



An analysis of growth of MSMEs in the economic and social development of India

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Abstract

This study aims to provide an assessment of the Micro, Small and Medium Enterprises (MSME) sector in India. MSME sector is the engine of growth in India and contributes significantly to balanced regional development and socio-economic empowerment, scaling up of manufacturing capabilities and employment generation. One of the critical indicators to assess the successful development of MSME Sector in an economy is the data on opening of new MSMEs; it depicts the conducive environment for opening and growth of such units in an economy as well as show the high morale of entrepreneurs in the macroeconomics of the economy. It is the biggest employer after agriculture in the Country. MSMEs are the main vehicles for job creation.

Keywords: MSMEs, employment, national and global markets, entrepreneurship, and innovation

Introduction

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last few decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities. MSMEs are complementary to large industries and this sector contributes significantly in the industrial development of the country. The MSMEs are producing diverse range of products and services to meet demands of domestic as well as global markets.

A number of bodies work under the guidance of the Ministry of MSME. These include National Institute for Micro, Small and Medium Enterprises (NIMSME), the Khadi and Village Industries Commission (KVIC), Mahatma Gandhi Institute for Rural Industrialisation (MGIRI) and the Coir Board besides National Small Industries Corporation (NSIC).

The Ministry of MSME runs various schemes aimed at financial assistance, infrastructure development, market assistance of MSMEs, skill development and training, enhancing competitiveness, technology assistance and up-gradation. The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements efforts of the State Governments through various initiatives and schemes.

Micro, Small and Medium Enterprises sector has emerged as a highly growing sector of the Indian economy over the last 10 years. India has more than 6 crore entities falling under the MSME category which contribute approximately 29% GDP of the country.

Significance of MSMEs in Indian Economy

The Micro, Small & Medium Enterprises (MSMEs) in India are playing a important role by providing more equitable distribution of national income and wealth, reducing regional imbalances and large employment opportunities. The MSMEs are producing diverse range of products and services to meet demands of domestic as well as global markets and widening their domain across sectors of the economy. The MSMEs have been contributing significantly to the expansion of entrepreneurship and business innovations.

MSMED Act

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006. On 9 May 2007, the former Ministry of Small-Scale Industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises. The Ministry designs policies, schemes and monitors their implementation, promotes programmes with a view to assisting MSMEs and helping them. The MSMED Act has the following key establishments:

- a. Establishment of a National Board for Micro, Small and Medium Enterprises.
- b. The role of the Board is to examine development of MSMEs, review the policies and programmes of the Central Government.
- c. It empowers the Central Government to undertake programmes.
- d. It empowers the Central Government to issue guidelines and instructions to development of MSMEs.
- e. It integrates the three tiers of these enterprises, namely, Micro, Small and Medium.

Classification of Micro, Small and Medium enterprises

The Micro, Small and Medium Enterprises (MSME) are classified as:

- a micro enterprise, where the investment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- a small enterprise, where the investment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
- a medium enterprise, where the investment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

The new classification has come into effect from 1st July, 2020. A revision in MSME criteria of classification was announced under Aatma Nirbhar Bharat package on 13th May, 2020.

The objectives of the MSME Policy are as follows

- Undertake complete mapping of macro and micro MSME.
- Promote culture of entrepreneurship and innovation.
- Expand employment generation.
- Scaling up and diversification of MSMEs.
- Develop infrastructure support.
- To facilitate build a vibrant eco-system for the rapid growth of the MSME sector.
- To incentivize resource efficiency, environmental sustainability.
- Strengthen ease of doing business and good governance.
- Promote balanced industrialisation.
- Facilitate access to National and global markets.
- Promote and facilitate National and International investments in the sector.
- Adoption of international product/process quality standards.
- Improve access to finance and risk capital.
- Improve competitiveness and productivity.
- Build capacity and flexibility of MSMEs to tide over business cycles.
- Improve the availability of skilled human resources.
- Promote and facilitate green initiatives and sustainable waste management.
- Develop a framework for accessible and affordable Technology upgradation and Capacity Building for MSMEs
- Create quality consciousness.
- Strengthen the supporting legal framework.
- Prepare cluster development plans with MSME cluster associations.
- Monitor and evaluate the implementation of policy.

