



Analysis of the micro, small and medium-sized enterprises (MSMEs) and inclusive growth in India: Current scenario and future prospective

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Abstract

Micro, small, and medium-sized enterprises (MSMEs) play a critical role in fostering economic development, job creation, poverty reduction, and promoting equality across economies worldwide. This sector serves as a catalyst for equitable distribution and inclusive growth, driving economic progress. MSMEs exhibit the highest employment growth rates, positively impacting export capabilities and industrial advancement. This article aims to assess the performance of MSMEs and their contribution to inclusive prosperity in India. While the Indian economy has shown significant growth over the past two decades, the benefits of this expansion have not been uniformly distributed. The article examines how MSMEs influence various socio-economic groups and the involvement of women in India, using metrics such as employment generation, regional industrial distribution, and entrepreneurship. Secondary sources such as Annual MSME Reports and the Handbook of Indian Economy Statistics provide the foundation for this analysis. The findings highlight that the MSME sector significantly contributes to inclusive growth in India by creating substantial job opportunities, promoting balanced regional industrial development, and fostering entrepreneurship among women from marginalized backgrounds. Initiatives like 'Make in India' and 'Digital India' are expected to further enhance growth prospects for MSMEs in the next decade, opening new avenues for their expansion and contribution to the nation's economic fabric.

Keywords: MSMEs, employment, inclusive growth, entrepreneurship, economic development

Introduction

Given India's vast size, diversity, and economic potential, the industrial sector plays a pivotal role in fostering inclusive economic growth. Since independence, various levels of government have implemented plans to promote industrialization-driven development. The Ministry of Micro, Small and Medium Enterprises (MSMEs) in India categorizes these enterprises based on their size and investment under the Micro, Small and Medium Enterprises Development Act, 2006. MSMEs are classified into manufacturing and service sectors. Manufacturing enterprises engage in the production of goods listed in the Industries (Development and Regulation) Act, 1951, with microenterprises investing up to 25 lakh rupees in plant and machinery, and small enterprises investing between 25 lakh and 5 crore rupees. For service enterprises, microenterprises invest up to 10 lakh rupees, and small enterprises invest between 10 lakh and 2 crore rupees. Medium enterprises invest between 5 crore and 10 crore rupees for manufacturing and between 2 crore and 5 crore rupees for

services. These classifications underscore the critical role MSMEs play in India's economy, contributing significantly to exports, employment, and industrial output. They are instrumental in bridging income disparities by creating jobs, particularly in rural areas, and have a higher employment growth rate relative to larger businesses. Moreover, MSMEs are geographically dispersed and cater to diverse regional, national, and international markets. With approximately 3.6 crore MSME units employing over 8 crore people, these enterprises constitute nearly 22% of India's GDP, 45% of industrial output, and 40% of exports. Their contribution to socio-economic progress is complementary to larger industries. However, MSMEs face challenges that need attention to unleash their full potential in driving inclusive growth. In conclusion, understanding the dynamics of micro-, small-, and medium-sized enterprises in India is crucial for assessing their impact on economic development and their potential to foster inclusive growth. Addressing the challenges they encounter will be essential for maximizing their contributions to India's economic landscape.

