
Role of MSME in Indian Economy Development

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Abstract

The MSME sector significantly contributed to the creation of employment opportunities to rural and semi urban, development and Gross National Product in terms of greater industrial production. Both the Central and State government have taken many initiative to support MSMEs' growth and ensure their sustained contribution to GDP, economic growth, employment generation and poverty alleviation. The MSMEs are spreading its markets in domestic as well as international by producing diverse range of products and services. MSMEs holds one of the most important role in Indian economy

The new classification of MSME as notified on 26th June, 2020, the Udyam registration portal was launched on 1st July, 2020. . A revision in MSME criteria for classification was announced under Aatma Nirbhar Bharat package on 13th May2020. Now, there is no difference between manufacturing and service sectors. The objective of paper are to examine growth and Performance of MSMEs and to examine the steps taken by the government to the development of MSME's. The Present paper is descriptive in nature and mainly emphasis on MSME's in Indian Economy. The paper is based on the secondary data.

Introduction

MSMEs are very important in any economic development and playing very crucial role especially in developing countries. MSMEs are major sources of employment generator in rural and semi urban economy. After agriculture, it is a second the largest employment provider. These enterprises are more labour intensive and important tool for rural industrialization by providing employment opportunities at lower capital cost. This sector is reducing regional imbalances and inequalities of wealth and income. The MSMEs are spreading its markets in domestic as well as international by producing diverse range of products and services. MSMEs holds one of the most important role in Indian economy

The new classification of MSME as notified on 26th June, 2020, the Udyam registration portal was launched on 1st July, 2020. The earlier criterion of classification of MSME under MSMED Act, 2006 was based on investment in plant and machinery or equipment and was different for manufacturing and service units. A revision in MSME criteria for classification was announced under Aatma Nirbhar Bharat package on

13th May 2020. Now, there is no difference between manufacturing and service sectors. Three categories have been clearly defined, tiny and cottage industries would cover all enterprise with investment in plant and machinery of less than 25 lakhs in Micro enterprise. A new criterion of turnover has been added of classification based only on investment in plant and machinery. The aim of Act is to facilitating the growth of small enterprises and improving their competitive strength.

Table 1: Demarcation of Indian MSMEs (in Rupees)

	Act of 2006		Revised on 2020 (All enterprises)	
	Manufacturing Sector	Service Sector	Investment in Plant & Machinery	Turnover
	Investment in Plant & Machinery	Investment in Equipment		
Micro	Max limit 25 Lakhs	Max 10 Lakhs	Max 1 Crores	Max 5 Crores
Small	Min 25 Lakhs Max 5 Crores	Min 10 Lakhs Max 2 Crores	Max 10 Crores	Max 50 Crores
Medium	Min 5 Crores Max 10 Crores	Min 2 Crores Max 5 Crores	Max 50 Crores	Max 205 Crores

Source: MSME Annual Report 2023-24

According to above table, investment and turnover of micro units have been increased to Rs. 1 crore and Rs. 5 crore, respectively, definition of small units has increased investment to Rs. 10 crore and turnover to Rs. 50 crore. and investment and turnover of medium enterprises have enhanced to Rs. 20 crore and Rs. 100 crore, respectively. On 1st June, 2020, government again revised the MSME definition for medium enterprises i.e. investment of Rs. 50 crores and turnover of Rs. 205 crores.

Definition of Micro, Small and Medium enterprises:

In accordance with the MSMED Act, MSME are classified as below:

- (i) A micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- (ii) A small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees.
- (iii) A medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

1. **Objectives:** The main objectives of the paper are as follow-

- To examine growth and Performance of MSMEs.
- To examine the steps taken by the government to the development of MSME's.

2. **Research Methodology**

The Present paper is descriptive in nature and mainly emphasis on MSME's in Indian Economy. The paper is based on the secondary data extracted from reports of Reserve Bank of India (RBI), ministry of MSME, khadi and village industries commission, coir board, silk board and various research papers related to MSMEs, annual report of MSMEs and the other published reports of respective departments.

3. Role of MSMEs in the Development of the Indian Economy

Business in the manufacturing sector mainly produce goods. There are some of the thriving manufacturing industries, those have shown extreme potential and growth in India. Government of India has undertaken various initiatives to support and encourage MSMEs.

