

CONTRIBUTION OF MSMES TO THE GROWTH OF INDIAN ECONOMY



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Principal Dr.V.S.Shivankar

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Dr.Shreya Patil
Mrs.Rani Kirdat

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PREFACE

We are delighted to publish our book entitled "**Contribution of MSMEs to the Growth of Indian Economy**" The regulatory, financial, and operational environments of Micro, Small, and Medium-Sized Enterprises (MSMEs) in India are thoroughly examined in this extensive handbook. From Udyam registration to legal classifications and the advantages of formalization, every section of the book covers a different facet of MSME activities. The benefits of having a registered MSME, including access to MSME financing, remedies for late payments, and exemptions under several central schemes, are further discussed in the text. This handbook is crucial for entrepreneurs and business owners to comprehend the intricacies of managing a micro, small, and medium-sized enterprise (MSME) in India.

This book covers all important aspects of Micro, Small and Medium Enterprises (MSMEs), which include Setting-up of MSME, MSME Policy, Regulatory & Legal Framework, Institutional Framework, Financing Options & Modes, MSME Business Development Service Providers, Cluster & Cluster Development, Early Detection of Sickness & Rehabilitation, Impact of Development on the Future of MSMEs.

This book will benefit all those interested in learning about MSMEs in India. Although this book is academic in nature, there is enough information for all types of audience to gain value out of it. This book is the compilation of esteemed articles of acknowledged experts in the various fields of Commerce and Management providing a sufficient depth of the subject to satisfy the need of a level which will be comprehensive and interesting. It is an assemblage of variety of information. With its application oriented and interdisciplinary approach, we hope that the students, teachers, researchers, scientists and industrialists' makers in India and abroad will find this book much more useful. The articles in the book have been contributed by eminent scientists, academicians. Our special thanks and appreciation go to experts and research scholars whose contributions have enriched this book. We thank our publisher Prarup Publishing, India for taking pains in bringing out the book. Finally, we will always remain a debtor to all our well-wishers for their blessings, without which this book would not have come into existence.

Executive Editor
Principal (Dr.) V.S. Shivankar

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The Role of MSMEs in Driving Economic Growth and Employment in India: Challenges and Opportunities

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Introduction:

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as the backbone of the Indian economy, playing a pivotal role in driving economic growth, fostering employment, and promoting inclusive development. Contributing approximately **30% to India's Gross Domestic Product (GDP)** and accounting for nearly **45% of the country's exports**, the MSME sector is a critical engine of economic activity. With over **63 million enterprises** operating across diverse sectors—ranging from manufacturing and services to trade and agriculture—MSMEs are deeply embedded in the socio-economic fabric of the nation. They are not only instrumental in generating employment for over **110 million people** but also serve as a vital source of livelihood for millions of families, particularly in rural and semi-urban areas. This makes the sector the second-largest employment generator in India, after agriculture. The significance of MSMEs extends beyond their economic contributions. They are key drivers of innovation, entrepreneurship, and regional development, often acting as catalysts for industrial growth in Tier 2 and Tier 3 cities. By decentralizing economic activities, MSMEs help reduce regional disparities and promote balanced development across the country. Moreover, they play a crucial role in empowering marginalized groups, including women and rural populations, by providing opportunities for self-employment and skill development. For instance, initiatives like **Self-Help Groups (SHGs)** and **women-led enterprises** have demonstrated the transformative potential of MSMEs in fostering social inclusion and gender equality.

This research paper aims to provide a comprehensive analysis of the role of MSMEs in driving economic growth and employment in India, while addressing the challenges they face and exploring the opportunities for their future growth. By leveraging data from government reports, surveys, and case studies, the study seeks to offer actionable

insights for policymakers, industry stakeholders, and MSMEs themselves, to unlock the sector's full potential and contribute to India's vision of becoming a \$5 trillion economy.

Objectives of the study:

1. To analyze the contribution of MSMEs to India's economic growth and employment.
2. To identify the challenges faced by MSMEs in India.
3. To explore opportunities for the growth and sustainability of the sector.

Research Methodology:

Methodology The study is descriptive in nature and based on secondary data. Relevant information has been collected from various research papers, journals and magazines of national and international publications, various issues of RBI, annual reports from the Ministry of MSME, handbook of statistics of Indian economy and also includes websites of both public and private sector banks.

Contribution of MSMEs to Economic Growth and Employment

Micro, Small, and Medium Enterprises (MSMEs) are a cornerstone of India's economy, contributing significantly to economic growth, employment generation, and inclusive development. According to the **Ministry of MSME (2023)**, the sector contributes approximately **30% to India's Gross Domestic Product (GDP)** and accounts for nearly **45% of the country's exports**. With over **63 million enterprises** operating across diverse sectors such as manufacturing, services, and trade, MSMEs are deeply embedded in the socio-economic fabric of the nation.

The sector's contribution to exports is equally significant. MSMEs account for nearly **45% of India's total exports**, with key sectors such as textiles, handicrafts, and engineering goods leading the way. This export performance not only strengthens India's position in global markets but also generates foreign exchange earnings, which are critical for economic stability. Furthermore, MSMEs play a crucial role in promoting balanced regional development by decentralizing economic activities and creating industrial clusters in Tier 2 and Tier 3 cities.

