

A STUDY ON MSMEs AND ITS IMPORTANCE IN INDIA

Sohan Lal

Research Scholar

Email-sohansainikkr@gmail.com

and

Dr. Kuldeep Kumar

Supervisor

Deptt. of Commerce, NIILM University-Kaithal (HR) India

Abstract: This research paper explores the significance of Micro, Small, and Medium Enterprises (MSME) in India, which make up almost 8% of the country's GDP and account for 45% of total industrial production and 40% of exports. MSMEs, as per the Micro, Small, and Medium Enterprises Development Act, 2006, are crucial for the critical supply chain of products and services. Micro, Small, and Medium Enterprises are crucial in the supply chain, specializing in product production, processing, or storage, and are seen as job creators, contributing to large-scale employment and industrialization in rural and backward areas. The MSME sector has consistently shown greater growth rates than the entire industrial sector, demonstrating innovativeness and adaptability during economic crises and recessions. It is recognized as a global growth driver, providing employment and industrializing underdeveloped areas at comparable legal costs.

Keywords: MSME, Importance, Financial Assistance, Employment Opportunities, Growth, Make in India, and Government Initiatives.

1.0 Introduction

Over the past 50 years, MSMEs have become India's most active economic sector, contributing to economic and social growth by creating job opportunities at the second-lowest capital cost after agriculture. They are considered global growth engines, employing local and rural resources and creating native concepts and business tactics. MSMEs are crucial to India's national economic objectives because they design and manufacture a wide range of goods for both domestic and foreign markets. These objectives include the growth of small-scale businesses, expanding capital creation, and increasing the production of commodities by small and medium-sized enterprises. They have promoted the expansion and development of the coir, khadi, and village industries in order to improve rural communities. They have cooperated and worked with the relevant ministries, the state government, and stakeholder organizations. Ahamed and Raju (2023) correctly point out that these organizations face numerous challenges with regard to funding, quality, and human resources, specifically the availability of skilled labor, capital, infrastructure, technology, and regulatory compliances set forth by the Indian government, which are supported by Maurya (2020) and Singh (2021). They mostly identified issues with this sector's access to affordable financing and support related to information and communication technologies and infrastructure. (Gaikwa and Dhokare, 2020) emphasized that the expense of upgrading technology is significant, (Mukherjee, 2018) the lack of suitable technology, adoption of best practices, and international cooperation, Considering all of these factors, the researcher has taken into account the significance, classification, and importance of MSMEs in this analysis to help your nation reduce regional imbalances and other issues that MSMEs face in general, as well as to identify areas for business growth.

2.0 Literature review

Only by examining earlier research on the same topic can a researcher comprehend the findings and outcomes that form the basis of the current study; this portion alone aids in identifying the researcher's research gap. Several findings from studies on the subject were examined. Information exchange, trust, long-term relationships, and collaboration between the manufacturer and the vendor have a significant influence on supply chain management in all areas of MSMEs, according to Kodrat et al. (2019). The distribution, competition, raw materials, product innovation and quality, branding, finance and promotion, information technology, government policies, and owner insight have a significant impact on the marketing of the products produced through the MSME sector, according to a critical evaluation of the marketing challenges in MSMEs conducted by Ghosh and Deb (2023). Poornima et al. (2023) said that search engine optimization (SEO), social media (Twitter, Instagram, and WhatsApp), and

digital marketing via the World Wide Web have positively impacted the marketing and sales of MSMEs' products. Pooja (2009) investigated business development techniques for Micro, Small, and Medium-Sized Enterprises (MSMEs) in the Indian economy. The advantages, efficacy, and problems of small enterprises in India are among the many subjects covered in this book. More significantly, it offers suggestions for measures that would increase small enterprises' competitiveness and enable them to engage in the global economy. Based on their performance and contribution to the economic growth of that nation, MSMEs are essential to the inclusive expansion of the Indian economy, according to an analysis by Srinivas(2017).

Syal (2015) found that the MSME sector had a much greater labor intensity than big enterprises. The poll found that MSMEs were essential to the country's overall growth. It was found that the Indian economy is significantly impacted by MSME. It has shown remarkable performance, notable development, and effective government measures to enhance MSMEs. Micro, small, and medium-sized businesses are critical to the growth of any nation's economy, but they are particularly crucial for developing countries since they will control trade, provide employment, and reduce poverty, according to research by Shelly, Sharma, and Bawa (2020). In India, this sector came in second only to agriculture in terms of ownership. The primary objective of the article was to monitor shifts in the quantity of MSME units. The GDP, employment, and export contributions of India's MSME sector.

3.0. Methods of Research

Secondary sources, including published yearly reports, journals, books, and official websites, as well as access to different government programs and activities, are used to obtain the majority of this information.

