

UNLEASHING THE POTENTIAL OF MSMEs: CONTRIBUTION TO INDIA'S ECONOMIC EXPANSION

Dr. Geetanjali Shrivastava

Associate Professor, The Bhopal School Of Social Sciences

Mr. Sahil Sahu

Student, The Bhopal School Of Social Sciences

ABSTRACT

This paper analyzes the distribution and key characteristics of Micro, Small, and Medium Enterprises (MSMEs) in India, with a focus on factors such as ownership type, urban-rural employment distribution, and recent trends in MSME registrations. Urban areas employ 55% of the MSME workforce, which translates to 612.10 lakh people, while rural areas contribute 45% with 497.78 lakh jobs. This urban-rural employment distribution highlights the significant role both sectors play in driving MSME sector growth and employment.

The analysis also delves into the registration trends of new MSMEs, a critical indicator of the sector's expansion and the business environment's health. The number of MSMEs being established indicates the level of entrepreneurial confidence and the availability of a conducive environment for business growth. Data from Udyam Registration provides a detailed overview of MSME registrations and employment generation, shedding light on the concentration of MSMEs in specific states and Union Territories. The turnover range of MSMEs, as defined by the updated MSME classification, is also presented, offering insights into the economic scale of these enterprises.

Furthermore, the paper explores the historical and current challenges faced by MSMEs, alongside a discussion on the future outlook for the sector. Key challenges include access to finance, regulatory hurdles, and infrastructure deficiencies. Finally, the recent measures announced in the 2024 Budget for MSMEs are examined, which aim to address these challenges and support the sector's continued growth. These measures are designed to foster a more favorable environment for MSMEs, contributing to their long-term success and resilience in the economy.

Keywords : MSME Distribution, Urban-Rural Employment, Entrepreneurial Confidence, Udyam Registration, Challenges & Future Outlook

INTRODUCTION

MSME stands for Micro, Small, and Medium Enterprises. Such businesses are the foundation of many economies, including India's, and play an important role in promoting economic development, job creation, and entrepreneurship.

- Micro Enterprises: They are the smallest type of businesses involved in the manufacturing and service sector, typically with fewer than ten employees. They function on a small scale and demand less capital.
- Small Enterprises: These business enterprises, slightly bigger than micro-enterprises, and usually employ 10 to 50 people in the manufacturing and service sectors. When compared to micro-enterprises, they demand a larger amount of investment.
- Medium Enterprises: These are bigger companies with 50–250 workers in manufacturing or 50–100 workers in services. Compared to tiny and micro businesses, they require a lot more investment.

MSME DEVELOPMENT ACT, 2006

- The Micro, Small, and Medium Enterprises Development Act, 2006 is a comprehensive law aimed at supporting and regulating small businesses. It officially came into effect in October 2006.
- The act was introduced to simplify legal requirements for small businesses. The Abid Hussain Committee and the S.P. Gupta Study Group had recommended creating a legal framework to reduce the burden of excessive regulations on small enterprises.
- The goal of the act is to help small businesses grow into medium-sized enterprises by providing proper government support and a structured legal framework.
- To boost the growth, development, and competitiveness of micro, small, and medium-sized businesses, the government implemented this act.

MSME CLASSIFICATION

- A micro enterprise is a small business with an annual revenue of less than ₹5 crore and an investment in machinery or equipment of less than ₹1 crore.
- A small firm is defined as one that generates less than ₹50 crore in revenue annually and invests up to ₹10 crore in machinery or equipment.

- A medium enterprise is a larger company with an annual sales of ₹250 crore or less and an investment in machinery or equipment of up to ₹50 crore.

This notification shall come into effect from 01.07.2020.

ROLE OF MSME IN INDIAN ECONOMY

MSMEs play an important role in promoting entrepreneurship and business innovation. They are developing in a variety of industries, creating a diverse range of goods and services to meet domestic and worldwide market demand.

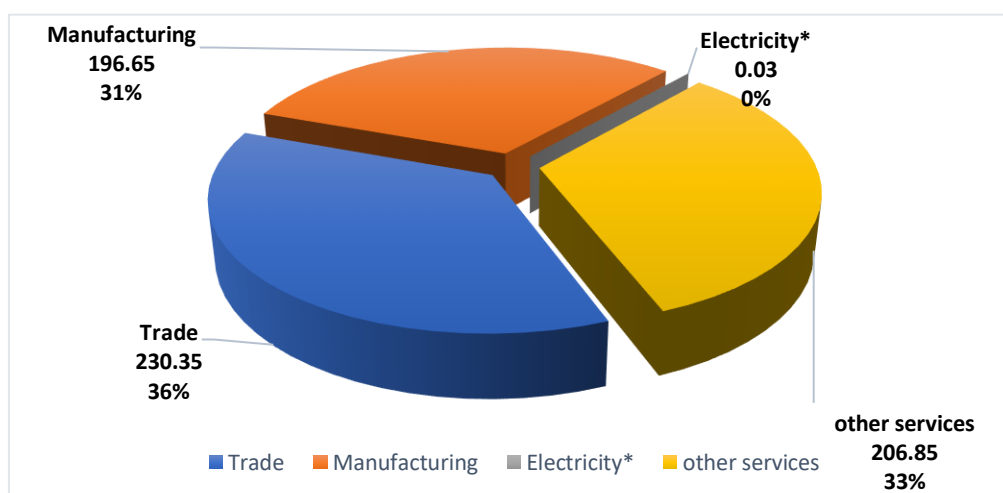
In India, MSMEs are critical for job development since they provide employment prospects at a lower investment cost than major enterprises. They also encourage industrial development in rural and underdeveloped regions, which helps to eliminate regional disparities and provide a more equitable distribution of income and wealth.

