

## **EMPOWERING INDIA'S FUTURE – CROSS SECTIONAL ANALYSIS OF MSME's IN INDIA**

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### **Abstract**

The Micro, Small & Medium enterprises (MSMEs) is one of the most vital sectors of any economy in general and India in particular in ensuring equitable, inclusive & employment friendly economic growth. This sector also plays very important role in socio-economic development of Indian economy on account of their inherent advantages like low capital requirement, high employment generation, and decentralization of industrial activity, utilization of locally available resources and widening of entrepreneurial base. MSMEs has performed exceedingly well and enabled the country to achieve a wide measure of industrial growth and diversification over five decades. In this paper an attempt has been made to analyze the performance of the MSME sector and will touch upon, in brief, some of the various measures in recent times undertaken by Government of India and SIDBI to advance this vibrant and booming sector. The paper also discusses the present status of MSME sector and its performance. Secondary data has been analyzed to study the MSMEs sector and its performance in India. A number of literatures have reviewed to understand the major advantages and the challenges of MSMEs sector in Indian economy so far. The study analysis has found that MSMEs has exhibited a good performance in recent years. However at the same time its challenges are also not ignored. The role of MSMEs sector is growing rapidly and they have become a thrust area for future growth for rural and urban development and its economic upliftments have a lot of policy implication.

### **INTRODUCTION**

Micro, Small and Medium Enterprise (MSME) sector has emerged as a very important sector of the Indian economy, playing a vital role in employment generation, innovation, exports, and inclusive growth of the economy. The MSME sector also contributes in a significant way to the growth of the Indian economy with a vast network of about 63.38 million<sup>1</sup> enterprises. The sector contributes about 45% to manufacturing output, more than 40% of exports, over 28% of the GDP while creating employment for about 111 million people, which in terms of volume stands next to agricultural sector. The MSME sector in India is exceedingly heterogeneous in terms of size of the enterprises and variety of products and services, and levels of technology employed. However, the sector has the potential to grow at a faster pace. In order to enable identification and facilitate development of MSMEs, Government of India had enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. The MSMED Act, 2006 has provided the legal framework for identifying the concept of 'enterprise' which includes entities both in manufacturing and service sectors and has categorized the enterprises into three tiers viz., Micro, Small and Medium. The definition of small scale industries differs from country to country as the classification is based on different parameters viz., turnover, number of

employees, etc. Under the Industrial Development and Regulation (IDR) Act, 1951, the notion of small industries in India was conceived in terms of number of employees. In absence and difficulty in obtaining reliable data on number of employees, investments in plant & machinery / equipment was suggested as a proxy. Currently, the classification of MSMEs is done based on investment in plant & machinery/equipment in accordance with the provision of Section 7 of MSME Act, 2006, as indicated below in Table I:

**Table I**

Definition of MSME		
Classification	Manufacturing Enterprise (Investment in Plant and Machinery)	Service Enterprise (Investment in Equipment)
Micro	Upto ₹25 lakh	Upto ₹10 lakh
Small	Above ₹25 lakh to ₹5 crore	Above ₹10 lakh to ₹2 crore
Medium	Above ₹5 crore to ₹10 crore	Above ₹2 crore to ₹5 crore

The MSME sector is universally regarded as an engine of economic growth and for promoting equitable development. The sector also helps the economy by promoting a balanced development of industries across all regions of the nation. The major advantage of the sector is its employment potential at low capital cost. 3 Small and Medium enterprises (SMEs) account for about 90 percent of businesses and more than 50 percent of employment worldwide. They are key engines of job creation and economic growth in developing countries. India is currently one of the fastest growing economies of the world. MSME sector is likely to continue to play a significant role in the growth of the Indian economy. In the last ten years, MSME sector has shown impressive growth in terms of parameters like number of units, production, employment, and exports. Given the right set of support systems and enabling framework, this sector can contribute much more, enabling it to actualize its immense potential. As per the latest data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation (MoSPI), the contribution of MSME Sector in the country's GVA and GDP, at current prices for the last five years is given in Table II:

**Table II**

Year	Share of MSME Gross Value Added (GVA) in all India Gross Domestic Product (GDP)	Share of MSME manufacturing GVA in all India Manufacturing GVA
2019-20	30.48%	40.67%
2020-21	27.24%	40.30%
2021-22	29.15%	40.83%

The contribution of the MSME sector to India's GDP remained stagnant around 30% in recent years. GVA of MSMEs accelerated marginally during the same period.