Machinery	Construction Materials	Biotechnology
Oil, Gas, Coal Industrial Engineering Packaging Material and Supplies Automobile Parts and Spares	Electronic and Electrical Goods Renewables and Environment Agriculture and Farming Chemicals	Industrial Supplies Food Processing Medical and Healthcare Products Khadi Products

Some of the products the government has exclusively marked for manufacturing by the MSME industry are:

1. **Food and Allied Industries**
 - Pickles
 - Bread
 - Groundnut Oil (except solvent extracted)
 - Chutneys
 - Mustard Oil (except solvent extracted)
2. **Chemical and Chemical Products**
 - Laundry Soap
 - Wax Candles
 - Fire Works
 - Safety Matches
 - Agarbattis
3. **Glass and Ceramics**
 - Glass Bangles
4. **Mechanical Products, excluding Transport Equipment**
 - Steel almirah
 - Rolling shutters
 - Steel chairs-All types
 - Steel tables-All other types
 - Steel furniture-All other types
 - Padlocks
 - Stainless steel utensils
 - Domestic utensils-Aluminium
- **Wood and Wooden Furniture**
 - Wooden Furniture and Fixtures

Services Sector

According to a recent report, the Service sector contributes to 58% of India's GDP. The MSME industry makes up most of the service sector offerings. Some of the best business ideas to take inspiration from are in the services sector. There are some popular SME services in India as follows:

Food Catering	Small Restaurants	Appliances Stores
Beauty Parlour	Cloud Kitchens	Electronic Surveillance and Security
Food Vans	Crèches	Energy Efficient Pumps
Engineering and Fabrication	Furniture	IT Solution Provider
Laundry and Dry Cleaning	Multi Channels Dish Cable Antenna	Photo Studio
Phone booths	Photocopying	Printing Services
Consultancy Services	Rental and Leasing of equipment	Servicing of Agricultural Farm Equipment
Tailoring	Grocery Stores	Boutiques
Testing Labs for industries	Training and Educational Institution	Diagnostic Centers
Medical Clinics	Apparel Stores	Electronic Accessories
Repair and Restoration Work	Accounts	Fitness Centers

These small businesses have played a successful role in making life more convenient and products accessible to everyone. They have also been utilizing people's skills and raw resources. Small businesses should move toward flexible and safe business loans to come out from financial crises.

MSMEs Contribution to GDP

Table 2 shows the contribution of MSMEs in GDP. MSMEs are considered as an engine of growth by contributing 30% to Gross Domestic Product (GDP) in 2021 and generating employment opportunities in this sector. The government has given the importance of MSMEs in Indian economy and new policies were framed for the benefit of industries. According to a recent report, MSMEs in India's GDP is expected to grow 100% by 2025

Table 2: Contribution to GDP

Year	Contribution to GDP (in %)
2014-15	29.34
2015-16	29.48
2016-17	29.25
2017-18	29.75
2018-19	30.2
2019-20	30.5
2020-21	30

Source: Annual report of Ministry of MSME 2020-2021

The percentage share of micro, small and medium enterprises (MSME) sector in Indian Gross Domestic Product (GDP) at 2004-2005 prices during the time period 2014-2015 to 2020-2021 has been shown in table 2. The highest contribution is in the year 2019-2020 i.e. 30.5 % and lowest in the year 2016- 2017 with 29.25%. The figure has revealed that over the period of time, share of this sector has increased in Indian GDP but no steep increase has been seen in this period. According to a recent report, MSMEs in India's GDP is expected to grow 100% by 2025.

Table 3: Sector-wise Distribution of Enterprises

Sector	Micro	Small	Medium	Total	Share
Rural	324.1	0.8	0.01	324.9	51
Urban	306.4	2.5	0.04	309.0	49

All	630.5	3.3	0.05	633.9	100
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Source: Annual report of Ministry of MSME 2020-21

Sector-wise distribution of enterprises is shown in table 3. Generally, industries were started and established only in urban areas whereas MSMEs are encouraged and started in rural areas to remove the regional imbalances and allow rural development. It minimizes the income disparity between urban and rural areas, reduces migration, and encourages regional growth.

Employment Potential in MSMEs

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector created 11.10 crore jobs (360.41 lakh in Manufacturing, 0.07 lakh in Non-Captive Electricity Generation and Transmission, 387.18 lakh in Trade and 362.82 lakh in Other Services) in the rural and the urban areas across the country.

