

A Study of MSME's in India: it's Importance and Contribution

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) are backbone of Indian economy. MSME's importance in Indian economy is significant as its contribution is notable. In past few years post covid and pandemic world recognized importance of MSMEs for sustainability of nation's economy. As a developing nation India rely on MSMEs for growth of Gross domestic product (GDP), generation of employment, growth in export. By help of MSMEs India can achieve faster inclusive growth of nation. Make in India and Aatma-nirbhar Bharat are initiatives that supports and encourage MSME's in India. As basic idea behind Make in India and Aatma-nirbhar Bharat initiatives is to promote production within India and rely less on imported products and majority of this kind of production is fall under MSMEs. This research shows importance and contribution of MSMEs in Indian economy.

Keywords: MSMEs, growth, economy, Make in India, Aatma-nirbhar Bharat,

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) is very essential for growth of socio-economic development of nation more specifically for developing countries like India. MSMEs helps in booming industrialization both in urban and non-urban area of nation. MSMEs is basically enterprises engaged in manufacture or production, processing or preservation of goods including service sector. MSMEs are classified according as a notification of

Ministry of micro, small and medium enterprises, Dated **1st June, 2020**

“criteria for classification of micro, small and medium enterprises, namely:—

- (i) a micro enterprise, where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- (ii) a small enterprise, where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees;

- (iii) a medium enterprise, where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.”

This can be easily understanding by following table

Manufacturing and Service Sector		
Enterprise Category	Investment	Turnover
Micro Enterprises	Rs 1 crore	Rs 5 crore
Small Enterprises	Rs 10 crore	Rs 50 crore
Medium Enterprises	Rs 50 crore	Rs 250 crore

*SOURCE report of new-msme-definition-turnover-2020 by razorpay

Before this notification

Summary of the Announcements made by the Government for the MSME Sector

On **13th May, 2020** suggest

“Specific to MSME Sector”

Post1

Government of India announces Collateral Free Automatic Loans worth Rs.3 lakh crores for MSMEs, with.

- 100% Credit Guarantee
- 12 Month moratorium on payment of principal
- No Guarantee Fee & Collaterals
- Tenor – 4 years
- To benefit 45 lakh MSME Units

Post2

Udyam se Udyog ka Naya Bharat! Government to support Stressed MSMEs with infusion of Rs. 20,000 crore equity support through Subordinate Debt

- Stressed MSMEs or MSMEs with NPA loans will be eligible
- More than 2 lakh MSMEs likely to be benefitted
- Government to infuse Rs.4000 crore in Credit Guarantee Trust Fund for MSEs

Post3

Big boost for the MSME Sector! Fund of Funds created to infuse equity worth Rs. 50,000 crore in the MSME Sector

- A Rs. 10,000 crore Corpus Fund created.
- To help potential MSMEs in expansion

Post4

Growth beyond leaps and bounds with new defined MSMEs - Distinction between manufacturing and services MSMEs removed. Investment limits revised upwardly. Criterion of turnover added.

Breaking the shackles of old definition, MSMEs to grow leaps and bounds

- Micro enterprises – investment upto Rs.1crore and turnover upto Rs.5 crore
- Small enterprises – investment upto Rs.10 crore and turnover upto Rs.50 crore
- Medium enterprises – investment upto Rs.20 crore and turnover upto Rs.100 crore

Post5

Local hoga Global! In a major initiative, Global tenders to be disallowed for Government tenders upto Rs.200 crore to enable MSMEs to participate in the Government procurement process.

Post6

Government of India and CPSEs to clear all receivables of MSMEs in the next 45 days

Post7

E-market linkages for MSMEs across the board to provide marketing opportunities.

Social Media Posts relating to other Announcements having positive impact on MSMEs.

Post1

Rs.2,500 crores EPF support for businesses and workers for three more months August, 2020. This will benefit more than 3.5 lakh units and 72 lakh employees.

Post2

Special Liquidity Scheme for Non-Banking Financial Companies, Micro-Finance Institutions, Housing Finance Companies worth Rs.30,000 crore.

Post3

To cater to liquidity needs of MSMEs, Partial Credit Guarantee Scheme 2.0 for NBFCs worth Rs.45000 crore introduced. Government of India to bear the first 20% of loss.

Post4

Major Relief to Contractors All Central Agencies like Railways, Ministry of Road Transport & Highways, Central Public Works Dept, etc. to grant extensions of contracts up to 6 months without costs to contractor.

