
A Review on MSMEs' Contribution to India's Economic Growth

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Abstract

Micro, Small, and Medium-Sized Enterprises (MSMEs) are essential to India's economic growth. They support the whole Indian economy by creating a lot of jobs, promoting exports, and fostering equitable regional growth. This study examines how MSMEs have contributed to India's economic growth by examining how they have impacted exports, innovation, entrepreneurship, employment, and socioeconomic development. The report identifies the problems MSMEs face and offers suggestions for policies that would help them expand and make a greater contribution to India's overall economic development.

Keywords: MSMEs, opportunities, and inventiveness.

Introduction

The foundation of India's economy is made up of Micro, Small, and Medium-Sized Enterprises (MSMEs), which are crucial in generating employment, promoting entrepreneurship, and advancing economic progress. MSMEs play a vital role in India's overall development, including the promotion of inclusive growth and balanced regional development, thanks to their many businesses operating in a variety of industries. Making effective policies and strategies to further advance MSMEs' involvement in the development of India requires an understanding of their contribution to the country's economic progress.

It is impossible to overestimate the importance of MSMEs in the Indian environment. According to the Ministry of Micro, Small, and Medium Enterprises, MSMEs employ a

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sizable workforce, especially in rural and semi-urban regions, account for a major portion of industrial units, and considerably contribute to manufacturing production. India has overcome a number of economic obstacles thanks to its dynamism and flexibility to become one of the fastest-growing economies in the world.

One of the major contributions MSMEs provide to the Indian economy is job creation. These businesses act as important job-creating engines by taking on a sizable portion of the labour market, including skilled, semi-skilled, and unskilled workers. MSMEs provide chances for self-employment, skill development, and income creation due to their low entry barriers and capacity to meet local market needs. As a result, they help to fight poverty and promote social advancement.

MSMEs are also essential for promoting entrepreneurship and innovation. They act as breeding grounds for fresh concepts, goods, and services, advancing competition and technology. MSMEs contribute to the creation of a dynamic and robust entrepreneurial environment by encouraging entrepreneurship and providing start-ups with assistance, which fosters a culture of innovation and risk-taking.

MSMEs are an important part of India's export industry. These businesses are essential for encouraging export-oriented development, diversifying the nation's exports, and reaching international markets. They often work in industries like textiles, handicrafts, engineering, and information technology, greatly boosting India's worldwide competitiveness and contributing significantly to foreign currency gains.

MSMEs have an overall positive influence on society and local communities in addition to their economic benefits. By advancing industries in rural and underdeveloped regions, lowering regional inequities, and improving general quality of life, they aid regional

development. MSMEs also aid in the empowerment of women by fostering female entrepreneurship and facilitating their involvement in the workforce.

MSMEs do, however, have various difficulties that impede their expansion and sustainability despite their enormous potential. Some of the major challenges small businesses confront include limited access to financing, poor infrastructure, complicated regulations, and a lack of skilled workers. Additionally, the COVID-19 epidemic has presented hitherto unimaginable difficulties, aggravating MSMEs' vulnerabilities and calling for focused initiatives to aid in their recovery and resilience.

Given the importance of MSMEs in India's economic development, it is essential to examine and analyse their contributions in a variety of contexts. A thorough analysis of MSMEs' contributions to India's economic growth, including job creation, innovation, entrepreneurship, exports, and socioeconomic development, is the goal of this research report. This study aims to enlighten policymakers, academics, and stakeholders on the methods required to support the growth of MSMEs and maximise their beneficial influence on India's overall economic development by assessing the difficulties encountered by MSMEs and offering policy recommendations.

India's businesses may be essentially divided into two groups:

- (i) those involved in manufacturing; and
- (ii) those involved in delivering or performing services.