KEY FINDINGS FROM THE NSS 73RD ROUND SURVEY (2015-16) ON MSMES

According to the 73rd round of the National Sample Survey (NSS) conducted by the National Sample Survey Office under the Ministry of Statistics & Programme Implementation in 2015-16, India had around 633.88 lakh unregistered, non-agriculture MSMEs involved in a variety of business activities. They included:

- Trade – 230.35 lakh MSMEs
- Manufacturing – 196.65 lakh MSMEs
- Non-captive Electricity Generation & Transmission – 0.03 lakh MSMEs
- Other Services – 206.85 lakh MSMEs

These figures eliminate MSMEs registered under the Factories Act (Sections 2m(i) and 2m(ii)), the Companies Act (1956), and building operations categorized under Section F of



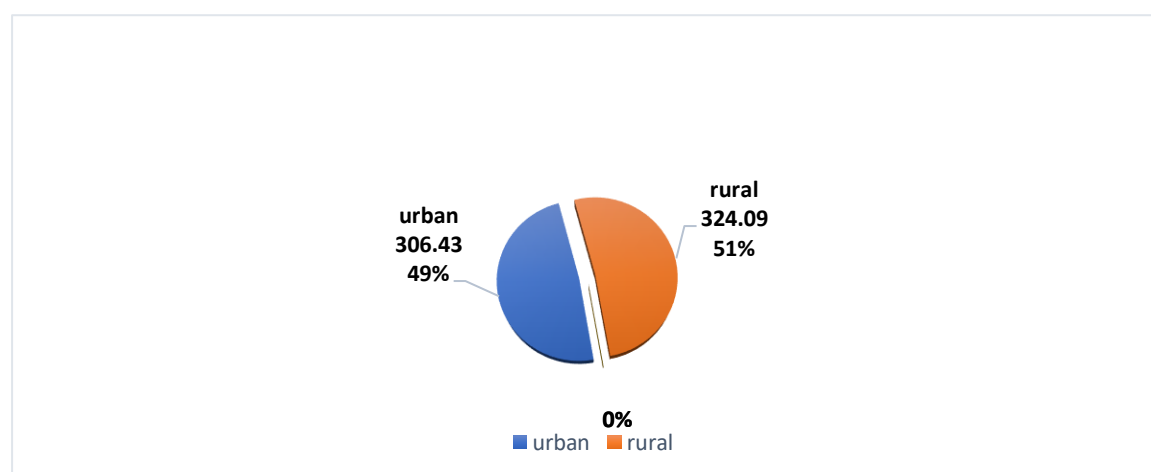
the National Industrial Classification (NIC) 2008.

Figure 1 Distributions of Estimated MSME (Nature of Activity Wise)

*Non-captive electricity generation and transmission

The micro sector has an estimated 630.52 lakh enterprises, accounting for more than 99% of all MSMEs. The Small sector accounts for 3.31 lakh MSMEs, while the Medium sector includes 0.05 lakh MSMEs, accounting for 0.52% and 0.01% of the total, respectively. Of the anticipated 633.88 lakh MSMEs, 324.88 lakh (51.25%) are in rural areas and 309 lakh (48.75%) are in urban areas. Figure 2 depicts the distribution of firms in rural and urban areas.

Figure 2: Percentage share of rural and urban MSME in the country



TYPE OF OWNERSHIP OF ENTERPRISES

Male / Female Ownership

Sole proprietorships accounted for 608.41 lakh (95.98%) of the total 633.88 lakh MSMEs. The vast majority of these enterprises were owned by men. Specifically, 79.63% of proprietary MSMEs were held by men, compared to 20.37% by women. This tendency was similar in both urban and rural areas, with male ownership slightly greater in urban areas (81.58%) than rural areas (77.76%).

Employment

According to the 73rd wave of the National Sample Survey (NSS) performed in 2015-16, the MSME sector produced 11.10 crore employment in both rural and urban India. The jobs were distributed as follows:

- 387.18 lakh in trade (35%).
- Manufacturing contributes 360.41 lakh (32%).
- 0.07 lakh for non-captive electricity generation and transmission (0%).
- 362.82 lakh in Other Services (33%).

