

Role of Micro, Small, and Medium Enterprises (MSMEs) in Economic Development of India

Mr. Dipak Kumar Das

University Department of Commerce and Business Management, Ranchi University, Ranchi

dipakkumar321997@gmail.com

ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) contributing around 30% of the Indian gross domestic product (GDP), around 45% of the manufacturing output, and approximately 40% of the country's exports. It won't be wrong to refer to them as the 'Backbone of the Indian economy.'

MSMEs play a crucial role in the development of the Indian economy and have contributed immensely to the country's socio-economic development. It not only generates employment opportunities but also works for the development of the nation's backward and rural areas.

Keywords: MSMEs, Entrepreneurship, Economic Development, Economy, Indian economy

I. INTRODUCTION

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a dynamic sector for the Indian economy over the last few decades. It contributes significantly to the socio-economic development of the country by encouraging entrepreneurship and generating huge employment opportunities at comparatively lower capital costs, next only to the agriculture sector.

MSMEs sector is a very important piece of India's legacy economic model and a part of the critical supply chain for products and services. This sector is considered as the job creator and plays a crucial role in providing large-scale employment and industrialization of rural and backward areas.

MSMEs play a significant role in economic development of developing countries like India. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 30% of national income (GDP) in emerging economies. These numbers are significantly higher when informal MSMEs are included.

A. An Overview of MSME

The Government of India has introduced Micro, Small, and Medium Enterprises (MSMEs) in agreement with Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. These enterprises primarily engaged in the production, manufacturing, processing, or preservation of goods and commodities.

Indian MSMEs basically classified in two categories. These are manufacturing and service enterprises. Manufacturing enterprises are those which are engaged in production process of goods and service enterprises are those which are engaged in providing / producing services. These are the main part of Indian MSMEs.

Indian MSMEs also defined on the basis of employee before 2006 because India does not have a fixed standard and definition for MSMEs before 2006. In 2006 government of India introduced an act “Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. This act defines MSME in India on the basis of employee as follows.

SMEs classification on the basis of number of Employees:

Classification of SMEs	Number Of Employees
Micro	2-9 Employees
Small	10-49 Employees
Medium	50-249 Employees

B. New Definition of MSME

On 1st June 2020, the Union Cabinet revised the SME definition. The investment and turnover figures were changed to larger values, thereby resulting in a larger number of medium-sized enterprises. New MSME definition based on investment and turnover which is applicable from 1st July 2020. The distinction between the manufacturing and services enterprises has been removed by making the investment amount and annual turnover similar for enterprises engaged in both the sectors.

Revised Classification applicable w.e.f. 1st July 2020

TABLE- I

Classification of Micro, Small and Medium Enterprise (MSME) Sector			
Composite Criteria			
Investment in Plant & Machinery/equipment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing and Service Sector Enterprises	Investment in Plant and Machinery or Equipment up to Rs.1 crore and Annual Turnover does not exceed Rs. 5 crore	Investment in Plant and Machinery or Equipment upto Rs.10 crore and Annual Turnover does not exceed Rs. 50 crore	Investment in Plant and Machinery or Equipment upto Rs.50 crore and Annual Turnover does not exceed Rs. 250 crore

C. An Overview of Indian Economy

India is a developing country and our economy is a mixed economy where the public sector co-exists with the private sector.

India has emerged as the fastest growing major economy in the world and is expected to be one of the

top three economic powers in the world over the next 10-15 years, backed by its robust democracy and strong partnerships.

The economy of India is characterized as a middle income developing market economy. It is the world's sixth largest economy by nominal GDP and the third largest by purchasing power parity (PPP). According to the International Monetary Fund (IMF), on a per capita income basis, India ranked 145th by GDP (nominal) and 122th by GDP (PPP). Since the start of the 21st century, annual average GDP growth has been 6% to 7%, and from 2013 to 2018, India was the world's fastest growing major economy, surpassing China. Historically, India was the largest economy in the world for most of the two millennia from the 1st until the 19th century.

D. Indian Economy and MSME

Micro, Small, and Medium Enterprises (MSMEs) plays an important role in the economic development of a country. Their role in terms of production, employment generation, contribution to exports and facilitating equitable distribution of income is very critical.

