSO) and Ministry of Statistics & Program Implementation.

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.'

MSMEs currently employ over 46.6 million people, as per the national sample survey (2019). MSME has introduced in the year 2006 in India. There are still some service sector that was not yet included in this sector was included in the definition of the Micro, Small and Medium-sized Enterprises making a historic change to this Act. Therefore leveraging the scope of the sector even now government simplified with the paperless work.

The further Importance of MSME in India has been described below:

- 1. It creates large-scale employment:** Enterprises that are inclusive in this sector require low capital to start up new business. Moreover, it creates a vast opportunity for the unemployed people to avail. India produces about 1.2 million graduates per year out of which the total number of engineers are around 0.8 million. There is no economy so far that could provide that large number of freshers in one year only. MSME is the boon for the fresh talent in India.
- 2. Economic stability in terms of Growth and leverage Exports:** It is the most significant driver in India contributing to the tune of 8% to GDP. Considering the contribution of MSME to manufacturing, exports, and employment, other sectors are also benefitting from it. Nowadays, MNCs are buying semi-finished, and auxiliary products from small enterprises, for example, buying of clutches and brakes by automobile companies. It is helpful in creating a linkage between MSME and big companies even after the implementation of the GST 40% MSME sector also applied that plays an important role to increase the government revenue by 11%.
- 3. Encourages Inclusive Growth:** The inclusive growth is at the top of the agenda of Ministry for Medium, and small and Medium-sized enterprises for several years. On the other hand, poverty and deprivation are a deterrent to the development of India. Besides, it includes marginalized sections of a society which is a key challenge lying before the Ministry of MSME.
- 4. Cheap Labour and minimum overhead:** While in the large-scale organizations, one of the main challenge is to retain the human resource through an effective human resource management professional manager. But, when it comes to MSME, the requirement of labour is less and it does not need a highly skilled labourer. Therefore, the indirect expenses incurred by the owner is also low.

5. **Simple Management Structure for Enterprises:** MSME can start with limited resources within the control of the owner. From this decision making gets easy and efficient. On the contrary, a large corporation requires a specialist for every departmental functioning as it has a complex organizational structure. Whereas a small enterprise does not need to hire an external specialist for its management. The owner can manage himself. Hence, it could run single-handedly.
6. **The main role in the mission of “Make in India”:** The signature initiative by the Prime Minister of India “Make in India” has been made easy with MSME. It is taken as a backbone in making this dream a possibility. In addition, the government has directed the financial institution to lend more credit to enterprises in the MSME sector.

The Indian MSME sector provides silent support to the national economy and acts as a defense against global economic shock and adversities. Hence, we can say that India is propelling towards a robust global economy through a silent revolution powered by MSMEs.

MSME (Micro, Small, and Medium Enterprise) term was introduced by the Government of India in agreement with the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006. MSME is initiated and managed under the Ministry of MSME (MoMSME) are entities engaged in the production, manufacturing, processing, or preservation of goods and commodities.

MSME sector is considered the backbone of the Indian economy and contributes nearly accounts for 27% of the country's GDP. It primarily works for the development of people from backward and rural areas. As per the official MSME annual report of 2021-22, the **Total number of MSMEs in India are 6,33,88,000** out of which 3,24,88,000 MSMEs (51.25%) are in rural area and 3,09,00,000 lakh MSMEs (48.75%) are in the urban areas.

As per the official data of IBEF.com as of 25th Nov 2022 as provided by Ministry of Micro, Small and Medium Enterprise (MoMSME), there are **12,201,448 Registered MSMEs in India** at Udyam Registration Portal, wherein Micro-enterprises are 11,735,117 (96.17%), Small enterprises are 426,864 (3.49%) and Midsized enterprises are 39,467 (0.32%).

