

## Contribution of the MSME Sector to the Growth of the Indian Economy

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### **Abstract**

*The MSMEs are expanding their sphere of influence across economic sectors and generating a wide range of goods and services to satisfy domestic and international markets. In order to achieve its vision of a progressive MSME sector, the Ministry of MSME works with the relevant Departments/ Ministries, State Government and various other stakeholders for supporting the businesses which already exist, adopting cutting-edge technologies and promoting the development of emerging businesses. This sector includes the Khadi, Village, and Coir Industries. The Micro Small and Medium Businesses (MSMEs) industry makes a significant contribution to the nation's socioeconomic growth. Due to the sector's contribution to the GDP and exports of India, it has taken on a substantial amount of significance. The sector has also made significant contributions to the growth of entrepreneurship, particularly in India's semi-urban and rural areas. The Ministry of MSME administers a number of programs aimed at providing MSMEs with financial aid, market help, upgradation, technology assistance, skill development, infrastructure development and training.*

### **Keywords**

*MSME, Digital, Government policy, challenges.*

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## Introduction

The Micro Small and Medium Businesses (MSMEs) industry makes a significant contribution to the nation's socioeconomic growth. Due to the sector's contribution to the GDP and exports of India, it has taken on a substantial amount of significance. The sector has also made significant contributions to the growth of entrepreneurship, particularly in India's semi-urban and rural areas.

The MSMEs are divided into two classes under the MSME Development (MSMED) Act of 2006, namely Manufacturing Enterprises and Service Businesses.

Over the past 50 years, the MSME sector has grown to be one of the most active and dynamic segments of the Indian economy. By encouraging entrepreneurship and creating major employment opportunities at a relatively cheap capital cost, it is the second largest contributor to the social and economic development of the nation after agriculture. MSMEs serve as auxiliary units to large companies and make a substantial contribution to the country's inclusive industrial growth. The MSMEs are expanding their sphere of influence across economic sectors and generating a wide range of goods and services to satisfy domestic and international markets.

In order to achieve its vision of a progressive MSME sector, the Ministry of MSME works with the relevant Departments/ Ministries, State Government and various other stakeholders for supporting the businesses which already exist, adopting cutting-edge technologies and promoting the development of emerging businesses. This sector includes the Khadi, Village, and Coir Industries. Several organizations operating under the Ministry of MSME.

The Ministry of MSME administers a number of programs aimed at providing MSMEs with financial aid, market help, upgradation, technology assistance, skill development, infrastructure development and training.

The businesses are further divided into groups according to equipment investment and annual turnover.

Criteria	Manufacturing		Service	
	Turnover	Investment	Turnover	Investment
Micro	Rs. 5 crore (US\$ 0.6 million)	Less than Rs. 25 lakh (US\$ 0.03 million)	Rs. 5 crore (US\$ 0.6 million)	Less than Rs. 10 lakh (US\$ 0.01 million)
Small	Rs. 50 crore (US\$ 6.8 million)	More than Rs. 25 lacs, but lesser than Rs. 5 crores	Rs. 50 crore (US\$ 6.8 million)	More than Rs. 10 lacs, but lesser than Rs. 2 crores
Medium	Rs. 250 crore (US\$ 34 million)	More than Rs. 5 crores, but lesser than Rs. 10 crores	Rs. 250 crore (US\$ 34 million)	More than Rs. 2 crores, but do not exceed Rs. 5 crores

The amount for Manufacturing and Service sectors is the same based on turnover, but the amount varies based on the investment. The above table indicates the turnover and investment amount for Micro, Small and Medium Enterprises. For the manufacturing sector, the amount of turnover is Rs. 5 crores for Micro Enterprises and the same is for the Service sector also. For the manufacturing sector, the amount of turnover is Rs. 50 crores for Small Enterprises and the same is for the Service sector also. For the manufacturing sector, the amount of turnover is Rs. 250 crores for Medium Enterprises and the same is for the Service sector also.

### Definition of Micro, Small and Medium Enterprises

The MSME Development (MSMED) Act of 2006's provisions classify Micro, Small, and Medium-Sized Businesses (MSME) into the following categories:

On July 1st, 2020, the new categorization went into force. Prior classification standards for MSMEs under the MSMED Act of 2006 were based on investments in plant, machinery, and equipment. For manufacturing and service units, it was different. Financially speaking, it was also quite limited. The economy has changed significantly since then. On May 13, 2020, the Aatma Nirbhar Bharat package announced changes to the MSME classification criteria. This has been done to make business easier to conduct, to provide an objective classification system, and to be realistic with time.

