



# CONTRIBUTION OF MSMEs IN THE INDIAN ECONOMY

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## ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) form the backbone of the Indian economy, contributing significantly to GDP, exports, and employment. With over 63 million MSMEs operating across diverse sectors, they account for approximately 30% of India's GDP and 45% of total exports. This paper explores the multifaceted contributions of MSMEs to the Indian economy, including their role in fostering entrepreneurship, driving rural development, and promoting inclusive growth. Additionally, it highlights the challenges faced by MSMEs and discusses policy measures to enhance their contribution. Through a detailed analysis of statistical data and case studies, this paper underscores the importance of MSMEs in achieving sustainable economic growth in India.

## 1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) in India have emerged as a critical sector for economic development. They provide significant employment opportunities, foster industrialization in rural and backward areas, and contribute to national and regional economic growth. With their adaptability and resilience, MSMEs are key to addressing challenges such as unemployment and income inequality.

This paper delves into the contributions of MSMEs to the Indian economy, focusing on their impact on GDP, employment generation, exports, and innovation. It also examines the challenges they face and suggests strategies to enhance their growth and sustainability.

## 2. DEFINITION AND CLASSIFICATION OF MSMEs IN INDIA

The classification of MSMEs in India was revised in 2020 under the Atmanirbhar Bharat Abhiyan. The criteria now include both investment in plant and machinery or equipment and annual turnover:

- **Micro Enterprises:** Investment up to ₹1 crore and turnover up to ₹5 crore.
- **Small Enterprises:** Investment up to ₹10 crore and turnover up to ₹50 crore.
- **Medium Enterprises:** Investment up to ₹50 crore and turnover up to ₹250 crore.

This classification aims to encourage the growth of enterprises and provide a more inclusive framework for government support.

## 3. CONTRIBUTION TO GDP

### 3.1 Sectoral Contributions

MSMEs operate across manufacturing, services, and trade sectors, contributing significantly to India's GDP:

- **Manufacturing Sector:** MSMEs account for around 30% of the manufacturing sector's GDP. They play a vital role in producing goods such as textiles, food products, and engineering components.
- **Services Sector:** MSMEs in the services sector have grown rapidly, particularly in areas such as retail, logistics, and IT-enabled services.
- **Agriculture and Rural Economy:** MSMEs contribute to value addition in agriculture through agro-processing and rural industrialization.

### 3.2 Export Contribution

MSMEs are vital to India's export performance, contributing around 45% of total exports. Key sectors include handicrafts, gems and jewellery, textiles, and engineering goods.

### 3.3 Regional Development

By establishing industries in rural and semi-urban areas, MSMEs promote balanced regional development, reduce migration to urban centers, and generate economic activity in underdeveloped regions.



## 4. EMPLOYMENT GENERATION

### 4.1 Employment Statistics

MSMEs are the second-largest source of employment in India after agriculture, providing jobs to over 120 million people. They play a critical role in absorbing the growing labor force in both urban and rural areas.

### 4.2 Inclusive Employment

MSMEs employ a significant number of women, youth, and marginalized groups. Women-led MSMEs, in particular, contribute to gender equality and economic empowerment.

### 4.3 Skill Development

MSMEs act as training grounds for the workforce, offering opportunities for skill development and entrepreneurship. Initiatives such as "Skill India" align closely with the needs of the MSME sector.

## 5. ROLE IN PROMOTING INNOVATION AND ENTREPRENEURSHIP

### 5.1 Fostering Innovation

MSMEs drive innovation by developing cost-effective solutions tailored to local needs. Their agility allows them to adopt and implement new technologies quickly, contributing to industrial growth.

### 5.2 Supporting Startups

The MSME sector serves as a foundation for startups, providing resources and a collaborative ecosystem. Government initiatives such as "Startup India" aim to strengthen this synergy.

### 5.3 Encouraging Rural Entrepreneurship

MSMEs promote rural entrepreneurship by utilizing local resources and skills, thus enhancing the rural economy's productivity.

## 6. CHALLENGES FACED BY INDIAN MSMEs

1. **Access to Finance:** Limited access to formal credit, high-interest rates, and stringent collateral requirements hinder MSME growth.
2. **Technological Gaps:** A lack of access to modern technologies reduces productivity and competitiveness.
3. **Regulatory Hurdles:** Complex compliance requirements and frequent policy changes add to operational costs.
4. **Market Access:** Competition from larger firms and limited exposure to global markets restrict the growth potential of MSMEs.
5. **Workforce Challenges:** High attrition rates and skill gaps are prevalent in the sector.
6. **Infrastructure Deficiencies:** Poor infrastructure, particularly in rural areas, hampers the efficiency of MSMEs.

## 7. POLICY INTERVENTIONS AND SUPPORT MEASURES

1. **Financial Support:** Schemes such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) provide collateral-free loans.
2. **Skill Development:** Initiatives such as the "Pradhan Mantri Kaushal Vikas Yojana" focus on skilling the workforce to meet industry demands.
3. **Digital Transformation:** The Digital India program encourages MSMEs to adopt digital tools and platforms, enhancing their efficiency and market reach.
4. **Export Promotion:** The "Zero Defect Zero Effect" scheme incentivizes quality manufacturing for export markets.
5. **Ease of Doing Business:** Simplifying registration and compliance processes through the Udyam Registration Portal.
6. **Cluster Development:** Encouraging the development of MSME clusters to promote economies of scale and innovation.

## 8. CASE STUDIES

### 8.1 Textile Industry in Tamil Nadu

MSMEs in Tamil Nadu's textile sector have significantly contributed to exports and local employment, particularly in rural areas.



### 8.2 IT-enabled Services in Bengaluru

MSMEs in Bengaluru's IT sector have driven innovation and created thousands of high-skill jobs, contributing to India's reputation as a global IT hub.

### 8.3 Handicrafts in Rajasthan

Handicraft MSMEs in Rajasthan showcase traditional art and culture while contributing to exports and tourism.

## 9. FUTURE OUTLOOK

The future of Indian MSMEs lies in their ability to leverage technology, access global markets, and integrate into global value chains. Policy reforms aimed at enhancing financial inclusion, skilling the workforce, and promoting innovation will be crucial in realizing the sector's full potential.

## 10. CONCLUSION

MSMEs are vital to India's economic growth, contributing significantly to GDP, employment, and exports. By fostering entrepreneurship, promoting regional development, and addressing social inequities, MSMEs serve as a catalyst for inclusive development. However, addressing the challenges they face requires concerted efforts from policymakers, industry stakeholders, and financial institutions. A supportive ecosystem that prioritizes innovation, skill development, and market access will enable MSMEs to play an even greater role in India's journey toward becoming a \$5 trillion economy.

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