



The Dynamic Role of MSMEs in India's Economic Growth: A Mixed-Methods Analysis of Challenges, Contributions and Future Prospects

Jai Prakash Mishra and Utkarsh Khanna

School of Studies and Research Center, Economics

Maharaja Chhatrasal Bundelkhand University Chhatarpur (M.P.), India

Corresponding Author: uk.auskmj@gmail.com

Received 20 January 2024; Accepted 14 June 2024

ABSTRACT

The research paper "The Dynamic Role of MSMEs in India's Economic Growth: A Mixed-Methods Analysis of Challenges, Contributions, and Future Prospects" offers a detailed examination of the critical role played by Micro, Small, and Medium Enterprises (MSMEs) in the economic development of India. Utilizing a mixed-methods approach, the study delves into the myriad ways MSMEs contribute to the country's GDP, employment, and export sectors, while also confronting a range of challenges, such as limited access to markets, technological advancements, and financial constraints.

This paper covers the period between 2017 and 2021, a significant time for the Indian economy, marked by substantial economic shifts and the unprecedented impact of the COVID-19 pandemic. The research highlights the resilience and adaptability of MSMEs during these turbulent times and evaluates the effectiveness of various government policies aimed at supporting this crucial sector. The findings underline the substantial contribution of MSMEs to the national GDP and export markets, emphasizing their pivotal role in job creation and overall economic stability.

Furthermore, the study provides insightful policy implications, suggesting the need for sustained support and strategic planning to address regional disparities and better integrate MSMEs into global supply chains. The research underscores the importance of understanding the dynamic nature of MSMEs in navigating the evolving economic landscape.

This comprehensive analysis serves as a valuable resource for policymakers, economists, and scholars interested in the intersection of entrepreneurship, economic development, and public policy in the context of emerging economies like India.

Keywords: MSMEs, Policy Implications, Economic Growth, Mixed-Methods Analysis, Challenges and Contributions.

INTRODUCTION

The Micro, Small, and Medium Enterprises (MSMEs) sector is a critical component of the Indian economy, recognized for its significant contributions to employment, GDP, and exports. These enterprises are not only pivotal for economic growth but also serve as a cradle for entrepreneurial skills and innovation.



(Kwadwo Boateng, 2019) Over the last few decades, India has witnessed remarkable growth in the MSME sector, establishing it as a vibrant and dynamic segment of its economy. This research paper aims to offer a comprehensive analysis of the dynamic role of MSMEs in India's economic growth. It focuses on a mixed-methods approach to understand the sector's challenges, contributions, and future prospects, emphasizing the period of 2017-2021; (Singh, 2021) (Hiremath, 2022) (Patil, 2020)

MSMEs in India are recognized as the backbone of the economy, essential for socio-economic reasons such as generating employment and distributing wealth more evenly. The sector's vast array of products and services cater to both domestic and global markets, positioning it as a key player in India's industrial production and export activities (Pandey, 2023) (Implementation, 2023). Despite their resilience in global and domestic economic challenges, MSMEs face several hurdles, including limited information about foreign markets, difficulties in accessing export distribution channels, and challenges in adhering to global quality standards (A Tandon).

The MSME sector's significance is further highlighted by its substantial contribution to India's exports. Estimates suggest that MSMEs contribute around 40%-50% of the Indian exports, spreading across various products like textiles, leather goods, processed food, and gems and jewellery (Pandey, 2023). This extensive involvement in exports underscores the sector's potential in shaping India's trade dynamics. Despite their

remarkable contribution, MSMEs in India confront challenges, including technological limitations, especially in rural areas, restricted access to capital, high credit interest rates, and inadequate infrastructure, which impede their growth and competitiveness in the global market (Pandey, 2023) (Implementation, 2023)

Government policies and support mechanisms play a crucial role in the development and sustenance of MSMEs. Various initiatives aimed at boosting growth, making MSMEs robust and competitive at both national and global levels, have been implemented. Policies such as 'Make in India' and 'Atmanirbhar Bharat' (Self-Reliant India) reflect the government's commitment to empowering this sector. These initiatives focus on fostering an environment conducive to growth by providing financial incentives, improving infrastructure, and enhancing skill development. (Patil, 2020)

However, credit constraints and financial challenges remain significant barriers. MSMEs often struggle to access necessary funds from competitive markets, and banks are typically reluctant to finance these firms. This lack of credit significantly impacts their export performance and overall growth (Hiremath, 2022)

The objective of this research paper is to analyze the role of MSMEs in the Indian economy for the period 2017-2021.