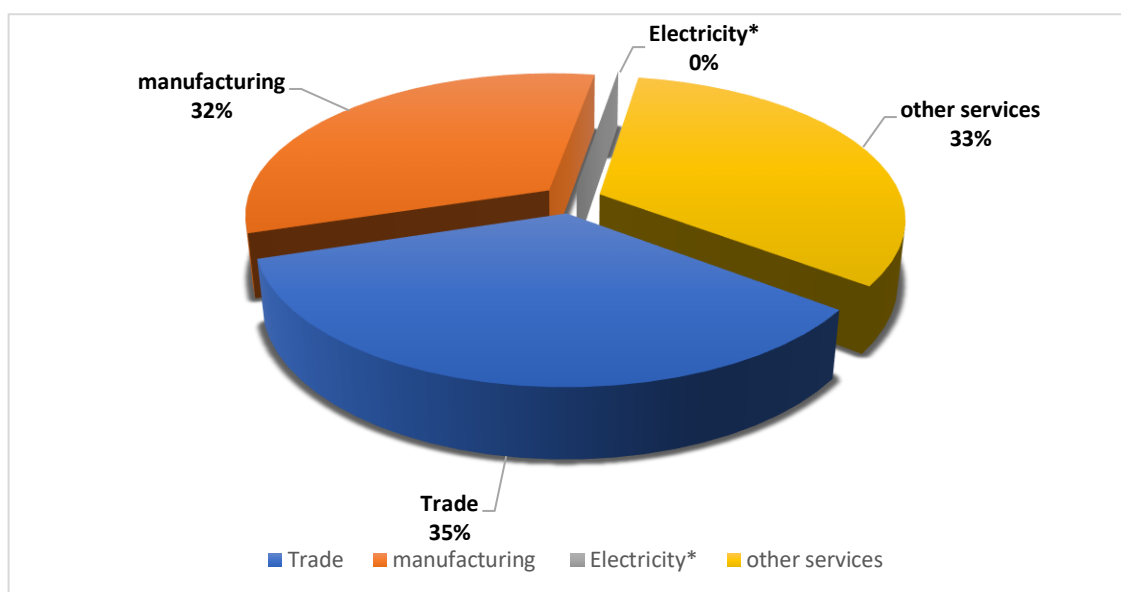


Figure 3: Distribution of employment in the MSME sector category wise

**Non-captive electricity generation and transmission*

Micro, Small, and Medium Enterprises (MSME) play an important role in creating job opportunities in both urban and rural areas. According to the MSME report 2023-24, the Micro sector accounts for the majority of businesses, with approximately 630.52 lakh enterprises. These micro-businesses employ approximately 1076.19 lakh people, representing 97% of total employment in the MSME sector.

In comparison, the Small sector includes 3.31 lakh enterprises that employ 31.95 lakh people, accounting for approximately 2.88% of total employment. The medium sector is the smallest in terms of enterprise count, with only 0.05 lakh enterprises and 1.75 lakh employees, accounting for only 0.16% of total MSME employment.

Urban vs. Rural Employment Distribution

- Urban areas employ 55% of the MSME sector's workforce (612.10 lakh people).

- Rural areas account for 497.78 lakh jobs, or 45% of total employment in this sector.

This data demonstrates that micro enterprises are the backbone of the MSME sector, creating most of the job opportunities. Furthermore, urban areas have a slight advantage over rural areas in terms of job distribution, which is most likely due to factors like improved infrastructure, market accessibility, and entrepreneurial opportunities. However, rural MSMEs continue to play an important role in creating jobs, particularly in micro and small businesses.

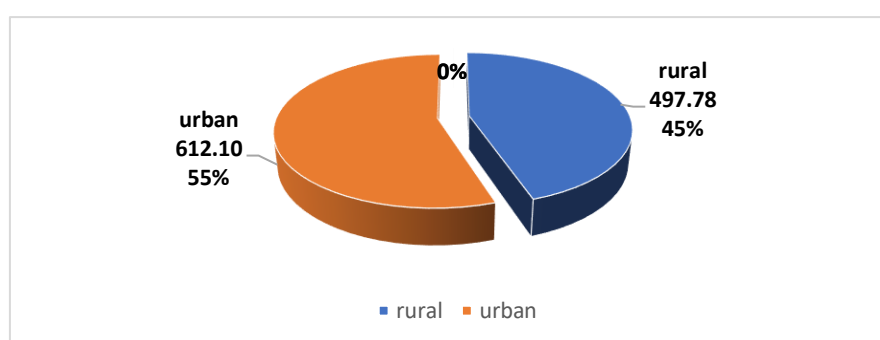
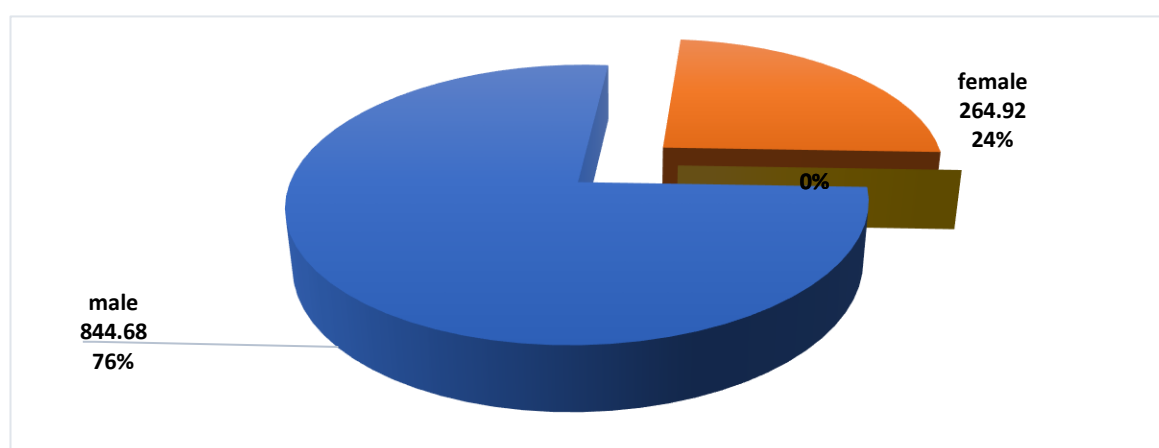


Figure 4: Percentage Share of Urban and Rural MSME in the Country (Number in lakh)

Of the 1109.89 lakh individuals engaged in the MSME industry, 844.68 lakh (76%) are males, while 264.92 lakh (24%) are female. Figure 5 shows a thorough distribution of male and female workers across different sectors.

Uttar Pradesh has the greatest number of MSMEs in India, accounting for 14.20% of the total. The top ten states accounted for 74.05% of total MSMEs in the country. Figure 6 illustrates a thorough analysis of MSME distribution throughout these states.