Major Schemes of the Ministry of MSME

The Ministry of MSME runs numerous schemes targeted at:

- infrastructure development,
- skill development training,
- marketing assistance,
- providing credit and financial assistances,
- technological and quality up-gradation and,
- Single Window Facilitation for MSMEs

Prime Minister's Employment Generation Programme

The Prime Minister's Employment Generation Programme (PMEGP) was launched in September, 2008. The scheme aims to generate employment opportunities in rural and urban areas of the country through setting up of new self-employment ventures and micro enterprises.

Only new projects are considered under PMEGP. Since inception in 2008-09 till 31.12.2021, a total of about 7.38 lakh micro enterprises have been assisted with a subsidy of Rs 17,803 crore providing employment to an estimated 60 lakh people, 80% are from rural areas and 20% from urban areas.

Table 1

Category-wise Contribution & Rate of Subsidy			
Categories of beneficiaries Under PMEGP	Beneficiary's Own contribution	Rate of subsidy (on project cost)	
Category/Location of Project	(On Project Cost)	Urban	Rural
General Category	10%	15%	25%
Special Category (Physically Handicapped, Women, SC, ST, OBC, Minorities, Ex. Servicemen, North East, Hill and Border areas, etc.)	05%	25%	35%

Source: Ministry of MSME

Table 2

PMEGP Performance during last four years			
Year	Margin Money Disbursed (Rs. Crore)	Micro Units Assisted (Number)	Estimated Employment Generated (Number)
2018-19	2070.00	73,427	5,87,416
2019-20	1950.82	66,653	5,33,224
2020-21	2188.80	74,415	5,95,320
2021-22*(*Till 31.12.2021)	1633.48	52,994	4,23,952

Source: Ministry of MSME

Disbursement of margin money subsidy has been increasing over the year during last four years. During 2019-20 disbursement was impacted due to COVID 19 pandemic and successive lockdown.

Schemes for Skill Development and Training

A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE)

The scheme has the following objectives

- Promote entrepreneurship culture in the country,
- Facilitate innovative business solution and promote innovation to strengthen the competitiveness of MSME sector.
- Create new jobs and reduce unemployment,

Micro and Small enterprises Cluster Development Programme (MSE-CDP)

Objectives

- Support sustainability of MSMEs.
- Capacity Building of MSMEs.
- Create / upgrade Infrastructural Facilities.
- Develop Common Facility Centres (CFCs)
- Promotion of Advanced & Sustainable Manufacturing Technologies

Common Facility Centers (CFCs): Creation of Common Facility Centers (CFCs) that cannot be undertaken by individual units like Common Training Centre, R&D Centres, Common Production / Processing Centre, Common Raw Material Bank, Design Centres, Testing Facilities, establishing Marketing Hubs / Exhibition Centres at central places for display and sale of products of Micro and Small Enterprises, Common Logistics Centre etc.

Infrastructure Development (ID): Infrastructural facilities like roads, banks, water, power distribution, telecommunication, drainage and pollution control facilities, creating business eco-system in cluster mode technological backup services for MSMEs etc.

Support to State Innovative Development Programme: The Government of India support to State Government fund would be limited share or Rs.5.00 crore whichever is lower.

Achievement

Table 3

Achievement: Year-wise data during the FY 2015-16 to 2021-22									
Year	Projects Approved			Projects completed			Budget utilized (Rs. in crore)		
	CFC	ID	Total	CFC	ID	Total	BE	RE	Exp
2015-16	9	6	15	0	4	4	100.00	102.95	81.36
2016-17	6	3	9	5	5	10	135.00	123.00	121.68
2017-18	9	12	21	13	11	24	184.00	157.65	157.11
2018-19	11	26	26	17	11	28	279.00	173.40	172.73
2019-20	39	35	74	11	11	22	227.90	227.90	226.34
2020-21	26	42	68	8	12	20	390.69	116.28	116.28
2021-22 (As on 31.12.21)	11	8	19	3	2	5	156.50	0.00	68.31
Total	111	132	242	57	56	113	1473.09	901.18	943.809

Source: Ministry of MSME

Scheme for Marketing Assistance

Government has introduced a Market Development Assistance (MDA) Scheme. The current Modified Market Development Assistance (MMDA) would be distributed as mentioned in the following table:

Table 4

Nature of Share/ Incentive	Existing share among MMDA	Revised share among MMDA
Artisan Share	40%	40%
Producing Institution Share	40%	20%
Selling Institution Share	20%	10%
Institutions' Incentive	0	30%
Total	100%	100%

Source: Ministry of MSME

Market Development Assistance provides institutions to use the assistance for improving the products and production processes, outlets, etc.

