

# Micro, Small and Medium Enterprises (MSME) in India: A Review

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Manuscript ID:

AG-2023-2005

Volume: 2

Issue: 2

Month: June

Year: 2023

ISSN: 2583-7117

Published: 12.06.2023

Citation:

. "Micro, Small and Medium Enterprises (MSME) in India: A Review"  
International Journal of Innovations In  
Science Engineering And Management,  
vol. 2, no. 2, 2023, pp. 38–42.



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## Abstract

*Small and medium-sized enterprises (MSME) are often regarded as an economy's primary growth driver. Growth cannot be inclusive unless and until its benefits trickle down to the poor and working class. In a developing country like India, where wealth and income disparity are very high, a steady rise in per capita income does not always mean an improvement in living conditions for all citizens. Adequate work possibilities for the impoverished mass should be developed to enable them meeting their subsistence level of consumer demand, which in turn would reduce the curse of poverty, inequality, unemployment, and underemployment. The purpose of this article is to evaluate the effectiveness of the Indian small and medium enterprise sector. The purpose of this article is to analyze the effectiveness of SMEs in terms of their development and potential. It's decided that this industry has a large impact on the economy via its effects on employment, exports, and total manufacturing output.*

**Keyword:** MSME, GDP, growth, employment, opportunities, inclusive growth, poverty.

## I. INTRODUCTION

The Indian economy's micro, small, and medium-sized business (MSME) sector is thriving and growing rapidly. Small and medium-sized enterprises (SMEs) play an important role in the nation's economic growth and social welfare by serving as auxiliary units to larger companies.

Significant amounts of the country's industrial output, employment, and exports come from the micro, small, and medium-sized enterprise sector. It's responsible for a significant portion of industrial output and exports and has been widely credited with driving job growth. Their compact design and inexpensive price tag give them a competitive edge. There is a minimal gestation time and the capital-labor ratio is rather high. They concentrate on capturing the smaller markets and help ensure that national wealth is distributed more equitably. They encourage the development of industrial entrepreneurship and allow for more efficient use of financial and human resources. [1]

There is a wide range of size, product range, and technological sophistication within India's micro, small, and medium enterprise sector. The size and importance of this industry is a boon to the country's economy and society. [2]

## Definition of MSMEs in India

Historically, India divided its factories into "small scale" and "large scale" categories according to the amount of money they had spent on their facilities and equipment. There were sub-categories within the small-scale sector, such as auxiliary units, tiny units, women-owned businesses, and small-scale services and business units. In India, the medium size enterprises weren't established till recently. Companies in India were formerly lumped together regardless of size, but this changed with the passage of the

Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. [3]

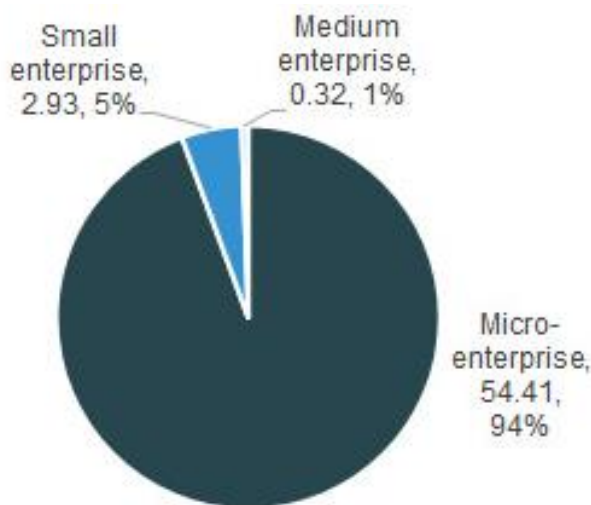
## A. Micro, Small and Medium Enterprises Sector In India

Small and medium-sized enterprises (MSME) are vital to India's economy. The industry is essential to achieving national goals of creating jobs, lowering poverty, and preventing people from leaving the countryside for the cities. These businesses not only encourage the adoption of indigenous technology, but also contribute to the growth of a flourishing entrepreneurial eco-system. The industry has

shown steady expansion over the last several years, although in a limited setting that has often led to wasteful resource usage. Inadequate access to financial resources is one of the primary obstacles that makes MSMEs susceptible, especially during economic downturns, among the numerous problems inhibiting the growth and development of MSMEs. [4] [5]

The acronym MSME is often used to refer to privately-owned small companies. Proxies for the industry include staff count, yearly sales, fixed asset value, and loan size are used by regulators and financial institutions throughout the globe.