### Plan Allocation and Expenditure

#### (a) Plan Allocation and Expenditure during 2018-19, 2019-20, 2020-21 and 2021-22(Upto 31.12.2021) - (Rs. in crore)

Items	2018-19	2019-20	2020-21	2021-22
<b>SME DIVISION</b>				
BE	170.29	213.99	223.72	221.10
RE	143.03	174.93	171.54	208.65
Expenditure	135.61	136.08	169.68	109.11*
<b>ARI DIVISION</b>				
BE	3308.24	3641.75	4066.94	2927.54
RE	3488.40	3714.43	2570.98	4202.73
Expenditure	3577.98	3692.20	2872.76	2446.58*
<b>O/o DC(MSME)</b>				
BE	3074.08	3155.55	3281.54	12551.01
RE	2921.18	3121.93	2921.70	11288.27
Expenditure	2799.53	2889.25	2605.06	8206.03*
<b>Total BE</b>	<b>6552.61</b>	<b>7011.29</b>	<b>7572.20</b>	<b>15699.65</b>
<b>Total RE</b>	<b>6552.61</b>	<b>7011.29</b>	<b>5664.22</b>	<b>15699.65</b>
<b>Total Expenditure</b>	<b>6513.12</b>	<b>6717.53</b>	<b>5647.50</b>	<b>10761.72*</b>

\* (Tentative Expenditure upto 31.12.2021)

In SME Division, the Budget Estimate has been the highest in the year 2020-21 i.e. Rs. 223.72 crores and the second highest in 2021-22 i.e. Rs. 221.10 crores. In SME Division, the Revised Estimate has been highest in the year 2021-22 i.e. Rs. 208.65 crores, followed by 2019-20 i.e. Rs. 174.93 crores. In ARI Division, the Budget Estimate has been the highest in the year 2020-21 i.e. Rs. 4066.94 crores and second highest in 2019-20 i.e. Rs. 3641.75 crores. In ARI Division, the Revised Estimate has been highest in the year 2021-22 i.e. Rs. 4202.73 crores, followed by 2019-20 i.e. Rs. 3714.43 crores. In O/o DC (MSME) Division, the Budget Estimate has been the highest in the year 2021-22 i.e. Rs. 12551.01 crores and second highest in 2020-21 i.e. Rs. 3281.54 crores. In O/o DC (MSME) Division, the Revised Estimate has been highest in the year 2021-22 i.e. Rs. 11288.27 crores, followed by 2019-20 i.e. Rs. 3121.93 crores.

**(b) Direct Benefit Transfer in the M/oMSME**

In order to improve the delivery system through re-engineering for welfare and subsidy schemes, to simplify the funds flow, for ensuring accurate target of beneficiaries, and fraud reduction, all subsidy and welfare schemes of Indian Governments of India are now brought under DBT. DBT cell has been formed in the Ministry as a node for the execution of the DBT programs. According to the beneficiary's benefit type, schemes have been divided into Cash, Kind, and Composite categories (i.e. Cash/ Kind).

The below table has listed various DBT programs with their benefits, beneficiaries, total funds transferred and expenses incurred.

Sl. No.	Name of the Scheme	Benefit Type	Total no. of beneficiaries (2021-22) (upto 31.12.21)	Total Expenditure (Rs. crores) (2021-22) (upto 31.12.21)
1	ATI Scheme (Training Component)	In Kind	170	0.625
2	MPDA Grant to Khadi Institutions	Cash	127328	54.03
3	Coir Vikas Yojana	Cash	168	0.598
4	SFURTI SI	In Kind	1821990	8.01
5	Prime Ministers Employment Generation Programme (PMEGP)	Cash	52002	1601.92
6	Entrepreneurship and Skill Development Programme (ESDP)	In Kind	15599	1.83
7	International Co-operation(IC) Schemes	Cash	18	1.98

Among the schemes mentioned above, the highest number of beneficiaries are in the SFURTI SI scheme i.e. 1821990, followed by MPDA Grant to Khadi Institutions i.e. 127328 beneficiaries. The total amount of expenditure for the year 2021-22 till 31.12.2021 has been highest in the Prime Ministers Employment Generation Programme (PMEGP) i.e. Rs. 1601.92 crores, followed by MPDA Grant to Khadi Institutions i.e. Rs. 54.03 crores.

The operational guidelines for the CLCS-TU Scheme, which consists of five components (IPR, Lean, Design Clinic, Incubation, and ZED), are currently being revised; as a result, the Scheme remains dormant until these guidelines are complete.

### Digital Payments in MSME

The Indian government is working to encourage a cashless society and to make convenient digital payment options available to all Indian citizens. The Government of India has given the promotion of digital payments top importance in an effort to formally include all facets of our nation in the use of these services. The goal is to make seamless digital payment available to all Indian people in a way that is practical, simple, affordable, rapid, and secure.

