

## MICRO, SMALL AND MEDIUM INDUSTRIES: ROLE AND CONTRIBUTION IN ECONOMIC DEVELOPMENT

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### **Abstract**

*Micro, Small, and Medium Enterprises (MSMEs) are contributing significantly to employment generation, economic growth, and innovation worldwide thus proving themselves as a foundation for Economic Growth. This research paper explores the role of MSMEs in the Indian economy, focusing on their contributions, challenges, and their possible solutions. By examining the diverse challenges faced by MSMEs, including limited access to finance, regulatory hurdles, technological constraints, and market barriers, the paper provides an in-depth understanding of these enterprises.*

*Acknowledging the important role of MSMEs as drivers of economic growth, the paper aims to study their role in generating employment opportunities, fostering entrepreneurship, and promoting inclusive growth in both Rural and Urban Areas. Moreover, it highlights how MSMEs contribute to employment generation in rural and urban areas as well as sex-wise employment generation. The study delves into the challenges faced by these Industries and possible solutions thereafter, the significance of infrastructure development, and access to markets for enhancing the growth of these enterprises.*

*In conclusion, the research paper synthesizes key findings to understand the importance of continued support for MSME development. It emphasizes that concerted efforts from policymakers, industry stakeholders, and researchers are essential to address the challenges faced by MSMEs and create an enabling environment for their sustainable growth.*

### **Keywords**

*Microenterprises, Small enterprises, Medium enterprises*

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## **INTRODUCTION**

The Micro, Small and Medium Enterprises (MSME) sector has played an important role in the development of the economy and has employed a large number of masses in the recent years. It has emerged as a highly dynamic sector of the economy contributing significantly to the development of entrepreneurship and generating large employment opportunities for different sectors of the economy at a comparatively lower capital cost and less investment, next only to agriculture.

The MSMEs produce a diverse range of products and services to meet the demands of domestic as well as global markets. MSMEs are also complementary to large industries contributing significantly to the inclusive industrial development of the country.

There is number of statutory and non-statutory bodies that work under the aegis of the Ministry of MSME like: The Coir Board ,National Small Industries Corporation (NSIC) ,Khadi and Village Industries Commission (KVIC) , National Institute for Micro, Small and Medium Enterprises (NIMSME) ,Mahatma Gandhi Institute for Rural Industrialisation (MGIRI). etc.

The Ministry of MSME also runs various schemes aimed at skill development and training, financial assistance, technology assistance and upgradation, and infrastructure development thereby enhancing competitiveness and market assistance of MSM

In 2006 Government of India notified The Micro, Small and Medium Enterprises Development (MSMED) Act to address different issues affecting MSMEs, as well as to facilitate the development of these enterprises and also to enhance their competitiveness in the market.

MSMEs were a very prominent part of the announcements made under the Aatmanirbhar Bharat Abhiyaan in post COVID era when the fear of worldwide depression and unemployment was looming over the economies. MSME sector was not only given substantial allocation but also accorded priority in the implementation of the measures to revive the economy. To provide immediate relief to the MSME sector after the Lockdown, various announcements were made under the Package.

Emergency Credit Line Guaranteed Scheme (ECLGS) was launched on 13th May 2020, as part of the Aatma Nirbhar Bharat Abhiyaan. According to National Credit Guarantee Trust Company (NCGTC), Since inception in 2020 under the Emergency Credit Line Guaranteed Scheme (ECLGS) , total guarantees amounting to Rs. 3.60 lakh crore have been issued to 1.19 crore accounts, which includes MSMEs& other businesses. During the FY 2022-23, till 31.12.2022, total guarantees amounting to Rs. 14,583 crore have been issued to 78,924 accounts of MSMEs. (According to Annual Report 2022-23 Ministry of Micro, Small and Medium Enterprise).