Table-4: Employment in the MSME Sector (in lakh)

Broad Activity Category	Employment (in lakh)		
	Rural	Urban	Share
Manufacturing	186.56	173.86	32
Electricity	0.06	0.02	0
Trade	160.64	226.54	35
Other Services	150.53	211.69	33
All	497.78	612.10	100

Source: Annual Report 2023-24

The number of working MSMEs employment has been seen in Table 4. Employment generated is the highest in trade with 160.64 lakh persons in rural and the lowest electricity i.e. 0.06 lakh persons. The number of working enterprises has shown the same trend in urban areas as that of employment generated is the highest in trade with 226.54 lakh enterprises and the lowest in electricity i.e. 0.02 lakh enterprises

Table-5: Percentage Distribution of Enterprises in rural and urban areas (Male/ Female ownership and category wise)

Sector	Male	Female
Rural	77.76	22.24
Urban	81.58	18.42
All	79.63	20.37

Source: Annual Report 2023-24

Table 5 revealed that rural areas have a slightly greater share of women owned enterprise 22.24 than urban areas 18.42 percentage. There are huge gender gap 76 percentage employed male and only 24 percentage female employees.

Table-6 Percentage distribution of enterprises owned by Male/ Female(on june 30, 2020)

Category	Male	Female
Micro	79.56	20.44
Small	94.74	5.26
Medium	97.33	2.67
All	79.63	20.37

Source: Annual Report 2023-24

Table 6 analyses that in micro business 79.56 percentage are owned by male and 20.44 percentage are owned by female. 94.74 % and 5.26 respectable are male and female in small enterprises. 97.33 % owned by male and 2.67 female in medium business. The ownership distribution in small and medium enterprises showed similar pattern with notable awry towards male ownership.

Table -7 State wise distribution of MSMEs in India

	State/UT	Estimate Number of MSME	
	State	Number (in lakh)	Share (in %)
1	Uttar Pradesh	89.99	14
2	West Bangal	88.67	14
3	Tamil Nadu	49.48	8
4	Maharashtra	47.78	8
5	Karnataka	38.34	6
6	Bihar	34.46	5
7	Andhra Pradesh	33.87	5
8	Gujarat	33.16	5
9.	Rajasthan	26.87	4
10	Madhya Pradesh	26.74	4
11	Total of above ten States	469.36	74
12	Other State/UTs	164.52	26
13	Total	633.88	100

Sources: Source: Annual Report 2023-24

Table 7 showed that State of Uttar Pradesh had the largest number of estimated MSME with a share of 14 % of MSME in the country. Top 10 States accounted for a share of 74.05% of the total estimated number of MSME in the country

Policy initiatives by Government of India (GoI)/State Government (GoUP).

Government of India (GoI)/State Government (GoUP) run various schemes for financial assistance, technology up gradation and assessment, infrastructure development and skill enhancement of MSMEs. There are some following Policies:

- ✓ CHAMPIONS portal launched by Hon'ble Prime Minister on 1st June, 2020, is an ICT based technology system for making the smaller units bigger by helping and handholding them.
- ✓ StandUp India Scheme was launched by the Govt of India on 05th April 2016. The objective of this scheme is to facilitate bank loans between 10 lakh to 1 crore to atleast one SC\ST and woman borrower per bank branch for setting up a green field enterprise. This initiative aims at fostering entrepreneurship and promoting innovation by creating an ecosystem that is conducive for growth of Start-ups.
- ✓ Micro Units Development & Refinance Agency Ltd (MUDRA) Bank has been formed to develop and refinance all Micro-enterprises sector by supporting the finance institutions. Refinance is provided for three categories of loans called PMMY (Prime Minister Mudra Yojna) viz. Shishu (loan upto Rs 50,000), Kishore (loan between Rs 50,001 to Rs 5,00,000) and Tarun (loan between Rs 5,00,001 to Rs 10,00,000). Some of these schemes are International Cooperation, Marketing Assistance scheme and Procurement and Marketing Support Scheme. The key benefits of these schemes are participation of Individual MSEs in domestic Trade Fair/ Exhibition Capacity building of MSMEs in Modern Packaging Technique / Development of Marketing Haats. Organizing Domestic Trade Fair&

Exhibition/ Vendor Development Programs/ National & International Workshops & Seminars/ Awareness programs

✓ Digital MSME Scheme- The main objective of scheme is to make MSMEs digitally empowered and motivate them to adopt ICT tools and applications in their production & business processes to improve their competitiveness in national and international market. The various components of the scheme are Awareness and Work Shop, Development of e-platform, development of software/Apps for MSMEs, digital literacy and e-marketing, training to MSME officials, MSMEs, etc. Government of India is making efforts for promoting a cash less economy and to provide the facility of 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 section of our society 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

✓ Micro & Small-Cluster Development Scheme for Micro Small Enterprises, Cluster Development programme was started by Government of India for enhancing, skill development, technology development and encouraging competitive products in clusters for competing them globally. It was aimed at improving improve productivity.

