

MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) AND ITS IMPACT ON INDIAN ECONOMY

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Abstract: This research paper aims to analyze the role of MSMEs in the Indian economy (2023-2024), employment generation, and the estimated number of MSMEs. The current study has analyzed the annual report of MSMEs (2023-2024) using MS Excel and represented tables and charts of the analysis. MSME (Micro, Small, and Medium Enterprises) is the soul of Indian business. Their involvement in an Indian economy like India is appreciated. Their key role is not only to generate employment but also to inspire less skilled level employees to begin at the entrepreneur level. In addition to providing employment opportunities to both rural and urban areas, the MSME sector has been found to play a significant role in the growth and development of the Indian economy. The study has also uncovered the percentage of leading industries in the MSME sector, as well as the estimated number of employees and MSMEs. The study also discusses its limitations and future recommendations.

Keywords: MSMEs, Employment generation, Economic growth

1.0 Introduction

Additionally, it has been discovered that these industries can hire a substantial number of employees with minimal investment in machinery. Examples of such sectors include handlooms, Khadi, sericulture, coir production, bidi-making, embroidery, knitting, wood carving, and various other handicrafts (Mohanty, 2018). Furthermore, small and medium enterprises employ powered machinery and possess some advanced technological insights. These businesses have a fairly large market that often includes export opportunities. They are typically located in or around urban areas, such as industrial hubs, and offer products like hosiery, ready-made garments, motor components, electronics, sports equipment, rubber products, and engineering items. According to the MSMED Act of 2006, the micro, small, and medium enterprises (MSMEs) are divided into two categories: manufacturing and services (as shown in Table 1 and Table 2). This research has pinpointed several issues that warrant consideration, such as what impact do micro, small, and medium enterprises have on the Indian economy? What is the estimated number of micro, small, and medium enterprises? Additionally, what is the estimated workforce within micro, small, and medium enterprises? Micro, small, and medium-sized businesses have significantly improved in the Indian economy during the past few decades. These are the business trailblazers who brought about several changes to any nation's economy. More specifically, it speeds up financial growth in both established and developing nations worldwide. They have unique advantages due to their size, relatively high labor-capital ratio, short development time, focus on relatively small markets, lower funding needs, more equitable distribution of national revenue, efficient use of underutilized investment and service resources, and promotion of business entrepreneurship. The MSME sector in India showcases a remarkable diversity regarding the size of enterprises, variation in goods and services, and levels of technology employed. It supports large businesses as essential parts and plays a crucial role in the socioeconomic development of the nation. For individuals, it provides job opportunities and improves the quality of life for both business owners and their employees. Typically, micro enterprises are found in rural and semi-urban regions and are often based on traditional crafts. To market their products on a national level, these enterprises draw upon local expertise, skills, and resources.

Table 1 Manufacturing sector

Category	Plant and machinery's Investment
Micro industry	(not >25,00,000)
Small industry	(>25,00,000 but not >5 crore rupees)

Medium industry	(>5 crore rupees but not >10 crore rupees)
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Source: msme.gov.in, Annual report

Table 2 Service sector

Category	Equipment's investment
Micro industry	(not > 10,00,000)
Small industry	(>10,00,000 but not > 2 crore rupees)
Medium industry	(>2 crore but not >5 crore)

Source: msme.gov.in, Annual report

2. 0 Review of Literature

Venkatesh and Muthiah (2012) symbolized the importance of the manufacturing sector in small and medium-sized businesses. In a number of industries, including industrialization, food processing, fabric and fashion, wholesale, information technology, pharmaceuticals, farming, and service sectors, the Indian market is expanding, and the industry is growing quickly. SMEs face both opportunities and challenges in the context of the shifting economic landscape. The provisions that the public and national agencies have set forth for SMEs are insufficient to address their issues. Fostering this area is crucial for the nation's financial well-being, as is fairly clear.

Moorthy, Tan, Choo, Wei, Ping, and Leong (2012) showed that the enactment of SMEs and the use of IT for marketing were positively correlated, whereas the performance of SMEs was negatively correlated with inappropriate HRM. According to this study, IT has a positive correlation with SMEs' increased performance, and skilled and knowledgeable entrepreneurs are in charge of sophisticated inventions and passion in SMEs' work performance. Conversely, ineffective entrepreneurship results in subpar SME performance.

Syed, Ahmadani, Shaikh, and Shaikh (2012) demonstrated that SMEs have a significant and beneficial impact on Pakistan's economy and play a significant part in the country's GDP. SMEs have a significant impact on Pakistan's economy, as evidenced by their foreign exchange earnings, creation of the fastest-growing export subsectors, contribution to GDP, employment creation, maintenance of poverty alleviation initiatives through job creation, and, finally, their view of workers as the most important resource.