Review of Literature

In their 2012 study titled 'Role of Manufacturing Industries in India for Inclusive Growth', Anjum and Tiwari examined how labor reforms and the manufacturing sector have enabled India to capitalize on globalization for inclusive growth. Despite India's remarkable economic performance over the past decade, the study identifies concerns such as outdated labor laws, bureaucratic inspections, and a high incidence of labor disputes. The report suggests that increasing labor market flexibility could leverage India's demographic dividend and promote more inclusive economic growth. In his 2013 article 'Role of Micro, Small and Medium Enterprises in Inclusive Growth', Srinivas argued that MSMEs should be viewed as the engine of India's economic growth. He highlighted recent national and state-level efforts aimed at strengthening the MSME sector. Srinivas identified poor infrastructure and weak marketing linkages as primary obstacles hindering the growth of MSMEs in India. The article proposed various governmental measures to foster the sector's development. Lama's 2013 examination of MSMEs in India focused on their performance within the economy and the impact of government policies. Lama emphasized the need for MSMEs to enhance productivity, improve product quality, reduce costs, and foster innovation. He underscored the importance of supportive policies, conducive work environments, adequate financing, and access to cutting-edge technology to ensure the sustained growth of MSMEs. Manna and Mistri (2017) ^[4] analyzed trends in the MSME sector across India, drawing on supplementary data to illustrate the prevalence of micro-enterprises in every state. They noted significant advancements in small and medium-sized enterprises (SMEs) in several progressive states, highlighting the sector's role in regional development and the reduction of regional disparities. Mohanty's 2018 study delved into the conditions and performance of the MSME sector, outlining government initiatives and interventions supported by SIDBI (Small Industries Development Bank of India). The research commended the sector's robust performance over the previous five years, underscoring its increasing significance for urban and rural development. Zanjurne's 2018 exploratory study examined the performance and growth potential of the MSME sector, emphasizing its substantial contributions to exports, employment, and manufacturing output based on secondary data analysis. Singh's 2020 study explored the function, performance, challenges, and future prospects of the MSME sector in India. The research highlighted the sector's significant contributions to industrial output, exports, employment generation, and the cultivation of a broad entrepreneurial base. Singh also discussed the sector's resilience and adaptation strategies in response to the COVID-19 pandemic, advocating for targeted policy interventions to mitigate its adverse effects. Das's 2020 investigation underscored the pivotal role of MSMEs in India's economic development. The study emphasized their contributions to socio-economic growth through job creation, increased production and exports, and the promotion of development in underserved rural areas. Each study contributes valuable insights into the multifaceted role of MSMEs in India's economic landscape, highlighting their potential for driving inclusive growth and the importance of supportive policy frameworks to sustain their momentum.

Methodology of the study

This article is based on a thorough analysis of secondary data sourced primarily from the Indian Economy Statistics Handbook and the Annual Reports of the Ministry of Micro, Small and Medium Enterprises (MSMEs), supplemented by other publicly available sources.

Performance of MSME Sector in India

In India, Micro, Small, and Medium Enterprises (MSMEs) constitute one of the crucial pillars of our economy. Currently, there are over 6 crore operational MSMEs in the country, providing employment to more than 11 crore people. This sector contributes approximately 30% to India's Gross Domestic Product (GDP) and holds a substantial share of around 50% in India's total exports. Historically, MSMEs have played a pivotal role in safeguarding the country from various economic shocks and adversities. Given the profound significance of the MSME sector in India, the following section provides a detailed overview of its critical importance for the Indian economy.

MSMEs' Role in Inclusive Growth in India

- **MSMEs in India serve as catalysts for fostering equitable growth:** A well-functioning MSME sector is crucial for ensuring balanced and inclusive prosperity in the country. The role of MSMEs in India's inclusive growth is underscored by their impact in several key areas:
- **Job Creation:** MSMEs are significant contributors to employment generation, both in urban and rural areas. They provide opportunities across various skill levels, thereby reducing unemployment and underemployment.
- **Regional Distribution:** MSMEs play a vital role in distributing industrial activities geographically, bridging the gap between urban and rural areas, and promoting balanced regional development. They contribute to decentralizing economic activities and supporting local economies.
- **Empowerment of Socio-Economic Groups:** MSMEs empower various socio-economic groups such as Other Backward Classes (OBCs), Scheduled Castes (SCs), Scheduled Tribes (STs), and other marginalized communities. These enterprises enable entrepreneurship among these groups, fostering economic independence and social empowerment.
- **Women Entrepreneurship:** MSMEs also play a crucial role in promoting women's entrepreneurship in India. They provide platforms for women to enter and thrive in business ventures, thereby contributing to gender equality and economic inclusion.