Scheme for Technology Up-gradation

Ministry of Micro, Small and Medium Enterprises has been implementing Technology Up-gradation Scheme for promoting competitiveness amongst Micro, Small and Medium Enterprises by the way of wastage reduction through improved Manufacturing, support for Design improvement, digitally empowerment of MSME and to adoption of latest technologies in manufacturing and knowledge based innovation MSMEs through Incubation in country. The scheme is to promote & support MSMEs in expanding the business by supporting them in design, strategy and execution. Indian Micro, Small and Medium Enterprises are rapidly adopting digital payments. Approximately 72% payments done through the digital mode and 28% through cash transactions. Rise in digital adoption presents prospects for further growth in the sector.

Implementation of Public Procurement Policy for MSMEs

The procurement details of Central Public Sector Enterprises (CPSEs) during FY 2020-21 & 2021-22 are as follows: -

Table 5

Year	CPSEs reported (Nos.)	Total Procurement (Rs. in crore)	Procurement from MSEs (including MSEs owned by SC/STs) (Rs. in crore)	Procurement from MSEs owned by SC/STs (Rs. in crore)	Procurement from MSEs owned by Women (Rs. in crore)
2020-21	156	1,45,905.15	40,807.49 (27.97%) (1,76,685 MSEs benefited)	757.57 (0.52%) (6,844 MSEs benefited)	719.89 (0.49%) (4,998 MSEs benefited)
2021-22 (As on 29.04.2022)	125	1,37,644.82	48,051.23 (34.91%) (2,03,033 MSEs benefited)	1,069.66 (0.78%) (9,030 MSEs benefited)	1,353.77 (0.98%) (9,165 MSEs benefited)

Source: Ministry of MSME

International Cooperation

At the global level, MSME have been providing support to the Indian MSME sector by giving them exposure of the international market, providing latest technology and sharing of experiences.

The MSMEs have been accepted as the engine of economic growth for promoting equitable development. Though, the progression of COVID-19 virus across the globe brought in plentiful problems for trade and many other sectors of the economy. MSME also has 50% share in exports since the past five years. To maintain its position in the international markets, MSMEs have been required to remain globally competitive and have to continuously update to meet the challenges in technology, fluctuate in demands, emergence of new markets, etc. With agility and dynamism, the regular measures being taken in India to boost MSMEs to sustain the economic ambience, the future prospects appear to be promising. The sector has shown admirable innovation and adaptability.

Focus on MSME Sector in Budget 2022- 2023

MSMEs are the backbone of the Indian economy. The Union Budget 2022-23 aims to prioritizing the revival of MSMEs and also giving the sector a much boost. Union Budget 2022 focuses on ease of doing business for MSMEs with new policy initiatives, extending credit support to boost liquidity, reducing import tariffs, and enhancing financial inclusion.

This sector is responsible for around 45 percent of the country's total manufacturing output, 40 percent exports and almost 30 percent of the national GDP. The MSME sector has suffered huge losses due to the Covid pandemic slowdown. Given the sector's considerable contribution to the economy, the Budget has increased outlay for the sector from Rs. 15,699.65 Crores in 2021-22 to Rs 21,422 crores in 2022-2023. It has given MSMEs a long-pending economic respite by introducing new policy initiatives, custom duty amendments, and concessional tax rates.

Conclusion

The MSME sector is certainly contributing largely towards the growth of the Indian economy. The year 2022 has begun to show huge results hit bounced back after Covid-19 pandemic, and expectantly, the rest of the year will shape up great economic growth for the MSME sector in India. The MSME sector which was largely affected but today has been able to regain profitability, booming and look to grow faster. The government has taken up promotion of MSMEs in order to create new jobs in the sector. Further, the government aims to improve MSME's share in exports and its contribution to GDP. In India MSMEs have played an important role in export promotion of the country.

Low investment in R&D activities and Lack of technology-based production activities are bottlenecks obstructive the sector to become competent. In the past three years, the micro, small and medium businesses have realised the power of technology and adopt technology to run their businesses. A majority of the MSMEs have been adopted digital platforms at a rapid pace for managing payments; and to ease business operations. There shall continue to be digital platforms innovations in this sector that will contribute significantly to the economy. Latest Worldwide available technology could be subsidised by the Government of India so that the product quality of MSME players can be improved using the existing resources.

In order to achieve targets of MSME, the government should improve performance of the MSME sector as it supplies goods and services to big industrial enterprises. Further, this also requires the help of institutions in the form of providing research and development services for product innovation.

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