### **Role of MSME in Indian Economy**

The Micro, Small & Medium Enterprises (MSMEs) are significantly contributing to the expansion of entrepreneurs and innovations in business. They are producing a wide range of products and services for domestic as well as global markets. The MSMEs in India are playing a crucial role by providing large employment opportunities at a comparatively lower investment than large industries as well as through industrialization of rural & backward areas in the country, reducing regional imbalances and leading to more equitable

distribution of national income and wealth. They play a vital role in the Economy in the following ways :

- **Economic contribution:** MSME enterprises make economic contributions in various sectors. These include manufacturing, financial services, retail, hotels and tourism, and services etc. The presence of small and medium enterprises in these areas is important and has a positive impact on the economic growth of the country.

- **Innovation and Invention:** Small and medium enterprises play an important role in new and innovative product development. These enterprises look towards new products by adopting new technologies especially in low investment and new areas. This not only increases entrepreneurship, but also leads to development in science and technology.

- **Encouragement of new entrepreneurship:** Small and medium enterprises support new and innovative business ideas. These enterprises encourage youth entrepreneurship and provide them with support to bring their ideas to reality .

- **Global Position:** Small and medium enterprises strengthen the global position of the Indian economy by increasing exports and producing export substitution goods. These enterprises provide an opportunity to promote their products in foreign markets .

### **Growth and Performance of Micro, Small and Medium Enterprises (MSMEs)**

Distribution of Enterprises: Distribution of Enterprises category-wise (in lakh)

Sector	Micro	Small	Total	% Share
Rural	119.61	0.07	119.68	60.22
Urban	78.78	0.27	79.05	39.78
All	198.39	0.35	198.74	100.0

*SOURCE: FOURTH ALL INDIA CENSUS PF <OCRP SMALL AND MEDIUM ENTERPRISES 2006-07: UNREGISTERED SECTOR*

**According to NSS 73rd Round Survey (2015-16)**

Sector	Micro	Small	Total	% Share
Rural	324.09	0.78	324	51
Urban	306.43	2.53	309	49
All	630.52	3.31	633.88	100.0

SOURCE: ANNUAL REPORT 2022-23 MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES

*This indicates that while in 2006-07 the percentage share of MSME in rural areas was 60.22 it decreased to 51 percent in 2015-16 whereas that of urban areas increased to 49 percent from 39 percent in 2006-07*

**Percentage Distribution of Enterprises by Sex of Owner and Sector**

Sector	Male	Female	NR(missing ownership)
Rural	89.09	10.69	0.22
Urban	92.49	6.67	0.84
All	90.44	9.09	0.47

SOURCE: FOURTH ALL INDIA CENSUS OF MICRO, SMALL AND MEDIUM ENTERPRISES 2006-2007

**According to NSS 73rd Round Survey (2015-16)****Percentage Distribution of Enterprises by Sex of Owner and Sector**

Sector	Male	Female	ALL
Rural	77.76	22.24	100
Urban	81.58	18.42	100
All	79.63	20.37	100

In 2006-07 in rural areas 89.09 percent of MSMEs were owned by males and 10.69 percent by females while in 2015-16 ownership of males decreased to 77.76 percent and that of females increased to 22.24 percent. In urban areas also the percentage share of male ownership decreased from 92.49 percent to 81.58 percent and that of females increased to 18.42 percent from 6.67 percent.

### Distribution of Employment by Sector

Sector	Employment(lakh) 2006-07	Employment(lakh) 2015-16	% Increase
Rural	234.09	497.78	112.6
Urban	174.75	612.10	250.27
All	408.84	1109.89	171.47

SOURCE: *FOURTH ALL INDIA CENSUS OF MICRO, SMALL AND MEDIUM ENTERPRISES 2006-07: UNREGISTERED SECTOR AND NSS 73rd Round Survey*

MSME'S Employment generation rate increased more in Urban areas which is by 250.27 percent according to the 2015-16 survey while only by 112.6 percent in Rural areas. This may be due to the fact that number of enterprises also decreased in rural areas in 2015-16. Also where employment was provided to only 408.84 lakh people in 2006-07, in the year 2015-16 total employment in rose to 1109.89 lakh.

