



## An Appraisal of Indian MSMEs @21<sup>st</sup> Century

<sup>1</sup>Anjali Nath, <sup>2</sup>Manjeet Solanki,

<sup>1</sup>Research Scholar, Department of Commerce, Maharshi Dayanand University, Rohtak, India

<sup>2</sup>Research Scholar, Institute of Management Studies and Research, Maharshi Dayanand University, Rohtak, India

Email – [anjelgoswami61@gmail.com](mailto:anjelgoswami61@gmail.com), [manjeet.solanki.781@gmail.com](mailto:manjeet.solanki.781@gmail.com)

Contacts - <sup>1</sup>9671203495, <sup>2</sup>9813451973

**Abstract:** MSMEs are the backbone of the Indian economy. There has been a paradigm shift in the approach of the Government towards this sector. The introduction of globalization has expedited the supply of superior technology. Due to this, MSMEs are confronting brutal competition from MNEs and bigger domestic firms. Therefore, the present research is aimed to study the current status of Indian MSMEs in the twenty-first century. The study employs secondary data sources; a survey of existing literature, annual reports of MSMEs, news articles, and scholarly research articles from various reputed national and international journals. The study will help policymakers take initiatives for Indian MSMEs for their betterment in the future.

**Key Words:** Digital Payments, Economy, Entrepreneurship, MSME.

### 1. INTRODUCTION:

Major contributions to the nation's economic and social growth come from the Micro, Small, and Medium-Sized Enterprises (MSMEs) segment. Because it contributes to both exports and the nation's GDP (gross domestic product), the industry has grown significantly in significance in India (Deen, 2020)(1). In terms of the growth of entrepreneurial activity, this industry has also made a significant contribution; particularly in rural and semi-urban regions (IBEF). The growth and development of a developing country are floored by the development of MSMEs (Singh et al., 2012) (2). The Micro, Small, and Medium Enterprises (MSME) sector of the Indian economy has emerged as a vibrant and energizing industry during the last seven decades. These help in reducing regional disparities through industrialization in rural and backward regions and have a hand in the socio-economic development of the nation. MSMEs support the inclusive industrial growth of the nation by promoting entrepreneurship and providing ample employment opportunities. MSMEs are operating in a diverse range of products and services to address the demands of domestic and global markets. Further, MSMEs play a significant role in achieving sustainable development goals by creating employment, improving operational efficiency, engaging in Corporate Social Responsibility (CSR) activities, and adhering to rules and bylaws ethically and legitimately (Verma & Nema, 2019) (3). At present, there are approximately 6.3 Crore MSMEs in India which create 11 Crore jobs.

### MSMEs:

MSMEs are a vital segment of the Indian economy. MSME has undergone wider changes in terms of its definition. On October 2, 2006, the Micro, Small, and Medium Enterprises Development (MSMED) Act went into force. In the early stages, before 1938, SSI was comprised of small industries such as beekeeping, ivory carving, textile works, processing of food, locks, leather products, food processing, forest industries, toy manufacturing, dairy farming, perfumery, etc. After that in October 1999, the Ministry of Small-Scale Industries and Agro and Rural Industries (SSI and ARI) was founded by the Indian government which is the apex body to formulate and administer the rules and regulations regarding the village and small industries. Later with the aim of furthermore development, this Ministry was bisected into two parts in September 2001, namely the Ministry of Small-Scale Industries and the Ministry of Agro and Rural Industries with the aim of furthermore development. Ultimately on 9<sup>th</sup> May 2007, the President of India combined both Ministries into a new one which is the Ministry of MSMEs. But now all the multifarious industries, medium enterprises, and the service sector are assimilated into the MSME Act, of 2006. The revised MSME Classification is shown in the Table 1:



**Table 1**  
**MSME Classification**  
**Criteria: Investment and Annual Turnover**

Classification	Manufacturing and Service Enterprises	
	Investment	Turnover
Micro	Less than 1 Crore	Less than 5 Crore
Small	Less than 10 Crore	Less than 50 Crore
Medium	Less than 50 Crore	Less than 250 Crore

(Source: msme.gov.in)

## 2. OBJECTIVES:

1. To study the developments or achievements of the Indian MSMEs.
2. To study the role of MSMEs in the Indian Economy.
3. To identify the challenges of the Indian MSMEs.

