



## MSMEs: Significance and Challenges of Indian Economic Development

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### **Abstract:**

*The Micro, Small, and Medium Enterprises (MSME) sector is vital to India's economic growth and is frequently referred to as the backbone of the economy. India's industrial landscape is undergoing a significant transformation, as strategic advancements in manufacturing could reshape the nation's economic trajectory. Contribution to GDP and Employment: MSMEs provide employment to over 120 million individuals and account for approximately 29.2% of India's GDP and 36.2% of its manufacturing output. For example, the textile industry, primarily managed by MSMEs, creates jobs for millions in activities such as spinning, weaving, and garment production. This sector ranks as the second-largest source of employment after agriculture, offering job opportunities to countless individuals, particularly in rural and semi-urban regions. Adoption and integration of modern technologies present difficulties for MSMEs due to resource constraints and technological barriers.*

**Keywords:** *MSME, Significance, Challenges.*

### **Introduction:**

India's industrial landscape is at a crossroads, where strategic manufacturing expansion might alter the country's economic trajectory. Despite accounting for 30% of GDP and producing 109 million jobs, MSMEs remain vulnerable; 99.5% are classified as micro companies, and they confront market challenges as well as increases in imports. The India Industrial Development Report 2024-2025 emphasizes the vital need for structural reforms and encourages the use of technology, government procurement, and low-interest loans to assist small businesses.

**Contribution to GDP and Employment:** MSMEs employ more than 120 million people and account for around

29.2% of India's GDP and 36.2% of manufacturing output.

For example, the textile industry, which is dominated by MSMEs, employs millions of people in activities such as spinning, weaving, and apparel fabrication. MSMEs improve India's worldwide standing by accounting for about 45% of total exports (FY 2021-2022).

The Indian handicraft industry, which is mostly made up of small firms, accounts for roughly 40% of global handmade carpet exports.

### **Research Methodology:**

The majority of this material is obtained from secondary sources, such as published annual reports, journals, books,

and official websites, as well as access to various government programs and activities..

### Objectives:

1. To study about the MSMEs.
2. To study about the classification and significance of the MSMEs
3. To find out the challenges faced by MSME sector.

### Result and Discussion:

#### What are MSMEs?

MSME stands for Micro, Small and Medium Enterprises. MSMEs are businesses that produce, process, and preserve goods and commodities.

These are essentially classified according to their investment in manufacturing plant and machinery or service enterprise equipment, as well as their yearly revenue.

**MSME Regulations in India:** The Ministry of Micro, Small, and Medium Enterprises was formed in 2007 by the merger of the Ministries of Small Scale Industries and Agro and Rural Industries. This ministry sets policies, facilitates initiatives, and supervises implementation to help MSMEs expand.

The Micro, Small, and Medium Enterprises Development Act of 2006 addresses a variety of issues impacting MSMEs, creates a National Board for MSMEs, defines the term "enterprise," and enables the Central Government to improve MSME competitiveness.

#### Classification of MSMEs:

The MSME sector includes enterprises involved in a variety of economic activities, such as manufacturing, processing, and services. Traditionally,

MSMEs were classed as either manufacturing or service-based organizations.

MSMEs are currently classified mostly on investment amount and annual turnover.

**Micro Enterprise:** Businesses with an investment of less than Rs 1 crore and turnover of less than Rs 5 crore fall under this category.

**Small Enterprise:** Entities with an investment of less than Rs 10 crore and turnover of less than Rs 50 crore are classified as small enterprises.

**Medium Enterprise:** Businesses with an investment of less than Rs 50 crore and turnover less than or equal to Rs 250 crore fall into the medium-scale category.

#### Significance of the MSME Sector in the Indian Economy:

The **Micro, Small, and Medium Enterprises (MSME)** sector plays a crucial role in India's economic development and is often described as the backbone of the economy. Its importance can be understood through the following points:

##### 1. Major contributor to GDP:

MSMEs contribute considerably to India's GDP. They contribute for a sizable portion of manufacturing production and services, boosting total economic growth.

##### 2. Significant Job Creation Potential:

The sector is the second-largest employment after agriculture, employing millions of people, primarily in rural and semi-urban areas. MSMEs help to eliminate unemployment and increase income at the grassroots level.

### 3. Encourages Inclusive and Balanced Development:

MSMEs generate possibilities in small towns and villages, hence diminishing regional disparities. They promote inclusive growth by encouraging entrepreneurship among economically disadvantaged groups, such as women and young people. Supports Industrialization in Rural Areas

### 4. Boosts Exports:

MSMEs play a major role in India's export performance. They contribute to **nearly half of India's total exports**, especially in sectors like textiles, handicrafts, engineering goods, leather, and pharmaceuticals.

### 5. Encourages Innovation and Entrepreneurship:

MSMEs are flexible and adaptable to changes. They encourage innovation in products, services, and processes, promoting a culture of entrepreneurship across the country.

### 6. Strengthens Supply Chains:

MSMEs act as essential suppliers and service providers to large industries. Their growth improves industrial supply chains, productivity, and competitiveness.

### 7. Low Capital Requirement:

The sector requires relatively low investment compared to large industries, making it ideal for first-generation entrepreneurs and small investors.

### 8. Supports Government Development Initiatives:

Government programs like **Make in India, Atmanirbhar Bharat, Startup India, and Digital India** depend heavily on MSMEs for implementation and success.

### Major Challenges Faced by the MSME Sector:

1. MSMEs have a skilled manpower shortage, limiting expansion and productivity.
2. MSMEs face limited access to financing and financial resources, hindering their ability to expand and grow.
3. MSMEs struggle to maintain market share and profitability due to intense competition, both domestically and internationally.
4. Technology: MSMEs struggle to embrace and integrate modern technology due to limited resources and technological barriers.
5. Inadequate transportation, electrical, and telecommunications infrastructure reduces MSMEs' competitiveness and efficiency.
6. MSMEs have administrative challenges and compliance burdens due to complex regulatory frameworks and bureaucratic procedures.

### Conclusion:

The MSME sector is critical to India's economic growth. It promotes economic growth, creates jobs, encourages innovation, boosts exports, and assures balanced regional development. Improving MSMEs is critical to India's transformation into a globally competitive and self-sustaining economy.

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