Based on their investment in equipment (in the case of businesses offering or performing services) or in plant and machinery (for businesses engaged in manufacturing), these kinds of businesses have been further divided into micro, small, and medium businesses. The current limit on investment required to qualify as micro, small, or medium-sized

businesses is as follows:

Classification	Manufacturing Enterprises	Service Enterprises
Micro	Up to Rs.25 lakh	Up to Rs.10 lakh
Small	Above Rs.25 lakh & up to Rs.5 crore	Above Rs.10 lakh & up to Rs.2 crore
Medium	Above Rs.5 crore & up to Rs.10 crore	Above Rs.2 crore & up to Rs.5 crore

Before 2 October 2006

Classification	Manufacturing Enterprises	Service Enterprises
Micro	Upto Rs.25 lakh	Upto Rs.10 lakh
Small	Above Rs.25 lakh & upto Rs.1 crore	—
Medium	Not defined A	Not defined

DEVELOPMENT AND PERFORMANCE

When compared to India's whole industrial sector, the MSME sector has continuously shown better growth rates in recent years. When compared to most of the other sectors, the MSME Sector had an exceptional performance over the first four years of the XI Plan, growing at an average rate of 13%. According to the 4th Censuses of MSME industry, there are 26.1 million businesses and 59.7 million people employed in this industry. According to estimates, the value of the MSME sector accounts for around 45% of industrial production and 40% of all exports from the nation. The sector's employment potential at minimal capital cost is by far its greatest benefit.

Establishment of specific Funds for the Promotion, Development, and Enhancement of Competitiveness of These Enterprises, Announcement of Schemes for This Purpose, Progressive Credit Policies and Practises, Preference in Government Procurement to Products and Services of the Micro and Small Enterprises, More Efficient Mechanisms

for Mitigating the Problems of Delayed Payments to Micro and Small Enterprises, and Assured of a Scheme for Easing the Closure of Business by the ACT.

Present Policy Framework

The Micro, Small and Medium Enterprises Development (MSMED) Act of 2006 aims to promote both the growth and competitiveness of small businesses. It offers the first-ever legal framework for acknowledging the idea of "enterprise," which includes businesses that deliver both goods and services. The three levels of these firms—micro, small, and medium—are to be integrated, and it tries to identify medium enterprises for the first time. The Act also establishes a legislative consultation structure with broad advisory responsibilities and balanced representation of all stakeholder groups at the national level, notably the three classes of firms.

Employment Opportunities

Only agriculture offers more job chances to the Indian population than the SSI sector. Four people are thought to be employed for every lakh rupees invested in fixed assets in the small business sector. MSMEs not only play a significant role in creating many job opportunities at capital costs that are comparably lower than those of large industries, but they also aid in the industrialization of rural and underdeveloped areas, thereby reducing regional imbalances and ensuring a more equitable distribution of income and wealth across the country. MSMEs serve as auxiliary units to major businesses and have a significant positive impact on the nation's socioeconomic growth.

The industry makes a significant contribution to the nation's manufacturing production, employment, and exports. About 40% of all exports and 45% of industrial output are accounted for by this sector, respectively, in terms of value. There are roughly 26 million

units nationwide that employ an estimated 60 million people. Over 6000 goods, ranging from conventional to high-tech ones, are produced by 35 MSMEs in India. Outside of the agricultural sector, it is commonly recognised that the MSME sector offers the most prospects for wage and self-employment. Innumerable ways, including the creation of low-cost non-farm livelihoods, balanced regional development, gender and social balance, environmentally sustainable development, and, to top it all off, recession-proofing of economic growth, have been demonstrated by the MSME sector to contribute not only to higher rates of economic growth but also to the construction of an inclusive and sustainable society.

Policy for Foreign Direct Investment

The restrictive 24% equity holding cap imposed on industrial undertakings, whether domestic or foreign, in MSEs has been eliminated with the adoption of the MSMED Act, 2006, and MSEs are now only defined in terms of investments in plant and machinery (for manufacturing enterprises) and equipment (for service enterprises). As a result, the current policy on FDI in MSE only permits FDI that complies with all applicable sectoral laws, including as equity limitations and entry channels.

