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Dear Mr. Ashwin, Dr. Sapna S

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## MSME in India: Evolution & Recent Trend in MSME Definitions.

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### I.1 - Introduction

Small-scale enterprises have been around for a long time – over 4,000 years. They began in ancient cultures where trade was buzzing. Many societies, like the Indians, Egyptians, Arabs, Babylonians, Jews, Greeks, & Romans played a part. In those early days, skilled artisans made goods at home. They took care of everything—producing and selling right in the market-place.

#### I.1.1 Recent History

As time went on, small-scale industries started to come back strongly around the world. In India, the British government shut down handicrafts without giving people new jobs. This led to a big realization and even de-industrialization in some areas. To fight this problem, Gandhi's idea of Swaraj helped boost village and Khadi industries. After India gained independence, the Government of India (GOI) launched its first big industrial policy in 1948 called the Industrial Policy Resolutions (IPRs)<sup>1</sup>. This policy showed how important cottage & small-scale industries were. It highlighted that these industries needed things like raw materials, cheap power sources, technical support & good marketing for their products to grow.

Later on, in the planned development phase, they created the Industries (Development and Regulation) Act back in 1951 to support small-scale

& cottage industries. Both the IPRs & this law laid the groundwork for small businesses to thrive and play a key role in the national economy<sup>2</sup>. By 1952-53, five boards were set up for handloom, handicrafts, coir, silk & village industries based on advice from the Cottage Industries Board to help grow small industry areas.

Following that advice, India created the Small-Scale Industries Board (SSIB) & the Central Small Industries Organization (CSIO) in 1954-55. They defined Small-Scale Industries (SSIs) as businesses with fewer than 50 workers if they used power or fewer than 100 workers if they didn't use power and had assets worth not more than Rs. 5 lakhs. After the First Five Year Plan ended, they introduced the Second Industrial Policy Resolution in 1956 during the Second Five Year Plan period based on P.C. Mahalanobis's industrialization model. This resolution further encouraged cottage & small-scale industries by limiting how much large industries could produce directly offering subsidies & creating industrial estates for them<sup>3</sup>.

These actions really helped small-scale businesses improve with better production methods, easy access to electricity in rural areas & better credit access too. Beyond these changes, new policies came up when they revealed the Industrial Licensing Policy in 1970 which fixed some problems of that earlier act from 1951. According

<sup>1</sup>Srinivas Reddy Dwarampudi. History of SSI, [https://www.slideshare.net/filingsamadhan/msme-policies-changing-msme-landscape?qid=a9441b0d-eafa-45e8-9542-e39cc64b8382&v=&b=&from\\_search=1](https://www.slideshare.net/filingsamadhan/msme-policies-changing-msme-landscape?qid=a9441b0d-eafa-45e8-9542-e39cc64b8382&v=&b=&from_search=1)

<sup>2</sup>Role and Importance of Small-Scale Industries, <https://www.toppr.com/guides/business-environment/scales-of-business/small-scale-industries/>

<sup>3</sup>Vijay Singh. A study on the Major Constraints of Workers in MSME. Academia, [https://www.Academia.Edu/39054628/A\\_STUDY\\_ON\\_THE\\_MAJOR\\_CONSTRAINTS\\_OF\\_WORKERS\\_IN\\_MSME\\_AT\\_MEDICAL\\_AREA\\_OF\\_JHANSI\\_A\\_dissertation\\_Report\\_Submitted\\_in\\_Partial\\_Fulfillment\\_of\\_the\\_Requirements\\_of\\_or\\_the\\_Degree\\_of\\_MASTER\\_OF\\_BUSINESS\\_ADMINISTRATION\\_MBA-FM\\_Under\\_The\\_Supervision\\_of\\_//](https://www.Academia.Edu/39054628/A_STUDY_ON_THE_MAJOR_CONSTRAINTS_OF_WORKERS_IN_MSME_AT_MEDICAL_AREA_OF_JHANSI_A_dissertation_Report_Submitted_in_Partial_Fulfillment_of_the_Requirements_of_or_the_Degree_of_MASTER_OF_BUSINESS_ADMINISTRATION_MBA-FM_Under_The_Supervision_of_//)



to this new policy investments up to Rs. 1 crore were free from needing licensing.

Later in 1977 when the Janata Government took charge a New Industrial Policy was rolled out bringing major changes for Small-Scale Industries (SSIs). Even with these changes adopted though – small industry's growth had ups & downs until the 1980s with no real improvement because of a lot of red tape and strict regulations along with limited awareness out there<sup>4</sup>. In response to these market shifts – the New Economic Policy popped up in '91 aiming to free India's industrial scene from unnecessary bureaucratic rules.

The reform period was super important for the Indian economy. It gave the Central Government the ability to take key actions in many areas. This included things like industrial licensing, foreign investment, and technology upgrades. They also worked on fixing struggling public sector companies & providing financial help. There was a push to bring in raw materials and equipment, plus connecting the local economy with the global market. Quite a lot was going on.

