



## The Importance of MSMEs in India: A Comprehensive Study

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### **Abstract**

*This study focuses on the significance of Micro, Small, and Medium Enterprises (MSMEs) in India and the ways to address the challenges they encounter. MSMEs are considered the backbone of the Indian economy, contributing nearly 8% to GDP, around 45% of total industrial output, and about 40% of exports. The Micro, Small and Medium Enterprises Development Act, 2006, introduced by the Government of India, provides support for enterprises involved in manufacturing, processing, and storage activities. As a crucial part of the supply chain, MSMEs play an essential role in employment generation and the industrialization of rural and underdeveloped regions. Over time, this sector has grown faster than the overall industrial sector, showing resilience, innovation, and adaptability during economic downturns. Globally too, MSMEs are recognized as important drivers of growth and employment creation at comparatively low costs. This paper examines the classification, features, and government loan schemes available to MSMEs, emphasizing their role in reducing regional disparities and promoting balanced economic development.*

**Keywords:** MSME, Importance, Financial Assistance, Employment Opportunities, Growth, Make in India and Government Initiatives.



## I. INTRODUCTION

In the last fifty years, Micro, Small, and Medium Enterprises (MSMEs) have become one of the most important and fast-growing sectors of the Indian economy. After agriculture, they provide the largest employment opportunities at very low capital costs and thus play a key role in the social and economic progress of the country. Globally, MSMEs are often called growth engines because they make use of local and rural resources, encourage innovative ideas, and adopt diverse business strategies. They also contribute to several national goals such as developing small industries, increasing production, and boosting capital formation.

In India, MSMEs produce a wide variety of goods for both domestic and international markets. They have supported the development of traditional rural industries like khadi, coir, and village-based enterprises, while working closely with government departments, state authorities, and other stakeholders to promote balanced growth.

At the same time, MSMEs continue to face serious challenges. Ahamed and Raju (2023) identified issues such as lack of finance, skilled manpower, infrastructure, quality standards, and regulatory requirements. Maurya (2020) and Singh (2021) pointed out difficulties in accessing low-cost credit, limited ICT facilities, and weak infrastructure. Gaikwa and Dhokare (2020) stressed the high cost of technology upgrades, while Mukherjee (2018) highlighted the absence of modern technology, poor adoption of best practices, and weak global partnerships.

Taking these factors into account, this study examines the importance, classification, features, and significance of MSMEs in India. It also aims to identify their role in reducing regional imbalances and the common challenges they face, along with their potential for sustainable growth.

## II. LITERATURE REVIEW

Researcher of any study could able to understand the previous outcome and the results which is the core for the present study only through reviewing the past literature on the same domain and this section alone helps the researcher to identify their research gap. Various results of researches on the topic were discussed here.

**Kodrat et al., (2019)** found that it is the information sharing, trust; long term relationship and the cooperation among the manufacturer and the vendor have a noteworthy impact on the supply chain management in all the aspects in the MSMEs. **(Ghosh and Deb, 2023)** critically evaluated the marketing challenges in MSMEs and found that it is the distribution, competition, raw materials,



product innovation and quality, branding, finance and promotion, information technology, Government Policies and owner of MSMEs insight have significantly affecting the marketing of the products produced through MSME sector. **(Poornima et al., 2023)** observed that the digital marketing through World Wide Web, social media (Twitter, Instagram and Whatsapp) and search engine optimization (SEO) have optimistically influencing the sales and marketing of MSMEs company products.

**(Pooja, 2009)** studied about the Micro, small and Medium Enterprises (MSMEs) in the Indian Economy: business development strategies. This book covers a range of topics related to the growth of small businesses in India, including their benefits, effectiveness, and issues. More importantly, it makes recommendations for actions that would make small businesses more competitive so they might participate in the global economy. **(Srinivas, 2017)** analysed that MSME play a vital part in the inclusive expansion of the Indian economy based on their performance and contribution to that country's economic growth.

**(Syal, 2015)** revealed that compared to large businesses, the MSME sector had a substantially higher labour intensity. According to the survey, MSME were crucial to the overall development of the nation. It was discovered that MSME has a significant impact on the Indian economy. It had demonstrated significant growth, exceptional performance, and successful initiatives taken by the Government to improve MSMEs. **(Shelly, Sharma, & Bawa 2020)** investigated that micro, small and medium – sized firms were essential for the development of any country's economy and were especially important for developing nations since they would regulate trade, create jobs, and mitigate poverty. This industry in India ranked second in terms of ownership only to agriculture. The paper's main goals were to track changes in the number of MSME units. The Contribution of the Indian MSME industry to GDP, employment, and exports.

### III. RESEARCH METHODOLOGY

The majority of this information is gathered through secondary sources, such as published annual reports, journals, books, and official websites, as well as access to various government programmes and activities.

#### **The research focuses on analysing the following Objectives:**

1. To study about the importance of the MSMEs.
2. To examine about the classification and features of the MSMEs
3. To analyze about what are the various MSME loan-initiated schemes introduced by our Government.



4. To find out the solutions to help the entrepreneurs to update their knowledge and skills to overcome the difficulties in MSME

#### IV. DISCUSSION AND ANALYSIS

The study points out that the main factors affecting the growth of MSMEs are the shortage of raw materials and other common difficulties faced by the sector. These challenges can be reduced by making use of training and skill development programs conducted by both the Union and State Governments, as noted by Ali and Husain (2014). It is important for MSME entrepreneurs to take part in these programs to improve their skills and knowledge. By doing so, they will be better equipped to handle problems in production, finance, and overall management, which in turn will support the steady growth of the sector.