MSMEs occupy an important place in Indian economy because they provide employment without much government interference. SMEs encourage both urban and rural growth. Broadly, the SMEs help the Indian economy in the following ways: Generate employment, reduce poverty rate, reduce urban-rural income gap, encourage regional development, boost exports, increase production, etc. In India, SMEs are facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain

inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies, turbulent and uncertain market scenario. If MSMEs want to survive in this environment, compete with large & global enterprises and to contribute significantly to GDP, it must adopt innovative approaches in their operation SMEs are inventive, innovative & international business outlook for the growth.

II. REVIEW OF LITRATURE

De, Sankar (2009) in his article has viewed that SME's in India face many challenges, but perhaps none are as difficult as the challenge of financing, both short term and long term.

K,Vasanth,Majumdar M., K. Krishna (2012) in their paper have stated that since several successful models of the sustainable SME are gradually evolving, networks of SMEs would become essential for addressing the systemic problems under lying the industrial ecology, enterprise resilience, and global supply chain sustainability.

Subrahmanya (2004) highlighted the impact of globalization and domestic reforms on small scale industries sector by emphasizing that small industry had suffered in terms of growth of units, employment, output and exports. He also suggested that the focus must be turned lo technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

Srinivas (2013) analysed about the performance of MSMEs, their contribution in India's economic growth, identified the number of enterprises, employment in MSMEs and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

Yogesh C. Joshi and Kaushal Kishore (2018) found in their research that considerable proportion of MSMEs are practising energy conservation but a lot of efforts are required to increase the number of units practising the Data Collection model of energy conservation.

Nihar Ranjan Jena and Lina R Thatte (2018) analyzed that the difference in performance of the MSME sector in different states existed due to the differences in presence or absence of adequate enabling factors like labour force, economic infrastructure, regulatory national level. Present research is mainly based on the framework, size of GSDP and density of MSME clusters etc. and found that Maharashtra was the leader in terms of performance of the MSME sector which was closely followed by Gujarat, Tamilnadu, Andhra Pradesh, Uttar Pradesh, West Bengal and Kerala.

Papiya Manna and Dr. Tapas Mistri (2017) analyzed in their research that MSMEs are increasing year by year and its share in national or state GDP has also Data Analysis: shown increasing trend with some fluctuations.

III. OBJECTIVES OF THE STUDY

1. To understand the present scenario of MSME sector of India.

2. To study the role of MSME sector in economic development of India.

IV. DATA COLLECTION

This study based on secondary data. Several reports from authentic sources have been studied by researcher to know the present scenario of Small, and Medium Enterprises (MSME) sector. Other secondary data have been collected by researcher from various published research papers which related to MSME field. This research is based on annual report of MSME 2020-21 which is published by Government of India. Facts and figures given in this study have been considered for analysis purpose.

V. DATA ANALYSIS

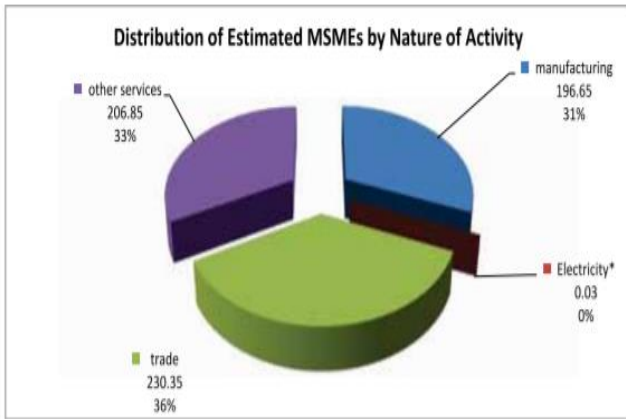
A. Present scenario of MSME sector of India

The MSMEs in India are playing a crucial role by providing large employment opportunities at comparatively lower capital cost than large industries as well as through industrialization of rural & backward areas, inter alia, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.64 lakh in Manufacturing, 230.35 lakh in Trade and 206.84 lakh in Other Services and 0.03 lakh in Non-captive Electricity Generation and Transmission)

Estimated Number of MSMEs (Activity Wise)