In July 1993, the Reserve Bank of India kicked off a cool new program aimed at small & medium businesses. It focused on helping meet the credit needs of rural & small-scale industries through commercial banks. Then, moving ahead to May 1999, the Gupta Study Group was formed. Its main goal? *To give strong support for tiny businesses.* They aimed to lessen help for small businesses while not having any special plans for medium-sized ones – other than credit support.

Investment levels kept rising, which was great. The ceiling for investments in plant & machinery began at Rs. 500,000 back in 1955 and grew all the way to Rs. 5 crores by 2006. These increases were made to help grow the small industrial sector even more.

Then in 2006, after looking at SSIs again from 1999, the Government of India brought out the MSMED Act. This renamed it to Micro, Small, and Medium Enterprises (MSMEs). The law's goal is to boost MSMEs & help them compete better both at home and abroad. For the first time ever, this law acknowledged "enterprise" and split everything into three clear levels: Micro, Small, & Medium Enterprises.

The act aimed to bring more energy and opportunity to MSMEs – think production, jobs,

exports – and create a competitive vibe by getting rid of barriers & setting up helpful rules. These rules included credit provisions, grants for businesses, training for workers and owners, plus support for marketing and infrastructure<sup>5</sup>. It also focused on things like cluster development and addressing basic needs like power & water, transportation certainty, raw material supply – with lots of other important needs too.

**I. 2 - Relevance of MSME**

In the business world, Micro, Small, and Medium Enterprises (MSMEs are truly a driving force behind the Indian economy. Over the last fifty years, these small businesses have proven to be essential. They create tons of jobs while needing much less capital than bigger companies. Plus, they help boost industrial growth in rural areas and places that are still developing<sup>6</sup>. This helps to even out regional inequalities & promotes a fairer spread of wealth across the country.

MSMEs also work nicely alongside larger industries, often acting as support units. Because of this, they play a huge part in the nation's socio-economic growth. The Micro, Small, and Medium Enterprises Development Act of 2006 was a big step forward. It extended MSMEs to include service sectors too. These classifications rely mainly on investment sizes, dividing them into *manufacturing and service sectors.* Right now, India is home to around 44 million MSME units. Together, they account for 45% of India's manufacturing output and about 35% of total exports. They provide work for over 59 million people<sup>7</sup>.

The MSME sector is really important for boosting economic growth because it sparks a kind of ripple effect throughout different economic segments. The manufacturing side gets raw materials and services from other areas while delivering finished products back. This creates demand for everything from basic materials to intermediate goods. According to the National Manufacturing Policy, this sector could create jobs for up to 100 million people by 2022. But to make this happen, changes are key<sup>8</sup>. Suggestions for more jobs include: pushing growth in labor-heavy industries, making education better in schools & universities with creative labs, improving labor productivity by using best practices, ensuring access to credit on

<sup>4</sup>Ibid

<sup>5</sup>Reserve Bank of India, Annual Report 2012-2013. GOI

<https://www.rbi.org.in/Scripts/AnnualReportPublicatio ns.aspx? year=2013>.

<sup>6</sup>Subina Syal, Role of MSMEs in Economic growth of Indian economy, 4 GJCM Publication.

pp 40-43. 2015

<sup>7</sup>Mr. Abhay Bakre. ( Director General, BEP ) Bureau of Energy Efficiency, www.becindia.gov.in

<sup>8</sup>Arun Kumar Panda - Secretary Ministry of Micro, Small and Medium Enterprises, Recognizing the Value of MSMEs, YOJANA Sept.2018.



time, & helping them find good market opportunities.

Keeping the MSME sector strong is super important for the health & growth of India's entire economy. Yet, the high energy use & less efficient practices here cause a lot of energy loss in industry overall. Studies show that small & medium firms eat up about 50 million tons of oil yearly – around 20 to 25% of what bigger companies consume. They exist in clusters across India doing various things – textiles, brick-making, hand tools crafting, metal casting & forging – and even making hand pumps. It's interesting that these small businesses are responsible for roughly 8.9% of India's gross domestic product (GDP). Still, they lag in productivity compared to global standards.

The issues with technology & energy efficiency often come from limited resources & tight budgets within MSMEs. Entrepreneurs face challenges like not having enough time to explore energy-saving options or contact local service providers who can help out with projects and funding. There's also almost no information on new energy-saving technologies suited for these enterprises. All these factors make it tough for them to embrace energy-saving practices.

Introducing energy-efficient technologies into production processes at MSMEs faces various hurdles. For example, there are higher transaction costs when switching over to new technologies & fears about risks involved in changing product lines only add to the struggle. Despite having lots of potential for growth in these sectors, they encounter many challenges that slow down productivity & limit job opportunities – both traditional jobs or self-employment types. Issues like capital costs for intensive production setups and the shift towards technology impact the broader socio-economic system quite a bit<sup>9</sup>.