Ekiti, Taiwo and Bako (2013) The absence of a strong SME sector has been identified as a weakness in Nigeria's business development process in recent years. Regretfully, this industry has not contributed significantly to the growth and development of the country's economy as anticipated. Only a multifaceted and rigorous approach from all stakeholders, the government, banks, supervisory authorities, SMEs' employees, and other supportive agencies can address the obstacles and difficulties faced by SMEs. The government should take the initiative by extending its reforms to the corporate and educational sectors, particularly in the areas of strategy development and implementation, transportation subdivision upgrades, and infrastructure service renovations.

Kamunge, Njeru, and Tirimba (2014) carried out a study to identify the variables influencing MSME performance. This study came to the conclusion that the two most important socioeconomic factors influencing a company's success are finance availability and administrative involvement accessibility. Both of them have the potential to enhance performance. Access to corporate data, government policy and rules, and organization are other significant aspects that have been proven to have a total impact on the operations of MSMEs in the Limuru town market.

Katua (2014) discovered that SMEs are the largest employers and the most significant source of capital. They assist in reducing deficiency, which has a positive impact on the fight against infections, and they play a significant role in achieving the national economic goals of the service group. They also contribute to the expansion of commercial competencies that include native technology and the development of industrial, services, and agronomic sectors as well as ICT services, in terms of productivity, value addition, occupation, and trades. The development of MSMEs influences the development of financial progress, and the development of MSMEs influences the development of MSMEs.

Arunagiri, Kalaippiriya, Krishna, Vithya and Kalaivani (2015) undertook a research to determine the factors that influence the GDP contribution of small and medium-sized enterprises (SMEs) in Malaysia. The study focused on a number of factors that influence SME participation, including work wages, redundancy rates, net trades, and inflation. Convenience sampling was used in the collection of the sample. The findings reveal that work salaries and net trade are the factors largely accountable for SME'S performance. This study validates how the Malaysian SME's might enhance their performance and add to the country-wide manufacturing. Future

research is crucial to overcoming the previously mentioned limitations as well as approving the results. This will help to diagnose more precisely each segmentation SME's influence on GDP on a bigger level.

Katyal and Xaviour (2015) We conducted research that proposed several solutions to HR management problems that MSME followed. Reports show that only a small percentage of MSMEs have official HR divisions, but in small, specialized units, owners take over HR responsibility. To address this, owners must primarily manage HR operations and receive the training they need so that they can understand the importance of HR for governance.

Zafar and Mustafa (2017) Small and medium-sized businesses provide employment opportunities for over 3.2 million people and create a substantial amount of GDP, which is still lower than the GDP of neighboring countries. This study found that SMEs are the most dynamic aspect of the country's economy, and not only generates enormous productivity capabilities in advance, but also improves the economies of emerging countries such as Pakistan and India.

Gade (2018) unearthed that the MSMEs can be the boon and future hope of the Indian economy. Moreover, these industries render equal development opportunities to the society and can also be a strong means of utilizing the available natural resources in India.

Boateng, Nagaraju and Sodem (2019) depicted that MSMEs are engaged in trade activities influence the industry. 51% of MSME's in India work from rural areas and residue 49% work from urban areas. Thus, the significant growth Indian economy can not be shunned without MSMEs.

Karpagalakshmi and Muthusamy (2020) identified various antecedents which enforce the micro, small & medium enterprises. The performance of MSME has made an important contribution to set up the MSMEs sector and also develop rural industrialization to give strength to traditional skills and utilization of technology.

Sipahi (2020) found that MSME capital or funds have enormous potential to support rural regions, create jobs, supply creative skills, enhance the region fairly, and advance and build the country. Due to its size, industry scope, lack of financial executive resources, and inability to handle unforeseen problems or circumstances, this sector has been susceptible to the COVID-19 pandemic.

Tripathy and Bisoyi (2021) revealed that 35% of MSMEs and their self-employed units have no chance to recover and revamp since they are set to close, according to the Indian manufacturing businesses. Additionally, the MSME sector has a number of challenges when it comes to paying employees and fixed expenses like rent and energy.

2.1 Objectives of the Study

Our study's primary goals, which are listed below, have been emphasized based on earlier reviews:
To ascertain how much the nation's economy depends on micro, small, and medium-sized businesses.
To determine the proportion of top industries in the sector of micro, small, and medium-sized businesses.
To establish the expected working workers in Micro, Small and Medium Enterprises during.