Employment Creation

The MSME sector holds significant importance in India due to its low capital requirements, positioning it as the second-largest employer after agriculture. According to data from the 73rd round of the National Sample Survey conducted in 2015–2016, MSMEs contributed approximately 1,109.89 lakh jobs across the country. Rural areas accounted for 44.85% of the total employment generated by this sector, while urban areas accounted for the remaining 55.85%. This distribution underscores the sector's role in providing substantial employment opportunities in both rural and

urban regions, thereby contributing significantly to India's overall employment landscape.

Table 1: MSME Sector Employment distribution in India's Rural and Urban Locations No. of Lakhs

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	1076.19	31.95	1.75	1109.89	100

Source: Ministry of MSME Annual Report 2019-20

Regional Dispersal of Industries

The MSME sector plays a pivotal role in shaping the distribution of industries across India's regions. While large-scale industries tend to concentrate in major states and metropolitan areas, MSME firms are dispersed throughout the country, effectively bridging regional disparities in industrial growth. According to Table-2, approximately 48.75% of MSME units are located in urban areas, with the remaining 51.25% situated in rural areas. This balanced distribution highlights the sector's significant contribution to fostering economic activity and employment opportunities across both urban and rural landscapes in India.

Table 2: MSME Unit distribution in India by Rural and Urban Locations No. of 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	309.00	48.75
All	630.52	3.31	0.05	633.88	100

Source: Ministry of MSME Annual Report 2019-20

Entrepreneurship by Different Social Groups

However, MSME enterprises in India are characterized by ownership that spans diverse socio-economic categories, including Scheduled Castes (SC), Scheduled Tribes (ST), Other Backward Classes (OBC), and other groups. In contrast, large-scale industries are often dominated by entrepreneurs from more privileged social backgrounds. According to Table-3, which presents data from the NSS's 73rd round, socially disadvantaged groups collectively owned approximately 66.27% of MSMEs. Specifically, OBC business owners accounted for 49.72%, SC business owners for 12.45%, and ST business owners for 4.10% of MSMEs. In rural areas, nearly 73.67% of MSMEs were owned by socially disadvantaged groups, highlighting the sector's role in promoting entrepreneurship and economic empowerment among marginalized communities across India's rural and urban landscapes.

Table 3: MSME distribution on the basis of percentage by social group ownership in India by Rural and Urban Locations

Sector	SC	ST	OBC	Other	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 2019-20

MSMEs and Women's Participation

Over the past few decades, India's traditional communities have experienced a gradual but notable transformation, with an increasing number of women entering the workforce.

While men continue to dominate the business sector, the participation of women is steadily rising. The MSME sector has played a pivotal role in enabling women to engage in entrepreneurship and contribute to the national economy. According to Table-4 from the NSS 73rd round, women-owned businesses comprise 20.37% of all MSME enterprises in India. This statistic underscores the growing influence of women entrepreneurs within the MSME landscape, highlighting their increasing role in driving economic activity and fostering inclusive growth across the country.

Table 4: MSME Percentage distribution of ownership of MSMEs by Male and Female in India by Rural and Urban Locations

Sector	Male	Female	All
Rural	77.76	22.24	100
Urban	51.58	18.42	100
All	79.63	20.37	100

Source: Ministry of MSME Annual Report 2019-20

Problems Faced by MSMEs

The MSME sector faces numerous obstacles despite its critical importance to the Indian economy and inclusive growth. Key challenges hindering the development of MSMEs include:

- **Limited Access to Credit:** MSMEs often struggle to obtain sufficient and timely credit from banks. This hampers their ability to invest in essential resources such as machinery, equipment, and raw materials, as well as meeting day-to-day operational expenses.
- **Competition from Large Firms and Multinationals:** MSMEs face intense competition from larger companies and multinational corporations, which offer high-quality goods at competitive prices. This competitive pressure can squeeze MSMEs' market share and profitability.
- **Infrastructure Constraints:** Rapid growth among MSMEs is constrained by inadequate infrastructure. Poor infrastructure limits their production capacity and increases operational costs, making them less competitive in the market.
- **Shortages of Raw Materials and Skilled Labor:** MSMEs struggle with shortages of essential inputs such as raw materials and skilled labor. Limited financial capacity affects their ability to attract and retain qualified personnel, which in turn impacts management capabilities, marketing efforts, and brand development. Outdated technology further complicates production efficiency.
- **Market Access Challenges:** MSMEs face difficulties in accessing both domestic and international markets. They encounter barriers such as high entry costs, inadequate marketing resources, and challenges in setting competitive prices for their products. Limited investment in advertising and market research also hampers their ability to effectively reach potential customers and expand their market presence.