**Objectives:**

1. To assess the current institutional framework available for MSMEs
2. Factors affecting adequate and timely availability of finance
3. To suggest measures for accelerating growth of the sector.

## METHODOLOGY

The present study adopts an exploratory approach to understand the MSME framework. The Reserve Bank of India's 'Report of the Working Group on Digital Lending including Online Platforms and Mobile Aps' (RBI 2021) provides a comprehensive information on importance of MSMEs in India and globally and existing guidelines and regulations for consumer protection in under the segment. The study is completely based on the secondary information gathered from various sources as mentioned above. The study is descriptive in nature and based on secondary data. Relevant information have 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.

## REVIEW OF LITERATURE

Large number of studies has been conducted in India on various aspects related to MSMEs. Researchers have made a sincere and intense attempt to study relevant literature on the topic. Some important studies are as follows:

**Sen, Salim (2016)** conducted a study to deal with high regional disparity in the growth of MSME sector. Realizing the importance of this sector, Government of West Bengal along with Government of India introduced certain schemes to solve the issues of high cost of credit, staffing, planning, and inadequate infrastructure facilities. **Vasa (2016)** conducted a research on some selected industries of chemical, pharmaceutical and textile sector of India and China and their impact on the performance of SMEs of these sectors. However, till now there are some problems associated with MSMEs, like lack of capital sufficiency, lack of entry to global market, high cost of credit, problems of stuffing, planning and product display, and inadequate infrastructure facilities etc.

**N. Aruna (2015)** conducted a study to identify the problems faced by enterprises due to which the growth of enterprises is affected, in turn affecting growth of the country. Further, the data collected revealed that overall globalised business environment of India has been favourable for the growth of micro and small-scale industries. Simple and clear policies and acts are to be made so that these enterprises can understand them and utilize as well as implement them in business for compliance and secure benefits. There are many government schemes but from the study it was observed that most of these enterprises are not aware and do not understand how they can benefit out of them.

**Goel, Prakash (2014)** conducted a study to understand, analyse and interpret role of Micro enterprises in rapid growth of Haryana. Four economic parameters namely no. of units, investment, employment and production have been used as yardsticks to gauge or evaluate the contribution of the micro-enterprises in improving the financial health and economic scenario of the state. To ensure implementation of the policies and programmes for micro enterprises, we need good governance which means SMART (SIMPLE, Moral, Action Oriented, Responsive and Transparent) administration.

**Kavitha, Sangeetha (2014)** explored the conditions of small enterprises in Tirupur. Growth of industries in Tirupur has also faced many problems in its journey in terms of industrial organization, city infrastructure, electricity deficit, export procedures, workforce organization, Government policies, and pollution and so on. This study attempts to analyse various problem for exporters in Tirupur. The major problems of competition, raw materials supplies, power shortage etc. are being encountered and need to be addressed by government by devising suitable policies and strategies. Chandraiah, Vani (2014) concluded that MSME sector faces key challenges like non-availability of adequate and timely credit, high cost of credit, collateral requirement, limited access to equity capital, procurement of raw material at a competitive cost etc. It includes measures addressing concerns of credit, fiscal support, cluster-based development, infrastructure, technology and marketing etc. **Ali and Husain (2014)** conducted a study to present the status of MSMEs in India. There are situations where there is need of credit from banks, rural sector facing competition from the multinational companies, lack of knowledge in technology due to non-availability of effective training and skill development programs etc. Foreign banks are not taking so much interest in sanctioning loan to the MSME sector.

**Jessica, Marimuthu (2013)** identified the difficulties of textile companies facing challenges from the general manager's point of view on financial sustainability of selected textile companies in Tamil Nadu. **Srinivas, K T (2013)** showcased that for the development of India, there is a great need for development of MSMEs. He conducted research for understanding the concept of MSMEs and their requirements, proper utilisation of financial aids provided to MSMEs etc. in the state of Karnataka. **Gupta and Agarwal (2013)** conducted a study on various schemes for MSMEs with special reference to SIDBI. It focussed on various financial and non-financial assistance provided by SIDBI to MSMEs.