The MSME industry is defined under the Government of India's Micro, Small and Medium Enterprise Development Act 2006 (MSMED Act). This categorization, an outgrowth of the earlier definition of Small-Scale Industry (SSI), employs the investment metric to classify MSMEs due to the verifiability of investments in plant and equipment. [6]



**Figure 1: MSME in India in FY 22**

## B. PROBLEMS FACED BY MSMEs

1. Absence of adequate credit from banks- Credit issues from banks are a growing challenge for SMEs. Banks have an extremely long lending procedure that requires a lot of paperwork and has a hefty processing charge. There is a lack of funding for micro, small, and medium-sized enterprises (MSME) from banks.

2. Competition from MNC's- The MSME sector is extremely challenged by the competition from MNCs. This is because many large corporations now provide high-quality items at competitive prices.

3. Poor infrastructure- The growth of MSMEs is outpacing the availability of necessary infrastructure.

4. Unavailability Resources- As a result of a deficiency in market inputs such as raw materials, labor, etc. As a result, mass-producing them at reasonable costs is a formidable challenge.

5. Lack of advanced technology- There is a knowledge gap when it comes to high-tech manufacturing in the MSME industry. They are still making things the old-fashioned way.

6. Lack of distribution of marketing channels- Small and medium-sized enterprises (MSME) aren't using creative methods of advertising and distributing their goods. Very low sales may be attributed to inefficient marketing and advertising.

## II. LITERATURE REVIEW

In terms of both job creation and overall economic expansion, India's small and medium-sized enterprises (MSME) have been crucial to the country's success throughout the years. Exports and manufacturing both benefit greatly from its influence. Despite these advantages, Indian SMEs continue to lag behind their counterparts in more industrialized countries. Despite projections of rapid expansion, the difficulties encountered by SMEs have made doing business a misery. Financial restraints, a lack of marketing techniques, a lack of quality, a lack of newness or freshness, and so on all qualify as obstacles. Here is a summary of the books we read:

(Endris & Kassegn, 2022) [1] The micro, small, and medium-sized businesses (MSMEs) have an outsized potential to contribute to several of the SDGs. The purpose of this study was to examine the literature on the role of MSMEs in Ethiopia's sustainable development and the obstacles they face. Future study directions are also provided in this thorough and methodical examination of the available material. In this study, we examine the contributions of micro, small, and medium-sized enterprises (MSMEs) to Ethiopia's efforts toward achieving its sustainable development objectives. However, the analysis found that limited access to capital, power, and trade regulation are the main obstacles to the growth of the business. The analysis recommends for more research on the effect of MSMEs and lays out significant policy implications for developing a comprehensive strategy to ease the sector's current issues.

(Angala Eswari, 2019) [2] When it comes to the nation's economy, the Micro, Small, and Medium-Sized Enterprise

(MSME) Sector plays a crucial role as a key conduit for opening up low-cost employment opportunities. The State Government has successfully achieved Simplification in the SSI enlistment procedure and an adequately decreased archival footprint, allowing for faster SSI development. The National Institute of Entrepreneurship and Independent Venture Development (NIESBUD), the National Institute of Micro, Small, and Medium Enterprises (NI-MSME), the Indian Institute of Entrepreneurship (IIE), or the Development Chief for Micro, Small, and Medium Enterprises (DC-MSME) can all provide advice to people who are thinking about starting their own businesses. Given the aforementioned information, this study aimed to learn about the present condition of the MSME mechanical area and its impact on the monetary and friendly development of the neighborhood.

(Gade, 2018) [3] The Micro, Small, and medium-Sized Enterprises (MSMEs) sector of India's economy has emerged as a source of growth and innovation. Its potential to spur expansion and improvement has been widely acknowledged. Small and medium-sized enterprises (SMEs) are pivotal in creating massive employment at low capital costs compared to large industries, facilitating the establishment of industries in economically disadvantaged areas, and reducing regional inequalities, all of which bode well for the equitable distribution of national income and wealth. Compared to the rest of the industrial sector, the MSME sector has consistently outperformed expectations. This article aimed to analyze the micro, small, and medium-sized enterprise (MSE) sector's impact on national development and to identify the areas where the SME sector needs to be fortified so that it can continue to contribute to India's economic progress.

(Upendar & Ramulu, 2016) [4] Khadi, Village, and Rural Enterprise are all examples of micro, small, and medium-sized businesses. This industry now provides jobs for millions of people. About 45% of India's industrial output and 40% of its exports come from small and medium-sized enterprises. Eight percent to nine percent of GDP annually goes into national development. The number of people employed in this industry is second only to the agricultural sector. The key benefit of this industry is the opportunity for low-cost employment. The government has taken several measures to improve the industry, yet issues continue. Opportunities abound for prospective entrepreneurs, but the MSMEs sector is still struggling to make a go of it because of the various obstacles it faces. No primary data were used in the analysis. Three thousand individuals are given jobs in

this industry annually all around the globe. There has been significant progress in reducing poverty and balancing out regional economies thanks to the work of micro, small, and medium-sized enterprises. The government of India has taken a number of steps in recent years to try to improve the situation, but challenges persist.