Despite facing numerous challenges, the MSME sector in India has displayed remarkable ingenuity, adaptability, and resilience in navigating the complexities of the current economic landscape. These enterprises have shown a

capacity for innovation by developing creative solutions to operational and market challenges. Their flexibility allows them to quickly adjust strategies in response to changing market conditions and regulatory environments. Moreover, MSMEs have demonstrated resilience by enduring economic downturns, policy changes, and other adversities while continuing to contribute significantly to employment generation, economic growth, and regional development. This resilience underscores the vital role of MSMEs as a cornerstone of India's economic fabric, driving forward despite the obstacles they face.

Policy Implications

In recent years, India's economy has experienced rapid expansion; however, this growth has not translated into significant improvements in socio-economic conditions for the population. Factors such as slow poverty reduction, inadequate high-quality employment opportunities, widening provincial disparities, and inequalities among different social groups underscore the necessity for an inclusive growth approach, which the government has prioritized in its development agenda. In this context, the Micro, Small, and Medium Enterprises (MSME) sector plays a crucial role in fostering overall economic growth by significantly contributing to job creation, exports, manufacturing output, and GDP growth, especially with a focus on inclusive development.

The MSME sector currently serves as a cornerstone of India's inclusive growth strategy by generating a substantial number of job opportunities, reducing regional disparities, and integrating marginalized populations into the economy. Government initiatives like 'Make in India' and 'Digital India' further bolster the sector's potential for future growth. However, challenges such as inadequate infrastructure, limited access to finance, and technological advancements constrain the sector's expansion prospects. Addressing these challenges requires enhanced government support and policy interventions aimed at strengthening infrastructure, improving financial access, and promoting technological upgrades within the MSME sector.

To ensure inclusive growth, it is imperative that the government continues to prioritize and support the MSME sector effectively. This includes implementing targeted policies, fostering a conducive business environment, and providing necessary resources to enable MSMEs to thrive and contribute more comprehensively to India's economic development goals.

Conclusion & future prospective of MSMEs

With a projected GDP growth rate of 8.5% and an anticipated GDP reaching USD 5 trillion by 2025, India is poised to emerge as a major global economy. The micro-, small-, and medium-sized enterprises (MSMEs) are expected to play a crucial role in driving this economic development forward. It is imperative to fully develop the MSME sector to foster inclusive growth across the country. Participation of both domestic and foreign corporations in initiatives like 'Make in India' is expected to bolster MSMEs' contributions to India's rapid economic growth. These enterprises can facilitate indigenization efforts, aligning with the vision of 'Make in India with zero defect and zero effect', which emphasizes sustainable

manufacturing practices. Furthermore, the 'Digital India' initiative presents significant opportunities for MSMEs to leverage advancements in information, communication, and telecommunications technologies, thereby enhancing their productivity and competitiveness.

The MSME sector is projected to expand its share of GDP, driven by job creation opportunities, particularly in rural areas where there is a substantial labor force. This expansion can help reduce regional disparities and elevate the quality and volume of India's exports, thereby attracting foreign capital inflows. To achieve this potential, India must invest in world-class technology and skill development to equip its workforce for a robust MSME sector, similar to countries where MSMEs contribute significantly higher percentages to GDP.

To facilitate the growth of MSMEs, the government must provide substantial support, including policy frameworks that promote ease of doing business, access to finance, infrastructure development, and capacity building. Creating a conducive environment for MSMEs to thrive is crucial for achieving sustainable economic growth and enhancing India's global economic standing.

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