Since reforms began back in 1991 in India, the government has gradually removed many protective policies previously set up for MSMEs while introducing policies aimed at improving competitiveness within the sector. Now these small businesses face stiff competition from big national firms and multinational corporations equipped with better tech, management skills, skilled workers, marketing strategies, higher quality standards & broader product selections. Many small entrepreneurs – including farmers – find it hard to keep their businesses afloat due to

rising mergers & acquisitions happening all around.

According to the MSMED Act of 2006, businesses must register under this act to enjoy benefits like incentives outlined within it. Chapters IV & V focus on promoting and developing MSMEs while highlighting energy conservation and efficiency as key aspects in their operations. It'd be great if amendments could prioritize energy saving more seriously through initiatives by the National Board for Micro, Small, and Medium Industries. Providing technical assistance so these enterprises can modernize their production methods would help cut down energy usage – boosting profits & competitiveness economically. Also importantly – the rising need for better energy services opens up plenty of chances for entrepreneurs within this lively sector<sup>10</sup>.

**Definition of MSME**

This definition is provided in Section 7 of Micro, Small & Medium Enterprises Development Act, 2006 (MSMED Act) and was notified in September 2006. The Act provides for the classification of enterprises based on their investment size and the nature of their operations. As per the MSMED Act, enterprises are divided into two broad categories - those engaged in manufacturing and those engaged in services. For each category, parameters are established to delineate micro, small and medium enterprises according to certain thresholds. Businesses that exceed these thresholds in terms of investment amounts or headcounts are regarded as large enterprises under Indian law.

The MSMED Act strives to promote equitable growth across organizations of varying sizes<sup>11</sup> -

a) *Manufacturing Enterprises* are the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise is defined in terms of investment in Plant & Machinery.

b) *Service Enterprises* are the enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

While there remains disagreement on a universal definition, small and medium-sized enterprises (SMEs) can generally be understood as businesses

<sup>9</sup> www.cseindia.org -user file, BEE-SME-Brick 2016.pdf

<sup>10</sup>Dr. Mateen Ahmed Siddiqui, Role of MSMEs is setting up renewable energy systems in Indian Scenario, IJCISS, pp35-41(2015).

<sup>11</sup>As stated in the MSMED Act 2006



with fewer employees than larger companies. In the United States, the threshold most commonly used is 500 workers or less, as adopted in guidelines set forth by influential bodies like the Department of Commerce, Small Business Administration, and Department of Agriculture. As revealed in a 2010 report from the US International Trade Commission<sup>12</sup>. These agencies consider SMEs to incorporate a wide range of organization sizes, from sole proprietorships to firms staffed with under 500 people. The definitions are intentionally broad to encompass the great diversity of company models that drive domestic innovation and economic opportunity. In China, an MSME can be an enterprise having anywhere from 1-3000 employees; the total assets ranging from ¥ 40 to 400 million, and business revenues from ¥10 to 300 million, depending on the industry<sup>13</sup>. In contrast, the EU defines an MSME as an enterprise with up to 250 employees with a turnover of no more than €50 million, or a total balance sheet of no more than € 43 million.

**Change of Definition**

It was announced that the definition of MSMEs would be revised as part of the Atma Nirbhar Bharat initiative on May 13, 2020, which was fourteen years after the promulgation of the MSME Development Act in 2006. This revision pegged the definition threshold for Micro manufacturing and service units at an investment of Rs 1 crore and a turnover of Rs 5 crore. Now, the small units' limits were increased to Rs 10 crore in investment and Rs 50 crore in turnover. At the same time, for medium units, it was increased to Rs 20 crore in investment and Rs 100 crore in turnover. On June 1, 2020 - The GOI decided to revise the definition of MSME upwards. For medium enterprises, the limits would be Rs 50 crore in investment and Rs 250 crore in turnover. The existing definition criteria of MSMEs, according to the MSMED Act, 2006, differentiated between manufacturing and service units and had pretty low financial limits. Since the economy has substantially changed since then, innumerable representations have been received, especially after the package announced on 13th May 2020, that the revision was still not commensurate with the market and price prevailing conditions at this time. It was, therefore, represented that the limits should be further increased. Responding to these representations, it has now been decided to revise

the limits for medium units further. This change would reflect present-day realities, bring in an objective classification, and improve ease of doing business.

Apart from this, a new composite formula for classifying manufacturing and service units has been introduced which obliterates the divide between the two sectors. This new classification carries a turnover criterion. With this changed definition the MSME sector is likely to propagate and expand, is what officials in the Ministry feel. One of the significant departures is not to consider export revenues as one of the criteria leading to turnovers, which are very likely to incentivize the MSMEs to scale up their exports without any fears of losing the benefits procured out of being considered an MSME.

Turnover is integrated as a strategic criterion to bring coherence between the present economic scenario and market dynamics with the MSME classification framework. This will allow ease in the classification process and, at the same time, every limited and small enterprise will scale up their operations, thereby making them competitive and innovative. The government, in promoting exports, envisions that the MSME sector will be more integrated into the world market, which raises foreign exchange earnings and successfully creates an international presence of Indian businesses.