The Ministry of MSME has undertaken various activities as a partner in the initiative to digitally enable the whole MSME ecosystem.

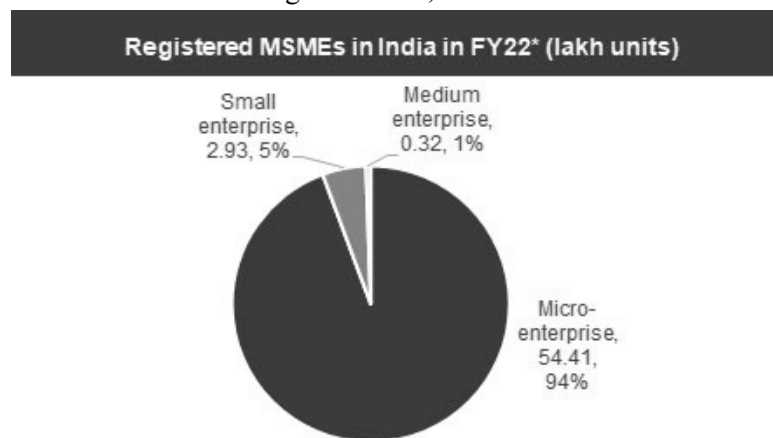
<i>Digital Transaction for the Ministry of MSME and its attached Offices (2021-22) (Upto December, 2021)</i>							
Sl. No.	Name of the organisation	Number of Transactions					
		Total		By Digital Means		Percentages	
		No. of Transactions	Value in Rupees (In crores)	No. of Transactions	Value in Rupees (In crores)	No. of Digital Transactions (in %)	Value of Digital Transactions (in %)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	KVIC	3921840	4414.86	3412686	4343.45	87.02	98.38
2	NSIC	93392	13818.01	88640	13512.74	94.91	97.79
3	DC office (Tool Room+DI offices+HQ)	98892	8842.301	89483	8824.323	90.49	99.80
4	COIR BOARD	19002	186.6	17805	180.9	93.70	96.95
5	NIMSME	2212	25.66	2089	24.25	94.44	94.51
6	MGIRI	659	5.552	659	5.552	100	100
	<b>TOTAL</b>	<b>4135997</b>	<b>27292.98</b>	<b>3611362</b>	<b>26891.22</b>	<b>87.32</b>	<b>98.53</b>

The above table lists the digital transactions that the MSME Ministry and other offices associated with MSMEs are carrying out. KVIC has generally handled the most

transactions, followed by the DC office, NSIC, COIR board, NIMSE, and finally MGIRI. NSIC had the largest transaction value overall, followed by the DC office, KVIC, and the others, such as Coir Board, NIMSME, and MGIRI, which had relatively modest transaction values. The KVIC had the most digital transactions overall, whereas NSIC had the most value overall based on the number of digital transactions.

### Market Size of MSME

More than 60 SMEs are anticipated to enter the market in one year (2021–2022) to raise equity money to suit their company needs, according to the BSE SME platform. 16 SMEs entered the market through the initial public offering (IPO) method, raising Rs. 100 crore (US\$ 13.74 million) in 2020. The BSE announced in June 2021 that it has partnered with the “Electronics and Computer Software Export Promotion Council (ESC)” to raise awareness of the benefits of listing among small firms and start-ups. MSMEs are encouraged for marketing of their products on e-commerce sites, mainly through “Government e-Marketplace (GeM)” which is owned as well as run by the government. Till ending of Nov. 2022, the GeM portal processed 12.28 million orders amounting to Rs. 334,933 crores.



**Source: MSME Industry report, Nov. 2022**

The Udyam Registration platform registered 12,201,448 MSMEs as of November 25, 2022, according to data from the Ministry of Micro, Small, and Medium Businesses, replacing the previous procedure of registering for a Udyog Aadhaar Memorandum (UAM). Microbusinesses made up 94% of all registered businesses, while small businesses made up 5% and mid-sized businesses made up only 1%. To ensure that sufficient liquidity is maintained in business operations, domestic business needs a significant fiscal stimulus from the government and financial institutions in the form of favorable working capital loans.

With 72% of payments made digitally compared to 28% of cash transactions, Indian MSMEs are quickly moving away from cash transactions. Increased digital use offers opportunities for the industry to continue growing.