✓ Prime Ministers Employment Generation Programme (PMEGP)- PMEGP is a central scheme administered by the Ministry of MSME which was started in 2008. The Scheme is implemented by Khadi and Village Industries Commission (KVIC), a statutory organization under the administrative control of the ministry of MSME. The main objective of the scheme is setting up of new self-employment ventures/projects /micro enterprises so as to generate employment opportunities in rural as well as urban areas of the country. The scheme endeavors to bring together widely dispersed traditional artisans /rural and urban unemployed youth and give them self-employment opportunities to the extent possible, at their place. In the last 4 years (July 2016 to March 2020) 19695 projects were sanctioned in Uttar Pradesh.

✓ One District One Product (ODOP) is a flagship Scheme of the State Government. The Scheme aim is to promote balanced regional development in India by selecting, branding and enhancing a single product groom each district. The initiative is intending for help to achieve holistic socioeconomic growth across the country. The various schemes under ODOP are: Common Facility Centre Scheme, Marketing Development Assistance Scheme, Finance Assistance Scheme (Margin Money Scheme), Skill Development Scheme (Product training and toolkit scheme) etc.

✓ Vishwakarma Shram Samman Yojana has been started for the development of urban and rural artisans in the State. Under this, people will be imparted training in trades such as basket weaver, potter, blacksmith, mason, tailor, carpenter, barber, cobbler and goldsmith etc. Hon'ble Prime Minister launched PM Vishwakarma scheme on 17th September, 2023 to provide end-to-end support to artisans and craftspeople who work with their hands and tools. These traditional artisans and craftspeople are referred to as "Vishwakarmas" and are engaged in occupations such as blacksmiths, goldsmiths, potters, carpenters, sculptors, etc. "PM Vishwakarma" on 16.08.2023 with a financial outlay of Rs. 13,000 crore for a period of five years (FY 2023-24 to FY 2027-28). The Scheme aims to strengthen and nurture the Guru-Shishya parampara of traditional skills by artisans and crafts people working with their hands and tools. The Scheme also aims at improving the quality, as well as the reach of products and services of artisans and crafts people and to ensure that the Vishwakarmas are integrated with the domestic and global value chains

A number of statutory and non-statutory bodies work under the aegis of the M/o MSME. These include the Khadi and Village Industries Commission (KVIC) and the Coir Board, besides National Small Industries Corporation (NSIC), National Institute for Micro, Small and Medium Enterprises (NIMSME) and Mahatma Gandhi Institute for Rural Industrialization (MGIRI). The primary aims of promotion and development of

MSME is through various initiatives, in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSME in the changed economic scenario.

CONCLUSIONS:

Recently the MSME sector significantly contributed to the creation of employment opportunities, rural development, and Gross National Product in terms of greater industrial production. Both the Central and State government have taken many initiative to support MSMEs' growth and ensure their sustained contribution to GDP, economic growth, employment generation and poverty alleviation. For inclusive growth MSMEs empowered marginalized groups such as women, youth and disadvantage group by offering opportunities for economic participation. In the aftermath of COVID-19 pandemic, MSME were considered very prominent part of the announcements made under the Atmanirbhar Bharat Abhiyaan in view of the role of MSME in nation building. the MSME sector has not only been given substantial allocation but has also been accorded priority in implementation of the measures to revive the economy. To provide immediate relief to MSME sector, various announcements have been made under the package. Ministry of Micro, Small & Medium Enterprises (MSME) in its endeavor to provide the right stimulus for the growth of the industry in the country. The Ministry has been organizing a number of skill development programmes/ courses for the existing and potential enterprises, as well as for wage employment in order to build their capacity and enhance employability. These training courses are as per demands of industry, a pathway to fill up the gap of requirement of skilled workforce in the MSME sector in consonance with the changing landscape of the MSME ecosystem and its present challenges in India.

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