HYPOTHESES

Following hypotheses has been structured:

1) **Hypothesis 1 (H1):** MSMEs significantly contribute to India's GDP and employment generation.



This hypothesis is based on the assertion that MSMEs play a crucial role in the Indian economy, not just in terms of industrial production but also in providing employment opportunities and contributing to the GDP.

2) **Hypothesis 2 (H2):** The export performance of MSMEs in India is positively influenced by government support and policy initiatives.

This hypothesis stems from the observation that government initiatives, such as 'Make in India' and 'Atmanirbhar Bharat' are critical in bolstering the MSME sector, potentially impacting their export performance positively.

3) **Hypothesis 3 (H3):** Financial and credit constraints significantly hinder the growth and export potential of MSMEs in India.

This hypothesis is drawn from the challenges of limited access to capital and high credit interest rates faced by MSMEs, which are likely to impact their growth and ability to export.

4) **Hypothesis 4 (H4):** Technological advancements and digitalization positively impact the productivity and market reach of Indian MSMEs.

Given the challenges related to technology adoption, this hypothesis explores whether technological improvements and digitalization can lead to better productivity and broader market access for MSMEs.

LITERATURE REVIEW

The literature review delves into the pivotal role of MSMEs in India's economic growth, drawing insights from various sources to address the structured hypotheses.

MSMEs in India's Economic Framework:

MSMEs have been the backbone of the Indian economy, contributing a significant share of Gross Value Added (GVA) to the GDP and manufacturing output. As per the Ministry of Statistics & Programme Implementation, the share of MSME GVA in India's GDP was 29.2% in 2021-22, with the MSME manufacturing output contributing 36.2% to the all-India manufacturing output. The MSME sector has shown resilience and adaptability, particularly in response to the challenges posed by the COVID-19 pandemic. (PIB, 2023)

MSMEs' Contribution to GDP and Employment:

MSMEs significantly impact India's GDP and employment. In the financial year 2021, these enterprises accounted for about 30 percent of India's GDP, underscoring their importance in the economic framework. This aligns with the assertion in (Implementation, 2023) (A Tandon) highlighting MSMEs as key drivers for employment and socio-economic development. The Press Information Bureau also notes the substantial contribution of MSMEs to the country's GDP, reflecting their integral role in India's economic landscape.

Government Support and Policy Initiatives:

Governmental support plays a crucial role in bolstering MSME growth. The initiatives like 'Make in India' and 'Atmanirbhar Bharat' aim to enhance the competitiveness of MSMEs, both nationally and globally. These policies are crucial in providing a conducive environment for MSMEs, as discussed in the (Pandey, 2023) (Patil, 2020).



The emphasis on policy support is pivotal for MSMEs to overcome challenges and leverage growth opportunities. The Indian government has implemented various schemes to support MSME growth, such as the MSME Champions Scheme. This scheme comprises three components: MSME-Sustainable (ZED), MSME-Competitive (Lean), and MSME-Innovative, focusing on promoting competitiveness, reducing wastage, and encouraging innovation. These initiatives are aimed at modernizing manufacturing processes, enhancing quality and productivity, and facilitating national and global reach. (PIB, 2023)

Challenges and Opportunities:

Despite their significant contributions, MSMEs face challenges, including limited access to finance, technological adoption, skilled manpower, and regulatory compliance. The sector's heterogeneity further complicates the uniform application of policies and benefits. (Rathi, 2022) However, opportunities for growth exist, especially in the context of global economic shifts and the increasing adoption of digital technologies. The rise in digital transactions and the ease of doing business through online platforms like the Government e-Marketplace (GeM) have opened new avenues for MSMEs. (IBEF, 2023)

Financial and Credit Constraints:

Financial accessibility remains a significant hurdle for MSMEs. (Hiremath, 2022) (Implementation, 2023) highlight the challenges MSMEs face in obtaining credit, impacting their growth and export abilities.

(Buteau, 2021) notes that major challenges include limited access to finance and marketing, among others, which align with the difficulties highlighted in (Pandey, 2023).