4.0 Objectives of the Study

1. To study the MSMEs' significance in India.
2. To examine the many MSME lending programs that our government has launched.
3. To identify the ways to assist entrepreneurs in updating their knowledge and abilities, go past the challenges faced by MSME.

5.0 Analysis

Raw materials and general problems are the two main issues that this research highlights as being crucial to the growth of MSMEs. As Ali and Husain (2014) correctly point out, these issues can only be resolved by utilizing the appropriate training and skill development programs that are organized by the Union and State Governments. The following section discusses how MSME entrepreneurs may effectively use government training programs to improve their knowledge and abilities and solve industry challenges:

5.1 Meaning Of Msme : In accordance with the Micro, Small, and Medium Businesses Development Act of 2006, the Indian government established MSME (micro, small, and medium businesses). The Ministry of MSME established and oversees MSME. MSME refers to businesses that produce, manufacture, process, or preserve commodities and goods.

5.2 Classification Of Msme

1. Micro Business. When the turnover is less than 5 crore rupees and the investment in plant, machinery, or equipment is less than 1 crore rupees.
2. Small business. When the turnover is less than 50 crore rupees and the investment in plant and machinery is less than 10 crore rupees.
3. Medium-sized businesses. When the turnover is less than 250 crore rupees and the investment in plant, machinery, or equipment is less than 50 crore rupees.

Table -1: Growth of Indian MSMEs

Year	Total No. Fixed Production at Employment of working (in Lakhs)	Investment current price (in Crore)	MSMEs units (in Crore)	Employment Generated (in Lakhs)
2019-20	272.79	558199	990759	626.34
2020-21	285.16	621753	880805	699.35

2021-22	298.10	693835	982919	695.38
2022-23	311.52	773487	1095758	732.17
2023-24	447.73	1176919	1834332	1042.59

Source: RBI and Ministry of Micro, Small, and Medium Enterprise (MSMEs), GOI (2023-24)

The table shows that the contribution of the MSMEs to total industrial production has increased from 272.79% in 2019-20 to 447.73% in 2023-24, which justifies the continuous growth of the MSME sector.

5.3 Importance Of Msme In India: It creates a lot of jobs: because inclusive firms in this sector may be launched with little capital, a lot of jobs are created. It also provides a significant opportunity for the unemployed to benefit from. India generates approximately 0.8 million engineers annually from its 1.2 million graduates. So far, no economy has been able to produce that many new graduates in a single year. The indicators of economic stability, such as growth and leverage exports, are at 8%; exports account for the greatest portion of India's GDP. MSME benefits other industries, especially when considering its role in manufacturing, exports, and employment. In today's market, manufacturers often purchase semi-finished and auxiliary items from smaller companies, such as when automakers buy brakes and clutches. It continues to facilitate the development of relationships between MSMEs and major corporations even after the implementation of the GST. The 11% increase in government income was largely attributed to the 40% of MSME companies that registered for GST. The ministry for medium and small-sized enterprises has consistently prioritized encouraging inclusive growth for several years. On the other hand, poverty and hardship hindered India's growth. It also encompasses socially marginalized populations, which poses a significant challenge for the Ministry of Micro, Small, and Medium Enterprises.

One of the main issues that professional human resources management faces in large organizations is retaining human resources due to low labor costs and little overhead. Nonetheless, micro-enterprises have smaller labor requirements and do not require highly qualified workers. As a result, the owner's indirect expenses are negligible. The basic business management structure of MSMEs may begin with limited resources under the owner's control. Following this decision, the process of decision-making becomes clear and efficient. However, due to its complex organizational structure, a large company requires an expert for each departmental role. However, an outside expert's management skills are not necessary for a small organization. The owner is capable of handling things independently. It may, therefore, function independently.

5.4 The "Make in India: The Indian Prime Minister's "Make in India" campaign has been simplified. It is thought to be the cornerstone for turning this vision into a reality. The banking institution has also been directed by the government to expand its enterprise credit lending. Globally, MSMEs are recognized as a means of fostering economic growth and equitable development. They are acknowledged for producing the fastest rate of economic growth. MSMEs' flexible business structures, minimal capital needs, and ability to create cutting-edge domestic technology have all contributed to India's progress. MSMEs employ over 120 million people worldwide, making them the second-largest employer after agriculture. With more than 45 million units sold nationwide, manufacturing accounts for around 6.11% of the GDP, and service industries account for 24.63%. As India gets closer to having a \$5 trillion economy, the MSME Ministry hopes to boost the GDP share of small and medium-sized businesses by as much as 50% by 2025. MSMEs promote inclusive growth by providing job opportunities, particularly for members of underprivileged groups in rural regions. Last but not least, MSMEs in tier-2 and tier-3 cities may contribute to the economy by helping to provide opportunities for people to use banking services and products. MSMEs encourage innovation by providing ambitious business owners with the opportunity to create cutting-edge products that will boost competition and accelerate expansion.