De-reservation

For the last 20 years, the topic of de-reservation has generated intense discussion among the administration. The Approach to the Eleventh Five Year Plan recognises the negative effects of product reservations for exclusive production by MSEs and suggests the gradual dereservation strategy. In the last few years, 654 items have been removed from the list of items reserved for exclusive manufacture by the manufacturing micro and small enterprises, bringing the total down to 21 at the moment. This has been done to

facilitate further investments for technological advancement and higher productivity in the micro and small enterprises. This has aided the industry in growing the scope of operations and opened doors for the entrance of bigger businesses to produce these goods in accordance with international standards.

Testing Laboratories

Currently, the nation has a large number of testing facilities that provide testing services to the industrial sector, including micro units. There are no specialised testing facilities in the nation for high-end products, particularly leather goods. The foreign testing labs are providing these services to the exporting MSME units. As a result, the government requires the construction of more testing facilities. It was suggested that at least 100 quality testing facilities for MSMEs be established in districts with concentrated industries. It is possible to carry out this activity via a public-private partnership. Additionally, the Ministry's current test laboratories need to be upgraded.

Cutting-edge Technology

Technology is more important than ever in the fast-paced global corporate environment of today. Ten cutting-edge tool rooms and training centres have been established by the government in an effort to support the development of the MSME sector in the nation. These tool rooms provide precise tooling and skilled artisans in the field of tool and die production, which is of immeasurable value to the Indian industry. These Tool Room are highly skilled in the technologies used to create complicated moulds, dies, and tools, and they support accuracy and quality in their design and production. The Tool Rooms are not only outfitted with the greatest technology, but they are also up to date on the most recent innovations, including CAD/CAM, CNC tooling machining, vacuum heat treatment,

rapid prototyping, etc. To satisfy the vast range of technical workforce needs in the industrial industry, The Tool Room & Training Centres also provide a variety of training packages. The training courses are created with the best possible theory and practise ratio, exposing trainees to real-world work situations and providing them with practical experience. Participants from all around the world attend the customised training courses that the Tool Rooms have created to fulfil the standards at the international level.

Export Promotion

The MSE sector has been given great attention for export promotion. The following facilities and incentives are offered to MSEs to assist them in exporting their products: Products from MSE exporters are displayed at international trade shows, and the government reimburses the costs incurred; (ii) training programmes on packaging for exporters are held across the nation in collaboration with the Indian Institute of Packaging to familiarise MSE exporters with the most recent packaging standards, techniques, etc.; (iii) Assistance is given to people under the MSE Marketing Development Assistance (MDA) Scheme for their participation in international fairs and exhibits, international study tours, and international travel as part of trade delegations. The Scheme also provides support for (a) sector-specific market research conducted by MSE Associations, Export Promotion Councils, and the Federation of Indian Export Organisations; (b) MSE Associations initiating or contesting anti-dumping cases; and (c) reimbursement of 75% of the one-time registration fee and annual fee (recurring for the first three years) charged by GSI India (formerly EAN India) for the adoption of bar coding.

Infrastructure Growth

The Integrated Infrastructural Development (IID) Scheme was introduced in 1994 to support the establishment of industrial estates and the development of infrastructure facilities for MSMEs, including roads, banks, raw materials, storage and marketing outlets, common service facilities, and technological backup services. The programme includes both urban and rural regions, with a 50% reservation for rural areas and a 50% allocation of industrial plots for small businesses. The Scheme already includes provisions for improving/strengthening the infrastructure in the current industrial estates. The anticipated cost to establish an IID Centre is Rs. 5 crore (\$1.25 million), excluding the cost of the land. For general states, the central government contributes 40%, and for the North East region (including Sikkim), J&K, H.P., and Uttarakhand, up to 80%. The remaining amount may be financed by loans from SIDBI, banks, financial institutions, or state funds.

The Micro and Small Enterprise Cluster Development Programme (MSECDP) now includes the IID Scheme. The IID Scheme's whole feature set has been preserved, and it will be covered as "New Clusters" under the MSECDP.