Post5

Expediting refunds to partnerships, proprietorship & LLPs will help the MSMEs immensely.”

Before this notification, **The micro, small and medium enterprises development act 2006** suggest following kind of classification

“in the case of the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951, as-

- (I) a micro enterprise, where the investment in plant and machinery does not exceed twenty-five lakh rupees;
- (ii) a small enterprise, where the investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees; or
- (iii) a medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;
- (b) in the case of the enterprises engaged in providing or rendering of services,
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as-

- (I) a micro enterprise, where the investment in equipment does not exceed ten lakh rupees;
- (ii) a small enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or
- (iii) a medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees”

This can be easily understanding by following table issued in MSME annual report.

Manufacturing Sector	
Enterprise Category	Investment in plant & machinery
Micro Enterprises	< or = Rs 25 lakh
Small Enterprises	> Rs 25 lakh < Rs 5 crore
Medium Enterprises	> Rs 5 crore < Rs 10 crore
Service Sector	
Enterprise Category	Investment in equipment
Micro Enterprises	< or = Rs 10 lakh
Small Enterprises	> Rs 10 lakh < Rs 2 crore
Medium Enterprises	> Rs 2 crore < Rs 5 crore

*SOURCE report of new-msme-definition-turnover-2020 by razorpay

Objective of Study

Main objective of this research is to

- To study growth of MSMEs in India.
- To study reforms and government policy.
- To understand importance and role of MSMEs in Indian economy.
- To observe contribution of MSME.
- To study challenges faced by MSMEs.

Research Methodology

Research is based on secondary data. Data is collected from various articles from various websites, Government announcements and annual report of MSMEs. Data from The gazette of India is also used for this research.

IMPORTANCE OF MSME

1. Economic stability:

MSME has significance in economic growth as it not only contributes to GDP but also contribute in production which brings higher export. It also generates employment.

2. Low Labor cost:

MSME requires less labor and it does not need a highly skilled laborer. Therefore, the indirect expenses incurred by the owner is also low.

3. Easy and Simple Management Structure:

MSME does not requires complex organizational structures like large enterprises it simply requires limited resources within the control of the owner due to which decision making gets easy and efficient.

4. Government support to MSME:

“Make in India” and Atma-Nirbhar Bharat are initiatives that are backed by prime minister and government is strongly supporting MSMEs.

CONTRIBUTION OF MSMEs

Employment:

MSME requires low capital for startup new business which provide employment at large scale in India.

As per the National Sample Survey (NSS) 73rd round,MSME sector has been creating 11.10 crore jobs which is shown below category wise

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Electricity*	0.06	0.02	0.07	0
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
All	497.78	612.10	1109.89	100

*Non-captive electricity generation and transmission

Source: MSME annual report 2020-21.

Industry and Export:

With over 63 million MSMEs, the sector covers 80% of the industries in the country, and contributes to 45% of exports of nation.

Product:

MSMEs had around 47 items in 1967, which was increased to 504 items by 1978.

This sector produces over 7500 items in India according to report of dcmsme government of India.

Gross domestic product(GDP)

The Indian MSME Sector Contributes About 29% Towards The GDP according to report of MSME industry in India by IBEF.

CHALLENGES FACED BY MSME

- Loan borrowing process is lengthy and absence of knowledge of government policy and reforms leads new entrepreneurs face challenges in raising funds.
- Multinational companies can provide good quality product at lower price is challenge to MSMEs.
- Due to lack of infrastructure overall production reduces so lack of infrastructure or poor infrastructure is concern in growth of MSMEs.
- Due to unavailability of raw material and work force production cost increases which creates difficulty in competitive market.
- MNS can use advance technology for production but MSMEs lack in advance technology which is challenge for new MSMEs.
- Due to lack of marketing and advertisement MSMEs growth is constrain which is challenge for MSME.

CONCLUSION

Indian MSME sector is playing vital role in employment generation in urban as well as rural areas. MSME products are in both manufacturing and service sectors which contributes in GDP and which helps in boosting Indian economy. Post pandemic and lockdown MSME sector is facing challenges but positive approach of government is supporting sector to regain its position and to grow further. Atma-nirbhar Bharat and Make in India initiatives are focusing more on manufacturing in India and reduce imports which ultimately pushes MSMEs. In addition, government also established Atal incubation centers(AICs) under Atal innovation mission at leading educational institutes like IITs, IIMs for promoting innovation and entrepreneurship according to Startup India. This kind of constructive actions help MSMEs in achieving new heights.

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