



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

A STUDY ON THE IMPACT OF MSMEs ON THE INDIAN ECONOMY.

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ABSTRACT:

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in the economic landscape of India, contributing significantly to employment generation, GDP growth, and balanced regional development. The study aims to examine the Benefits and Impact of the MSME Sector on the Indian Economy, the role of MSME sector in India, to contribution of MSME sector to economic growth of India. The study secondary data has only been used in the paper for analytical understanding.

Keywords: MSME, GDP and Exports, Employment Opportunity, Industrial Growth, Economic Recession.

INTRODUCTIN:

MSMEs were introduced under the MSMED (Micro, Small and Medium Enterprises Development) Act, 2006. The full form of MSME is Micro, Small, and Medium Enterprises. The Micro, Small and Medium Enterprises (MSME) sector has emerged as a vibrant and dynamic sector of the Indian economy. MSMEs play crucial role in providing large employment opportunities at comparatively lower cost than large industries. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly to the socio-economic development of the country. Micro, Small and Medium Enterprises (MSMEs) have the potential to be key employment generators and help achieve the goal of taking the Indian economy to US\$ 5 trillion in the next five years. Most companies are now looking to create solutions with new and emerging technologies in this high-growth sector. The MSMEs sector supplies goods and services to large industries and is the backbone of exports from India. As the MSME full form suggests, it covers different types of enterprises based on their size - micro, small and medium. India has more than nine crore MSMEs, accounting for nearly 40% of the exports from India.

The MSME Sector in India, comprising Micro, Small and Medium Enterprises, significantly contributes to the Indian economy, driving entrepreneurial development, employment generation, poverty reduction and industrial growth. Micro, Small, and Medium Enterprises (MSMEs) have been exceptional in advancing the growth and development of the Indian economy. They not only play a pivotal role in creating employment opportunities but also support industrialisation to a great extent. MSMEs have also been eliminating regional imbalances to ensure financial inclusion and enhance productivity. Knowing the MSME definition and the related benefits helps enhance the understanding of this sector and its contribution to the Indian economy.

OBJECTIVES:

- To study about the Benefits and Impact of the MSME Sector on the Indian Economy.
- To analyse the role of MSME sector in India.
- To analyse the contribution of MSME sector to economic growth of India.

METHODOLOGY:

The present study based on the secondary data which have been collected from Books, journals and internet etc.

BENEFITS AND IMPACT OF THE MSME SECTOR ON THE INDIAN ECONOMY:

The presence of MSMEs is a vital contributor to economic and social interests. Here are some benefits to consider:

- MSMEs can avail of collateral-free loans, ([/collateral-free-business-loan.aspx](#)) making acquiring inventory easier and boosting growth. They even have easy access to credit for working capital.
- The low capital-output ratio of MSMEs lets them grow more with minimal investments.
- They cater to a diverse market, meaning there are high chances of even the most straightforward ideas making good returns.
- Good government support, ensuring exposure to various support programs, financial assistance, incentives, and technical expertise.
- Ample employment opportunities to the semi-urban and rural population.
subsidies on interest rates, patent registration and promoting industrial activities.
- High adaptability and flexibility help MSMEs Survive market uncertainties.

MSMEs are Micro, Small, and Medium Enterprises engaged in processing, manufacturing, and producing goods in various industries. It can also extend to offering services or engaging in trading activities. They provide extensive job opportunities and significantly contribute to the Indian economy. Some businesses that fall under the MSME sector are handicraft activities like spinning, weaving, coir industry, poultry farms, etc. They are classified based on their annual turnover and investment in plant and machinery.

Classification Of MSMEs		
Category	Investment in Plant and Machinery	Annual Turnover
Micro Enterprise	Does not exceed ₹1 crore	Does not exceed ₹5 crores
Small Enterprise	Does not exceed ₹10 crores	Does not exceed ₹50 crores
Medium Enterprise	Does not exceed ₹50 crores	Does not exceed ₹250 crores

Source: www.tataaia.com

Benefits of the MSME Sector for the Indian Economy

Promotes Employment Generation:

Businesses in the MSME sector are labour-intensive, providing increased and wide-ranging employment opportunities for both skilled and unskilled workers. Also, their small-scale operations restrict them to a particular region, resulting in the hiring of the local population. It will reduce unemployment and underemployment beyond expectations.