FIGHER-I

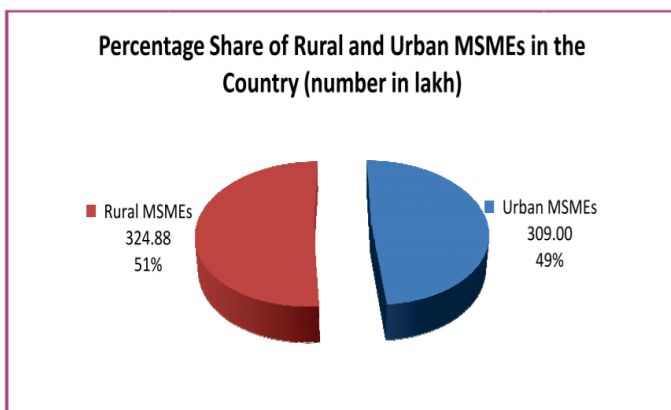


Source- MSME Annual Report 2020-21

It is seen that 31% MSMEs were found to be engaged in manufacturing activities, while 36% were in Trade and 33% in Other Services. Again out of 633.88 estimated numbers of MSMEs, 324.88 lakh MSMEs (51.25%) were in rural area and 309 lakh MSMEs (48.75%) were in the urban areas.

Percentage Share of Rural and Urban MSMEs in India

FIGHER-II



Source- MSME Annual Report 2020-21

According to the Annual Report 2020-21 of the Ministry of Micro, Small and Medium, Government of India, at present, a total of 633.88 lakh MSMEs are working in India, of which 49% are working in urban area and 51% in rural area.

Distribution of Enterprises Category Wise (Numbers in lakh)

FIGHER-III

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

Source- MSME Annual Report 2020-21

The Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounts for 0.52% and 0.01% of total estimated MSMEs, respectively.

B. To study the role of MSME sector in economic development of India

Since its formation, the MSME segment has proven to be a highly dynamic Indian economy sector. MSMEs produce and manufacture a variety of products for both domestic as well as international markets. They have helped promote the growth and development of khadi, village, and coir industries. They have collaborated and worked with the concerned ministries, state governments, and stakeholders

towards the upbringing of rural areas. MSMEs have played an essential role in providing employment opportunities in rural areas. They have helped in the industrialization of these areas with a low capital cost compared to the large industries. Acting as a complementary unit to large sectors, the MSME sector has enormously contributed to its socio-economic development. MSMEs also contribute and play an essential role in the country's development in different areas like the requirement of low investment, flexibility in operations, mobility through the locations, low rate of imports, and a high contribution to domestic production. With the capability and capacity to develop appropriate local technology, provide fierce competition in domestic and international markets, technology-savvy industries, a contribution towards creating defense materials, and generating new entrepreneurs by providing knowledge, training, and skill up-gradation through specialized training centers.

The below-mentioned data, represented in a tabular format, is by the Central Statistics Office (CSO) and Ministry of Statistics & Program Implementation.

Share of Gross Value Added (GVA) of MSME in all India GDP

FIGHER-IV

Figures in Rs. Crores adjusted for FISIM at current prices						
Year	Total MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	All India GDP	Share of MSME in All India GDP (in %)
2014-15	3658196	-	11504279	31.80	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

Source- MSME Annual Report 2020-21

MSMEs employ around 40% of India's workforce, which is an estimated 80 million people, who are given an opportunity for livelihood and employment via low-skilled jobs. Around 1.3 million SMEs contribute 45% to India's manufacturing output and 40% of India's total export. In a way, they form the backbone of the Indian economy. There are around 6000 products manufactured by 31.7% SMEs while the remaining 68.2% are engaged in delivering various services. This sector, if extended the right support, has the potential to spread industrial growth throughout the country. Small and Medium Enterprise currently contributes to about 30% of India's GDP now (source: financial express).

MSMEs occupy an important place in Indian economy because they provide employment without much government interference. SMEs encourage both urban and rural growth. Broadly, the SMEs help the Indian economy in the following ways: Generate employment, reduce poverty rate, reduce urban-rural income gap, encourage regional development, boost exports, increase production, etc.

VI. Conclusion

To conclude, Micro, Small, and Medium Enterprises (MSMEs) plays an important role in the economic development of a country. Their role in terms of production, employment generation, contribution to exports and facilitating equitable distribution of income is very critical. MSMEs currently contribute to about 30% of India's GDP now. But, there is a need to carefully nurture and support this sector. Joint effort is needed from the Government.

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