

MSMEs: Its Role in Inclusive Growth in India

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Abstract

To foster economic development, generation of jobs, reduction in poverty and promotion of equality, the role of micro-, small- and medium-sized enterprises (MSMEs) becomes crucial in every economy of the world. The MSME sector encourages equitable distribution and inclusive growth as an engine of economic progress. MSMEs have the highest employment growth rate, which has a positive impact on export and industrial growth. The primary objective of this article is to analyse MSMEs' performance and their contribution to India's inclusive prosperity. Over the previous two decades, the Indian economy has performed well but the rewards of this expansion have not been distributed fairly. The impact of MSMEs on various socio-economic groups and the engagement of women in India has been studied using a variety of metrics, including employment generation, regional industry distribution and entrepreneurship. The information used in this article was gathered from secondary sources such as Annual MSMEs Reports and the Handbook of Indian Economy Statistics. According to the study's findings, the MSME sector contributes to inclusive growth in India by offering substantial job possibilities, ensuring that industries are distributed fairly and promoting entrepreneurship among women from underprivileged backgrounds. 'Make in India', 'Digital India' and other initiatives have created new possibilities for the MSME sector to grow significantly during the coming 10 years.

Keywords

MSMEs, employment, inclusive growth, entrepreneurship, economic development

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Introduction

Given the size, scope and diversity of the country, it is crucial that the industrial sector contributes to India's economic development and attempt to make that progress inclusive. Since independence, all levels of government have created plans and programmes to encourage industrialisation-driven economic growth. The Ministry of Micro, Small and Medium Enterprises in India has distinguished and divided small and medium enterprises based on their size and investment in the Micro, Small and Medium Enterprises Development Act, 2006. This division is based on the categories of businesses—manufacturing and service businesses—performed by the enterprise. Manufacturing enterprises consist of all those business activities that are engaged in the manufacture or production of goods specified in the first schedule of the Industries (Development and Regulation) Act, 1951. Similar to this, service enterprises are companies that carry out operations, including giving or supplying services to another company or a private individual.

For a manufacturing enterprise to be classified as a microenterprise, the limit for investment in plant and machinery has been fixed at less than or equal to 25 lakh rupees. The same limit on investment in equipment for service enterprises has been fixed at less than or equal to 10 lakh rupees. The limit of investment in a manufacturing enterprise to be classified as a small enterprise is more than 25 lakh and less than or equal to 5 crore rupees. The same limit for service enterprises to be classified as small enterprises has been more than 10 lakh rupees but less than or equal to 2 crore rupees. Medium manufacturing enterprises are those whose total investment in plant and machinery is more than 5 crore rupees but less than or equal to 10 crore rupees. The same limit for service-rendering enterprises has been set at more than 2 crore rupees and less than or equal to 5 crore rupees.

With such a categorical classification of the micro-, small- and medium-sized enterprises (MSMEs) in India, these enterprises are playing a very vital role in the growth of our economy. The MSMEs have received recognition for being the driving force behind economic expansion and for advancing fair and equal development opportunities for everybody. They are essential to every country's industrial growth. The expansion of the Indian economy's social and economic sectors is greatly influenced by the MSMEs. They provide significant contributions to the nation's exports, employment and industrial production. For the country to move towards a quicker and more equitable growth, this sector is crucial.

MSMEs aid in reducing the disparity in income distribution by providing individuals with numerous job possibilities and industrialising rural regions. Next to agriculture, this industry employs the most people. In comparison to large businesses, the MSME sector has a far higher rate of growth for the level of labour concentration. The sector's employment potential at minimal capital cost is its key advantage.

They are widely scattered around the country and produce a diverse variety of goods and services to meet the demands of regional, national and international value chains as well as local and worldwide markets. The huge industries that are active in the economy and making significant contributions to the socio-economic advancement of the nation are complemented by the MSMEs. Averaging 3.6 crore

MSME units, there are over 8 crore people who have jobs because of them. MSMEs provide almost 22% of the nation's gross domestic product (GDP), 45% of industrial output and 40% of exports.

In light of the crucial role MSMEs play in the growth of any economy, this article makes an effort to investigate the situation of micro-, small- and medium-sized businesses in India. The study also examines how micro-, small- and medium-sized businesses might contribute to inclusive growth. The article would try to end by bringing attention to the problems, difficulties and possibilities that MSMEs in India are facing.