5.5 Features Of MSME

- ❖ The first legal framework to ever acknowledge the idea of a business incorporates the three levels of these organizations. (micro, small, and larger, for example)
- ❖ In general, businesses fall into one of two categories under this act: the manufacturing sector or the service sector.
- ❖ Micro and small firms' products and services should be prioritized in government contracts.
- ❖ The three areas where businesses may streamline the business closing process
- ❖ MSME workers enhance the lives of artisans and employees. They support them by giving them money,

employment, and other benefits.

- ❖ MSME provides banks with financial support or credit limits.
- ❖ They encourage the growth of business and skill development by offering specialized training facilities.
- ❖ They are in favor of expanding the infrastructure, modernizing the sector overall, and developing new technologies. According to current trends, MSMEs are also offering assistance with packaging, engagement, and product development. They are dedicated to helping fairly obtain access to both domestic and foreign markets. They also have access to modern testing facilities and a quality certification process.

5.6 MSME Loan Schemes Initiated By The Govt Of India

MSME schemes offered by the financial institutions and initiated by the Indian Government are mentioned below:

- i. **Prime Minister Employment Generation Programme (PMEGP)**- The program's goal is to provide financial support for self-employment endeavors in order to create long-term job prospects for unemployed youngsters and traditional craftspeople in both rural and urban locations.
- ii. **Credit Guarantee Scheme for Micro & Small Enterprises (CGTMSE)**: By providing credit guarantee money for third-party guarantee-free / collateral-free loans, the programme seeks to encourage first-generation entrepreneurs towards self-employment.
- iii. **Micro & Small Enterprises Cluster Development Programme (MSE – CDP)**: The programme intends to organise traditional industries and craftspeople into clusters in order to support them in becoming competitive for long-term sustainability goals.
- iv. **Scheme of Fund for Regeneration of Traditional Industries (SFURTI)**: To encourage the growth of SMEs, the initiative aims to increase market access, quality and skill levels, green and sustainable manufacturing technologies, and other areas. Building infrastructure in existing manufacturing and industrial clusters. The establishment of common facility centers (for training, testing, storing raw materials, treating wastewater, finishing industrial operations, etc.).
- v. **Entrepreneurship and Skill Development Programme (ESDP) Scheme**: The program's objectives are to assist and foster the growth of current MSMEs' capabilities while simultaneously fostering the growth of new enterprises. Additionally, the initiative aims to promote and instill an entrepreneurial culture across the country.
- vi. **Assistance to Training Institutions (ATI) Scheme**: The program's objectives include fostering entrepreneurship and related skill development training programs, strengthening existing infrastructure, building new infrastructure, and providing support.
- vii. **Skill Upgradation and Mahila Coir Yojana Under Coir Vikas Yojana**: The program aims to teach coir workers, including coir craftsmen and prospective entrepreneurs, in coir processing and to enable and develop value addition through training institutions created by the Coir Board. Giving rural women artisans who work with coconut husks the chance to work for themselves is the program's goal.
- viii. **Procurement and Marketing Support (PMS) Scheme**: In order to increase the marketability of products and services in the MSME sector, the program encourages innovative market access initiatives, such as planning or taking part in national or international trade fairs, exhibits, MSME Expo, etc. promoting access programs, increasing awareness of a variety of marketing-related issues, disseminating information on e-marketing, the GST, the GeM portal, and other pertinent subjects, etc.
- ix. **International Cooperation (IC) Scheme**: The program's objective is to enhance MSMEs' ability to enter the export market by facilitating their participation in international fairs, conferences, seminars, and buyer- seller meetings. It offers useful market knowledge as well as reimbursement for a range of export-related costs. It provides MSMEs with the opportunity to refresh themselves on a regular basis to face the difficulties posed by new markets, changing customer demands, and expanding technology.
- x. **National SC– ST Hub**: The program's objective is to provide knowledgeable support to entrepreneurs who belong to Scheduled Tribes and Scheduled Castes. The Central Government's Public Procurement Policy for Micro and Small Enterprises Order of 2012 will enable these entrepreneurs to carry out their duties. Because of the program. The initiative would also enable businesses to adopt suitable business practices and make use of the Stand-Up India programs.

- xi. **A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE):** The program is to create a network of incubation and technology centers to boost the competitiveness of the MSME sector, especially in neglected and rural regions. In the agro-rural sector, skill development programs are offered to provide wage and self-employment possibilities in order to foster innovation and speed up entrepreneurship.
- xii. **2nd Loan for Up-Gradation of the Existing PMEG / Mudra Units:** The initiative aims to provide financial support to present units that are functioning effectively and to upgrade help for the growth of existing units. Additionally, the initiative would help company owners update their present units with new technology and automation.