Helps Alleviate Poverty:

MSMEs focus on providing employment opportunities for the marginalised sections of society, including women and younger individuals from economically weaker backgrounds. Creating new job opportunities and a more equitable income distribution enhances their living standard, contributing to inclusive growth and poverty alleviation.

Boosts Industrial Growth:

The establishment of the MSMEs boosts industrial growth and development. It fosters the introducing of new products, services, processes, and technologies. In addition, they supply raw materials and finished goods to larger industries, contributing to the value chain. Additionally, their establishments across the country facilitate the decentralisation of industries that satisfy equitable distribution of economic activities. Moreover, their small-scale establishments pave the way for adaptability, innovative approaches, and cost-effective production methods that boost industrial growth.

Encourages Entrepreneurship

MSMEs provide a flexible platform for aspiring individuals to bring in their ideas to establish a business. In addition, access to the regional and supportive ecosystem provides increased networking

opportunities to foster growth among budding entrepreneurs. Furthermore, access to credit facilities and SME insurance from governmental and non-governmental organisations provides financial support to establish business operations, ensure business continuity, and focus on their goals.

Impact of MSMEs on the Indian Economy

The role of MSMEs in the Indian Economy and their importance can be revealed based on financial statistics.

Engaged In Different Economic Activities

According to the MSME Annual Report 2022 - 23, MSMEs engaged in varied economic activities, providing large employment opportunities at lower capital costs. The distribution is as follows:

Category Of Activity	Estimated Number of MSMEs (in lakhs)
Manufacturing	196.65
Electricity	0.03
Trade	230.35
Other Services	206.85

Source: www.tataaia.com

Contribution To GDP And Exports

According to the Ministry Of Micro, Small, And Medium Enterprises, the financial statistics related to the contribution of MSMEs to the Indian economy are as follows:

Financial Statistics		
Financial Year	2019-20	2020-21
Share of MSME Gross Value Added (GVA) in All India Gross Domestic Product (GDP) %	30.50	26.83
Share of Export of MSME-related products in All India Export (%)	45.03	42.67
Share of Manufacturing MSME Gross Value Added (GVA) in All India Manufacturing (GVA) %	40.67	38.47

Contribution To Employment Opportunities

Financial Year	2020-21	2021-22	2022-23 (up to 7th Dec 2022)
Number of persons employed	1, 12, 27, 745	1, 30, 19, 919	84, 23, 452

THE ROLE OF MSME SECTOR IN INDIA:

As per the latest information received from Ministry of Statistics & Programme Implementation, the share of MSME Gross Value Added (GVA) in all India Gross Domestic Product (GDP) during the year 2019-20, 2020-21 and 2021-22 was 30.5%, 27.2% and 29.2% respectively. The share of MSME manufacturing output in all India Manufacturing output during the year 2019-20, 2020-21 and 2021-22 was 36.6%, 36.9% and 36.2% respectively.

As per the information received from Directorate General of Commercial Intelligence and Statistics (DGCIS), the share of export of MSME specified products in all India exports during the year 2020-21, 2021-22 and 2022-23 was 49.4%, 45.0% and 43.6% respectively.

As on 02.08.2023, as per Udyam Registration Portal, the total number of persons employed in MSMEs which were registered from 01.07.2020 to 01.08.2023 in India was 12,36,15,681. The State/UT wise details are attached as annexure I.

The Ministry of Micro, Small and Medium Enterprises implements various schemes for the growth and development of MSME sector in the country in areas of credit support, new enterprise development, formalization, technological assistance, infrastructure development, skill development and training and market assistance to MSMEs. The schemes/programmes inter alia include Prime Minister's Employment Generation Programme (PMEGP), Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE), Micro and Small Enterprises-Cluster Development Programme (MSE-CDP), Entrepreneurship Skill Development Programme (ESDP), Procurement and Marketing Support Scheme (PMS) and National SC/ST Hub (NSSH).