Figure 5: Distribution of workers in Male and Female Category



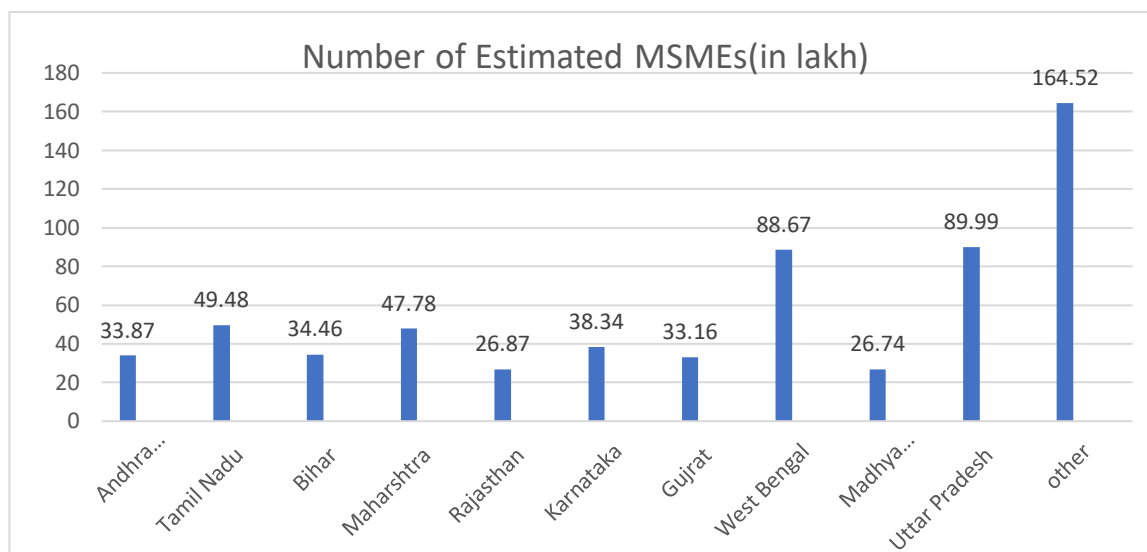


Figure 6: Distribution of MSME in Top Ten States

REGISTRATION OF NEW MSME

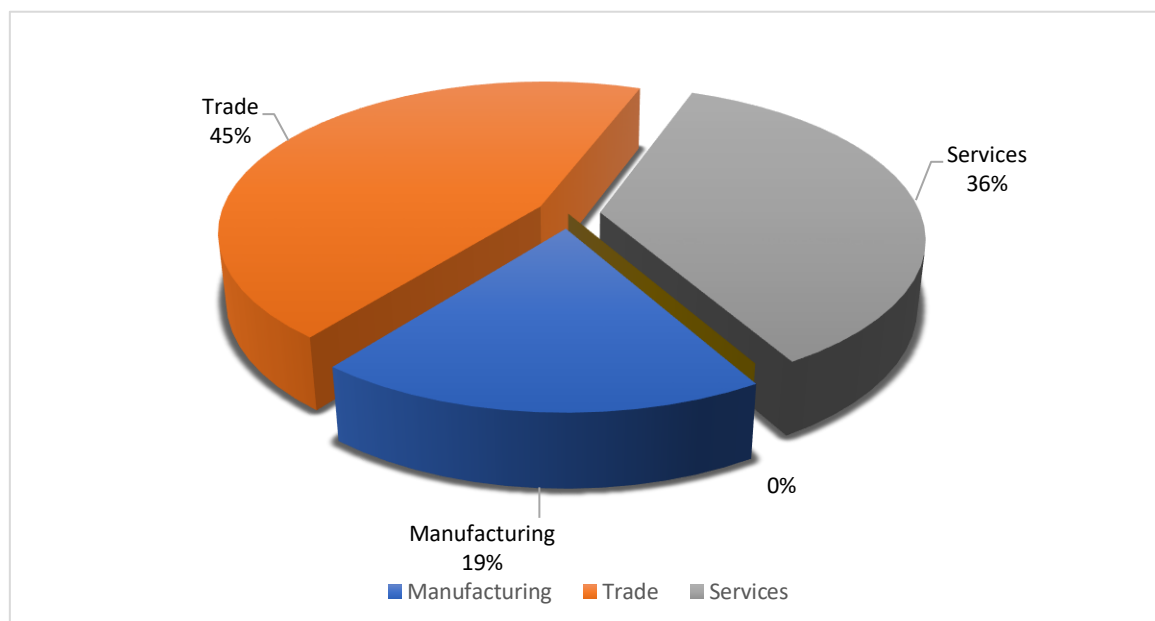
The number of new MSMEs developed in an economy is a vital indicator of the sector's successful development. This demonstrates how conducive the atmosphere is for beginning and growing such enterprises, as well as entrepreneurs' confidence in the country's general economic situation.

Prior to the implementation of the MSMED Act in 2006, small-scale industrial firms were required to register with District Industries Centers. With the enactment of the Act, MSMEs were obliged to file an Entrepreneurs Memorandum (Part-I) with the DIC before beginning operations. Once production started, they had to submit an Entrepreneurs Memorandum.

On June 26, 2020, the Ministry replaced the old Udyog Aadhaar Memorandum method with an online 'Udyam' registration mechanism. This gateway allows existing and new businesses to register online at the Udyam Registration gateway. On January 11, 2023, the Ministry of MSME and SIDBI launched the Formalization Project for Informal Micro Enterprises (IME). This initiative uses the Udyam Assist Platform to help informal micro-enterprises without a PAN become fully recognized.

The examination of Udyam Registration, which includes IMEs registered on UAP, sheds light on the distribution of MSMEs across manufacturing, services, and trading sectors. Notably, MSMEs in the trading and service sectors account for a bigger share of Udyam registrations than those in manufacturing. The breakdown is illustrated in Figure 7.

