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MSME in India: Growth & Challenges

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Abstract:

Micro, Small and Medium Enterprises (MSMEs) play very significant role in almost all countries of the world irrespective of their development stage. Many Developed countries have developed through the MSMEs many aspects of business such as employment generation, Import substitution, export, tax, income, innovation, competitiveness in domestic and export markets. Particularly in India, MSMEs have made a significant impact on income distribution, social stability, domestic resources utilization technique, structural and regional development, exports, employment and creation of a broad entrepreneurial base. Hence, the MSMEs' are rightly regarded as the backbone of modern Indian economy. Micro, Small and Medium Enterprises play a vital role for the growth of Indian economy by contributing towards output, exports, employment ie create one million jobs every year and produces quality products for the Indian and international markets. As a

result, MSMEs are today exposed to greater opportunities for expansion and diversification across the sectors. MSMEs are growing rapidly making remarkable progress in various Industries like Manufacturing, Food Processing, Pharmaceuticals, Textile & Garments, Retail, IT, Agro and Service sectors. Thus finding increasing opportunities to enhance their business activities in core sectors.

Key words: *Micro, Small and Medium Enterprises, Indian economy, etc.*

“Imparting greater vitality and growth impetus to the Micro, Small and Medium Enterprises (MSME) in terms of output, employment and exports and instilling a competitive culture based on heightened technology awareness”

Ministry of Micro, Small and Medium Enterprises (MSME’s)

1.INTRODUCTION-

1.1 Definition of Micro, Small and Medium Enterprises

After 14 years since the MSME Development Act came into existence in 2006, a revision in MSME definition was announced in the Atmnirbhar Bharat package on 13th May, 2020. As per this announcement, the definition of Micro manufacturing and services units was :

Revised Classification w.e.f 1st July,2020			
Composite Criteria: Investment in Plant & Machinery			
Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	<ul style="list-style-type: none"> Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore Annual Turnover: not more than Rs. 5 crore 	<ul style="list-style-type: none"> Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore 	<ul style="list-style-type: none"> Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore

		• Annual Turnover: not more than Rs. 50 crore	• Annual Turnover: not more than Rs. 250 crore
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- ***Other definitions***

The definition of micro, small and medium enterprises varies from country to country. In general, the industries all over the world are defined in terms of number of employees or capital investment or both. The employment potential criterion was dropped from Micro, Small and Medium Enterprises definition in India due to the following reasons:

- *Employment changes seasonally and hence it is difficult to follow this criterion. An employment limit acts as an incentive to limit employment to remain within Micro, Small and Medium Enterprises.*
- *Discrimination between labor intensive and techno sophistication.*

The role of micro, small and medium enterprises in economic development of a country can be explained with relevant parameters.” Increase in the number, production, employment, and exports over a period of time could be common parameters to adjudge the role played by small enterprises in the country.”

2.OBJECTIVE OF THE STUDY:

- *To analyse the growth of MSMEs in Indian context.*
- *To know the contribution of MSMEs in economic development.*
- *To know government’s role in the development of MSMEs.*
- *To know the challenges faced by MSMEs.*
- *To know the changes in MSME related policies in lieu of latest budget.*

3.REVIEW OF LITERATURE

Brief review of literature are discussed below: -

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 own increasing trend with some fluctuations.

Indrakumar (2020) concluded that in India, the MSMEs sector has played a vital role in the country's economic and social development as these are essentially dependent on traditional inherited skills and mostly use local resources.

Annual Report of MSME 2021-2022, MSME sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture.

4. The Growing Importance of MSMEs

Governments worldwide increasingly recognise the growing role of MSMEs and entrepreneurship as drivers of growth and job creation, and as effective tools for poverty alleviation. Furthermore, new firms, by their nature being innovative, have lent a special impetus to overall innovation:

- *MSMEs account for over 95 % of the business population, and are therefore an increasingly dominant form of business organisation in all countries.*
- *MSMEs constitute 60 – 70 % of total employment.*
- *Micro-enterprises represent more than 90% of all business in certain activities, such as computer services, in many OECD countries.*

Increasing globalisation and the rising importance of information and communication technologies (ICTs) represent major challenges and opportunities for MSMEs. To succeed entrepreneurs and MSMEs need the proper entrepreneurial business environment (EBE) that allows them to access financing, human capital, networks, technology, innovation and international markets. Identifying and

implementing the policies that can achieve these goals has become a priority objective for governments of industrialised and developing countries

4.1 Formation of MSMEs in India

Formation of MSMEs in India is governed by MSME Act 2006. The registration under Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 is for aiding the promotion, development and improving the competitiveness of Micro, Small and Medium enterprises. Registration of a firm under the Act is a means to avail the benefits available to MSMEs like easy finance availability from Banks, preference in acquiring Government tenders, stamp duty and octroi benefits, concession in electricity bills, timely receipt of payments from the buyers or debtors, reimbursement of ISO Certification expenses and so on. All sectors and classes of enterprises, whether Trading, Hindu undivided family, Service or Manufacturing, Co-operative society, Partnership firm Proprietorship, Association of persons, Company or Undertaking, can apply for the registration and get qualified for the benefits provided under the Act.