##### 4.1 Meaning of MSME

The Government of India established Micro, Small, and Medium Enterprises (MSMEs) under the *Micro, Small, and Medium Enterprises Development Act, 2006*. MSMEs are regulated by the Ministry of MSME and include enterprises involved in the production, manufacturing, processing, or preservation of goods and commodities.

##### 4.2 Classification of MSMEs

1. **Micro Enterprise** – Investment in plant, machinery, or equipment up to ₹1 crore and turnover up to ₹5 crore.
2. **Small Enterprise** – Investment in plant and machinery up to ₹10 crore and turnover up to ₹50 crore.
3. **Medium Enterprise** – Investment in plant, machinery, or equipment up to ₹50 crore and turnover up to ₹250 crore.



### 4.3 Importance of MSMEs in India

1. **Employment Generation** – MSMEs provide large-scale job opportunities with minimal capital investment, particularly benefiting unemployed youth and graduates. With nearly 1.2 million graduates every year (including 0.8 million engineers), MSMEs serve as a vital platform for young professionals.
2. **Contribution to GDP and Exports** – MSMEs contribute around 8% of India's GDP, 45% of industrial output, and 40% of exports. They also supply components to large firms and MNCs, thereby supporting industrial linkages. GST implementation further increased formalization, raising government revenue.
3. **Inclusive Growth** – MSMEs promote inclusive development by offering opportunities to socially and economically weaker sections, helping to reduce poverty and inequality.
4. **Low-Cost Labour and Reduced Overheads** – Unlike large firms, MSMEs require less skilled labour and incur lower operational costs, making them cost-effective.
5. **Simple Management Structure** – MSMEs are generally owner-driven, with simpler management processes compared to large corporations. This makes decision-making faster and more efficient.

### 4.4 Role in “Make in India”

The *Make in India* initiative relies heavily on MSMEs as its foundation. The government has instructed financial institutions to extend greater credit support to these enterprises. Globally, MSMEs are recognized as instruments of balanced and sustainable development, driving innovation, technology adoption, and entrepreneurship. With over 120 million employees and 45 million units across India, MSMEs contribute significantly to both manufacturing (6.11% of GDP) and services (24.63% of GDP). The MSME Ministry aims to increase their share in GDP to 50% by 2025, supporting India's goal of becoming a \$5 trillion economy.

### 4.5 Features of MSMEs

- Legally recognized in three categories: micro, small, and medium.
- Cover both manufacturing and service sectors.
- Government procurement policies give preference to MSME products.
- Support in simplifying business closure procedures.
- Improve the livelihood of workers and artisans by providing jobs, income, and social security.
- Provide financial assistance and credit support to banks.
- Encourage entrepreneurship and skill development through training programs.



- Facilitate technology development, infrastructure growth, and industry modernization.
- Assist enterprises in accessing domestic and international markets.
- Offer quality certification and testing facilities.
- Support in packaging, branding, and product development as per market needs.

#### 4.6 Loan Schemes for MSMEs

The Government of India, along with financial institutions, has introduced several schemes to support MSMEs, including:

1. **PMEGP (Prime Minister's Employment Generation Programme)** – Promotes self-employment by funding new enterprises.
2. **CGTMSE (Credit Guarantee Scheme)** – Offers collateral-free loans to first-generation entrepreneurs.
3. **MSE-CDP (Cluster Development Programme)** – Improves market access, infrastructure, and technology in industrial clusters.
4. **SFURTI (Fund for Regeneration of Traditional Industries)** – Supports traditional industries and artisans through cluster development.
5. **ESDP (Entrepreneurship and Skill Development Programme)** – Encourages entrepreneurship and skill-building.
6. **ATI (Assistance to Training Institutions)** – Strengthens infrastructure for entrepreneurship training.
7. **Mahila Coir Yojana** – Provides training and self-employment opportunities to women artisans in coir industries.
8. **PMS (Procurement and Marketing Support Scheme)** – Enhances MSMEs' participation in trade fairs and exhibitions, promoting e-marketing and GST awareness.
9. **IC (International Cooperation) Scheme** – Assists MSMEs in participating in global fairs, exhibitions, and markets.
10. **National SC-ST Hub** – Supports SC/ST entrepreneurs in accessing government procurement and schemes.
11. **ASPIRE (Promoting Innovation, Rural Industry & Entrepreneurship)** – Establishes incubation centers and supports agro-rural enterprises.
12. **2nd Loan for Upgradation of PMEGP/Mudra Units** – Provides additional funding for well-performing MSMEs to modernize operations and adopt new technology.



## V. CONCLUSION

The MSME sector plays a pivotal role in sustaining India's economy by providing employment, supporting exports, and encouraging inclusive growth. Acting as a buffer against global economic shocks, MSMEs serve as a "silent engine" of development. They offer opportunities for low-skilled workers, graduates, and underemployed youth, while also enhancing access to bank credit and financial inclusion.

For the long-term sustainability of this sector, the government must strengthen incentives for MSME registration, increase access to low-interest credit, and ease regulatory barriers. Providing greater support to entrepreneurs and ensuring favourable policies will help MSMEs thrive as India advances toward becoming a global economic power. Over the next decade, MSMEs will continue to be the driving force behind India's transformation into a fully developed economy.

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