(Bhuyan, 2016) [5] Small and medium-sized enterprises (SMEs) are often called an economy's "engine of growth." In 2012–13, the Micro, Small, and Medium-Sized Enterprises (MSME) sector contributed an estimated 37.54% to the country's gross domestic product (GDP), and it provided employment for 805.24 Lakh people. In 2014–15, the industry accounted for 44.70 percent of India's total exports. Poverty and inequality are also pervasive issues, particularly in emerging nations like India. We need a "Inclusive Growth" framework to deal with these issues. Growth cannot be inclusive unless and until its benefits trickle down to the poor and working class. A continuous rise in per capita income does not always imply a sustained improvement in standard of life, especially in a developing country like India where wealth and income are unevenly distributed.

## **II. Recommendations for MSMES to Overcome Challenges and Capitalize On Opportunities**

The following suggestions may be taken into account in order to overcome these obstacles and make the most of opportunities faced by MSMEs, which are the backbone of the Indian economy and contribute significantly to employment and GDP growth despite facing many obstacles. [7][8]

Access to finance: Small and medium-sized enterprises (SMEs) can improve their access to loans by developing sound financial habits, maintaining accurate accounting records, and establishing a credit history, and by taking advantage of novel methods of raising capital such as venture capital, angel funding, and crowdfunding. The government has also launched a number of programs such as the Credit Guarantee Fund Scheme and the MSME Credit Card.

- Marketing and sales: Focusing on long-term brand development, conducting market research to identify target demographics and their needs, and investing in digital marketing to reach a wider audience are all things micro, small, and medium-sized enterprises (MSMEs) should do. Furthermore, the government has launched initiatives like the Market Assistance Scheme

to aid MSMEs in gaining access to international markets.

- **Technology adoption:** There are a number of things that small and medium-sized enterprises (SMEs) can do to overcome the challenges of adopting technology. These include raising awareness among workers, investing in training programs, and forming partnerships with technology providers to integrate modern technologies into their processes.
- **Skilled manpower:** Small and medium-sized enterprises (SMEs) may use incentives like competitive salary, perks, and training programs to attract and retain competent workers, and the government has created initiatives like the Pradhan Mantri Kaushal Vikas Yojana to improve the skillsets of the labor force.
- **Regulatory compliance:** The government's Ease of Doing Business effort makes it easier for micro, small, and medium-sized enterprises (MSMEs) to comply with regulations by simplifying processes, outsourcing compliance-related duties, and employing consultants for expert help.
- **Infrastructure inadequacies:** Small and medium-sized enterprises (SMEs) may save costs by pooling resources with other firms, and the administration's Micro and Small Enterprises Cluster Development Programme and associated initiatives seek to improve infrastructure and provide better access to essential utilities.

#### IV. FUTURE PROSPECTS OF MSMEs

1. **Employment generation:** Opportunities for manufacturing and service provision by MSMEs are substantial. Small and medium-sized enterprises (SMEs) provide a wide variety of jobs in the retail and industrial sectors. [9][10]

2. **Focus on customer satisfaction:** MSMEs typically base their products on consumer feedback, including their likes and dislikes. These days, however, manufacturers cater their wares directly to the wishes of their clientele. In order for MSMEs to place a greater emphasis on happy customers.

3. **Minimization of regional imbalance:** By setting up shop in rural regions, MSMEs will put that population to work, ensuring that all parts of the country benefit from the economic growth. As a result, the regional disparity may be reduced or eliminated altogether.

4. **Development of Export:** Products created in India, such as furniture and other handicrafts, would be in high

demand on global markets. In this way, India's exports might benefit from MSMEs.

5. **Attraction of Foreign Investment:** Small and medium-sized enterprises (SMEs) in India have a high rate of growth and a good return on investment. With the help of foreign investment, this industry in India has the potential to expand rapidly.

#### V. CONCLUSION

Micro, small, and medium-sized businesses (MSME) in India have aided the country's economic growth by, among other things, creating jobs in both urban and rural regions and lowering consumer prices. The government of India has implemented a number of reforms aimed at bolstering the manufacturing industry so that it may play a more prominent role in the growth of the Indian economy.

Therefore, it is preferable to place emphasis on the formulation of MSME-friendly policies, a conducive operating environment, the improvement of proper infrastructure, the security of peace and safety, the arrangement of proper financing, the assurance of better and more efficient management, and the arrangement of appropriate and modern technology in order to keep their growth engine on the right track. Since micro, small, and medium-sized enterprises (MSMEs) are vital in the development of the economy as a whole, they need special focus. In order for these businesses to thrive in the face of the new difficulties posed by a globally competitive order, it is imperative that appropriate strategies be developed for the construction of an enabling environment.

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