**Rao and Apparao (2013)** studied MSMEs contribution to GDP, employment and the role of MSMEs in the supply chain for large businesses. They found that most of the MSMEs in rural areas face the problem of shortage of finance to advance business growth. MSMEs require lot of setup capital, liquid capital, investment capital to survive and grow in this competitive business world.

**Yadav (2013)** explored that MSMEs after their maximum use of trade credit approached commercial banks for short term borrowings. The owner's funds in these industries due to limited access to the market, are short in supply. **Shihabudheen N. (2013)** conducted a study on the benefits and objectives of MSMEs Act 2006. The act is to provide facilities to MSMEs for the development of the enterprises to enhance competitiveness. The study was important to know the impact of MSME act on SSI Units, and to suggest the measures for the enhanced performance. Special funds were created for promotion, development and enhancing competition, progressive credit policies for micro and small enterprises. Both primary and secondary data have been used in the study. **Kumar, Gugloth (2012)** conducted a study on the importance and performance of Micro, Small and Medium Enterprises in India. The target of this paper is to analyse financial support

for MSMEs. The study further analyses the importance of working capital management in the success of small businesses.

**Suresh and Mohideen (2012)** tried to bring the focus on the biggest challenge of MSMEs i.e. access to non-debt based and nontraditional financial products such as external commercial borrowings, private equity, factoring etc. The most critical problem faced by this sector is absence of equity capital. The present scenario in India for MSMEs is archaic; it does not focus on revival of SMEs. **Lahiri (2012)** studied the reasons for lack of sufficient funds for meeting the credit needs of MSMEs. Lahiri critically analysed the impact of Micro, Small and Medium Enterprise Development (MSMED) Act, 2006 by analysing the opportunities and threats of MSMEs in India during the liberalization period and Impact on the performance of MSMEs in India during the pre-and post-liberalization period. Lahiri observed at what level the Government should intervene to close a sick MSME unit. The second issue is about the relative priorities of different parties associated with MSME units like owners, shareholders and employees, in case of conflict. Another major problem for MSMEs is their less capacity of collective bargaining in the credit market.

**Shastri, Tripathi and Ali (2011)** in their article “Liberalization and its impact on small scale industries”, showcased the impact of liberalisation on SSIs. MSMEs are facing both the challenges and opportunities. They need to compete on cost, quality and products both internationally and domestically. This can be met if and only if ideal investment in technology, production process, and effective marketing is made. **Mapdar (2011)** showcased the major challenges faced by the handloom owners and designers. The research has brought out various aspects that have strategic and policy/managerial implications. The study is related to production related issues, financial aspects, and management practices. Getting irregular credit facilities, lack of knowledge of raw material, price fluctuations of cotton, infrastructure problems etc. are some major challenges faced by the rural MSMEs in the textile clusters in West Bengal.

**Kristin Hallberg, (2000)** Governments in both industrialized and developing countries provide a wide variety of programs to assist small- and medium-scale enterprises (SMEs). Despite the success of SME strategies in a few countries, the majority of developing countries have found that the impact of their SME development programs on enterprise performance has been less than satisfactory.

**Krishna Kumar (2003)** He views that In India foreign collaborations have generally been to have the technological transfer which involves high cost. It is important to understand the MSME's single handed cannot afford this cost, however if a group of MSME's of similar nature of work come together the burden of the foreign collaborations can be shared effectively. **Sickness and Rehabilitation of MSMEs in India (2005)**. The author feels that the SMEs will fail in a sector for a variety of reasons. Global competitiveness has strained India's already weak infrastructure, which severely hinders the production of small scale industries. There are a multitude of reasons for failure, however, not all of them related to competition. Lack of knowledge, available capital, qualified workers or even motivation on the part of the owner are all viable reasons for business failure.

Whatever the reason for failure, the business must have some sort of recourse to 'declare' its sickness. In India, what constitutes this mechanism is relatively unclear, and despite current progress, has left much inefficiency.