To know more regarding MSMEs in India, let's discuss their basics, such as classifications, loan schemes, role, and importance in the socio-economic development of India

An overview of the opportunities that digital economy can bring to MSMEs

Digital technology has a huge impact on all conceivable aspects of life, and it is transforming business in the global economy. It can help MSMEs' expand their market reach at domestic and international levels. It is changing the shape of MSMEs at a faster pace. With appropriate digital strategies and quality products, anyone can make a big name for themselves in the market.

Creating an authentic presence is necessary in our digitally inclined world. It helps attract the targeted audience, which will help the company have a consistent and reliable image in the market.

Reliability is an important feature that will naturally help MSMEs expand in the digital space. Overcoming these issues will help various MSMEs survive the digital roadblock.

MSMEs are naturally diverse, however, to some extent, they can be classified according to whether their main activities are related to internet enabled sectors or whether they are traditional businesses taking advantage of the digital economy. The first case is the so-called 'digital native MSMEs', while the second case corresponds to 'traditional MSMEs'. MSMEs that are digital natives function based on business models that take digitalization as one of their main aspects or have business models that themselves rely on digitalization. These types of MSMEs are prevalent in societies with a digital entrepreneurial culture and are born with the mindset of going global. This is the case of many services sectors, particularly offering B2B services, such as engineering, coding (or programming). The same is the case for many MSMEs

engaged in other services sectors (Benz 2019). Policy research is, however, concentrated in MSMEs in traditional sectors, such as manufacturing. For this type of MSMEs, digitalization presents a different set of opportunities. For instance, most of them are not digital natives and have low means to invest in e-commerce. At the most basic level, traditional MSMEs can maintain a web presence (and maintain and create content for the website, or join different social networks). At a more advanced level, traditional MSMEs can sell online (advertising in search engines and social networks, maximizing sales through search engine optimization). Traditional MSMEs can also establish online payment processes (via traditional banks or fintech alternatives). These MSMEs can take advantage of digital platforms, which offer them the opportunity to (i) access a wider customer base, (ii) reduce costs (in operating businesses as many services are integrated within platforms) and (iii) optimize their businesses (ASEAN et al. 2019, 9). However, for digital native MSMEs, their business models already imply the digitalization of some of their business processes. They could already have a web presence, their company IT infrastructure may be supported by the cloud, and they could use data analytics or outsource back-office functions to digital platforms. What digital native MSMEs might lack is an appropriate legal and regulatory environment that will help them internationalize. Some academic reports also consider access to data (as seamless cross-border flow of data, availability of open government data and data privacy policies) as one of the factors influencing digital entrepreneurship (Chakravorti, Shankar Chaturvedi, and Filipovic 2019, 18). Hence, there is a case for dividing MSMEs into subsets and adopting targeted strategies for traditional MSMEs and digital native MSMEs. Graphically this could be depicted as:

An example of how the digital economy can facilitate MSME operations and integration in international trade is exemplified by fintech solutions. MSMEs face obstacles to access financial services due to a lack of collateral or credit history, or even because they are informal. Moreover, during the Covid-19 pandemic, the need for contactless payment methods has shed light on the importance of e-payments even for traditional MSMEs. Fintech offers several advantages in this regard. In comparison with traditional banking, fintech uses new technological solutions to complement, automate or replace traditional banking services. By using data and analytics, fintech firms can perform more efficiently than traditional banks. For fintech firms, each customer transaction is valuable as it generates data, which in turn can be used in models to measure the creditworthiness of an individual, helping to avoid the need of collateral or credit histories (Sahay et al. 2020, 13). As an example, when a person buys a product or service online, she or he not only transfers money but also data, which is a joint product of using fintech services. At the same time, this data can be combined with other data, such as social media data. This leads to faster credit scoring and other innovations. The innovative uses of data is what generates the efficiencies of fintech companies but raises concerns with regard to the use of such data as well as its adequate protection, for instance, against data breaches.