Review of Literature

In their 2012 study titled 'Role of Manufacturing Industries in India for Inclusive Growth', Anjum and Tiwari (2012) investigated the role that labour reforms and manufacturing industries have had in enabling India to benefit from globalisation and ensure inclusive growth. According to the report, India's economic performance during the past 10 years has been outstanding. The main areas of worry, however, are out-of-date labour laws, inspector raj and a heightened chance of labour disputes. According to the report, the labour market's flexibility may be exploited to leverage India's demographic dividend and promote inclusive growth. In his article titled 'Role of Micro, Small and Medium Enterprises in Inclusive Growth', Srinivas (2013) argued that MSMEs should be seen as the nation's growth engine. It has been noted that there have been notable changes at the national and state levels in recent years towards consolidating this industry. The primary causes of the MSMEs' slow growth in India are poor infrastructure and weak marketing ties. According to the report, the Indian government can take various steps to advance the growth of these MSMEs. MSMEs' performance in India's economy and government policies has been examined by Lama (2013). He has also researched the many opportunities and difficulties that MSMEs face. According to the report, MSMEs must increase their production and quality while cutting expenses and innovating. Focus must be placed on creating benevolent policies, a supportive workplace, adequate funding and cutting-edge technology for MSMEs if MSMEs are to stay on the correct track and direction. Manna and Mistri (2017) examined the state of MSMEs in India and their trends. They gathered and examined supplementary data. Unsurprisingly, they discovered that micro companies hold the top spot in every state, although several advanced states are also consistently strengthening their small- and medium-sized enterprises. The industry supports regional growth and lessens regional disparities. Mohanty (2018) analysed the condition and performance of the MSME sector and outlined the several initiatives undertaken by the government and SIDBI. According to the research, MSMEs have performed admirably over the previous 5 years. This industry's importance for urban and rural development is increasing significantly, and it is expanding quickly. Zanjurne (2018) studied the performance of MSME and its development potential in great detail. She did an exploratory study and

came to the conclusion with the help of secondary data that the MSME sector significantly contributes to exports, employment and manufacturing production. Singh (2021) examined the MSME sector's function, performance, various difficulties and future possibilities in India. The study came to the conclusion that this industry significantly contributes to India's industrial output, export, employment and creation of a broad entrepreneurial base. However, the pandemic has impacted MSMEs in a variety of ways, suggesting that the government should implement the right policies to counteract its effects. Das (2021) investigated the importance of MSMEs in India's economic development. The study stated that MSMEs have made significant contributions to the country's socio-economic growth by creating job opportunities, contributing to production and export and supporting development in backward and rural areas.

Methodology of the Study

This article is the outcome of the examination of secondary data that was gathered from the *Indian Economy Statistics Handbook* and the Ministry of MSMEs' Annual Reports, among other public sources.

The analysis is done in terms of simple percentages; however, in order to study growth, the annual compound growth rate (ACGR) is also calculated. The formula used is:

$$r = \left[\frac{x_n}{x_o} \right]^{\frac{1}{n}} - 1$$

where r stands for the rate of growth, x_n stands for final year figures and x_o is the base year figure and n stands for the number of years.

Performance of MSME Sector in India

In India, MSMEs are among the most important pillars of our economy. At present, there are more than 6 crore MSMEs functional in the country, providing more than 11 crore jobs to the people. The sector contributes approximately 30% to India's GDP and has a share of approximately 50% of India's exports. Our past developmental experience shows that MSMEs have protected our country from various shocks and adversities. Given the importance of the MSME sector in the country, a detailed overview of its importance for the Indian economy is discussed in the section ahead.

Status of MSME Units, Employment and Investment in India

Table 1 depicts the performance of India's MSMEs in terms of units, employment and investment growth. Table 1 illustrates a consistent and significant rise in the

Table 1. Status of MSME Units, Employment and Investment in India.

Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Investment (in Crore)
2006–2007	361.76	805.23	868,543.79
2007–2008	377.36	842	920,459.84
2008–2009	393.7	880.84	977,114.72
2009–2010	410.8	921.79	1,038,546.8
2010–2011	428.73	965.15	1,105,934.09
2011–2012	447.64	1,011.69	1,182,757.64
2012–2013	467.64	1,061.4	1,268,763.67
2013–2014	488.46	1,114.29	1,363,700.54
2014–2015	510.57	1,171.32	1,471,912.94
2015–2016	633.88	1,109.89	1,014,761.1
ACGR	5.443	4.185	4.394

Source: Ministry of Micro, Small and Medium Enterprises (n.d.).

number of MSMEs, their production and investment from 2006–2007 to 2015–2016. A relatively consistent increase in MSMEs has been seen overall, from 361.76 lakh in 2006–2007 to 633.88 lakh in 2015–2016. The ACGR is 5.443% for the period 2006–2007 to 2015–2016. The employment generated in the MSME sector increased from 805.23 lakh in the year 2006–2007 to 1109.89 by the year 2015–2016, registering 4.185% of ACGR during the same period. As far as investment made in the MSME sector is concerned, it stood at 868,543.79 crore in 2006–2007 and rose to 1,014,761.1 crore in the year 2015–2016. It increased at 4.394% of ACGR during the period 2006–2007 to 2015–2016.

MSME Gross Value Added (GVA) and Its Share in Total Indian GDP

The MSMEs have been manufacturing a variety of goods and services to meet local and international market demands. Table 2 shows the contribution of the MSME sector to the GVA and GDP of the nation for the years 2011–2012 to 2018–2019, at current prices. According to the table, the percentage of gross value generated by micro-, small- and medium-sized businesses in the country's GDP was 29.57% in 2011–2012 and increased slightly to 30.27% in 2018–2019. The increasing trajectory of MSME GVA is consistent with the total GVA, as MSME GVA grows at ACGR of 11.628%, as against it, total GVA increased at 11.071% during the period 2011–2012 to 2018–2019.

Share of MSME Exports in Total Exports

Table 3 provides information on the MSME sector's export performance in India. The figure clearly shows that the MSME sector in India accounts for more than

Table 2. Share of MSME GVA in Total Indian GDP.

Year	Total MSME GVA (in Crore)	Growth (%)	Total GVA (in Crore)	Share of MSME in Total GVA (%)	All-India GDP (in Crore)	Share of MSME GVA in All-India GDP (in %)
2011–2012	2,583,263	–	8,106,946	31.86	8,736,329	29.57
2012–2013	2,977,623	15.27	9,202,692	32.36	9,944,013	29.94
2013–2014	3,343,009	12.27	10,363,153	32.26	11,233,522	29.76
2014–2015	3,658,196	9.43	11,504,279	31.8	12,467,959	29.34
2015–2016	4,059,660	10.97	12,574,499	32.28	13,771,874	29.48
2016–2017	4,502,129	10.90	13,965,200	32.24	15,391,669	29.25
2017–2018	5,086,493	12.98	15,513,122	32.79	17,098,304	29.75
2018–2019	5,741,765	12.88	17,139,962	33.5	18,971,237	30.27
ACGR	11.628		11.071		11.516	

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation.

Table 3. Share of MSME Exports in Total Exports in India (Amount in USD Million).

Year	Total Exports	Exports by MSME	Percentage Share of MSME Exports
2012–2013	300,400	127,992	42.61
2013–2014	314,415	133,313	42.40
2014–2015	310,352	138,896	44.75
2015–2016	262,291	130,768	49.86
2016–2017	275,852	137,068	49.69
2017–2018	303,376	147,390	48.58
CAGR	-1.489	2.122	

Source: RBI & Press Information Bureau/Directorate General of Commercial Intelligence and Statistics (DGCIS).

40% of exports. From 42.61% in 2012–2013 to 48.58% in 2017–2018, MSME exports have surged in percentage. The ACGR of MSME exports was 2.122% from 2012–2013 to 2017–2018, compared to -1.489% for total country exports.

MSMEs' Role in Inclusive Growth in India

MSMEs in India play a catalytic role in promoting fair growth. For the country to prosper in a balanced way, this sector must function well. The MSMEs play an important role in India's inclusive growth and its role is presented in the part that follows by taking into account the following factors:

1. The creation of jobs in both urban and rural regions.
2. The regional distribution of industries across urban and rural areas and between states.
3. The entrepreneurship of various socio-economic groups such as Other Backward Class (OBC), Schedule Caste (SC), Schedule Tribe (ST) and other groupings.
4. Women's involvement in entrepreneurship.

Employment Creation

Due to its minimal investment needs, the MSME sector is significant in India since it is regarded as the second largest employer after the agricultural sector. Table 4 shows the distribution of employment generated by the MSMEs in rural and urban locations. As per the results of the 73rd round of the National Sample Survey which was performed in 2015–2016, the MSME sector has been adding 1,109.89 lakh of employment in India. Rural areas account for 44.85% of the sector's total employment while urban areas account for 55.85% of it.