3.0 Research Methodology

All of the secondary data used in this research article came from the Ministry of Micro, Medium, and Small Enterprises of India's Annual Report 2023–2024. The 2019–2023 time frame is taken into account in the analysis. The relevant data has been analyzed and shown in appropriate tables to assess the performance of MSMEs in India:

3.1 Data Analysis and Interpretation:

Table -3: MSMEs' contribution to the Country's Economy 2019-2023

Year	MSME (in Lakh)	Growth %	Total GVA (in Lakh)	Share of MSME GVA%	Total GDP (in Lakh)	Share of MSME GDP%
2019-20	3658196	9.43	11481794	31.86	12445128	29.39
2020-21	4059660	10.97	12574499	32.28	13771874	29.48
2021-22	4502129	10.90	13965200	32.24	15391669	29.25
2022-23	5086493	12.98	15513122	32.79	17098304	29.75

2023-24	5741765	12.88	17139962	33.50	18971237	30.27
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Source: Annual Report 2023-2024, msme.gov.in.

The MSME sector has become a major contributor to the nation’s GDP. Table 3 has shown that the contribution of MSME to GDP is escalating. In 2019-20, there was a 29.39% increase in the GDP of MSME. A slight increment can be seen in the GDP of MSME from 2019 to 2023. While in 2023-2024, the percentage of GDP increased to 30.27%.

Table 4: Estimated number of MSMEs (activity and area wise)

CATAGORY	ESTIMATED NUMBER OF INDUSTRIES			SHARE%
	RURAL (in Lakh)	URBAN (in Lakh)	TOTAL (in Lakh)	
Manufacturing	144.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Electricity	0.03	0.01	0.04	0
Other Services	102.0	104.85	206.85	33
All	324.88	309.0	633.88	100

Source: Annual Report 2023-2024, msme.gov.in.

Table 4 represents the estimated number of MSMEs (activity and area wise) in rural and urban areas of manufacturing service is 196.65 (in lakh). The estimated number of MSMEs in rural and urban areas of trade service is 230.35 lakh. While 0.4 lakh in total is electricity service of rural and urban areas and 206.85 lakh other services is the estimated number of MSMEs in rural and urban areas.

Table 5: Distribution of Enterprises (rural and urban area-wise)

Percentage of rural and urban MSMEs in India					%Share
Sector	Micro (in Lakh)	Small (in Lakh)	Medium (in Lakh)	Total Share (in Lakh)	
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.0	49
All	630.52	3.31	0.05	633.88	100

Source: Annual Report 2023-2024, msme.gov.in

Table 5 represents that 51% of micro, small, and medium enterprises (MSMEs) were running in rural areas. Whereas, 49% of micro, small and medium enterprises (MSME’s) were running in urban areas.

Table 6: Distribution of Employment

Percentage of Employment rural and urban MSMEs in India					%Share
Sector	Micro (in Lakh)	Small (in Lakh)	Medium (in Lakh)	Total Share (in Lakh)	
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
All	1076.19	31.95	1.75	1109.89	100

Source: Annual Report 2023-2024, msme.gov.in

Table-6 depicted 45% of employment was distributed in rural areas and 55% of employment was distributed in urban areas of micro small medium enterprises (MSME’s) according to annual report of 2023-2024.

4.0 Findings

According to our research, MSMEs contribute significantly to the nation's economic growth in a number of ways, including creating employment opportunities for both rural and urban dwellers, offering goods and services at affordable costs, and bringing about long-term economic growth by putting forward innovative ideas. Micro, small, and medium-sized businesses have made little or detrimental contributions to the country's trade, employment, and business output. The MSME sector is the most well-known, and it has made a huge contribution to the expansion of the nation's economy and GDP. It is discovered that the GDP growth rate has been steadily increasing from 2019 to 2023, which has an impact on the national economy. The secondary data makes it clear that the dispersion of estimated MSMEs in rural regions by activity type is higher than that of MSMEs in urban areas. Urban areas have a higher employment rate in the MSME sector than rural counterparts.

5.0 Conclusion

MSMEs, or micro, small, and medium-sized businesses, are an important component of the Indian economy. In addition to estimating the number of micro, small, and medium-sized businesses in India and the anticipated number of jobs they create, the present study helps quantify the impact of MSME's on the Indian economy. Thus, it is clear from the secondary statistics that small and medium-sized businesses are the most important contributors to the nation's economic growth, and that both employment and business growth rates are steadily increasing. Furthermore, the function of micro, small, and medium-sized businesses in the business sector is developing quickly. The MSMEs face both opportunities and challenges in a changing economic environment. As a result, it is also shown that economic expansion has an impact on the growth of micro, small, and medium-sized businesses.

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