This is bound to have a cascading effect on the economy. Increased exports will result in an increase in production demands, and this subsequently requires the expansion of manufacturing capacities and the creation of new jobs. The expansion then stimulates economic activity in many other sectors, such as logistics, supply chain management, and ancillary services. Probably, most significantly, the growth in this sector can lead to more even and broad economic development, with MSMEs that operate from diverse regions and sectors, inherently weaving in employment potential and entrepreneurship at the grass-roots level. This approach to ease of doing business also flows from this reform. With less classification criteria and much less red-tape, MSMEs will go well in the direction of growth and innovation. This sector could receive more investments from the updated definition, which is expected to tell the realisation of more investments into the fraternity, since clearer and flexible regulations by investors make it a more attractive

<sup>12</sup>U.S. International Trade Commission | Small and Medium Sized Enterprises: Overview of Participation in the U.S. Exports | Investigation No. 332-508 | USITC Pub - 4125 January 2010

<sup>13</sup> World Bank Blog 2020  
<https://blogs.worldbank.org/>



proposition likely to be associated with it. Exports may increase as well, and MSMEs are seen as the sector that leads the way in the recovery and future long-term growth of the Indian economy.

The new composite formula and the changed definition of MSMEs, in essence, look forward to an economically radical step in policy innovation and implementation. Making the distinction of manufacturing units vis-a-vis service units redundant, and providing for a turnover criterion, is a step toward a more robust and dynamic framework for MSMEs. This will not ensure growth and generate employment, but also improve the global competitiveness of Indian MSMEs, so as to make an economy resilient and vibrant.

**MSMED Act: A Framework for MSME Development**

"Micro Enterprises", "Small Enterprises" and "Medium Enterprises" have been defined in the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act) which came into force on October 2, 2006. The principal thrust of MSMED Act, as enunciated in its long title, is to facilitate the promotion and development of these enterprises, enhance their competitiveness and provide for matters connected therewith or incidental thereto.

→ Section 2(h) of MSMED Act defines "micro enterprise" to mean an enterprise classified as such under sub-section (1) of section 7.

→ Section 2(m) of MSMED Act defines "small enterprise" to mean an enterprise classified as such under sub-section (1) of section 7.

→ Section 2(g) of MSMED Act defines "medium enterprise" to mean an enterprise classified as such under sub-section (1) of section 7.

The earlier definition and classification of Micro, Small, and Medium Enterprises in force from October 2, 2006, up until June 30, 2020, was invested on the basis of investment ceilings in plant and machinery for the manufacturing sector and in equipment for the services sector. These limits were absolute, without indexation for inflation, as fixed in 2006. Due to the absence of indexation, MSMEs were discouraged from new investments in plant, machinery, or equipment as any such investment would expose them to the risk of crossing the investment limits and losing their status as MSMEs.

Notification No. S.O. 2119(E) dated June 26, 2020, issued by the Government of India (hereinafter referred to as the "New MSME Notification" or 'NMN' for short), announced new definitions and classification criteria for MSMEs. As per the new definition, effective from July 1, 2020, MSMEs will now be defined based on a composite criterion of turnover limits and investment limits in plant and machinery or equipment. This revised classification applies uniformly to both manufacturing and service enterprises.

In July 2021, the Indian government expanded the definition of Micro, Small, and Medium Enterprises to include retail and wholesale traders<sup>14</sup>. The inclusion took place after the development of a feeling that the current performance of the two businesses was being squeezed by various challenges, which were exacerbated by the COVID-19 pandemic that resulted in a disturbance in business operations and cash flow.

Net investment in plant and machinery or equipment	The net turnover does not exceed 5 crore.	Net turnover is < ₹ 5 crore but > ₹ 50 crore.	Net turnover is < 50 cr but >250 cr	Net turnover is < 250 cr
> ₹ 1 crore.	Micro	Small	Medium	Large Enterprises
< ₹1 crore to > ₹10 crore.	Small	Small	Medium	Large Enterprises
> ₹ 10 crore to > ₹ 50 crore.	Medium	Medium	Medium	Large Enterprises
< ₹50 crore.	Large Enterprises	Large Enterprises	Large Enterprises	Large Enterprises

Table explaining the present definition of MSME

<sup>14</sup> Arvind Sharma | Economy, Inclusion of retail and wholesale trade under MSMEs: A boost to the sector, TOI <https://timesofindia.indiatimes.com/blogs/voices/>

inclusion- of-retail-and- wholesale- msme- a-boost-to-the-sector/



The new definition applied to existing enterprises with effect from June 30, 2020. Enterprises registered under Udyog Aadhaar or EM Part II were reclassified according to the new definition. The UAM/EM registration was only valid until June 30, 2022. Already existing enterprises registered under UAM/EM-II as on June 30, 2020, shall register under Udyam on or after July 1, 2020, prior to March 31, 2022, from the date of expiry of their UAM/EM registration. Failing to with SMEs were considered to be unregistered and had to re-apply for registration of the same.