Regional Dispersal of Industries

The distribution of industries throughout India's regions is greatly influenced by the MSME sector. The MSME firms have a stretch over the entire country, but big-scale industries have a propensity to centre in significant states and around metropolitan areas, sinking the regional differences in industrial growth. Table 5 shows the distribution of the estimated number of businesses between rural and urban locations. According to the table, there are 48.75% MSME units in urban areas and 51.25% in rural areas.

Table 6 shows the distribution of the expected number of businesses in a few different Indian states. In India, the inter-state distribution of MSMEs is comparatively more even than that of large-scale companies. The table shows that whereas Uttar Pradesh, West Bengal and Tamil Nadu together account for 36% of all units according to the NSS 73rd cycle, their proportion in total units according to the fourth all-India MSME Census was closer to 31%. According to the NSS 73rd cycle, Uttar Pradesh is expected to have the most MSMEs, accounting for 14.00% of all MSMEs in the country. The top 10 states, which account for 74.00% of the country's total number of MSMEs, are given in Table 6.

Entrepreneurship by Different Social Groups

However, MSME enterprises are owned by a diverse range of people from many socio-economic categories, including SC, ST, OBC and others. Businesses in large-scale industries are frequently controlled by entrepreneurs from the social

Table 4. MSME Sector Employment Distribution in India's Rural and Urban Locations (NSS 73rd Round) (Numbers in Lakh).

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.3	7.88	0.6	497.78	44.85
Urban	586.88	24.06	1.16	612.1	55.15
All	1,076.19	31.95	1.75	1,109.89	100

Source: Ministry of MSME annual report, 2021–2022.

Table 5. MSME Units Distribution in India by Rural and Urban Locations (73rd Round of the NSS) (In Lakhs).

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51.25
Urban	306.43	2.53	0.04	309	48.75
All	630.52	3.31	0.05	633.88	100

Source: Ministry of MSME annual report, 2020–2021.

Table 6. Comparative Distribution of MSME Units in India's Top 10 States (73rd Round of the NSS).

Sl No.	State/UT	NSS 73rd Round*		Fourth All-India Census of MSME**	
		Number (in Lakh)	Share (%)	Number (in Lakh)	Share (%)
1	Uttar Pradesh	89.99	14	44.03	12
2	West Bengal	88.67	14	34.64	10
3	Tamil Nadu	49.48	8	33.13	9
4	Maharashtra	47.78	8	30.63	8
5	Karnataka	38.34	6	20.19	6
6	Bihar	34.46	5	14.7	4
7	Andhra Pradesh***	33.87	5	25.96	7
8	Gujarat	33.16	5	21.78	6
9	Rajasthan	26.87	4	16.64	5
10	Madhya Pradesh	26.74	4	19.33	5
11	Total of above 10 states	469.4	74	261.04	72
12	Other states/UTs	164.5	26	100.72	28
13	All	633.9	100	361.76	100

Source: Ministry of MSME annual report, 2021–2022.

Notes: *NSS 73rd Round, 2015–2016.

**Fourth All-India Census of MSME, 2006–2007.

***Including Telangana in Fourth All-India.

Table 7. MSME Distribution on the Basis of Percentage by Social Group Ownership in Rural and Urban Areas in India (NSS 73rd Round).

Sector	SC	ST	OBC	Others	Not Known	All
Rural	15.37	6.7	51.59	25.62	0.72	100
Urban	9.45	1.43	47.8	40.46	0.86	100
All	12.45	4.10	49.72	32.95	0.79	100

Source: Ministry of MSME annual report, 2021–2022.

Table 8. Percentage Distribution of Ownership of MSMEs by Male and Female in India (NSS 73rd Round).

Sector	Male	Female	All
Rural	77.76	22.24	100
Urban	81.58	18.42	100
All	79.63	20.37	100

Source: Ministry of MSME annual report, 2021–2022.

elite. Table 7 depicts the socio-economic category of owner distribution of MSMEs in India's rural and urban locations. According to data from the NSS's 73rd round, socially disadvantaged groups held about 66.27% of MSMEs, of which 49.72% were owned by OBC business owners, 12.45% by SC business owners and 4.10% by ST business owners. Nearly, 73.67% of MSMEs in rural regions were held by socially disadvantaged groups.