YEAR	NO OF MSME'S (Lakh No.)	EMPLOYMENT (Lakh Persons)
2006-7	198.74	408.84
2015-16	630.52	1109.89
% increase	217.26	171.47

SOURCE: *FOURTH ALL INDIA CENSUS OF MICRO, SMALL AND MEDIUM ENTERPRISES 2006-07: UNREGISTERED SECTOR and NSS 73rd Round Survey (2015-16)*

Overall comparison of 2006-07 and 2015-16 shows that the number of MSME increased to 630.52 lakh in 2015-16 from 198.74 in 2006-07 that is by 217.26 percent and employment increased to 1109.89 lakh persons from 408.84 lakhs person that shows an increase of 171.47 percent. While the number of enterprises increased at a higher rate, the employment generation increased at a slower pace.

Micro, Small, and Medium Enterprises (MSMEs) are an integral part of the Indian economy that contribute significantly to employment, economic growth, and innovation. However, they often encounter a number of challenges that can hinder their growth. These challenges vary depending on factors such as the industry, location, economic conditions etc. Some common challenges faced by MSMEs are:

- **Access to Finance:** Finance plays a crucial role in setting up and running any industry MSMEs frequently struggle to secure adequate finance for their operations, expansion, and innovation. They often lack the collateral and credit history required by financial institutions, making it difficult for them to access loans. Microfinance institutions and alternative lending platforms do help to address this challenge but their rate of interest is usually high, so there is still a need for broader financial inclusion for MSMEs.
- **Regulatory and Bureaucratic Hurdles:** MSMEs face complex regulatory requirements like licenses, permits, and compliance standards etc. due to which at times entrepreneurs are reluctant to set up or expand their enterprises. Bureaucratic red tape and corruption in some regions may further exaggerate the problem, leading to additional costs, delays, and in some cases legal challenges for MSMEs.
- **Infrastructure Constraints:** Inadequate physical infrastructure especially in rural areas, such as transportation, energy, communication networks etc. can hinder the operation of MSMEs. Poor infrastructure can also lead to higher transportation costs, unreliable energy supply, and difficulties in accessing markets.
- **Shortage of skilled labor:** Finding and retaining skilled and qualified employees can be another challenge for MSMEs, especially in specialized industries due to the paucity of funds to provide competitive salaries, inadequate training opportunities, Competition with larger firms, and limited benefits can make it difficult to attract and retain skilled labors.
- **Limited Access to Training and Capacity Building:** Innovation and Continuous learning and skill development are crucial for any enterprise to stay competitive in the dynamic world. However, many MSMEs lack access to training programs and capacity-building initiatives that could enhance their management skills, market reach and business operations.
- **Limited Innovation and Technological Adoption:** Many MSMEs operate with limited technological infrastructure due to a lack of resources to invest in new technologies. This hampers their ability to adopt innovative techniques and compete and adapt to the changing demands of the dynamic market. The digital divide between urban and rural areas can also have an impact on access to technology.
- **Marketing and Sales Challenges:** MSMEs often struggle with marketing and reaching to a wider customer base through advertising and publicity. Limited resources and expertise in branding, digital marketing, and distribution restrict their ability to reach out to potential customers both in the country and internationally.
- **Access to Markets:** Exploring and reaching new markets, both domestic and

international, can be difficult for MSMEs due to the lack of market information, distribution networks, and financial resources required for market expansion and export. Trade barriers, tariffs, and regulations in international markets can also be additional challenges for upcoming MSMEs.

- **Risk Management:** Lack of risk management strategies, insufficient access to insurance, and limited resources can leave MSMEs exposed to business disruptions and trade cycles. MSMEs are often more vulnerable to economic fluctuations and international shocks.
- **Competition with Larger Enterprises:** The biggest challenge faced by MSMEs is the difficulty of competing with larger enterprises that have economies of scale, greater resources, vast and advanced marketing structures and established markets for their product. This can have an impact on their pricing strategies, market share, and future growth prospects.