4.2 INDIA'S MSME SCENARIO:

With the advent of planned economy in 1951, and the subsequent industrial policy of the Government of India, both planners and the Government have earmarked for Micro, small and medium industries a special role in the economy. India has nearly six million MSMEs, which account for almost 50 percent of industrial output and about 50 percent of India's total exports.

By and large, MSMEs developed in a manner, which made it possible for them to achieve the objectives of:

1. High contribution to domestic production

2. *Significant export earnings*
3. *Low investment requirements*
4. *Operational flexibility*
5. *Low intensive imports*
6. *Capacity to develop appropriate indigenous technology*
7. *Import substitution*
8. *Technology-oriented industries*
9. *Competitiveness in domestic and export markets*

4.2.1 Number of MSME

As per the Annual Report of Micro, Small and Medium Enterprises, 2021-22

<i>Activity</i>	<i>Estimated Number of Enterprises (in lakh)</i>			<i>Share (%)</i>
	<i>Rural</i>	<i>Urban</i>	<i>Total</i>	
<i>Manufacturing</i>	114.14	82.50	196.65	31
<i>Electricity</i>	0.03	0.01	0.03	0
<i>Trade</i>	108.71	121.64	230.35	36
<i>Other Services</i>	102	104.85	206.85	33
<i>All</i>	324.88	309.00	633.88	100

4.2.2 Charts Showing Statistics of The Sector

4.2.2.2 *Performance of SSI/MSME Units in Employment, Investments, Exports and Gross Value Added*

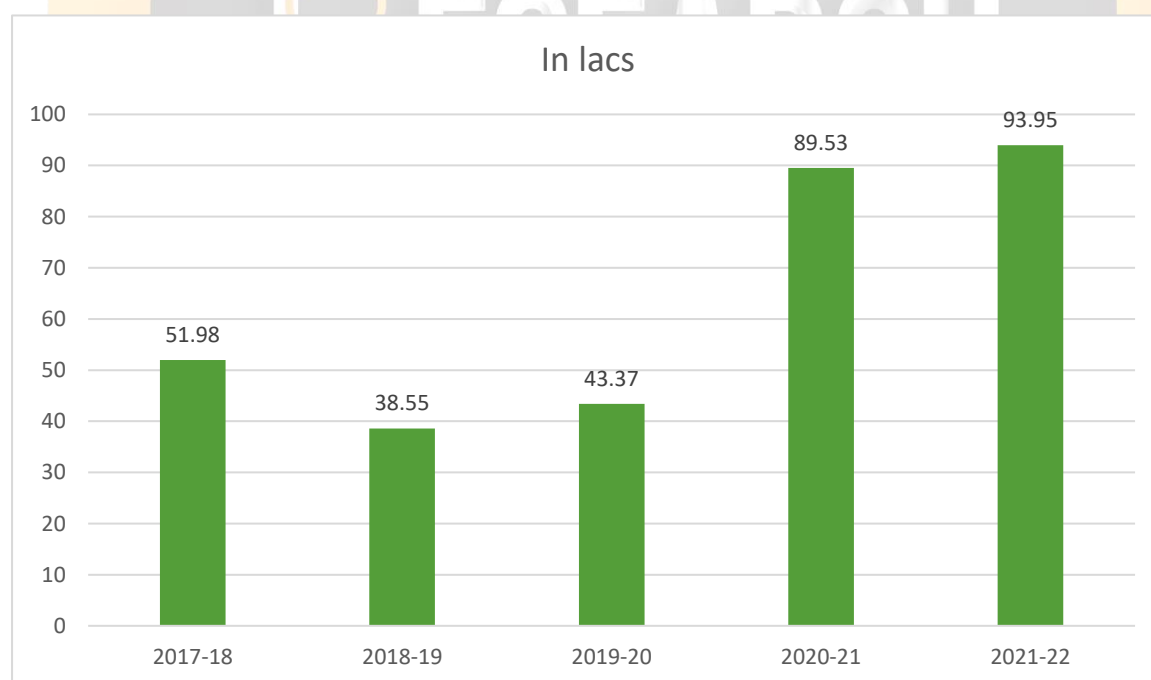
Table: 4.1 Performance of SSI/ MSME : Year wise Registrations & Investments in

<i>S. no.</i>	<i>Year</i>	<i>Total registered enterprises</i>	<i>Investment (in Rs.)</i>
1	2015-16	494504	18,523,510
2	2016-17	2364798	30,316,397
3	2017-18	1516908	21,895,910
4	2018-19	2119744	28,923,104
5	2019-20	2562258	32,096,519
6	2020-21	4697024*	28,718,176*