According to Section 8(1) of the MSMED Act, medium enterprises shall file an information memorandum according to their class or category, as may be notified (Udyam Registration). If a medium enterprise registered under UAM or EM did not migrate to Udyam Registration by June 30, 2022, or if an enterprise that was outside the ambit of the MSME framework prior to July 1, 2020, and falls within the definition of a medium enterprise under NMN did not file its Udyam Registration by that date, such non-compliance may attract a penalty under Section 27(1) of the MSMED Act.

•Section 27(1) lays down that whoever contravenes or attempts to contravene or abets the contravention of the provisions of sub-section (1) of section 8 or sub-section (2) of section 26 shall be punishable with -

- A fine which shall extend to ₹1,000 on a first conviction, and

- On a second or subsequent conviction, imprisonment of either description which shall also be subject to a fine not less than ₹1,000 but up to ₹10,000.

**I. 3 - Market Practice & Competitiveness**

Small & large businesses are super important for a country's growth. You can find small-scale enterprises in almost every country, including India. From the very beginning, small-scale enterprises have been important to Indian planning, influenced by economic factors and ideals. Did you know that India has the largest and oldest program aimed at developing small-scale enterprises among developing nations? It's true. Over recent years, India's small-scale sector has become an exciting part of the national economy. So, it makes sense to explore more about this lively sector.<sup>15</sup>

Surprisingly, there are about 50 different definitions of small-scale industries used in around 75 countries. In India, though, we refer to them as MSME - which stands for Micro, Small, and Medium Enterprises.

<sup>15</sup> [http://cfy.cfymag.com/admin/issuepdf/15-18\\_Small%20Scale%20Industries\\_FFYApril-14.pdf](http://cfy.cfymag.com/admin/issuepdf/15-18_Small%20Scale%20Industries_FFYApril-14.pdf)

To help these businesses thrive in India, the government set up the Central Small Scale Industry Organization & the Small Scale Industry Board way back in 1954-55. After some big recommendations from the Abid Hussain Committee, the investment limit for tiny units increased to 23 crores and 50 lakhs by March 1997. Then, from 1999 to 2000, new policies lowered this limit for small and supportive businesses from 3 crores to just 1 crore. The Planning Commission of India also took a closer look at village & small industries, including traditional cottage & household activities.<sup>16</sup>

**Let's observe how services fit in definition. According to the Micro, Small & Medium Enterprises Development Act of 2006, equipment investment decides where businesses fall:**

a) Small Enterprises: Investment is over 10 lakhs but doesn't go beyond 2 crores (changed in 2020\*).

b) Medium Enterprises: Investment is over 2 crores but not more than 5 crores (also changed in 2020\*).

Many micro or small businesses are set up and run by one person. Even in partnerships or companies, usually one partner or director does most of the work while others are more like "sleeping" partners who just help with funding. When it comes to micro enterprises, owners run things themselves and make decisions right from their firsthand experience.

These little units often make money back faster than larger ones because they have shorter start-up times. Plus, they usually focus on local needs—micro units thrive on local materials and can pop up anywhere there's access to what they need. Labour-intensive with modest investments compared to larger companies—those micro enterprises usually spread out into rural areas utilizing nearby resources.

MSMEs hold a key role in providing lots of jobs & making sure national income spreads out fairly. They also help use up talent and capital that might not get used otherwise. Setting up small industrial centers across the country is a great way to handle some issues caused by rapid urban growth.

**I. 3. 1 The Scope of Competitiveness**

The world of MSMEs is really big. It includes many activities that need fancy technology. There are so many things, especially those that work well in the micro & small sectors. Here are some main ones:

- Manufacturing jobs
- Service & repair work
- Retail businesses

<sup>16</sup> SS Khanka. Entrepreneurial development and Company Limited New Delhi. 4th Edition 2016



- Financial services
  - Wholesale trade
  - Construction activities
  - Infrastructure tasks like transportation & communication, and many more other businesses
- To help MSMEs compete better, the government has set up a reservation policy. This is done along with other support plans. The focus is mainly on small businesses, especially microenterprises all over the country. This policy points out key industries meant for Growth in the micro & small sector. These industries are super important. They include things like the food industry, textiles, leather products (like shoes.), rubber stuff, plastics, chemicals, essential oils, glass, ceramics, and even mechanical engineering for transport equipment. Also included are metal cabinets, electrical gadgets, auto parts, bicycle & tricycle components, sports gear, clocks, watches & stationery.<sup>17</sup>

This reservation is all about helping and boosting micro & small businesses in these areas. Reserved MSMEs usually do better than those in non-reserved industries. The goal of this policy is to protect MSMEs from tough competition that comes from big companies. It gives micro & small enterprises a chance to grow their current setups and helps new businesses come into the market.