The Government has taken a number of recent initiatives to support MSMEs in the country, include;

- i. Rs. 5 lakh crore Emergency Credit Line Guarantee Scheme (ECLGS) for business, including MSMEs.
- ii. Rs. 50,000 crore equity infusion through MSME Self-Reliant India Fund.
- iii. New revised criteria for classification of MSMEs.
- iv. No global tenders for procurement up to Rs. 200 crores.

- v. Launching of an online Portal “Champions” in June, 2020 to cover many aspects of e-governance including grievance redress and handholding of MSMEs.
- vi. Inclusion of Retail and Wholesale trades as MSMEs w.e.f. 02nd July, 2021.
- vii. Non-tax benefits extended for 3 years in case of an upward change in status of MSMEs.
- viii. Roll out of Raising and Accelerating MSME Performance (RAMP) programme with an outlay of Rs. 6,000 crore over 5 years.
- ix. Launch of Udyam Assist Platform (UAP) on 11.01.2023 to bring the Informal Micro Enterprises (IMEs) under the formal ambit for availing the benefit under Priority Sector Lending (PSL).

CONTRIBUTION State/UT wise Total no. of persons employed in MSMEs Registered Under Udyam Registration Portal OF MSME SECTOR TO ECONOMIC GROWTH OF INDIA:

The MSME industry plays a crucial role in the development of the Indian economy. Its contribution to the country's GDP is nearly a third of the country's GVA and it contributes nearly half of the country's exports. Moreover, the sector is a major employer, especially in the rural and less developed areas helping reduce regional imbalance. The sector also strengthens other industries by providing them raw materials and ancillary products. The MSME sector has always acted as a bulwark for the Indian economy, providing it resilience to ward off global economic shocks and to face adversities.

Minister of state for MSMEs (Micro, Small, and Medium Enterprises), Bhanu Pratap Singh Verma has recently informed the Rajya Sabha in a written reply that as per the latest information received from the Ministry of Statistics & Programme Implementation and the Directorate General of Commercial Intelligence and Statistics (DGCIS), the MSME sector in India has continued to demonstrate resilience and growth.

The Minister said, according to the data presented by the Ministry of Statistics & Programme Implementation:

1. The share of MSME Gross Value Added (GVA) in India's Gross Domestic Product (GDP) has displayed a fluctuating trend over the last three years. Thus, while in the fiscal year 2019-20, the share stood at 30.5%, it slightly declined to 27.2% in 2020-21 but rebounded to 29.2% in 2021-22.

2. The share of MSME manufacturing output in the overall Indian manufacturing output remained relatively stable, accounting for 36.6%, 36.9%, and 36.2% during the fiscal years 2019-20, 2020-21, and 2021-22, respectively.

3. The share of MSME products in India's total exports experienced a decline over the past three years. While in the fiscal year 2020-21, they constituted 49.4% of India's exports, the share decreased to 45.0% in 2021-22 and further to 43.6% in 2022-23.

4. The MSME sector has been a significant source of employment in India. As of August 2, 2023, the Udyam Registration Portal reported that the total number of persons employed in MSMEs registered between July 1, 2020, and August 1, 2023, amounted to an impressive 12,36,15,681.

Overall, the share of MSME manufacturing output in the overall Indian manufacturing output has remained relatively stable, the Minister stated.

Schemes & Programmes initiated by the Ministry of Micro, Small & Medium Enterprises:

To foster the growth and development of the MSME sector, the Ministry of Micro, Small and Medium Enterprises has been implementing various schemes and programmes encompassing a wide range of areas, including:

1. Credit support;
2. New enterprise development;
3. Formalisation;
4. Technological assistance;
5. Infrastructure development;
6. Skill development and training; and,
7. Market assistance to MSMEs.