**Y.Srinivas (2005)** MSMEs play a very significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. However, despite their importance to the economy, most SMEs are not able to stand up to the challenges of globalisation, mainly because of difficulties in the area of financing. With the opening up of the Indian economy, it has become necessary to consider measures for smoothening the flow of credit to this sector. Small and Medium Enterprises (SMEs) play a very significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. However, despite their importance to the economy, most SMEs are not able to stand up to the challenges of globalisation, mainly because of difficulties in the area of financing. Govt easing hurdles for SMEs.

**Anand Sharma (2012)** it's not very often that small and medium companies get their due in the broader economic spectrum. Acknowledging their contribution to the Indian economy, industry and commerce minister Anand Sharma says the government is working on to ensure that SMEs are given their pride of place and the government has taken measures like cutting down on red tape and invoking a provision for the first time to remove multiple-level approvals required.

### **Analysis of Schemes and Policies Developed by Ministry of MSME and its Organizations.**

#### **❖ Prime Minister's Employment Generation Programme(PMEGP)**

To generate sustainable and continuous employment opportunities for rural and unemployed youth as well as prospective traditional artisans and thereby halt occupational migration. Credit linked subsidy program for setting up new micro-enterprise in non-farm sector. Margin Money subsidy ranges from 15% to 35% of project cost for projects up to Rs. 50 Lakh in Manufacturing sector and Rs. 20 Lakh in the Service sector. MSME SCHEMES 03 Prime Minister's Employment Generation Programme (PMEGP) for beneficiaries belonging to Special categories such as SC/ST/ Women/ Minorities/ Ex-Servicemen/ Transgender/ Aspirational districts/NER, the margin money subsidy is 35% in rural areas and 25% in urban areas. Maximum subsidy would be 15% of the project cost (20% for NER and Hill States). The balance amount of the total project cost is provided by Banks as term loan.

#### **❖ Credit Guarantee Scheme for Micro & Small Enterprises(CGTMSE)**

To encourage first generation entrepreneurs to venture into self-employment opportunities by facilitating credit guarantee support for collateral free / third-party guarantee-free loans to the Micro and Small enterprises (MSEs), especially in the absence of collateral. Credit guarantee for loans up to Rs. 5 crores, without collateral and

third-party guarantee. Guarantee coverage ranges from 85% (Micro Enterprise up to Rs 5 lakhs) to 75% (others). 50% coverage is for retail activity.

#### ❖ **Micro & Small Enterprises Cluster Development Programme(MSE-CDP) Scheme**

To support the sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills & quality, market access, etc. To create/upgrade infrastructural facilities in the new/ existing Industrial Areas/Clusters of MSEs. To set up Common Facility Centres (for testing, training, raw material depot, effluent treatment, complementing production processes, etc). Promotion of green & sustainable manufacturing technology for the clusters. Creation of Common Facility Centers including Plug & Play Facilities. Support for Infrastructure Development Projects including Flatted Factory Complexes.

#### ❖ **Entrepreneurship and Skill Development Programme(ESDP) Scheme**

To promote new enterprises, capacity building of existing MSMEs and inculcating entrepreneurial culture in the country. Widen the base of entrepreneurship by development, achievement, motivation and entrepreneurial skill to the different sections of the society.

#### ❖ **Coir Vikas Yojana- Umbrella Scheme**

To enhance utilization of the raw material abundantly available in the country at economic levels of production. **Coir Vikas Yojana (CVY)** is an Umbrella Scheme being implemented by Coir Board for the Development of Coir Industry all over the country. To increase income/returns to workers, entrepreneurs, exporters and other stake-holders of the industry. Full utilization of the market potential of the products within the country and abroad and Industry related functional support services. Development of improved equipments machinery, processes and new products. Promoting large scale investment in Coir Industry. Development of skilled manpower for Coir industry, empowerment of rural women and Employment Generation. Welfare measures for coir workers. To upgrade the coir industry through technological interventions and integration of various Digital Platforms.