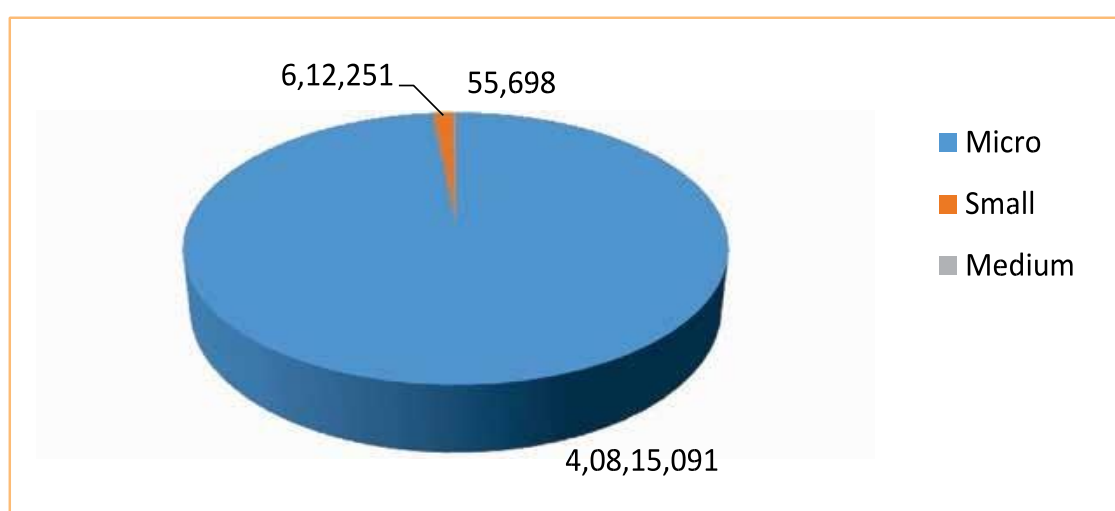
Figure 7: Share of Udyam Registration including Informal Micro Enterprises on UAP:



Manufacturing, Services and Trading as on 31st March, 2024.

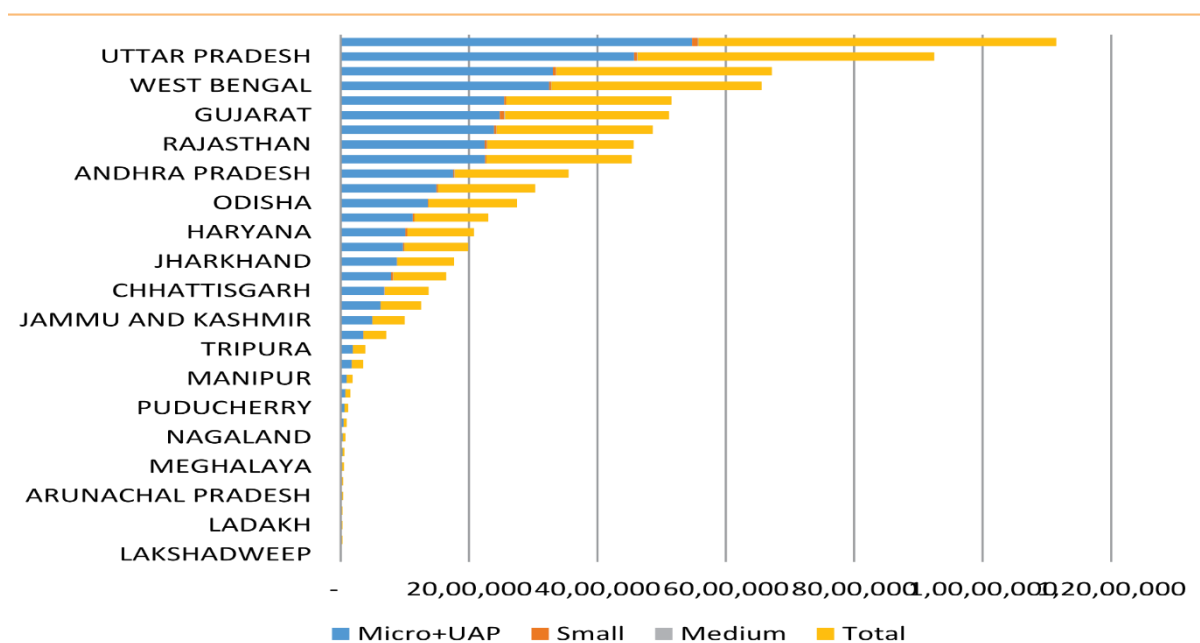
Figure 8 shows the distribution of Udyam registrations, including Informal Micro Enterprises (IME) registered on the Udyam Assist Platform (UAP), as of March 31, 2024. The data clearly reveals that Micro Enterprises account for the majority of registered enterprises, followed by Small Enterprises, while Medium Enterprises account for the smallest number. This demonstrates the dominance of Micro Enterprises in the MSME sector.

Figure 8: illustrates the distribution of Udyam registrations



An analysis of MSME registrations reveals that a significant portion is concentrated in a few states. Figure 9 presents the distribution of registrations across all major states and Union Territories as of March 31, 2024.

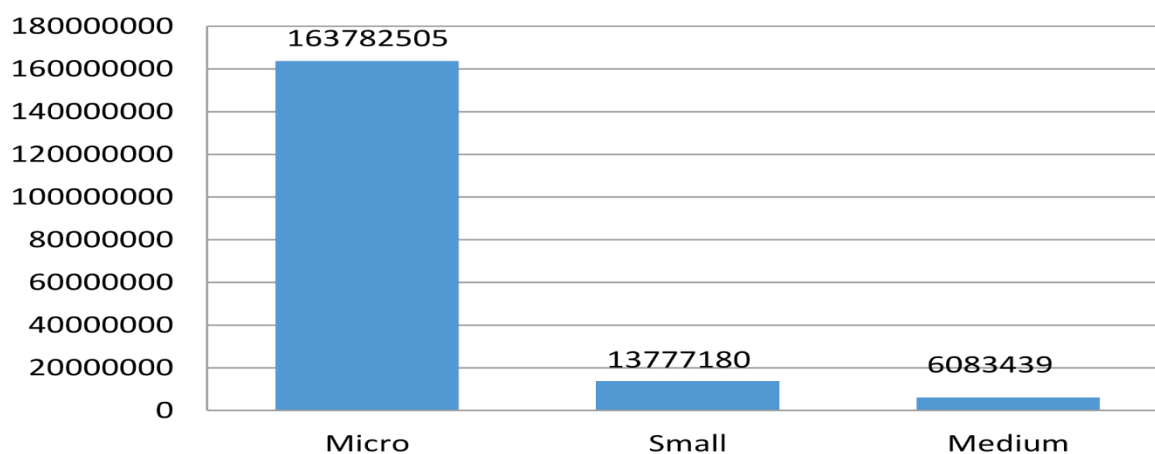
Figure 9: State-wise Distribution of Udyam Registration including Informal Micro