#### I. 4 - Global efficacy

Countries like Japan, Germany, the UK, Russia, and the USA show us that small-scale industries are super important for a nation's growth & economic health. These businesses help create jobs, make good use of resources, generate income, reduce gaps between regions, fight poverty, and even slow down people moving from rural to urban areas. But over the years, we mean by small-scale industries has become a bit muddled and confusing.

Now, when we talk about MSMEs (Micro, Small & Medium Enterprises), it really depends on different things. This includes the business type, population size, government rules, and how economies are linked together. Because of this, countries have different definitions. For example, in the USA, a small or medium business is one with fewer than 500 people working there and makes anywhere from \$0.75 million to \$29 million a year. They look at all parts of the economy using something called the North American Industry

Classification System (NAICS)<sup>18</sup>. In contrast, in the UK, small & medium businesses follow rules in sections 247 & 249 of the Companies Act from 1985. Here, a business that employs between 50 to 250 people with earnings between £5.6 million & £22.8 million fits the definition. But remember. This definition isn't used everywhere in the UK.<sup>19</sup> SMEs play a big role in our economy and business world. It's key to help them adapt & shine in an open market while also getting involved in digital transformation. This can boost economic growth and make globalization more inclusive for everyone<sup>20</sup>. SMEs are essential for pushing forward Sustainable Development Goals (SDGs) worldwide. They encourage fair & sustainable growth by creating jobs and promoting innovation.

The success of SMEs in today's globalized economy relies on having good support systems around them and a competitive market environment. Oftentimes, they face challenges because they aren't as strong as bigger corporations—they deal with market failures & obstacles that can be tough to overcome due to limited resources. Having access to important tools like skills training and financial help is crucial for their growth as well. Public investment—like in education or infrastructure—also plays a huge role. Plus. For many small businesses, having a friendly setup for passing ownership or management is key for staying alive over the long haul. This matters because it helps keep jobs safe and supports ongoing investment.

In places like the EU and some Asian countries, how small-scale industries are defined often suits their economic characteristics. But take India—its definition is pretty different due to its rich history. Before independence, small-scale industries were all about cottage industries popping up across urban & rural areas alike. This included making cool things like carpets or handloom textiles. The variety makes India's small-scale sector stand out on a global scale.

When SMEs get more involved in global markets—it can really boost their impact on both society & economic growth. It opens doors for them to grow operations faster and switch up innovation while sharing tech know-how and management skills too. Their flexibility lets them adapt quickly to changes—and this gives them an

<sup>17</sup> The High Level Credit Committee Report. GOI, Info - <http://dcmsmc.gov.in/publications/comitterep/highlevel.html>

<sup>18</sup> United States International Trade Commission Report, Small and Medium-Sized Enterprises: Overview of

Participation in U.S. Exports, 2010  
www.usitc.gov

<sup>19</sup> Indian Institute of Foreign Trade Report, 2014

<sup>20</sup> Enhancing the Contributions of SMEs in a Global and Digitalized Economy, OECD Council Report, 2012  
<https://www.oecd.org/mcm/documents/EN.pdf>





edge over bigger companies. It's especially true since they can change their products according to what customers want. Some international markets are actually led by these smaller players who even team up with larger global firms to come up with new products.

However, As global markets grow bigger & tougher—competition at home can get pretty intense for SMEs. Sometimes this tough competition shakes things up so much that it pushes small businesses to really understand their market better and be more competitive—even if they don't export internationally.

**I. 5 - Role of MSME in Economic Development**

The MSME sector is crucial to the national economy. It consistently provides stability, helping India face global uncertainties & challenges. In the country, there are about 63.4 million units. They make a significant contribution, for roughly 6.11% of manufacturing GDP, 24.63% of GDP from service activities<sup>21</sup>, and substantial 33.% share of India total manufacturing output., they are an important employment generation, providing jobs to around 120 million people and responsible for nearly 45% of India's overall exports. The growth rate in theE sector has remained, often exceeding 10%. Notably, 20% of these businesses are in rural areas, showcasing their important role in engaging the rural workforce and fostering sustainable development. India learned valuable lessons from various nations regarding technology over the last six decades. This experience in the MSME sector can benefit both developing & developed countries alike. There are many areas within this sector that hold opportunities for cooperation, such as<sup>22</sup>:

- Consultancy services & training focused on: i) Capacity building of entrepreneurs & technical staff; ii) Policy & Institutional frameworks for promoting SMEs; iii) Entrepreneurship development; iv) Business development services.
- Setting up turnkey projects for establishing manufacturing MSMEs based on commercial terms.
- Skill enhancement programs in areas CNC machining, sheet-metal technologies, CAD & CAM designing, wool processing & weaving, leather technology, plastic technology, woodworking, etc.

•Conducting surveys to identify tooling needs and skill requirements in regions such as hilly or backward areas.

•Providing assistance to set up Tool Room & Training Centres.

•Consulting with existing manufacturing SMEs on upgrading facilities, selecting machine tools, and design support for tools like molds & jigs.

•Creating specialized training programs tailored to specific groups.