In order to address these these challenges a combination of supportive policies, capacity-building initiatives, resource accessibility and technological advancements is required Addressing the challenges faced by Micro, Small, and Medium Enterprises (MSMEs) requires a multi-faceted approach involving government policies, friendly policies of financial institutions, industry stakeholders, and supportive market system. Some potential solutions to the problems are:

- **Easy Access to Finance:** Specialized MSME financing programs that offer tailored financial support with flexibility in repayment collaboration between traditional financial institutions and finance companies, Expansion of microfinance institutions to reach to rural and underserved areas to provide small loans to MSMEs.
- **Simplified Regulations and Bureaucracy:** Implement streamlined online platforms for business registration, licensing, and compliance processes, single-window clearance mechanisms that consolidate approvals from multiple government agencies and dedicated help desks to assist MSMEs can motivate new enterprises to set up and existing ones to expand their business.
- **Promoting innovation and Adoption Technology:** Provide subsidies, grants, or tax incentives for MSMEs to invest in technology, research, and development, facilitate partnerships between MSMEs and research institutions to promote knowledge transfer, organize training programs and workshops to enhance digital literacy and adoption of modern among MSME owners and employees is also an important step forward.

- **Infrastructure Development:** Improving physical infrastructure such as transportation networks, energy supply, and communication systems, Development of industrial clusters that offer shared infrastructure and reduce costs for MSMEs.
- **Marketing and Sales Support:** Establishing marketing and business development assistance programs for MSMEs to access larger markets and to promote their products; Providing training in digital marketing, branding, and e-commerce in order to reach a wider customer base will increase their operations and provide wider market base.
- **Developing Skilled Labor** Educational institutions should design vocational training programs according to industry needs, and facilitate partnerships between MSMEs and universities for internships, apprenticeships, and skill-building initiatives that can help to solve the problem of labor.
- **Market Access and Export Promotion:** Export-oriented training programs should be designed to help MSMEs to understand international trade regulations, and market entry strategies. Establishing export promotion agencies that provide information, market research, and networking opportunities for MSMEs will help to have a better access to international market.
- **Risk Management:** By Encouraging the adoption of insurance products tailored to the needs of MSMEs, including coverage for market fluctuations and risk will provide a resilience to these industries to perform better.
- **Supportive Policy Environment by the Government:** Implementing supportive policies that provide tax incentives, subsidies, and grants to MSMEs. Creating a dedicated MSME ministry or agency to advocate for the interest of MSMEs will help them to compete with large-scale industries to earn profit .
- **Capacity Building Programs:** Organizing workshops, and networking events to facilitate knowledge sharing and skill development and guidance by experienced business leaders will help MSMEs to bridge the leadership divide.
- **Digital Platforms and Marketplaces:** Digital Platforms and Marketplaces that connect MSMEs with potential customers, suppliers, and partners and e-commerce ecosystems that enable MSMEs to reach a global customer are required.

These solutions should be tailored to the specific industry, needs and conditions of each region of the country. A comprehensive approach involving collaboration between governments, financial institutions, and industry associations, is required to effectively address the challenges and problems faced by MSMEs and create a conducive environment for the growth and development of the nation.



## Conclusion

Micro, Small, and Medium Enterprises (MSMEs) stand as indispensable pillars in the landscape of the Indian Economy, driving innovation, job creation, and sustainable development. This research paper has delved into the contributions and challenges of MSMEs, shedding light on their pivotal role in shaping our economy and society.

The significance of MSMEs lies not only in their quantitative contributions, such as employment generation and GDP growth, but also in their qualitative impacts. They foster entrepreneurship, creativity, and nurture local communities, provide employment opportunities in rural areas especially to women thereby promoting women empowerment.

As we look forward into the future, we envision an evolving and dynamic role of MSME in Emerging trends in technology adoption, sustainability practices, and global market dynamics. The post-pandemic recovery period holds a special promise, with MSMEs poised to play a pivotal role in rejuvenating economies and catalyzing progress.

In conclusion, this research paper underscores the importance of unwavering support for MSMEs. The journey of MSMEs is one of continuous evolution, driven by tenacity, innovation, and a shared vision of prosperity. By promoting MSMEs we can ensure that they continue to shape the future with economic dynamism and social empowerment.

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