Enterprises on UAP as on 31st March, 2024

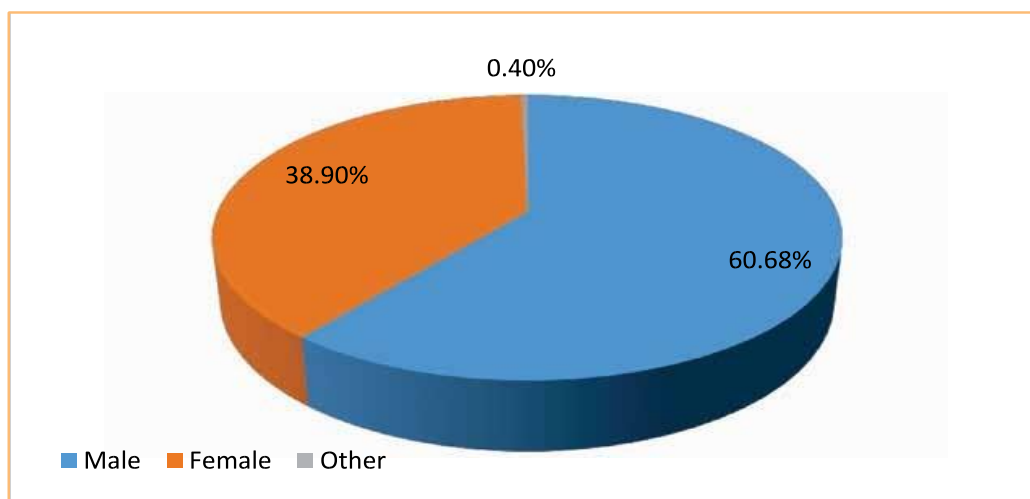
Udyam Registration, which includes IME on UAP, also collects employment data from Micro, Small, and Medium Enterprises. Figure 10 depicts the distribution of employment generated by these firms as of March 31, 2024.

Figure 10: Distribution of employment generated by these enterprises as of March 31, 2024



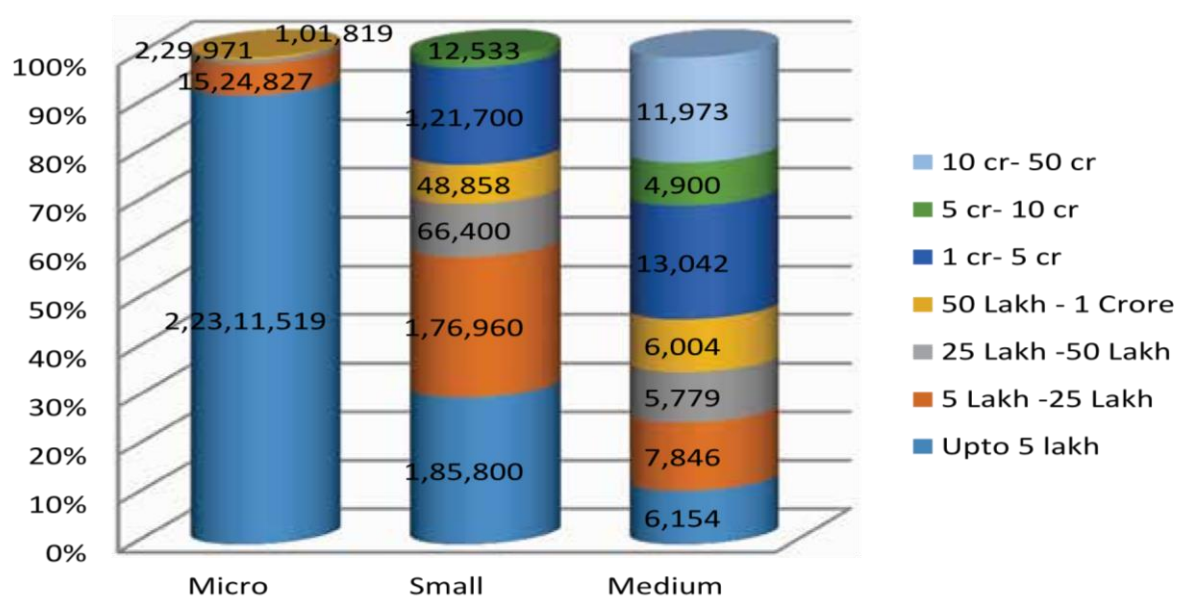
Udyam Registration, including IME on UAP, also records the gender-wise distribution of enterprises. Figure 11 presents this distribution as of March 31, 2024.

Figure 11: Gender wise distribution of Udyam Registration
 (including Informal Micro Enterprises on UAP) as on 31st March, 2024.