## 3. MATERIALS AND METHODS:

The study relies on secondary data, the majority of which comes from the Ministry of Micro, Small, and Medium Enterprises' annual reports (MSMEs). Various research papers published in corresponding journals and news articles were also explored.

## 4. RESULTS AND DISCUSSION:

### 4.1 Achievements and Developments of MSMEs:

- **Udyam Registration:**

As notified on 26<sup>th</sup> June 2020, the Ministry has simplified the process of registering a business under MSME by replacing 'Udyog Adhaar Memorandum' with 'Udyam Registration' which is based on a set of composite MSMEs classification criteria. The procedural formalities to register under MSME were very complex and laborious and involved too much paperwork before the introduction of this new portal.

- **Inclusion of Retail and Wholesale Trade and Urban Street Vendors:**

Now from 2<sup>nd</sup> July 2021, retail and wholesale trades are also covered under MSMEs by the Government as well as street vendors with effect from 2<sup>nd</sup> August 2021. They can register themselves on the Udyam Registration Portal.

- **Direct Benefit Transfer:**

To reform the delivery system of the Government regarding welfare and subsidy schemes, the Government of India now covers all welfare and subsidy schemes under Direct Benefit Transfer so that benefits can be provided to accurately rate targeted beneficiaries at a faster speed. In 2018-19, the DBT Bharat Portal has been updated to include all of the Ministry of MSMEs' schemes.

- **Digital Payments:**

To streamline government delivery of welfare and subsidy programs, the Indian government has shifted all welfare and subsidy programs under Direct Benefit Transfer. This allows funds to be disbursed more quickly and to the intended beneficiaries. From the past five years after the demonetization, the Government of India, as well as the Ministry of MSMEs, has been making continuous attempts to develop a cashless economy as well and countless measures have been taken by the ministry to digitally enable the whole MSME environment. At present, all MSME offices are digitally operated. Moreover, the Ministry is making efforts to aware the MSMEs the means of digital payments; UPI, BHIM, and Bharat QR code. The Ministry of MSME received the Platinum Award in Digital India Award for empowering digital platforms for all MSME sectors. From 2022-23 up to December 2021, digital transactions of the Ministry's offices, as well as its connected offices, are 88.64 % in number and 97.67 % in terms of value.

- **My MSME:**

On 27<sup>th</sup> April 2017, in the 15<sup>th</sup> meeting of the National Board for MSME, Venkaiah Naidu launched the mobile app 'MyMSME'. This app assists MSMEs in getting information about all schemes implemented for MSMEs easily on a single platform.



- Through an agreement with the Gujarati government's Commissioner of Cottage and Rural Industries, Flipkart and the government collaborated on the Flipkart Samarth initiative. The partnership seeks to digitalize regional companies that prioritize the growth of crafts in each area and to bring back the state's ailing crafts industries.
- Financial assistance received from “Cashinvoice”, a supply chain financing platform
- MSMEs received marketing help from Sundaram Finance and the MSME Development Institute (Chennai). Under a startup program, which will provide innovators with chances to create and foster notions for the manufacture of novel items, MSMEs will receive managerial and entrepreneurial growth.
- DigiLocker is going to be set up so that big enterprises, charitable trusts, and MSMEs can securely store and share documents online.