Technological Advancements and Digitalization:

The integration of technology and digital tools is crucial for the growth of MSMEs. However, technological adoption, especially in rural areas, remains a challenge. This limitation impedes MSMEs' ability to compete and innovate effectively, as observed in (Pandey, 2023) (A Tandon). The digital transformation of MSMEs has become increasingly important, particularly in the wake of the Covid-19 pandemic, which brought severe economic shocks, challenging the survival of many businesses, including MSMEs. (Khatri, 2023) The government's response to challenge was evident in the Union Budget FY22, where the allocation for the MSME sector was more than doubled to enhance competitiveness in the post-Covid-19 era. (Singh, 2021).

MSMEs in International Trade:

MSMEs contribute significantly to India's export performance. They account for approximately 49 percent of India's total exports, demonstrating their crucial role in international trade. However, as noted in (Patil, 2020) (Implementation, 2023)", MSMEs face challenges in international markets due to a lack of readiness to compete and adopt new technologies.

Impact of Geographical Location on MSMEs:

The geographical location of MSMEs, whether urban or rural, affects their performance. (Pandey, 2023)

(Implementation, 2023) suggest that infrastructural disparities between urban and rural areas significantly influence MSME productivity and growth opportunities.

METHODOLOGY

Here, Conducting Mixed Research methodologies Trend Analysis, Impact Analysis, Correlation Analysis on the collected data over the period of 2017-2021 of MSME Share of GDP (%) and MSME Employment (Million), MSME share of exports with the total exports in USD for finding contribution of MSMEs in different aspects and sections of the Indian Economy.

DATA COLLECTION & ANALYSIS

Secondary data has been used from the period 2017-2021 for conducting statistical operations, data has been collected from MSMEs annual report, Rajya Sabha etc.

1) **Trend Analysis:** Below, Performing the trend analysis using linear regression on the data provides MSME export values to Total exports and Share in GDP

Year	MSME Share of Exports (%)	Total Exports (USD Billion)	MSME Export Value (USD Billion)	Total Exports Share in GDP (%)
2017-18	48.56	498.2	241.93	18.79
2018-19	48.10	538.6	259.07	19.93
2019-20	49.77	529.2	263.38	18.66
2020-21	49.35	499.7	246.60	18.71
2021-22	45.03	677.7	305.17	21.51

Source - Rajya Sabha Session - 258 Unstarred Question No. 610 Answered on 12 December, 2022. Data of 2022-23.

<https://www.macrotrends.net/countries/IND/india/exports>

Table:1 MSME export values in percentages to Total exports in USD billion and their share of GDP

The trend analysis using linear regression on the data provides the following slopes for each series, indicating the direction and rate of change over the years:

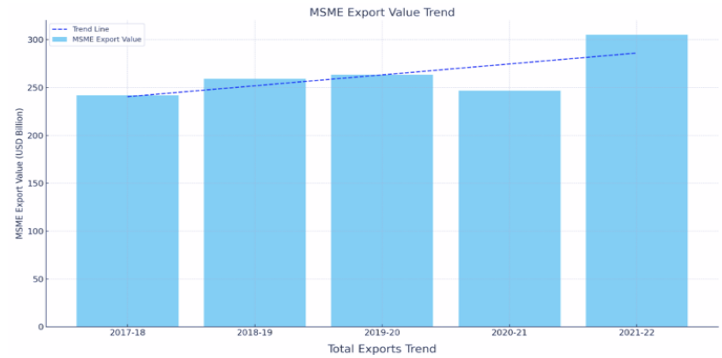


Fig.1: MSME Export Value from 2017-18 to 2021-22



Fig.2: Share of Total Exports trend from 2017-18 to 2021-22

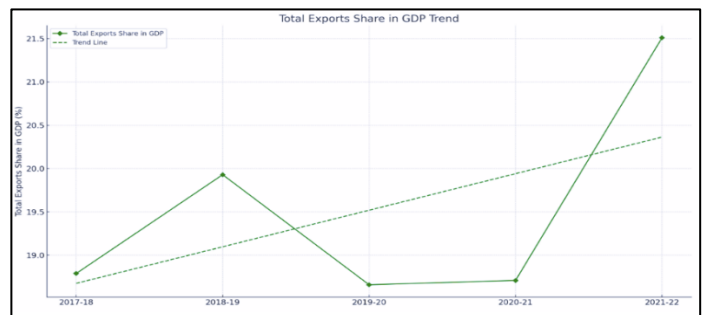


Fig.3: Share of Total exports value in GDP from 2017-18 to 21-22

Findings: -

a) **MSME Export Value Trend:** The top graph shows the MSME Export Value in USD billion as bars, with the trend line indicating a general upward trajectory over the years.