6.0 Conclusion

India's MSME sector secretly helps the country's economy while acting as a buffer against global economic shocks and adversities. Thus, it is true to say that India is undergoing a polite revolution that is moving the country closer to having a robust global economy. The Indian economy depends heavily on SMEs. This industry has made a substantial contribution to the expansion of the national economy, boosted exports, and produced a large number of employment for underemployed people, new graduates, and low-skilled workers. Furthermore, it raised the possibility that banks would give small and medium-sized enterprises fresh loans. To maintain the long-term survival of the business, the government should give special attention to the significance of MSME and offer an increasing number of incentives for MSME registration by enforcing stronger regulations and permitting financial institutions to offer more loans at lower interest rates. More of these kinds of initiatives are needed in India, especially in light of the present situation. Since MSME is the only sector driving the expansion of the Indian economy, the government should simultaneously provide the entrepreneurs in MSME the greatest amount of latitude possible for their development and expansion. Over the next 10 years, MSMEs will be essential to India's transition from a developing to a well-established economic power.

7.0 References:

- i. Ahamed, T.G., & Raju, A.A.S. (2023). A Review of Challenges and Opportunities for MSMEs in India: A Roadmap for Success. *International Journal of Advanced Research in Commerce, Management & Social Science*, 6(1(II)), pp.89-98.
- ii. Gaikwad, A., & Dhokare, S.C.M.A. (2020). India: Growth Opportunities for MSM. *EPRA International Journal of Multidisciplinary Research*, 6(6), pp.25-30.
- iii. Ghosh, A., & Deb, M. (2023). Analysis of Marketing Obstacles and Difficulties Faced by MSMEs in India. *Eur. Chem. Bull.*, 12 (4), pp.18993-19003. DOI: 10.48047/ecb/2023.12.si4.1684.
- iv. Khaksar, S. (2011). The role of government policy and the growth of entrepreneurship in the micro, small (&) medium-sized enterprises in India: An overview. *Australian Journal of Basic and Applied Sciences*, 5(6), 1563-1571.
- v. Kodrat, F.K., Sinulingga, S., Napitupulu, H., & Hadiguna, A.R. (2019). Analysis of the Effect of Supply Chain on Small and Medium Enterprises Performance in Medan (Case study on Leather Shoes SMEs). 1st International Conference on Industrial and Manufacturing Engineering.: Materials Science and Engineering 505;012024 IOP Publishing doi:10.1088/1757-899X/505/1/012024.
- vi. Kodrat, K. F., Sinulingga, S., Napitupulu, H., & Hadiguna, R. A. (2019, May). Analysis of the Effect of Supply Chain on Small and Medium Enterprises Performance in Medan (Case study on Leather Shoes SMEs). In *IOP Conference Series: Materials Science and Engineering* (Vol. 505, No. 1, p. 012024). IOP Publishing.
- vii. Lahiri, R. (2012, October). Problems and prospects of micro, small and medium enterprises (MSMEs) in India in the era of globalization. In *International conference on the interplay of economics, politics, and society for inclusive growth* (Vol. 1516).
- viii. Maurya, D. (2020). Development of MSMEs in India- Trends, Issues and Concerns. *Journal of Emerging Technologies and Innovative Research*, 7(6), pp.2034-2040.
- ix. Mehta, M. C. (2013, May). Challenges and opportunities in micro, small and medium enterprises in India. In *2nd International Conference on Management Humanity and Economics (ICMHE'2013)*
- x. Mukherjee, S. (2018). Challenges to Indian micro small scale and medium enterprises in the era of globalization. *Mukherjee Journal of Global Entrepreneurship Research*, 8(28), pp.1-19.
- xi. Naser, A. V. (2013). A critical evaluation of the contributions made by the micro, small and medium enterprises in Indian economy. *International Journal of Marketing, Financial Services & Management Research*, 2(7), 151-158.
- xii. Poornima, N.S., Francina, M.A., Keerthi, M.K., & Rupaveni, A. (2023). Impact of Digital Marketing on MSMEs Sales and Business Sustainability. *Eur. Chem. Bull.*, 12(13), pp.46-55.

- xiii. Saini, P. (2014). Study of micro, small, and medium enterprises. Center for Civil Society: Study of MSMEs, 319, 1-33.
- xiv. Sharma, M. J., & Gill, M. G. (2016). MSME-An Emerging Pillar of Indian Economy. International Journal of Research in Humanities & Soc. Sciences, 4(5).
- xv. Singh, A. (2021). MSMEs Sector in India: Current Status and Prospect. International Journal of Innovative Research in Engineering & Management, 8(4), pp.42-45.