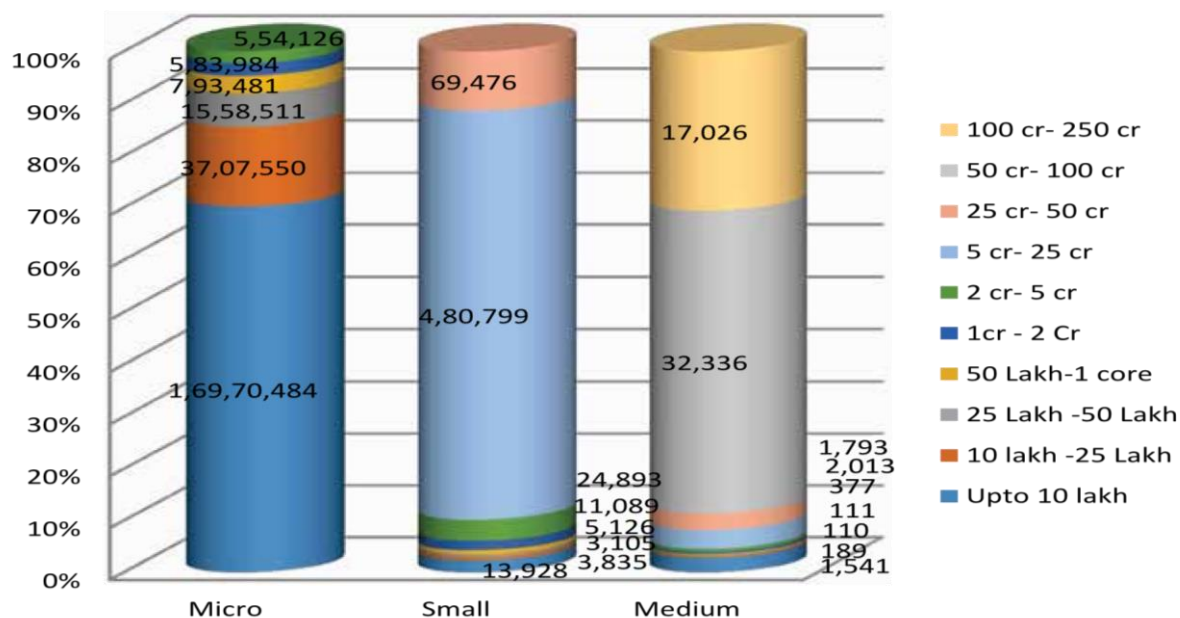
Udyam Registration also includes data on the investment range of MSMEs based on the revised MSME definition.

Figure 12: Investment range of MSME as per Udyam



Udyam Registration also includes details on the turnover range of MSMEs based on the updated MSME definition.

Figure 13: Turnover range of MSME as per Udyam as on 31st March, 2024.



SMES OF PAST, PRESENT AND FUTURE SCENARIO

A. PAST SCENARIO

Small industries in India have faced growing competition due to several factors:

1. Liberalization of Investment Policies (1990s) – The Indian government eased investment rules to attract foreign direct investment (FDI), increasing competition from global businesses.
2. WTO Mandates (1995) – India, as a member of the World Trade Organization (WTO), had to reduce trade restrictions, allowing more imports and exposing local industries to international competition.
3. Domestic Economic Reforms – Changes in economic policies created a more open market, forcing small industries to adapt and stay competitive.

These factors have significantly impacted the small industry sector, making it essential for businesses to innovate and compete to survive.

B. PRESENT SCENARIO

The MSME sector is considered as the backbone of the Indian economy, contributing 45% of industrial output and 40% of exports. It employs 60 million people, generates 1.3 million new jobs annually, and produces over 8,000 high-quality products for both domestic and international markets.

With 30 million SMEs in the country, 12 million more people expected to join the workforce in the next three years, the sector is growing at a steady rate of 8% annually. To boost its global competitiveness, the Indian government is implementing various supportive measures.

India's market is expanding rapidly, with significant progress in key industries such as manufacturing, precision engineering, food processing, pharmaceuticals, textiles, retail, IT, agriculture, and services. SMEs are continuously exploring opportunities to grow and expand their operations in these core sectors.

Small and Medium Enterprises (SME) play an important role in India's economy. Here are a few essential facts:

- SMEs account for 40% of the country's overall industrial output.
- India has 11 million SME entities producing over 8,000 items.
- Small and medium-sized enterprises (SMEs) account for 90% of India's industrial units.
- SMEs generate 35% of the country's industrial exports.

Factors Driving SME Growth

- Increased funding from both domestic and international investors has helped SMEs expand.
- Technological advancements have improved efficiency and productivity in the sector.
- SMEs require low initial and ongoing investment, making it easier for entrepreneurs to start and sustain businesses.
- Government and private banks now actively support SME businesses with financial aid.

- The sector plays a significant role in domestic production and exports, with several major mergers and acquisitions strengthening its impact.

With continuous growth and strong government support, SMEs remain a key driver of India's industrial and economic development.

C. FUTURESCEANARIO

The Indian government is implementing various strategies to enhance the global competitiveness of SMEs. Several key factors have contributed to their growth, including:

- Funding from local and foreign investors, providing financial support for SME expansion.
- Adoption of new technologies, which has helped SMEs improve efficiency and increase the value of their operations.
- Trade portals and directories, making it easier for suppliers and buyers to connect, reducing trade barriers, and promoting smoother business transactions.

These programs help Indian SMEs strengthen their footprint in domestic and international markets.

KEY CHALLENGES FACED BY MSME'S

Despite their resilience and consistent expansion, Micro, Small, and Medium-sized Enterprises (MSMEs) struggle with competitiveness due to ongoing problems. This includes:

1. Limited Access to Credit-

- High interest rates on loans and credit.
- Banks require complex collateral, making borrowing difficult.
- Lengthy and complicated loan approval processes.
- Delays in fund disbursement, affecting business operations.

2. Difficulty in Accessing Markets-

- Low adoption of quality and product standards.
- Trade and non-trade barriers limit market reach.
- Limited market intelligence, making it hard to identify potential opportunities.