#### 4.2 Role of MSMEs in the Indian Economy:

Micro, Small, and Medium-Sized Enterprises (MSMEs) have been instrumental in driving the growth of entrepreneurial initiatives utilizing breakthroughs (Rajeevan et al., 2015) (4). They are expanding their reach across multiple spheres of the economy and manufacturing a broad variety of goods and services that satisfy the needs of both domestic and international markets (Drishti, 2020) (5). In addition to industrializing rural and underdeveloped areas, it lowers disparities among regions and ensures an even share of wealth and income across the country (Tambe & Jain, 2024) (6). MSMEs in India serve a critical role in the country's economy by creating large job prospects at a cost that is significantly lower than that of large industries. They also give the economy the constant flow of inventions, skills, and ideas needed to foster competitiveness and the effective use of limited resources (Shukla et al., 2016) (7). Conclusively, MSMEs are crucial to the nation's economic growth because of their contributions to rural industrialization, rural development, and industry decentralization; job possibilities and more equal income distribution; and utilization of native resources; obtaining foreign exchange resources; establishing connections both forward and backward with current industries; and fostering entrepreneurial growth (Shukla et al., 2016) (7). MSMEs account for half of the nation's overall exports as well as more than 29% of the country's gross domestic product (GDP) (Dey, 2014)(8). They are also responsible for forty-five percent of India's manufacturing production (Deen, 2020) (1). As of September 2023, 45.56% of India's exports were from micro, small, and medium enterprises. Moreover, 7.56 lakh new jobs were generated in India, which is also dedicated to 75,000 officially recognized start-ups. The number of employment created annually has increased by 110% throughout the past six years (Tambe & Jain, 2024) (6). As of August 20, 2023, Maharashtra had the highest number of Udyam registrations—32.76 lakh (IBEF, 2023) (9). Tamil Nadu, Uttar Pradesh, Gujarat, and Rajasthan are the next most popular states for Udyam registrations.

#### 4.3 Employment Contribution:

MSMEs are employing a large scale and helping the government in reducing the unemployment rate and boosting the economy. As shown in the below figure till 31 Dec 2022 MSMEs have employed 9,52,58,881 people. Out of which micro-level enterprises contributed the most that is 7,82,62,228 which is 82.15% of the total employment. It shows that micro-level enterprises are the backbone of the Indian Economy.

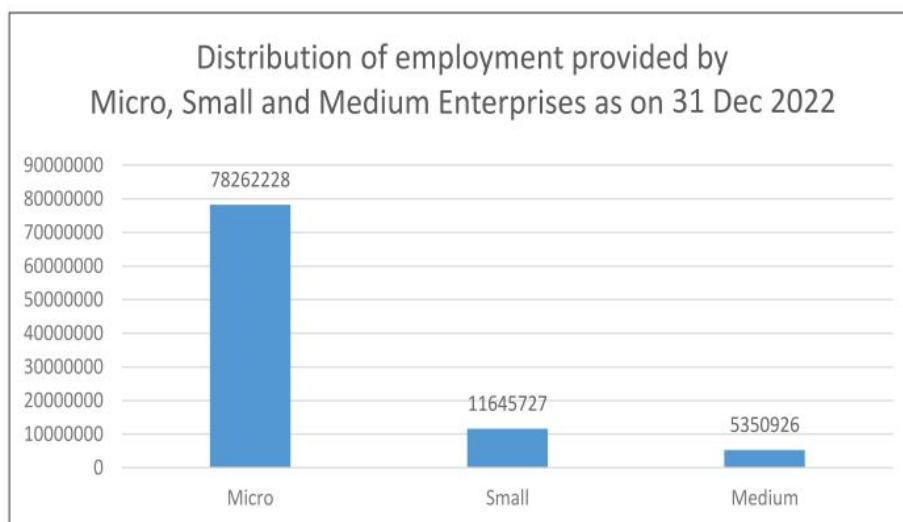


Figure: 1 (Source: MSMEs' Annual Report 2022-2023)(10)



#### 4.4 Problems or Challenges of MSMEs:

Even though the MSME sector is vital to the Indian economy, these businesses suffer several issues that limit their ability to grow. Due to their limited negotiating power, MSME's main issue is late payments. As a result, they are unable to utilize the legal protections. High-quality raw materials are hard to come by, and it's hard to find a market for their finished product (Shelly et al., 2020) (11). Further, lack of knowledge about the assistance provided by the government, the financial system, and other groups, which prevents MSMEs from benefiting from these programs. Since government organizations are the main places where MSME clusters are growing, there are not many private firms operating in this market. Infrastructure limitations significantly hinder small businesses' ability to compete (Vibhuti & Barki, 2016) (12). Examples of these include the scarcity of essential supplies like tool rooms, product testing labs, work sheds, rural broadband, electricity, etc. It will negatively impact the country's inclusive growth if this sector's contribution declines, hence it is imperative to solve the issues raised above to preserve and grow it.