Despite their contributions, MSMEs face challenges such as limited access to finance, inadequate infrastructure, and low technology adoption. However, government initiatives like **MUDRA Yojana**, **Atmanirbhar Bharat**, and **Make in India** are providing much-needed support to the sector. By addressing these challenges and leveraging opportunities such as digital transformation and global market integration, MSMEs can further enhance their contribution to India's economic growth and employment.

Challenges faced by MSME's:

1. **Access to Finance**-One of the most pressing challenges for MSMEs is limited access to formal credit. According to the **Reserve Bank of India (RBI, 2022)**, only **16% of MSMEs** have access to institutional credit. High-interest rates, lack of collateral, and complex documentation processes often force MSMEs to rely on informal sources of funding, which are expensive and unreliable.
2. **Infrastructure Deficiencies**-Inadequate infrastructure, including poor transportation networks, erratic power supply, and inefficient logistics, significantly increases operational costs for MSMEs. For instance, frequent power outages disrupt production schedules, while poor road connectivity delays the delivery of goods.
3. **Low Technology Adoption**-Many MSMEs struggle with the adoption of modern technologies due to high costs and lack of awareness. The **National Sample Survey Office (NSSO, 2019)** reports that only **10% of MSMEs** use digital tools for business operations.
4. **Skilled Labor Shortage**-The lack of a skilled workforce is another major challenge. Many MSMEs operate in rural and semi-urban areas, where access to quality education and training programs is limited.
5. **Regulatory and Compliance Burdens**-MSMEs often face complex regulatory requirements and frequent policy changes, which create an unfavorable business environment. Compliance with multiple laws, such as labor regulations, tax policies, and environmental standards, increases the administrative burden and operational costs for small businesses.

Opportunities for MSMEs:

Micro, Small, and Medium Enterprises (MSMEs) in India have immense opportunities to grow, innovate, and contribute to the economy. Below are some key opportunities for MSMEs:

1. Government Initiatives and Policy Support

The Indian government has launched several schemes and policies to support MSMEs, providing them with financial, infrastructural, and technological assistance. Key initiatives include:

- **MUDRA Yojana:** Provides loans up to ₹10 lakh to non-corporate small businesses, enabling them to access formal credit.
- **Atmanirbhar Bharat:** Focuses on making India self-reliant by promoting local manufacturing and MSMEs.
- **Make in India:** Encourages MSMEs to participate in global supply chains and boost exports.
- **Udyam Registration Portal:** Simplifies the registration process for MSMEs and provides access to various benefits.

2. Digital Transformation

- **E-commerce Platforms:** MSMEs can leverage platforms like Amazon, Flipkart, and Meesho to reach a wider customer base.
- **Digital Payments:** Adoption of UPI, mobile wallets, and other digital payment systems improves cash flow and transparency.
- **Cloud Computing:** Enables MSMEs to store data securely and access advanced tools for business management.
- **Social Media Marketing:** Low-cost marketing through platforms like Instagram, Facebook, and LinkedIn helps MSMEs build brand awareness.
- According to a **Google-KPMG (2017)** report, digital adoption could help MSMEs contribute **\$216 billion to India's GDP by 2025**.

3. Global Market Integration

MSMEs have significant opportunities to integrate into global value chains and expand their export potential. Initiatives like:

- **Free Trade Agreements (FTAs):** Provide access to international markets with reduced tariffs.
- **Export Promotion Schemes:** Such as the Merchandise Exports from India Scheme (MEIS) and the Export Credit Guarantee Corporation (ECGC) support MSMEs in exploring global markets.
- **E-commerce Exports:** Platforms like Amazon Global Selling and eBay enable MSMEs to sell products internationally.
- The **Ministry of Commerce (2023)** reports that MSMEs contribute **45% of India's exports**, and this share can grow further with global market integration.

4. Sustainability and Green Practices-Opportunities include:

- **Green Technologies:** Adoption of energy-efficient machinery and renewable energy sources.
- **Circular Economy:** Recycling and reusing materials to reduce waste and costs.
- **Certifications:** Obtaining eco-labels and sustainability certifications to enhance market credibility.

5. Skill Development and Innovation-MSMEs can leverage skill development programs and partnerships with educational institutions to build a skilled workforce. Initiatives like:

Skill India Mission: Provides training in various trades to enhance employability.

Innovation Hubs: Collaboration with startups and research institutions to foster innovation and product development.



ABOUT BALWANT COLLEGE, VITA

Balwant College, Vita is one of the biggest and well-known multi-faculty college in the jurisdiction of Shivaji University, Kolhapur, Maharashtra. It was established in 1963 at the behest of Late Shri. Yashwantrao Chavan Saheb, supported generously by local community. It is run by Rayat Shikshan Sanstha to provide quality education to deprived strata of the society. Today, college offers 40 different academic programs through 18 UG and 14 PG Departments. Students are benefitted with the large number of support services and inter-disciplinary activities. The college is reaccredited with A++ grade by NAAC. The college strives continuously to achieve excellence in all the spheres of academic activities. The college has also well-developed competitive guidance centre, rich central library with internet facility and eco-friendly Wi-Fi campus.

ABOUT THE BOOK

Contribution of MSME to the growth of Indian economy have captured the imagination of people today across the India. This book is the compilation of esteemed articles of acknowledged experts in the various fields of Commerce and Management providing a sufficient depth of the subject to satisfy the need of a level which will be comprehensive and interesting. It is an assemblage of variety of information. With its application oriented and interdisciplinary approach, we hope that the students, teachers, researchers, scientists and industrialists' makers in India and abroad will find this book much more useful.

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