#### ❖ **Procurement and Marketing Support (PMS) Scheme**

The scheme aims to promote new market access initiatives like organizing / participation in National / International Trade Fairs / Exhibitions / MSME Expo, etc. held across the country and to create awareness and educate the MSMEs about the importance / methods/ process of packaging in marketing, latest packaging technology, import-export policy and procedure, GeM portal, MSME Conclave, latest developments in international / national trade and other subjects / topics relevant for market access developments. The key advantages are Market access, Capacity building and Development of retail outlet.

### ❖ **A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE)**

To set up a network of Livelihood Business Incubators (LBIs), predominantly in the rural and underserved areas, to promote innovation and accelerate entrepreneurship for the following; Generate employment opportunities by facilitating formal, scalable micro-enterprise creation in the agro-rural sector. Skill, up-skill, re-skill unemployed, self-employed/ wage earners in new technologies in the agro-rural sector. Provide skilled human capital to nearby industrial clusters and promote innovations for strengthening the competitiveness in the MSME sector. Maximum of INR 1 crore. To Government agencies & INR 75 lakh to Private agencies for procuring plant and machinery. Maximum of INR 1 crore. To Government and Private Agencies as operational expenditure support towards manpower cost, running incubation and skill development programmers, etc.

### ❖ **PM Vishwakarma - Enabling Artisans and Craftspeople to Build Enterprises**

To enable the recognition of artisans and craftspeople as Vishwakarma, making them eligible to avail all the benefits under the Scheme. To provide skill upgradation to hone their skills and make relevant and suitable training opportunities available to them. To provide support for better and modern tools to enhance their capability, productivity, and quality of products and services. To provide the beneficiaries an easy access to collateral free credit and reduce the cost of credit by providing interest subvention. To provide incentives for digital transactions to encourage digital empowerment of Vishwakarmas. To provide a platform for brand promotion and market linkages to help them access new opportunities for growth.

### ❖ **Tool Rooms and Technical Institutions - A Component of Infrastructure Development & Capacity Building**

Tool Room & Technical Institutions are concentrated on an integrated Development of the relevant sector of industries to help MSME. Total 18 MSME Tool Rooms & Technical institutions established PAN India serving in the relevant sector like General Engineering, foundry & forging, electronics, fragrance, glass, sports good and footwear etc. Improves access of MSMEs to tooling facilities for enhancement of their efficiency and providing industry ready manpower by conducting training programme. Process and Product development in relevant sector. Consultancy and job works in relevant sector.

### ❖ **MSME Champions Scheme**

Ministry of MSME had been implementing Credit Linked Capital Subsidy and Technology Upgradation Scheme (CLCS-TUS) for promoting competitiveness amongst Micro, Small and Medium Enterprises (MSMEs) by the way of wastage reduction through Lean Manufacturing, support for Design improvement, building awareness on Intellectual Property Rights, Zero Defect Zero Effect (ZED) Scheme, digitally empowerment of MSME through Digital MSME and to promote & support untapped creativity of individual and to promote adoption of latest technologies in manufacturing as well as knowledge based innovation MSMEs through Incubation across India. MSME Champions scheme has been



formulated through Standing Finance Committee (SFC) by merging all 6 components of erstwhile Technology Upgradation Scheme (TUS) for a period of 5 years i.e. 2021-22 to 2025-26. It is a holistic approach to unify, synergize and converge various schemes and interventions with a single purpose. The end objective is to pick up clusters and enterprises and modernize their processes, reduce wastages, sharpen business competitiveness and facilitate their National and Global reach and excellence. There are 3 components under the new MSME Champions scheme, the details of which are as below

1. MSME-Sustainable (ZED)
2. MSME – Innovative ( for Incubation, IPR, Design)
3. MSME-Competitive (Lean)
4. Digital MSME (Newly launched)

### **Availability of Formal Credit to MSMEs**

Traditionally the RBI has been the primary source of data of formal credit to MSMEs. In recent years, however, Credit Information Companies (CICs) are also providing similar data. It is observed that the data reported by RBI and TransUnion CIBIL differ. Sometime it creates confusion among the users about the current status of access to formal finance to this sector. This apparent divergence, however, is primarily due to the difference in methodology adopted by CIBIL. In order to estimate the total credit supply in MSME sector, CIBIL considers two major components: (i) commercial entities with aggregate exposure up to ₹25 crores; and (ii) individuals in retail borrowing for commercial end use (indicatively this comprises business loans, commercial vehicle, construction equipment loans, loan against property and other retail loans (non-consumption) taken by self-employed individuals and professionals).