Following are the challenges confronted by the MSMEs that hinder their growth and development:

- Lack of adequate finance
- Non-existence of timely access to finance
- Delay in receiving funds from the Government
- Limited knowledge of management of capital
- Lack of management skills
- Insufficient technology
- Unavailability of skilled labor
- Ineffective marketing
- Lack of assistance and follow-up by government agencies to come to their rescue is the most critical challenge.

Lack of finance is considered the major challenge for MSMEs. Finance is the driving force of a business. A business can flourish if it gets access to finance at the right time otherwise it will be shattered due to the lack of finance. MSMEs can't compete in the global market and satisfy their needs for fixed and working capital without adequate finance (Kumar et al., 2009) (13). Bank financing approvals for MSMEs are often delayed (Sharma, 2015) (14) and disregarded by financial institutions as these are incapable of generating financial reports (Rajamani et al., 2022) (15). Access to finance is also influenced by the collateral essentials. It is found cumbersome for the MSMEs to supply high-quality collaterals and they are presumed as undesirable borrowers (Ayadi & Gadi, 2013) (16). Moreover, the lack of trained labor in the micro and small units has a detrimental impact on their performance. The government should endeavour to provide small entrepreneurs and people employed in their establishments with skills training and capacity-building programs.

#### 4.5 Challenges in Social Aspect

MSMEs are the backbone of the Indian economy. It plays a vital role in the improvement of the living status of households especially who are living in rural areas or Towns. It is the responsibility of the Government that the ownership of MSMEs should also follow the social aspects. The discussion of the social aspect is following:

##### 4.5.1 Participation on Social Category Basis

In India, society is divided on various bases, with category-wise classification being one of the most important factors. Policies, rules, and judgments are made while keeping this social division in mind. It is important to analyze the data to understand the ownership distribution of enterprises among different categories of people. As per the data presented in the figure below, individuals belonging to the OBC, SC, and ST categories own a smaller proportion of enterprises compared to those from the General category. Specifically, the ownership of enterprises is 60.83% for the General category, 29.76% for the OBC category, 7.1% for the SC category, and the lowest ownership belongs to the ST category i.e., 2.28%. According to the data presented, the number mentioned does not accurately reflect the social criteria based on the population ratio of different categories in India. The largest population is that of the Other Backward Classes (OBCs) at 52% as per the report of (Mandal Commission, 1980) (17), followed by Scheduled Castes (SCs) at 16.63%, and Scheduled Tribes (STs) at 8.63% as per the census (Government of India, 2011) (18). Based on the data, it is evident that OBCs have the highest ownership of enterprises at 22.24%, followed by SCs at 9.53%, and lastly STs at 6.35%. The State and Central Governments should address the disparity in enterprise ownership by taking measures to reduce it. The Government should provide subsidies and easy loan facilities to OBC, SC, and STs to encourage their new business ventures. The Government should provide subsidies and easy loan facilities to OBC, SC, and STs to encourage their new business ventures.