### **Government Policies**

- For the development of MSMEs in the nation, the Indian government has created a number of policies.
- As of July 8, 2022, 10.03 million loans have been approved under the Pradhan Mantri MUDRA Yojana (PMMY) scheme, and 73,199.89 crores (US\$ 9.15 billion) had been distributed.
- The Emergency Credit Line Guarantee Scheme (ECLGS) for MSMEs was given a budget of Rs. 50,000 crores (US\$ 6.55 billion) in the Union Budget for 2022–2023.
- The Indian government allotted Rs. 6,062.45 crores (US\$ 808 million) for the Raising and Accelerate MSME Performance initiative on March 30 2022. (RAMP).
- The initiative aims to increase market and credit access, develop state and federal institutions and governance, strengthen relationships between the federal government and the states, address late payment issues, and promote environmental sustainability.
- For the service industry, the government in India has a special scheme in Nov. 2021. Such a program would assist businesses in the services industry in meeting various technological criteria.
- In Nov. 2021, the MSME business has introduced SAMBHAV, a campaign for national awareness aimed towards economic growth through the encouragement of entrepreneurship and domestic manufacturing.

### **Recent Developments in MSMEs**

Major Recent Developments in the MSMEs include:

- The national government unveiled a brand-new program in June 2022 dubbed “Promotion of MSMEs in North Eastern Area and Sikkim.” By constructing mini-technological centers, growing both new and existing industrial estates, and promoting tourism, this project’s primary goal was to promote MSMEs in the North East.
- Google India Pvt. Ltd. GIPL would provide a corpus of US\$ 15 million (about Rs. 110 crores) for micro firms as a crisis reaction to COVID-19 in order to revitalize the Indian MSME sector.

- In November 2021, online freight forwarder Freightwalla introduced a shipment tracking solution based on predictive analytics for MSME exporters and importers to assist companies in reducing the risk which is associated with delays in shipment and enhance effectiveness in the supply chain.
- In Nov. 2021, Cashinvoice, a platform for supply chain financing (SCF), declared that thanks to US\$ 1 million in Pre-Series A funding from Accion Venture Lab, it will provide MSMEs with over Rs. 10,000 crores (US\$ 1.33 billion) in financing in the coming year.
- Sundaram Finance and the MSME Development Institute (Chennai) assisted MSMEs in their marketing efforts in October 2021. Through an incubator program that will provide inventors the chance to explore and foster ideas for the manufacture of new products, MSMEs will undergo managerial and entrepreneurial development.
- In September 2021, Boeing awarded a contract to Aerospace Engineers Private Limited, an MSME company in Tamil Nadu, to manufacture and deliver essential aviation components.

#### **Challenges for the MSME Sector**

- **The necessity of digitization** - The MSME sector has been hesitant to adopt digital technology because of issues like a lack of adequate facilities, financing, and limited understanding. Increasing efficiency and reliability, reducing expenses, and keeping up with developments are all possible benefits of digitizing the industry.
- **Value of business expertise** - MSMEs must fully understand difficulties, opportunities, risks, trends and in-depth knowledge of the sector for managing successful businesses for facing increased competition. A business can grow by using the appropriate business plan.
- **Funding issues:** There are many MSMEs who are not having sufficient access to their financial records and this does not help them in having access to digitization for taking advantage of the government programs. Collateral security has also become a problem because funding MSMEs is thought to carry a higher risk. Problems with working capital and cash flow are difficult, particularly when payments are late. Although the MSMED Act offers protections such as fines for late payments, these measures are rarely used because of the concern of losing a steady stream of customers.

#### **Road Ahead**

In five years, the Indian government wants to double its economy to US\$5 trillion. Career options for the young people have been created in order to accomplish



this goal, and MSMEs have the ability to play a significant role in creating jobs. As a result, the government has begun to promote MSMEs in an effort to add new jobs to the industry. The government also wants to increase MSME export participation and GDP output. The government should invest in expanding back-end services to boost the performance of the MSME sector, which supplies goods and services to large industrial businesses, in order to meet these goals. Technology-based production activities are scarce, and R&D spending is low, which creates barriers to the sector's competence. Government subsidies for globally accessible technologies could help MSME companies improve the quality of their products while utilizing the available resources. Also, academic institutions must assist with this by offering services for product innovation research and development (R&D).

### **Conclusion**

The Indian government is working to encourage a cashless society and to make convenient digital payment options available to all Indian citizens. The Government of India has given the promotion of digital payments top importance in an effort to formally include all facets of our nation in the use of these services. The goal is to make seamless digital payment available to all Indian people in a way that is practical, simple, affordable, rapid, and secure. The MSME sector has been hesitant to adopt digital technology because of issues like a lack of adequate facilities, financing, and limited understanding. Increasing efficiency and reliability, reducing expenses, and keeping up with developments are all possible benefits of digitizing the industry. Technology-based production activities are scarce, and R&D spending is low, which creates barriers to the sector's competence. Government subsidies for globally accessible technologies could help MSME companies improve the quality of their products while utilizing the available resources.

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