To sum up, the rapidly expanding digital economy offers opportunities for MSMEs to improve their business processes, access international markets, and get access to finance. By establishing their own digital presence or by using e-commerce platforms, MSMEs can access new markets without having to invest in their own infrastructure (World Trade Organization 2018; Pasadilla, Wirjo, and Liu 2017). Simple steps, such as having a website, can enable firms in developing countries to start their engagement in Global Value Chains (GVCs) as importers or exporters (Ganne and Lundquist 2019, 128). One of the key attributions that businesses pay attention to when they want to enter in a business relationship with SMEs is the level of ICTs usage (Ganne 128, APEC 2014). Similarly, there is a reduction of trading costs thanks to the use of digital platforms and access to digitally enabled services (such as back office, data processing, etc.) (World Trade Organization 2018).

What is the Digital Economy?

As with the lack of a uniform definition of MSMEs, there is no single agreed definition on the term ‘digital economy’ or a methodology to measure it. Broadly speaking, digital economy can be understood as the use of digital technologies for performing economic activities, while narrowly speaking it only represents ICT infrastructure and ICT-producing sectors (UNCTAD 2019b, 49). Recognizing that the majority of economic activities can be empowered by digital technologies, the definition of digital economy that this background paper advances is a broader one. A similar approach has been put forward by the G20 and the OECD (Digital development Report, 21). Furthermore, the transformations arising from the Covid-19 pandemic will affect the scope of what we understand as the digital economy, as the pervasive use of ICT for everyday activities means that the boundaries between core digital sectors and traditional sectors have become blurrier. The term ‘digital economy’ is different from ‘digitalization’ and ‘digital transformation’, but it covers both. Digitalization is defined as the ‘transition of businesses through the use of digital technologies products and services’ (UNCTAD 2019b, 5). ‘Digital transformation’ is associated with disruption, and to the transformation of traditional sectors to digital ones, as well as the emergence of new ‘digital enabled sectors’ (UNCTAD 2019b, 5). Within the digital economy, MSMEs can be subject to both digitalization and digital transformation.

Digital Payments

Government of India is making efforts for promoting a cash less economy and to provide the facility of seamless digital payment to all citizens of India in a convenient manner. Promotion of digital payments has been accorded highest priority by the Government of India to bring each and every segment of our country under the formal fold of digital payment services. The Vision is to provide facility of seamless digital payment to all citizens of India in a convenient, easy, affordable, quick and secured manner.

As a partner in the initiative, Ministry of MSME has taken numerous initiatives to digitally enable the entire MSME ecosystem. In line with the recommendations of Committee of Secretaries (CoS) and the guidelines of MeitY, a committee on Digital Payments has been constituted in the Ministry under the Chairmanship of Secretary (MSME) for making the Ministry and its attached offices achieve the successful implementation of ‘Digidhan Mission’.

- All the offices of Ministry of Micro, Small and Medium Enterprises, including its attached offices have been digitally enabled.
- For the MSMEs registered under UAM, efforts have been made to spread awareness on the ease and benefits of different modes of payments such as BHIM, UPI and Bharat QR code.
- For the Ministry and its attached offices (KVIC, Coir Board, NSIC, MGIRI, NIMSME and O/o DC (MSME)) Digital transactions are 98.53 % in terms of value and 87.32 % in number during the year 2021-22 (Upto December 2021).

How to Adapt and Give a New Shape to MSMEs with Digital Technology?

New technologies have made it easier to innovate. This makes it necessary to ensure that you keep up with the trends and regularly upgrade your products to improve sales in the digital space. You want something that will help you stand out; for that- innovation is key. Technologies like AI/ML, IoT, Data Intelligence can immensely enhance small businesses, which give customers a quality experience and can help in creating an informative online presence.

With these digital technologies, MSMEs can easily compete with large business tycoons.

For making important business decisions, like deciding whether to adopt a new tool or enter a new market, you need data insights to understand the market situation better. To improve your understanding of the digital space is to focus on Data Insights. They will help you and your company adapt to new technologies faster.