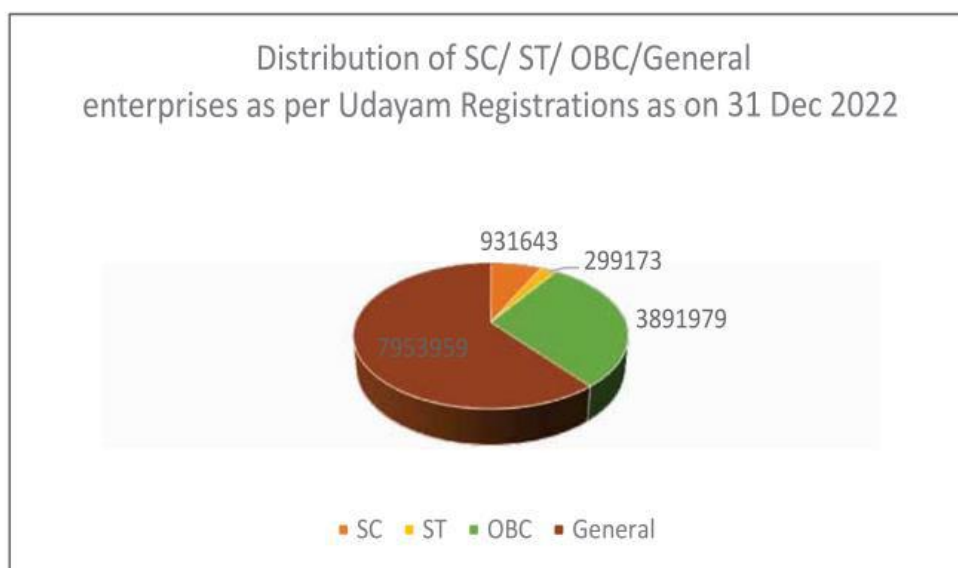


Figure: 2(Source:MSMEs' Annual Report 2022-2023)(10)

#### 4.5.2 Participation on Gender Basis

The ownership of MSMEs also does not represent the representation based on gender population in India according to Census 2011 Males are 51.47% and Females are 48.53% (Government of India, 2011) (18). But as we can see below the ownership of MSMEs held by females is only 19% which is way less than 48.53% i.e., their percentage population in India. Yes, the Government is initiating females for new start-ups by offering easy loans, subsidies, and rebates in taxes but it is yet a long journey to achieve the goal. So, the government should look into it and should promote females for new start-ups with new schemes and also teach females to run an enterprise through various learning programs.

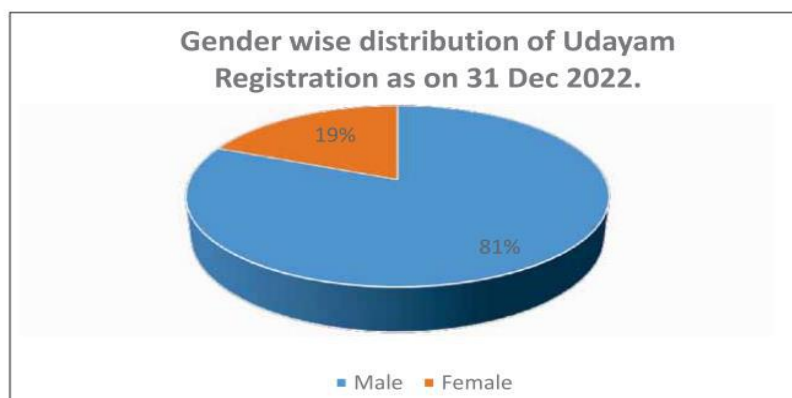


Figure: 3(Source:MSMEs' Annual Report 2022-2023)(10)

#### 5. CONCLUSION AND RECOMMENDATIONS:

The main aim of the study is to discuss the achievements of MSMEs so far. Also, to identify the challenges confronted by the Indian MSMEs and to give fruitful suggestions so that their improved performance, in the long run, can be ensured and their failure rate can be minimized. The MSME sector is the backbone of the Indian economy and plays a crucial role in cushioning it from global economic shocks and hardships. Therefore, it is all-important to spur these domestic businesses.

The study also discusses the problem of lack of finance. Hence Indian policymakers should make efforts to suggest ways to reduce the financial problem in the future. However, there are many schemes implemented by the Government of India to reduce the credit gap, even then this gap is wide due to the asymmetry of information among MSMEs and financial institutions. In addition, the growth of the MSME sector has been afflicted by various challenges because of the COVID-19 pandemic. The decision to lock down the country had a very bad impact on this sector. So as a consequence, this sector has captured the significant attention of policymakers with the declaration of various packages under Atmanirbhar Bharat Abhiyan. All such initiatives are a glimpse of hope for the MSME sector, more plans should be introduced by the Government to protect the distressed business enterprises.