As per data collated by RBI, as on March 2018, outstanding MSME credit to enterprises stood at ₹14.68 lakh crore. This includes ₹13.24 lakh crore from banks and ₹1.44 lakh crore from the NBFCs. At the same time point, CIBIL has reported MSMEs outstanding credit data of ₹13.69 lakh crore. RBI's data is slightly higher since CIBIL considers data upto ₹25 crore only. So far as the MSME credit to enterprises is concerned, the data between RBI and CIBIL is fairly congruous. But, additionally CIBIL classifies outstanding credit to individuals, on the basis of end use of funds declared by retail borrowers, also as loans under MSMEs. As on March 2018, this amount stood at ₹9.04 lakh crore. However, these are retail borrowings, and cannot be classified as MSME loans as per the notifications of Ministry of MSME. Further, banks report the data to CIBIL on monthly basis which are not necessarily audited, whereas RBI publications disseminates audited figure.

RBI collects MSMEs credit data from scheduled commercial banks (SCBs) through 3 different returns serving different objectives. First, the sectoral credit data of Monetary Policy Department (MPD) is monthly data and it does not capture data from all the SCBs. These data are provisional in nature and relate to select 41 scheduled commercial banks.

From September 2017, the data account for about 90 per cent of total non-food credit extended by all SCBs. MPD data provides a quick and initial trends of financing to various sectors, including MSMEs. Second, borrower category-wise data captured at the account level in the Basic Statistical Return (BSR) system also provides MSMEs credit data. But the BSR compilation process was last modified in the year 2008 and banks continue to generate the BSR report based on the same logic. Third data source of MSMEs credit relates to the priority sector data collected by FIDD from all SCBs. PSL classification is not only based on the activity but also captures details like investment in SIDBI, Mudra, etc. Overdraft given in A/c under Jan Dhan Yojana is also classified as Micro. Priority sector classification is complex which captures credit, investment and certain deposit data and also PSLC, IBC, pass through certificate, various aggregate limits for banking system while classifying the accounts. Therefore, MSMEs credit data as captured under priority sector is considered consistent in terms of its concepts, definition, coverage and it captures the changing financing dynamics of the sector over time.

### **Challenges towards MSME Lending:**

Despite an ongoing policy focus, growth of MSME credit has been weak. Years of mandated lending have not produced enough progress and new approaches are needed. At an overall level, India's banking system is still small relative to the needs of the real sector. Against this backdrop, MSMEs find it challenging to access adequate credit.

- High NPA levels in MSME loan portfolio
- Information asymmetry and cost to service
- Lender coverage

### **CONCLUSION**

With a GDP growth rate of 8.5% and a predicted GDP of USD 5 trillion by 2025, the Indian economy is expected to emerge as one of the world's main economies. The micro-, small- and medium-sized businesses are probably going to play a big part in how the economy develops. MSME must be developed to the fullest extent possible in order to promote inclusive growth. With both domestic and foreign corporations participating in the 'Make in India' initiative, MSMEs might support the nation's ongoing and anticipated rapid growth. These sectors can aid in the process of indigenisation. The concept 'Make in India with zero defect and zero effect' provides MSMEs with an excellent opportunity to expand while minimising environmental impact. The 'Digital India' revolution provides another huge opportunity to enhance MSMEs' contributions to the information, communication and telecommunications industry. The MSME sector is projected to contribute to the Indian economy by increasing the MSME share of GDP. In this industry, there are several prospects to create jobs. The MSME sector is anticipated to make use of rural areas' labour force. Therefore, this will aid in eliminating regional inequities. MSMEs have the potential to significantly increase both the quality and volume of India's exports. This industry has a great deal of potential to bring in foreign capital to India. It's critical to build world-class technology and to train the nation's people resources if the country wants to

develop a robust MSME sector comparable to some of the nations where MSMEs contribute 35%–60% of the country's GDP. In order to create an atmosphere where MSME businesses may readily develop, the government must offer more assistance to these industries.

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