The Schemes/Programmes initiated & implemented by the Ministry inter alia include:

1. Prime Minister's Employment Generation Programme (PMEGP);
2. Credit Guarantee Scheme for Micro and Small enterprises (CGTMSE);
3. Micro and Small Enterprises-Cluster Development Programme (MSE-CDP);
4. Entrepreneurship Skill Development Programme (ESDP), and,
5. Procurement and Marketing Support scheme (PMS) and National SC/ST Hub (NSSH)

The government has recently taken several steps to provide support to the MSME sector to bolster its growth, including:

1. Rs. 5 lakh crore Emergency Credit Line Guarantee Scheme;
2. Rs. 50,000 crore equity infusion through the MSME Self-Reliant India Fund;
3. The inclusion of Retail and Wholesale trades as MSMEs.
4. An online portal Champions, a platform for resolution, redressal and remedies, a facility provided by the Ministry of Micro, Small and Medium Enterprises for ensuring a speedy, convenient, and effective redressal of MSMEs grievances,
5. Non-tax benefits for upward changes in MSME status; and,
6. The RAMP, (Raising and Accelerating MSME Performance Program)

The launch of the Udyam Assist Platform (UAP) on January 11, 2023, has been another significant measure taken by the government, which aims to bring Informal Micro Enterprises (IMEs) under the formal ambit, enabling them to avail benefits under Priority Sector Lending (PSL).

Epilogue

The MSME network in India is vast and covers around 630 lakh units manufacturing 8000+ products contributing about 45% to manufacturing output and about 40% to direct and indirect exports. The MSME sector is reportedly the second-largest employer in the country after agriculture.

The contribution of micro, small and medium enterprises to India's economic growth is well-documented. A report by consultancy KPMG, a multinational professional services network and CII, the Confederation of Indian Industry, states that:

1. The MSMEs account for nearly 30% of India's GDP and 45% of her exports;
2. Play a crucial role in socio-economic development;
3. Are providing employment to 110 million people;
4. Are playing a major role reducing inequalities;
5. Playing an important role in rectifying regional imbalances;
6. Providing low-cost raw material to support large industries and allied sectors; and,
7. Bridging the rural-urban divide.

Recognising the contribution and potential of MSMEs, the finance minister Nirmala Sitharaman has allocated in the Union budget, FY24 a record ₹22,138 crore for the MSME Ministry. The Budget announced many measures to boost the MSME sector such as,

1. Extending the ECLGS, Emergency Credit line Guarantee scheme till 31 March to overcome major losses suffered by the MSMEs in the manufacturing and other sectors during the Pandemic; and,
2. The RAMP, Raising and Accelerating MSME performance Programme, a World Bank-assisted central sector program to strengthen India's Micro Small and Medium Enterprises sector with an outlay of ₹6,000 crore.

According to experts, there is little doubt that the recently introduced budget provisions will have a significant positive impact on the MSME sector. Besides, as China + 1 sentiments gain traction, China + 1 being described as a business strategy to avoid investing only in China and diversify business into other countries, or to channel investments into manufacturing in other promising developing economies, MSMEs are well-positioned to expand their exports and operations. Assertion of the Minister of state for MSMEs as regards the resilience and growth demonstrated by the MSME sector & highly adaptable nature of the MSMEs therefore assumes significance.

CONCLUSION

MSMEs play a vital role in India's economic landscape. Being the backbone of the Indian economy, substantial contributions to GDP, job creation, exports, and innovation are instrumental in achieving the government's vision of elevating India into a \$5 trillion economy by 2025. The Micro, Small, and Medium Enterprises (MSMEs) Sector in India is a dynamic force significantly driving India's economy. With its diverse engagement in various economic activities, options for generating employment opportunities, and efforts for alleviating poverty, its support has become indispensable for financial inclusion. Similarly, they play a pivotal role in encouraging entrepreneurship and fostering innovation. As the Government of India strives for economic growth and development, nurturing MSMEs remains paramount. It impacts the economy positively while empowering individuals from the economically weaker sections of Indian society.

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