MSMEs and Women's Participation

Our traditional communities have undergone a very slow but steady transition over the past few decades, and more and more Indian women are stepping forward to participate in the workforce. Despite the fact that men still predominate in the business sector, the participation of women is growing. They now have the opportunity to pursue entrepreneurship and make a contribution to the national economy thanks to the MSME sector. The percentage of women-owned businesses in all Indian MSME companies was 20.37%, according to the NSS 73rd cycle (Table 8).

Problems Faced by MSMEs

The MSME sector confronts a variety of obstacles despite the sector's strategic relevance for the Indian economy in general and inclusive growth in particular. The following are the main obstacles that are making it difficult for MSMEs to develop:

1. The MSMEs faced problem regarding absence of adequate and timely credit from the banks. At present, banks do not provide sufficient amount of loan to the MSMEs. They are often not able to secure adequate financial resources for the buying of machinery, equipment and raw materials and sometimes finances to meet day-to-day expenses.
2. The MSMEs also face tough competition from large firms and multinational companies. Multinational companies are offering quality goods at affordable price.
3. MSMEs' growth is so rapid that infrastructural amenities are in short supply. Because of their weak infrastructure, their capacity to produce is limited and their production costs are quite expensive.
4. Due to lack of raw materials, skilled labour and other inputs in the market, it is difficult to create items at reasonable rates. Because the MSMEs have a low paying capacity, trained human resources are scarce, resulting in inadequate management capabilities, marketing channels and brand development capacity. There is obsolete technology and environmental constraints, which results in lack of awareness towards advanced technologies of production. They are still using traditional methods of production.
5. There are problems related to market accessibility at national and international levels. They find it very hard to sell their produce at competitive prices and are not able to spend much on advertising and marketing research.

Despite the numerous hurdles, the MSME sector has demonstrated outstanding inventiveness, flexibility and resilience in order to survive the current economic environment.

Policy Implications

During the last several years, India's economy has expanded rapidly. However, this growth has not resulted in the desired changes in the population's socio-economic status, as evidenced by the slow rate of poverty reduction, a scarcity of high-quality employment opportunities, an increase in provincial disparities and inequalities between individuals and social groups. This sets the stage for the need of an inclusive growth approach, which the government has prioritised in its development policy. Given this circumstance, MSMEs are critical to the general growth of the country as it significantly influence job creation, exports, manufacturing output, GDP growth generally and inclusive growth in particular.

The MSME sector is currently aiding India's inclusive growth by producing a large number of job opportunities, eliminating regional disparities and integrating impoverished citizens into the economy. With government efforts such as 'Make in India' and 'Digital India', the MSME sector has a great opportunity to grow in the future. However, due to the lack of infrastructure, finance facilities and technical advancement, the sector's expansion is imminent. To overcome these

issues, the government must strengthen its support for the MSME sector. In order to make this process of growth inclusive, a proper care of this sector is needed.

Future Prospective of MSMEs

With a GDP growth rate of 8.5% and a predicted GDP of USD 5 trillion by 2025, the Indian economy is expected to emerge as one of the world's main economies. The micro-, small- and medium-sized businesses are probably going to play a big part in how the economy develops. MSME must be developed to the fullest extent possible in order to promote inclusive growth.

With both domestic and foreign corporations participating in the 'Make in India' initiative, MSMEs might support the nation's ongoing and anticipated rapid growth. These sectors can aid in the process of indigenisation. The concept 'Make in India with zero defect and zero effect' provides MSMEs with an excellent opportunity to expand while minimising environmental impact. The 'Digital India' revolution provides another huge opportunity to enhance MSMEs' contributions to the information, communication and telecommunications industry. The MSME sector is projected to contribute to the Indian economy by increasing the MSME share of GDP.

In this industry, there are several prospects to create jobs. The MSME sector is anticipated to make use of rural areas' labour force. Therefore, this will aid in eliminating regional inequities. MSMEs have the potential to significantly increase both the quality and volume of India's exports. This industry has a great deal of potential to bring in foreign capital to India. It's critical to build world-class technology and to train the nation's people resources if the country wants to develop a robust MSME sector comparable to some of the nations where MSMEs contribute 35%–60% of the country's GDP. In order to create an atmosphere where MSME businesses may readily develop, the government must offer more assistance to these industries.

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