3. Poor Infrastructure-

- Lack of essential facilities such as power, water, and roads, especially for MSMEs outside industrial clusters.

4. Lack of Awareness & Knowledge about Competitiveness-

- Limited information about products and services in demand.
- Weak marketing networks and poor market access.
- Lack of understanding of foreign markets and export channels.
- Low awareness of export promotion programs and trade regulations.
- Minimal knowledge about intellectual property rights (IPR) and international trade agreements.

5. Limited Access to Advanced Technology-

- Low adoption of innovative technology, leading to poor product quality and packaging.
- Struggles to meet importers' quality standards and design expectations for global markets.

6. Shortage of Skilled Workforce-

- Lack of trained workers for manufacturing, marketing, and services.
- Inability to afford highly skilled managers and entrepreneurs.
- Insufficient training in financial and resource management.

7. Complicated Documentation Process-

- Lengthy and complex paperwork required for compliance with domestic and international trade regulations.

8. Challenges in Raw Material Procurement-

- Difficulty in sourcing raw materials at competitive prices due to financial constraints.
- MSMEs purchase in small quantities compared to large industries, leading to higher costs.

These persistent challenges hinder the growth and competitiveness of MSMEs, making it essential for businesses and policymakers to find solutions for a more supportive ecosystem.

NEW MEASURES ANNOUNCED FOR MSME'S IN BUDGET 2024.

Finance Minister Nirmala Sitharaman outlined a number of initiatives to strengthen and support Micro, Small, and Medium Enterprises (MSMEs) in India. Here are the main highlights:

1. Rs. 100 CRORE CREDIT GUARANTEE SCHEME-

- A specific credit guarantee plan of ₹100 crore for MSMEs in the manufacturing sector.
- Allows MSMEs to obtain term loans for purchasing machinery and equipment without requiring collateral or third-party guarantees.
- Borrowers must pay upfront and annual guarantee fees based on loan balance reduction.

2. E-Commerce Export Support-

- E-Commerce Export Hubs will be developed through a public-private partnership (PPP).
- Helps MSMEs and traditional craftspeople sell their products in foreign markets.

3. Digital Footprint-Based Loan Assessment-

- Shifting away from asset or turnover-based loan assessments.
- Public sector banks will create a system to assess MSMEs based on their digital footprint, assisting those without formal accounting systems.
- Banks will improve internal creditworthiness assessments instead of relying on external agencies.

4. Credit Support For MSMEs Under Financial Stress-

- MSMEs struggling with loan repayments (classified as Special Mention Account - SMA) will receive credit backed by a government-supported fund.
- Helps prevent financially stressed MSMEs from becoming non-performing assets (NPAs).

5. Increased Mudra Loan Limit-

- The loan limit under the Mudra Scheme has been doubled to ₹20 lakh from ₹10 lakh.

- This is only for existing borrowers who have previously taken loans under the 'Tarun' category and repaid them.
- Current Mudra loan categories:
 - Shishu: Up to ₹50,000
 - Kishore: Up to ₹5 lakh
 - Tarun: Up to ₹10 lakh (now increased to ₹20 lakh for eligible borrowers)

6. Credit Support for MSME Clusters-

- SIDBI, India's principal financial institution for MSMEs, will establish new branches across major MSME clusters within the next three years.
- This will provide direct credit access to MSME clusters.
- 24 new branches will be opened this year, increasing coverage to 168 out of 242 major MSME clusters.

7. Increased Liquidity through TReDS -

- The turnover requirement for buyers to participate in RBI's invoice discounting platform (TReDS) has been lowered to ₹250 crore from ₹500 crore.
- This will onboard 22 more central public sector enterprises (CPSEs) and 7,000 more companies onto TReDS.
- Medium enterprises (with turnover between ₹50 crore and ₹250 crore) will now be eligible as suppliers.

8. Credit Support for Food Irradiation MSME Units-

- Financial support will be provided to establish 50 MSME units for food irradiation of various products.
- Establishing 100 NABL-accredited food quality and safety testing labs.
- Food irradiation is the process of using controlled radiation to eliminate harmful

microorganisms, insects, and parasites, thereby improving food safety and shelf life. These initiatives seek to increase credit access, expand market opportunities, improve

financial assessment, and strengthen MSME clusters, thereby making Indian MSMEs more competitive in both domestic and international markets.

CONCLUSION

The MSME sector is crucial to India's growth, offering huge potential for innovation, entrepreneurship, and job creation, which in turn drives social and economic development. While this sector has seen some success, with entrepreneurs turning creative ideas into thriving businesses, it has also revealed the many hurdles that prevent it from reaching its full potential. A major challenge is limited access to finance. Banks are often reluctant to lend to MSMEs due to factors like high administrative costs, perceived risks, incomplete or inaccurate data, and the lack of collateral. But the financing issue is just part of the picture. MSMEs also face non-financial barriers, such as limited market access, a lack of skilled workers, unreliable infrastructure, poor understanding of intellectual property rights, outdated technology, and inefficient marketing networks. All these factors contribute to high costs, putting MSMEs at a significant disadvantage compared to larger industries.

Despite these challenges, the MSME sector has the potential to play a major role in helping India become a \$20 trillion economy. To unlock this potential, however, there are key issues that need to be addressed. Despite government incentives, many MSMEs are struggling and showing signs of distress. To help the sector thrive, more needs to be done. The sector's efficiency and competitiveness can be improved through continuous technological innovation, better quality control, easier access to finance, expansion into new markets, stronger infrastructure, and improved skills development. Tackling financing alone isn't enough; there's an urgent need to build MSME capacity through associations or cooperatives, which could help them pool resources for bulk purchasing and gain more bargaining power. Only with a more holistic approach can the true potential of Indian MSMEs be realized.

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