

Role of MSME Sector in the Development of National Economy: An Analytical Study

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Article Info

Page Number: 224-229

Publication Issue:

Vol. 68 No. 1 (2019)

Abstract: The importance of the “Micro, Small, and Medium Enterprises” (MSME) sector in the growth of the national economy is the main topic of this essay. MSMEs are regarded as the backbone of the economy since they make a considerable contribution to GDP, job creation, and general economic growth. The goal of the article is to undertake an analytical study to assess the contributions of MSMEs to the national economy, identify the problems they face, and suggest solutions to help MSMEs flourish. Interviews with MSME owners and managers, official statistics, and pertinent literature are only a few of the primary and secondary data sources that will be used in this study. Policymakers, MSME stakeholders, and development professionals will all benefit from the study's findings, which will give them new perspectives on how to encourage MSME development and boost the overall efficiency of the national economy.

Article History

Article Received: 09 September 2019

Revised: 16 October 2019

Accepted: 21 November 2019

Keywords - MSME, National Economy, Economic Development, Employment Generation

Introduction

Micro, Small, and Medium-Sized Businesses (MSMEs) are regarded as the foundation of any nation's economy. By generating employment opportunities, boosting exports, and offering necessary goods and services to the local populace, the MSME sector is fundamental to the economic success of a nation. In recent years, the MSME sector has emerged as the most important sector for economic development. “The MSME sector, which is distinguished by low investment, low technology, and high employment generation, contributes significantly to the Indian economy” (Mollick, 2018). The purpose of this essay is to examine how the MSME sector has contributed to the growth of the national economy. MSME sector has wide range of areas of business and trade. Figure 1 shows the participation of MSMEs in various streams of business:



Source: Ministry of Micro, Small and Medium Enterprises – Annual Report

Figure 1 Various Streams of Business with MSME participation

Research by the International Financial Corporation (IFC) claims that MSMEs account for up to 50% of employment and 90% of all firms in developing nations (IFC, 2010). The MSME sector in India contributes significantly to the national economy, making up about 30% of the GDP and 45% of all manufactured output (Ministry of MSME, 2018). Yet, the MSME sector suffers several issues, including poor technology adoption, weak infrastructure, and limited access to financing (World Bank Group, 2018). These difficulties impede the expansion and development of MSMEs, which in turn has an adverse effect on the nation's overall economic growth. To improve its performance, it is crucial to assess the contribution of the MSME sector to the growth of the national economy. This essay intends to undertake an analytical study to assess MSMEs' contributions to the national economy, identify the problems they face, and suggest solutions to help MSMEs flourish. Figure 2 shows the snapshot of MSME contribution in the economy.

Several studies have shown how MSMEs significantly contribute to the country's economy. The MSME industry in India is essential to the country's economy. The industry provides roughly 30% to the GDP and 45% to all manufactured output, according to the Ministry of Micro, Small, and Medium Businesses (2018). Over 110 million people are employed in the sector, which also contributes to about 40% of India's exports. The MSME sector is a vital part of the national economy, making a major contribution to GDP, job creation, and general economic expansion. Yet, the industry has several difficulties that impede its growth and development, such as restricted access to financing, weak infrastructure, and inadequate technological adoption. Table 1 mentions how MSME is contributing to the national economy.

Table 1 MSME Contribution in National Economy*

(Figures in Rs. Crores adjusted for FISIM ³ at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

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

**Adapted from MSME Annual Report (2017-18).*

Literature Review

Any nation's economic progress depends heavily on the Micro, Small, and Medium Businesses (MSME) sector. The MSME sector has drawn more attention recently as a substantial contributor to the national economy. The literature that has already been written about the contribution of the MSME sector to the growth of the national economy is reviewed in this

part. One of the most energetic and dynamic economic sectors, the MSME sector makes a sizable contribution to the overall national economy. The industry has the potential to generate a significant amount of employment possibilities, particularly in rural regions, and can therefore aid in reducing poverty (Shruti & Singh, 2016). MSMEs also considerably increase export revenue and add to the nation's overall industrial production. The industry fosters a culture of independence and self-reliance and is regarded as the breeding ground for innovation and entrepreneurship.

The literature has also largely highlighted MSMEs' contribution to the nation's industrial output. According to Mollick (2018), the MSME sector is essential to the manufacturing industry and considerably boosts the nation's Gross Domestic Product (GDP). According to the author, the sector's share of the GDP has been rising consistently over time and amounted to over 30% in 2017. The MSME sector plays a significant role in the nation's export revenue. The industry generates over 45% of all exports from the nation, and its percentage of export earnings has been rising over time (Ministry of MSME, 2018). Particularly for developing nations, the sector's contribution to export earnings is crucial because it aids in reducing the trade deficit and fostering economic growth.

A study by Ayyagari et al. (2011) found that MSMEs are a significant contributor to employment generation and economic growth, particularly in developing countries. The study also found that the MSME sector is more resilient to economic shocks than larger firms, making it a crucial component of the economy. Despite the significant contributions of MSMEs to the national economy, the sector faces several challenges that hinder its growth and development. Several studies have highlighted the restricted financial access as a significant hindrance for MSME growth (Beck, Demirguc-Kunt, & Peria, 2011; World Bank Group, 2018).