MSMEs are the new pillars of the Indian Economy, and they have turned out to be crucial in the growth of our country. These sectors have helped immensely in uplifting the socio-economic sectors of India. Digital platforms can bring drastic changes for small businesses as they are valuable platforms that, with the help of apt strategies, can help you progress. The Ministry of MSMEs provides learning programs and schemes to help you adapt to the ever-evolving digital technologies. They even have a registration portal named Udyam, where you can register yourself to know about the beneficial policies that the government provides. Conventional businesses are now warming up to the concept of new digital technologies as they understand their benefits better.

How does MSME impact people's lives?

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 (pmeg) 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 microbusiness. it also aids in the improvement of the lives of rural people.

Conclusion

MSME is the backbone of the Indian economy. This sector has proven the instrumental in the growth of the nation, leverage exports, creating huge employment opportunities for the unskilled, fresh graduates, and the underemployed. It also extended the opportunities to banks for giving more credit to enterprises to MSME Sector. The government should take the special care by addressing the importance of MSME in terms of providing more and more advantages by implementing better regulations and enable financial institutions to lend more credit at less interest rate for sustainability of this sector.

As explained in the first section of this background paper, there is a case for encouraging targeting policy responses by dividing MSMEs in subsets: digital native MSMEs and traditional MSMEs. This background paper has found that there are a myriad of existing examples that could help

traditional MSMEs go online (for instance, by joining a platform, or by taking advantage of trade facilitation efforts, among others). However, digital native MSMEs could be facing challenges in new areas, such as data protection, data usage, cyber security and anticompetitive conducts, for which policy responses are only starting to emerge. Fostering policy initiatives in these emerging areas is key in order to avoid that the efforts that several countries have already undertaken with regard to digitalization are not weakened. For instance, the lack of policies regarding data protection, cyber security or consumer protection, can undermine trust, either from MSMEs on the benefits of digitalization, or from consumers, on the cost and benefits of engaging in digital transactions.

References

1. Anvaria, Rana Deljavan, and Davoud Norouzi, (2016). The Impact of E-commerce and RandD on Economic Development in Some Selected Countries, 5th International Conference on Leadership, Technology, Innovation and Business Management, Procedia - Social and Behavioral Sciences ,229,354 – 362
2. Brynjolfsson, E. and McAfee, A., (2011). Race Against the Machine: How the Digital Revolution is Accelerating Innovation, Driving Productivity, and Irreversibly Transforming Employment and the Economy, MIT Center for Digital Business, Cambridge, available at:
3. http://ebusiness.mit.edu/research/Briefs/Brynjolfsson_McAfee_Race_Against_the_Machine.pdf
4. Gärdin, O. (2002). The New Economy New challenges for the statistical system. The International Association for Official Statisticians Conference, London Goldfarb, Avi and Catherine Tucker, (2017).
5. Digital Economics, Nber Working Paper Series, No.23684, downloade from <http://www.nber.org/papers/w23684> , date,December,10,1-91
6. Goertzen, Melissa J. (2017). Introduction to Quantitative Research and Data . Library Technology Reports. 53 (4): 12–18. ISSN 0024-2586
7. <https://www.lendingkart.com/msme-loan/what-is-msme/>
8. <https://www.paisabazaar.com/business-loan/what-is-msme/#:~:text=Role%20of%20MSMEs%20in%20the%20Indian%20Economy&text=MSMEs%20help%20in%20the%20promotion,%2C%20state%20governments%2C%20and%20stakeholders.>
9. <https://www.psbloansin59minutes.com/knowledge-hub/msme-and-its-importance-to-the-economy>
10. <https://www.pinelabs.com/blog/know-what-is-msme-and-its-role-in-economy>
11. <https://www.legalraasta.com/blog/importance-of-msme/>
12. https://www.researchgate.net/publication/344558363_ROLE_OF_MICRO_SMALL_AND_MEDIUM_ENTERPRISES_IN_INDIAN_ECONOMY
13. <https://www.indianretailer.com/article/technology/digital-trends/msmes-and-digital-technology-new-pillars-of-the-indian-economy.a7661>.