Opportunities

The following considerations make the potential in the MSMES enormous:

- Less capital-intensive; widespread government promotion and support; a commitment to small-scale manufacturing; project profiles
- Financial Support & Subsidies
- Purchasing of machinery and raw materials
- Training of human resources, technical and managerial expertise, help for tooling and testing, and reservations for government-only purchases

Trade Promotion

Increasing export potential for Indian goods; Increasing domestic market size due to overall economic growth

An rise in the need for auxiliary units because more green field units are being built in the large-scale sector. The small business sector has fared very well, which has helped our nation attain significant levels of industrial development and diversity.

This industry has significantly aided in creating jobs and rural industrialisation because to its low capital-intensive nature and high workforce absorption rate. This industry is well-suited to bolster the advantages of our conventional knowledge and abilities with the addition of cutting-edge technology, funding, and marketing strategies. Setting up initiatives in the small-scale industry is best done now. Given a few precautions, it may be claimed that the prognosis is favourable, though not encouraging. This anticipation is based on the demand structures and an important aspect of the Indian business.

Numerous layers of demand for consumer goods, technology, and processes will coexist for a very long time due to the variety in production systems and demand patterns. For the same product or process, there will be thriving and solid markets that may be distinguished by quality, value addition, and complexity. This feature of the Indian economy will enable a variety of distinct sorts of units to coexist. The existence of this sector is guaranteed by the promotional and protective policies of the government, especially in the area of consumer goods. The sector's biggest pain point, meanwhile, has been the lack of enough funding, technology, and marketing. Therefore, the sector will be attracted to receive these specific investments as a result of the liberalisation process and government backing. The small business sector has fared very well, which has helped our

nation attain significant levels of industrial development and diversity. The SSI sector has significantly aided in the creation of jobs as well as rural industrialisation because to its low capital intensive and high labour absorbing characteristics. This industry is well-suited to bolster the advantages of our conventional knowledge and abilities with the addition of cutting-edge technology, funding, and marketing strategies.

So now is the perfect moment to start small-scale sector initiatives. Given some precautions, it may be claimed that the prognosis is favourable, though not encouraging. This anticipation is based on the demand structures and an important aspect of the Indian business. Numerous layers of demand for consumer goods, technology, and processes will coexist for a very long time due to the variety in production systems and demand patterns. For the same product or process, there will be thriving and solid markets that may be distinguished by quality, value addition, and complexity. This feature of the Indian economy will enable a variety of distinct sorts of units to coexist. The existence of this sector is guaranteed by the promotional and protective policies of the government, especially in the area of consumer goods. The sector's biggest pain point, meanwhile, has been the lack of enough funding, technology, and marketing.

Therefore, the liberalisation process will draw precisely these elements into the industry.

Conclusion

In conclusion, India's MSME sector, which is supported by a competitive and high-quality product offering, is now at the forefront of global development. To reduce the transaction costs of technological advancement, market penetration, infrastructure modernization, etc., government facilitation is necessary. In this essay, we examined the expansion of the MSMEs sector in India during the last 10 years. For emerging nations,

the MSME sector has sometimes been referred to as the "engine of growth." We start by giving a general overview of this industry in India before examining some recent developments that show how this industry has grown and how important it is to the Indian economy. We looked at the development of MSMEs in terms of fixed investment, production efficiency, the creation of jobs, and export contribution. Among these recent policy improvements, the MSME Development Act of 2006 is perhaps the most significant. State expenditures and subsidies aimed at this industry are the relevant policies. We have spoken more explicitly about the MSME sector's potential for employment, infrastructure development, testing labs, foreign direct investment policy, dereservation, competitive technology, and export promotion. We have also examined the chances for MSMEs' improvement in the Indian economy. Expansion and improved performance in the economy were made possible by elements including export promotion, reservation policy, tooling and technology, personnel training, technology, and management abilities. The document also discusses the 12th five-year plan's central working area. As a result of the policy framework and effective measures that the Government had periodically adopted for the growth and development of the MSMEs, it is considered that MSMEs in the Indian Economy had shown remarkable growth and exceptional performance.

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