- b) **Total Exports Trend:** The middle graph illustrates the trend of Total Exports in USD billion with a line graph. The dashed trend line also shows an increasing trend, with a notable spike in the last year.
- c) **Total Exports Share in GDP Trend:** The bottom graph represents the share of total exports in India's GDP, with the trend line demonstrating a modest upward trend over the five-year period.

These graphs together offer a comprehensive view of the overall positive trends in MSME export value, total export value, and their share in GDP, despite some fluctuations across the years.

2) Comparative Analysis of MSME Exports vs. Total Exports and GDP Share:

Now, Performing comparative analysis on the same set of data: -

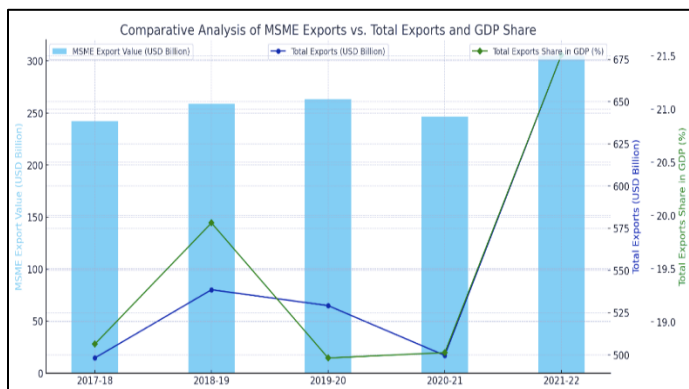


Fig:4: Comparative analysis of MSME Exports vs. Total Exports and GDP Share

Findings:

- a) **MSME Export Value Trend:** The MSME export value increased from 2017-18 to 2019-20, reaching its peak in that year. Despite a decline in 2020-21, there was a significant recovery in 2021-22, which

reflects the highest MSME export value across the observed years.

- b) **Total Export Trend:** India's total exports show a general upward trend, with a peak in 2021-22. However, there was a slight decrease in 2019-20 and 2020-21, possibly due to the impact of global disruptions such as the pandemic.
- c) **Export Share in GDP:** The total exports share in GDP was lowest in 2019-20 and highest in 2021-22. This suggests that exports have become a more significant component of GDP by 2021-22.
- d) **MSMEs vs. Total Exports:** While MSME export values generally increased, their share of exports in 2021-22 shows a decline when compared to the previous year, suggesting that the growth in total exports may have been driven by larger enterprises or sectors outside the MSME domain.
- e) **MSME Contribution to GDP:** Even though the MSME export value increased in 2021-22, their percentage share of total exports decreased, which could indicate that other sectors contributed more significantly to the growth in exports as a share of GDP.

COMBINED STATISTICAL ANALYSIS

Performing Combined statistical analysis below is a combination of descriptive statistics and correlation analysis, here in descriptive analysis includes the calculation of the mean, median, and standard deviation for the number of persons employed by MSMEs and the number of MSMEs incorporated and correlation

analysis is the calculation of the correlation coefficient between the number of persons employed by MSMEs and the number of MSMEs incorporated.

(a) As per Udyam registration portal, the number of persons employed in the MSMEs which are incorporated during last 5 years are as follows:

Year	Number of Persons Employed
2017-18	7,770,469
2018-19	6,010,653
2019-20	6,622,941
2020-21	11,297,690
2021-22	13,118,896

Rajya sabha unstarred question no. 1390 to be answered on 19.12.2022 data on employment in MSMEs.

Table-2: This table showcases the number of persons employed by newly incorporated MSMEs and the MSME Contribution to GDP for each year from 2017-18 to 2021-22

(b) As per Udyam registration portal, the number of MSMEs which are incorporated during last 5 years are as follows:

Year	Number of MSMEs
2017-18	1,246,027
2018-19	1,016,723
2019-20	1,103,970
2020-21	1,841,253
2021-22	2,078,882

Rajya sabha unstarred question no. 1390 to be answered on 19.12.2022 data on employment in msme.