•Offering consultancy to current training institutes on course design & curriculum development including trainers' training programs.

•Assisting in product design and manufacturing intricate tooling.

In India, capital is often scarce while labor is plentiful. Unlike large-scale industries, MSMEs have lower capital-output ratios which makes them suitable for driving economic growth and creating jobs. Since 1960, the sector has seen considerable growth with an average annual increase of 4.4% in unit numbers and 4.62% in employment rates. Presently, it employs around 30 million individuals. MSMEs not only provide significant employment per investment but also help to reduce rural-to-urban migration by offering consistent jobs in more remote areas.

Most MSME exports—over 95%—are non-traditional products. They lead the market in exports like sports goods, ready-made garments, and plastic items. Many products are handmade and eco-friendly which boosts potential for expanding MSME-driven exports. Furthermore, they act as vital suppliers to large industries by providing raw materials and essential components. For instance, cycle manufacturers located in Ludhiana depend heavily on MSMEs from Malerkotla<sup>23</sup> for parts production—this highlights how interconnected various industry segments are.

MSMEs drive inclusive growth impacting vulnerable populations directly. For numerous families, these businesses are their sole income source. Instead of a welfare approach, this sector focuses on empowering individuals so they can escape poverty cycles and have control over their financial futures. It emphasizes skills development and the capability to shape one's economic path. It is also notable that different segments within the MSME sector showcase a mixture of social groups

<sup>21</sup>Pikender Pal Singh, Executive Director of the Confederation of Indian Industries - Competitiveness for SMEs 2019. Info - www.cii.in

<sup>22</sup>MSMEs and Government policies and Supportive Measure for MSMEs by the Government. Shodhganga.

Info  
<https://shodhganga.inflibnet.ac.in/bitstream/10611/190219/5/chapter-%201.pdf>

<sup>23</sup>Malerkotla is a city and a municipal corporation in the district in the Indian state of Punjab



which reflects the rich diversity and contributions found within this vital area of the economy.

**I. 6 - MSME Startups**

**I. 6.1 Molding Startups in Municipal Economy**

The main idea behind reforms for MSME startups is to create a fair, even playing field where entrepreneurs can compete globally. Top-down reforms that help these startups include introducing the Goods & Services Tax (GST), setting proper insolvency & bankruptcy procedures, and liberalizing Foreign Direct Investment (FDI) across sectors. Additionally, tackling the Non-Performing Asset (NPA) crisis in banks and investing significantly in infrastructure are vital too. A government e-Marketplace (GeM) portal has also been launched. This portal makes it easier for smaller companies to bid for government contracts online<sup>24</sup>. It works similarly to traditional 'tenders.' All these reforms aim to cultivate a supportive environment for MSME startups to thrive<sup>25</sup>.

- The major reforms focus on three key pillars:
- Improving access to capital
- Enhancing technology access
- Reducing transaction costs

Notably, two big changes positively affected MSMEs: first, the reclassification based on 'annual turnover' instead of just 'investment in plant and machinery/equipment' as per GST filings. This removed Inspector Raj and eased compliance burdens<sup>26</sup>. Second, lowering the corporate tax rate from 30% to 25% for firms with revenues up to INR 250 crore helped over 60 million MSME units throughout India.

Also, the government has set up a long-term Public Procurement Policy. This requires that every Central Ministry or Department must buy at least 20% of their total goods or services from MSMEs. Extra benefits of this policy include exemptions from earnest money deposits (EMD), free tender sets, price preferences for MSMEs, & reserving 358 items strictly for procurement from these small enterprises. These actions aim to support growth in India's MSME sector.

A variety of measures have been introduced to improve access to capital for entrepreneurs in MSMEs. One major effort is the Prime Minister's Employment Generation Programme, which offers credit-linked subsidies and has aided around 4.49

lakh micro-enterprises by December 2017. Additionally, there's the Credit Guarantee Scheme for Micro and Small Enterprises—this provides crucial collateral-free credit facilities benefiting over 28 lakh enterprises, helping them secure funds they need.

The corpus of this credit guarantee scheme has significantly increased—from 250 crores to beyond 750 crores. The Reserve Bank of India (RBI) has played its part as well by relaxing asset classification rules for MSMEs & lifting credit limits under priority sector lending provisions. Essentially, loans given to MSMEs now fall under priority lending without a strict credit cap, boosting financial access greatly. Furthermore, yearly budgets consistently raised funds allocated for the MUDRA scheme—a flagship initiative handing out over 11 crore loans totaling around 4.5 lakh crore without requiring bank collateral<sup>27</sup>. Thanks to such efforts, about 3 crore new entrepreneurs have emerged with over 76% being women & more than half belonging to SC, ST, & OBC communities.

To help MSMEs access modern technology—key for innovation & global competitiveness—the government launched a Credit-linked Capital Subsidy Scheme providing upfront capital support. The Cluster Development Programme (MSE - CDP) is another pioneering initiative that seeks cluster-led development through shared resources like common facility centers, allowing units to collaborate efficiently. Moreover, the ministry has set up a Technology Centre system with plans to create 15 new tech centers while also upgrading existing ones at an estimated cost of around 22000 crores with World Bank assistance.