Inadequate infrastructure is another significant challenge faced by MSMEs. In India, inadequate infrastructure, such as poor transportation facilities and power shortages, has hindered the growth and development of MSMEs (Pandit & Bhatnagar, 2014). Poor technology adoption is also a significant challenge faced by MSMEs. Several studies have highlighted the low levels of technology adoption among MSMEs, which affect their competitiveness and growth (Abor & Quartey, 2010; World Bank Group, 2018).

The government has launched several efforts to encourage and aid the expansion of the MSME sector. To help MSMEs with funding, technical support, and infrastructural needs, the government has put in place several policies and programmes. The government has also established several institutions and organisations to aid in the sector's expansion. The Micro, Small and Medium Businesses Development (MSMED) Act of 2006 is an important step the government took to encourage the expansion of the MSME sector. The National Board for Micro, Small, and Medium Businesses will be established in accordance with the Act, and it will oversee developing policies and programmes to promote the sector's expansion. The Act also calls for the creation of a Credit Guarantee Fund Trust for Micro and Small Businesses, which offers MSMEs loans without the need for collateral.

The government has also created numerous plans and initiatives to provide financial help to the MSMEs by launching many new credit schemes (Singh & Mehra, 2017). Whereas the PMEGP offers financial support for starting new businesses, the CLCSS offers subsidies for capital investments made by MSMEs.

The MSME sector contributes to the economic growth of India. The MSME sector contributes significantly to the creation of jobs, industrial output, and export revenues in the Indian economy. Some of the issues experienced by the MSME sector are the absence of proper infrastructure facilities, access to capital, and technology. To overcome these issues and encourage the expansion and development of the MSME sector, the government must take more action. Therefore, it is crucial to emphasise the importance of the MSME sector in the Indian economy as well as the necessity for further measures and support to encourage its expansion (Gade, 2018).

Several obstacles hinder the MSME sector's growth and development. The difficulties MSMEs encounter have been extensively covered in the literature. According to Shruti and Singh (2016), the MSMEs suffer major difficulties due to a lack of proper infrastructure facilities, financial availability, and technology. Figure 2 presents the challenges faced by the MSME sector.



Figure 2 Challenges of MSME Sector in India

Source: Author

According to the authors, a lack of adequate infrastructure, such as facilities for power supply, transportation, and communication, hinders the sector's growth and development.

The MSMEs also face a sizable obstacle in the form of finance access. The MSME sector has low investment and low technology, which makes it challenging for the sector to acquire loans from the official financial institutions, claims Mollick (2018). Lack of appropriate financing options hinders the sector's growth and development and makes it more difficult for smaller enterprises to compete with larger ones.

Adopting new technologies is a challenge for the MSME sector as well. Singh and Mehra (2017) claim that the MSME sector's inability to access contemporary technologies has an impact on its productivity and competitiveness. The authors contend that in order to increase their productivity and market competitiveness, MSMEs must adopt contemporary technologies.

Technology has had a huge impact on India's MSME industry. The introduction of new technology has boosted MSMEs' competitiveness by raising productivity, cutting costs, and improving efficiency. Yet, due to elements including pricing, skill availability, and information access, MSMEs' adoption of technology differs. The government and other stakeholders have implemented a number of programmes and policies to promote technology adoption and digitalization in the MSME sector. Notwithstanding these initiatives, there is still a considerable disparity between MSMEs with advanced and less advanced technologies. Thus, efforts to close this gap and promote technology-led growth for all MSMEs in India must continue.

According to India's MSME sector's performance evaluation, the industry has been expanding gradually and has a sizable amount of room to grow. The industry makes a sizable contribution to the nation's GDP and jobs. The industry does, however, confront difficulties such a lack of access to funding, technology, and experienced workers. To solve these issues and encourage the expansion of the MSME sector, the government and other stakeholders have put up a number of programmes and policies. Notwithstanding these initiatives, more must be done to boost the sector's performance, especially in regards to aspects like innovation, productivity, and competitiveness. The industry may be able to make a greater contribution to the nation's economic growth and job creation with improved performance in these areas.

Conclusion

Therefore, it is essential to address these challenges and identify strategies for enhancing the growth and development of the MSME sector. The government and policymakers need to create an enabling environment for MSMEs by providing better access to finance, improving infrastructure, and promoting technology adoption. Furthermore, MSMEs need to adopt innovative business models and strategies to remain competitive and grow in a rapidly changing business environment. These strategies may include increasing productivity through process innovation, investing in new technologies, and developing new markets and products (Abor & Quartey, 2010). Overall, this paper's analytical study aims to provide insights into the role of the MSME sector contribution to nation, identify the challenges faced by MSMEs, and recommend strategies for enhancing their growth and development. The findings of this study will have significant implications for policymakers, MSME stakeholders, and development

practitioners in promoting MSME development and improving the overall performance of the national economy.

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