**estimated*

MSME Source: Udyog Aadhaar Memorandum (Gov. of India)

Chart 4.2 Contribution of Registered MSME in employment



Source: <https://pib.gov.in/PressReleasePage.aspx?PRID=1805853>

Table 4.3: Share of Gross Value Added (GVA) of MSME in all India GDP

<i>Figures in Crores</i>						
<i>Year</i>	<i>Total MSME GVA</i>	<i>Growth (%)</i>	<i>Total GVA</i>	<i>Share of MSME in GVA (%)</i>	<i>All India GDP</i>	<i>Share of MSME in all India GDP (%)</i>
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

Table 4.4: Contribution of MSME in total exports

<i>Year</i>	<i>Share in total exports</i>
2021-22	45.04%
2020-21	49.35%
2019-20	49.75%

Source: [financialexpress.com](https://www.financialexpress.com)

4.3 CENTRAL GOVERNMENT ROLE (DIRECT BENEFIT SCHEMES) FOR THE DEVELOPMENT OF MSME's:

All welfare and subsidy schemes of Governments of India have been brought under Direct Benefit Transfer (DBT) with the aim of improving delivery system by re-engineering the existing process for welfare and subsidy schemes, for simpler and faster flow of funds and to ensure accurate targeting of the beneficiaries, de-duplication and reduction of fraud. A nodal point for the implementation of the DBT programmes, DBT cell have been constituted in the Ministry. The schemes have been categorized based on the benefit type to the beneficiary's i.e., Cash, Kind or Composite (i.e. Cash and Kind). Below is the table showing the main DBT schemes of the Ministry with the benefit

type, number of beneficiaries and total funds transferred / expenditure 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

Source: MSME Annual Report 2021-22 (Govt of India)

4.4 Highlights of Budget 2021-22 for MSME Sector

- *Budget Allocation for FY 2021-22 for the MSME more than doubled to Rs.15700 crore vis a vis Rs.7572 crore in 2020-21.*
- *Review of more than 400 old custom duty exemptions this year.*
- *Rationalising exemptions on import of duty free items as an incentive to exporters of garments, leather and handicraft items.*
- *Provisions for earlier announced Atma Nirbhar schemes (viz. Credit Guarantee Scheme for Subordinate Debt to MSMEs and Fund of Funds) to provide much needed financial security and accessibility.*
- *To reduce compliance burden, limit increased from tax audit from 5 crore to 10 crore.*

5. CHALLENGES OF MICRO, SMALL AND MEDIUM SCALE ENTERPRISES IN INDIA:

In the current economic slowdown MSME sector has been hit very hard due to various reasons such as:

- *Raising interest rates and financial crunch*
- *Small size and capacity of the firms*
- *Lack of awareness leading to under-utilization of capacity*
- *Inadequate and untimely credit flows*
- *Inability to upgrade technology*
- *Insufficient raw-material procurement*
- *Inability to market finished goods*
- *Ineffective monitoring and feedback mechanism*

Increasing competition and globalization, along with the need to produce quality products at best prices, have prompted the industry to introduce new product development methods with modern technology. The need to evolve technologically superior methods of product development holds true, especially for players in the MSME segment. The Micro, small and medium enterprise sector is widely regarded as the engine of the Indian economy. Micro, Small and medium enterprises (MSME) contribute to the industrial, economic, technological and regional development in all developed and developing countries. The MSME sector also plays a significant role in the development of entrepreneurial skills and forms a substantial portion of the country's export earnings. The contribution of MSME's in the industrial development of the country has been remarkable. There are many institutes that currently support MSMEs at the national and state level. However, Indian MSMEs have been exposed to intense Competition due to increasing globalization. This has made survival and growth of this sector difficult.

6. CONCLUSION

As a result of globalization and liberalization, MSMEs have been passing through a transitional period. With enhanced competition from China and a few low cost centers of production from abroad many units have of late been facing a tough time.

However, those MSMEs who had a strong technological base, international business outlook, competitive spirit and willingness to restructure themselves withstood the current challenges and came out successful to make their own contribution to the Indian economy. It is the most important employment-generating sector and is an effective tool for promotion of balanced regional development. It is these features of MSMEs that make them an ideal target for technological upgradation through technological cooperation with foreign and local enterprises, with R&D institutions and centres of technology development. So, what these MSMEs need today is primarily access to new technology. Poor financial situations and low levels of R&D, poor adaptability to changing trade trends, non-availability of technically trained human resources, lack of management skills, lack of access to technological information and consultancy services and isolation from technology hubs, etc. are some of the reasons why these MSMEs are not being able to surge ahead. Micro, Small and Medium enterprises are the backbone of India's economy. They have to now work hard to get out of this impending scenario. There has to be a major change in policy on how they are operating. MSMEs have to put in more effort on research and development (R&D) and on ways to use technology at par with the international standards.

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