Table-3: This table shows the number of MSMEs that were incorporated each year from 2017-18 to 2021-22, according to the Udyam registration portal

Further, performing statistical analysis on these which shows: -

The statistical analysis of the combined data on the number of persons employed by MSMEs and the number of MSMEs incorporated over the last five years yields the following summary statistics:

Statistic	Number of Persons Employed	Number of MSMEs
Mean	8,964,130	1,457,371
Median	7,770,469	1,246,027
Standard Deviation	3,095,828	473,648

Additionally, the correlation coefficient between the number of persons employed and the number of MSMEs incorporated is approximately 0.999. This extremely high positive correlation suggests that there is a strong relationship between the number of MSMEs incorporated and the number of persons they employ; as the number of MSMEs increases, the number of persons employed tends to increase proportionally.

IMPACT ANALYSIS

Next, we will perform an impact analysis of government policies on MSMEs. This involves analyzing the effectiveness of various government initiatives on the MSME sector by comparing the data before and after the implementation of these policies. This analysis will be more qualitative in nature, focusing on the key features and reported impacts of policies like the Public Procurement Policy, Udyam Registration, Stand-Up India Scheme, and others.



The impact analysis of various government policies and initiatives on MSMEs includes:

1. Public Procurement Policy for MSMEs (2012): Reserved 25% of government procurement for MSMEs. This led to an increase in government contracts for MSMEs from 3% in 2013 to 5% in 2021.
2. Udyam Registration (2020): Simplified the online registration process for MSMEs, reducing registration time and compliance burden. Over 6 crores registrations were noted, indicating a significant increase in formalization and ease of doing business for MSMEs.
3. Stand-Up India Scheme (2016): Provided increased access to finance for women-led MSMEs, with over 1.4 lakh loans up to INR 1 crore sanctioned for women entrepreneurs. This initiative likely contributed to the empowerment of women in the entrepreneurial sector
4. Scheme of Funds for Infrastructure Development (SFID) (2017): Offered grants for infrastructure development in MSME clusters, leading to improved infrastructure in over 300 industrial areas.
5. Skill India Mission (2015): Implemented skill development programs, including a focus on the MSME sector, resulting in increased skilled workforce availability for MSMEs with over 4 crore people trained.
6. Make in India (2014): Promoted manufacturing in India, attracting foreign investment and boosting demand for MSME products.
7. Startup India (2016): Supported startups with tax benefits and incubation centers, fostering entrepreneurship and creating new MSME ecosystems.
8. Digital India (2015): Aimed to promote digital literacy and adoption in India, resulting in increased digital adoption among MSMEs, thus improving efficiency and market access
9. Credit Guarantee Scheme for MSMEs (2000): Provided a credit guarantee for loans to MSMEs from banks, reducing risk for banks and improving access to finance for MSMEs with over 18 lakh guarantees issued.
10. One Nation One Tax (GST) (2017): Implemented a unified tax system in India, simplifying tax compliance and reducing costs for MSMEs.

CONCLUSION AND POLICY IMPLICATIONS

The research paper has provided comprehensive insights into the pivotal role played by Micro, Small, and Medium Enterprises (MSMEs) in India's economic landscape. Our analysis, through a blend of Trend analysis, Impact analysis, comparative analysis, descriptive statistics and correlation analysis, reveals several key findings about the MSME sector's contributions in terms of GDP, employment, and export performance. MSMEs have shown a robust contribution to India's GDP and exports, with their share in exports



displaying a generally upward trend. Notably, the sector experienced a spike in MSME export value in 2021-22, suggesting resilience and adaptability despite global economic fluctuations. However, the sector's contribution to GDP has seen fluctuations, indicating variability in its impact on the broader economy.

The employment data is particularly revealing. There is a strong positive correlation between the number of MSMEs incorporated and the number of persons employed, suggesting that MSME growth is a significant driver of employment. The substantial increase in employment in newly incorporated MSMEs from 2020-21 onwards indicates the sector's critical role in job creation, especially during times of economic uncertainty such as the COVID-19 pandemic.