## REFERENCES:

1. Deen, S. J. (2020). An analysis of growth of MSMEs in India and their contribution in employment and GDP of the country. *Studies in Indian Place Names*, 40(65), 11–16.
2. Singh, B., Narain, R., and Yadav, R. C. (2012). Identifying critical barriers in the growth of Indian Micro, Small and Medium Enterprises (MSMEs). *International Journal of Business Competition and Growth*, 2(1), 84-105. <https://doi.org/10.1504/IJBCG.2012.044057>
3. Verma, T. L., & Nema, D. K. (2019). Role Of Micro, Small And Medium Enterprises (MSMES) In Achieving Sustainable Development Goals. *International Journal for Research in Engineering Application & Management*, 4(12), 575-582.
4. Rajeevan, N., Sulphey, M. M., and Rajasekar, S. (2015). The critical role of micro, small & medium enterprises in employment generation: An Indian experience. *Asian Social Science*, 11(24), 258-267.
5. Drishti. (2020). Role of MSMEs in Indian Economy. Available at: <https://www.drishtias.com/daily-news-editorials/role-of-msmes-in-indian-economy#:~:text=Significance%20of%20MSMEs&text=In%20all%2C%20the%20MSME%20sector,growth%20engine%20of%20the%20nation>.
6. Tambe N. and Jain A. (2024): MSME Statistics and Trends. <https://www.forbes.com/advisor/in/business/msme-statistics/>
7. Shukla, A., Meena, M., Asthana, N., & Pareek, A. (2016). Role of MSME in India's Development. *International Journal of Management, IT and Engineering*, 6(9), 278–287.
8. Dey, S. K. (2014). MSMEs in India: It's growth and prospects. *Abhinav National Monthly Refereed Journal of Research in Commerce & Management*, 3(8), 26–33.
9. <https://www.ibef.org/industry/msme>.
10. Annual Report on MSME, Government of India, 2022-23.
11. Shelly, R., Sharma, T., & Bawa, S. S. (2020). Role of micro, small and medium enterprises in Indian economy. *International Journal of Economics and Financial Issues*, 10(5), 84-91.
12. Vibhuti, S. G., & Barki, G. S. (2016). Role of micro small and medium enterprises (MSMEs) in Indian economy. *Paripex-Indian Journal of Research*, 5. [https://www.researchgate.net/profile/Gururaj-Barki/publication/353600856\\_Role\\_of\\_Micro\\_Small\\_and\\_Medium\\_Enterprises\\_MSMEs\\_in\\_Indian\\_Economy/links/610524ea1e95fe241a9d024c/Role-of-Micro-Small-and-Medium-Enterprises-MSMEs-in-Indian-Economy.pdf](https://www.researchgate.net/profile/Gururaj-Barki/publication/353600856_Role_of_Micro_Small_and_Medium_Enterprises_MSMEs_in_Indian_Economy/links/610524ea1e95fe241a9d024c/Role-of-Micro-Small-and-Medium-Enterprises-MSMEs-in-Indian-Economy.pdf)
13. Kumar, A., Batra, V., and Sharma, S. K. (2009): Micro, Small and Medium Enterprises (MSMEs) in India: Challenges and issues in the current scenario. *Management Insight*, 5(2), 75-87.
14. Sharma, N. (2015). *Constructs and Constraints of MSME in India for Sustainable Development*. 5(4), 8–24.
15. Rajamani, K., Jan, N. A., Subramani, A. K., & Raj, A. N. (2022). *Access to Finance: Challenges Faced by Micro, Small, and Medium Enterprises in India*. 33(1), 73–85.
16. Mandal Commission. (1980): Backward Class Commission. <https://www.ncbc.nic.in/Writereaddata/Mandal%20Commission%20Report%20of%20the%201st%20Part%20English635228715105764974.pdf>
17. Government Of India. (2011). Basic Population Figures of India and States, 2011. In Primary Census Abstract (PCA). <https://censusindia.gov.in/census.website/data/population-finder>.