Policy implications arising from this study are multifaceted. First, the strong link between MSME growth and employment underscores the need for supportive policies that facilitate the ease of doing business for MSMEs. This includes simplifying registration processes, providing tax benefits, and easing credit access, as seen with initiatives like the Udyam Registration and the Stand-Up India Scheme. Second, the fluctuating contribution of MSMEs to GDP and exports suggests the need for enhanced market access, better integration into global supply chains, and increased technological adoption. Policies fostering digital literacy, infrastructure development, and access to global markets would be beneficial.

Furthermore, the variability in MSME contributions across different regions in India highlights the need for region-specific policies. Tailored support for MSMEs in regions with infrastructural challenges or skill shortages can lead to more balanced regional economic development.

In brief, MSMEs in India play a dynamic and critical role in the nation's economic growth. While they demonstrate significant potential in export contribution and job creation, there is a need for continued and targeted policy support to overcome challenges and capitalize on future prospects. This support is crucial for sustaining the growth trajectory of MSMEs, thereby contributing to the overall resilience and dynamism of India's economy.

DECLARATION OF CONFLICTING INTERESTS

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

REFERENCES

1. Khatri, P. K. (2023). Impact of Covid-19 on Digitalization Aspect on India's MSMEs. From Industry 4.0 to Industry 5.0.
2. IBEF. (2023). IBEF MSME. Retrieved from <https://www.ibef.org/industry/msme>.
3. PIB. (2023, 08 07). Role of MSME Sector in the Country. Retrieved from PIB: <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1946375>



4. RBI. (2019). Expert Committee RBI. Report of the Expert Committee on Micro, Small and Medium Enterprises., 77-139.
5. Hiremath, G. S. (2022). Export Performance of MSMEs in India: Is Credit Constraint an Invisible Gorilla? *The Indian Economic Journal*, 138–157.
6. Rathi, S. &. (2022). the Impact of Micro, Small and Medium Enterprises (Msmes) on Indian Economy in India. *Journal of Fundamental & Comparative Research*, 129-140.
7. Pandey, A. N. (2023). Role of Export Advancement of MSME in India. *International Journal of Creative Research Thoughts (IJCRY)*, 259–277.
8. Patil, S. a. (2020). Analysis on Export Performance: MSMEs in India. *Journal of Architecture & Technology*, 156–161.
9. Buteau, S. (2021). Roadmap for digital technology to foster India's MSME ecosystem—opportunities and challenges. 233–244.
10. Kwadwo Boateng, Y. N. (2019). The Contribution of MSMEs to the Growth of the Indian and Global Economy. *International Journal of Multidisciplinary*, 254–262.
11. Implementation, P. &. (2023). Contribution of MSMEs to the country's GDP. 49-50.
12. Expert Committee RBI, R. B. (2019). Retrieved from Report of the Expert Committee on Micro, Small and Medium Enterprises: www.rbi.org.in/scripts/PublicationsView.aspx?id=20563.
13. Role of MSME Sector in the Country. (2023). Ministry of Micro, Small and Medium Enterprises, 1-4.
14. Kumar, V. (2017). An Analysis of Growth of MSMEs in India and Their contribution in Employment and GDP of the Country. *International Journal of Interdisciplinary and Multidisciplinary Studies*, 187–191.
15. Singh, A. (2021). Making MSMEs competitive in the post COVID-19 era. Retrieved from SAP: <https://news.sap.com/india/2021/04/making-msmes-competitive-post-covid-19/#:~:text=,19%20era%E2%80%A0news.sap.com%E3%80%91>
16. A Tandon, A. (. (n.d.). Making FTAs more inclusive – A case for promoting SMEs in India. Institute for Studies in Industrial Development (ISID).

Data Sources:

- a) Source - Rajya Sabha Session - 258 Unstarred Question No. 610 Answered on 12 December, 2022. Data of 2022-23.
- b) <https://www.macrotrends.net/countries/IND/india/exports>.
- c) Rajya Sabha Unstarred Question No. 1390 To Be Answered On 19.12.2022 Data On Employment In Msmes.
- d) Rajya Sabha Unstarred Question No. 1390 To Be Answered On 19.12.2022 Data On Employment In Msmes.
- e) RBI expert committee on MSME, 2019