These initiatives aim not only at fulfilling Indian needs but also tapping into global markets effectively. The Prime Minister made a bold call for "zero defect, zero effect," encouraging MSMEs toward high-quality manufacturing—it should meet international standards while ensuring we're environmentally sustainable as well.

As multiple governmental programs like Digital India, Smart City Initiative, Skill India Program, Make in India movement among others come together—these aim to transform India into a knowledge-based economy where tech-led startups will play vital roles.

To speed up startup growth & nurture innovation culture across sectors—the present government

<sup>24</sup>Apurv Kumar Mishra. Employment news. Vol XLIII No.29. Pp 1 & 38. New Delhi 20-26 Oct. 2018. (Newspaper Article).

<sup>25</sup>Ibid

<sup>26</sup>UDAAN. Credit Guarantee Fund Scheme for Micro and Small Enterprises. [www.egtnse.in](http://www.egtnse.in)

<sup>27</sup>SEBI relaxes rules for angel funds to boost start-up funding. E-paper Info <https://www.livemint.com/Companies/1547428179839167265/SEBI-relaxes-rules-for-angel-funds-to-boost-startup-funding.html>



unveiled comprehensive reforms under 'Startup India, Stand Up India' initiative. A special 'Fund of Funds' worth approx ₹10,000 crores was created for SIDBI and alternative investment funds aimed directly at startups ensuring easy access to necessary capital needed at early stages. Startups are given income tax exemptions tailor-made for three years while investors enjoy similar benefits on capital gains arising from investments. SEBI even relaxed listing norms – permitting startups easier fund-raising routes avoiding lengthy IPO processes – while modifying AIF regulations allows angel investors further outreach supporting smaller startups not typically backed by traditional banking anyone.

Furthermore, the Ministry of Commerce & Industry developed the Startup India Virtual Hub – a robust digital incubator fostering industry connections and providing direct access to various government schemes along with networking within the startup community. Recently introduced compliance ratings based on self-certification have slashed transaction costs much too.

One pressing challenge facing many startups was helping them exit quickly, which previously needed to arise which previously caused hurdles – the Ministry of Corporate Affairs amended insolvency codes now allowing startups to wind up businesses within just about 90 days – a stark contrast compared to standard period spanning 180 days other companies may face.

On evaluating state performances promoting startup ecosystems – the Department of Industrial Policy & Promotion rolled out detailed guidelines via State Startup Ranking Framework back in February 2018 aimed fostering healthy competition between states enhancing entrepreneur spirit nurturing viable ecosystems overall steadily leading growth momentum resulting so far into registrations crossing 12 thousand startups acknowledged by gov.

Ultimately Micro Small Medium Enterprises (MSMEs) remain foundational blocks supporting Indian economy prime aiding ambitions raise it ahead be a \$5 trillion economy achieving targets yearly providing jobs yearly nearly 12 million people alongside already hosting globe's third-largest startup ecosystem heralded youngest startup nation position too – indeed forecast suggest technology-driven firms shall spearhead prospective growth phases addressing critical socio-economic facets emerging country's

aspirations. Thus governmental backing directed towards enhancing both MSMEs alongside burgeoning startup landscape undoubtedly harbors boundless prospects steering forward novel companies anticipated drive admirable progress hereof next decade ahead.

**Conclusion**

Medium and especially small businesses engage more directly with their customers. This Direct interaction allows them to meet customer needs more accurately and provide services. They even have the chance to build stronger connections with their users. Typically, once you understand the business, a client's relationship with a small or medium enterprise (SME) tends to be simpler than it is with a large corporation.

MSMEs can effectively identify and seize small market niches. In fact, an SME often has greater capability to notice and respond to specific customer needs compared to a larger company. This is because larger firms may overlook these needs or might not find them worth pursuing if they seem too minor. Given their size & simpler structures, MSMEs are generally more flexible<sup>28</sup>. They can adapt quickly to changes, which enables them to stay closer to their customers. As a result, they can spot shifts in the market before anyone else can. For example, they're more equipped to reduce supply during periods of low demand.

The MSME employees working are mostly HSC qualified, it is 32.5 percent and less number of graduates or postgraduates prefers to work in MSMEs. The majority of the employees have LPG connection as a source of energy in the kitchen compared to other sources, 58.75%. Irrespective of the earnings people are trying to use clean fuel. 37.5 percent of employees are living in semi-pucca houses. Cell phones are required by them to stay connected with their families, especially the employees of MSMEs. Only 18.75 percent employees own two wheelers<sup>29</sup>. The findings of the study indicate that the socio-economic impact of MSMEs is not as favorable as desired. Many individuals are currently facing challenges in meeting their fundamental needs and are merely in a survival mode. Nonetheless, with the appropriate enhancements and support, the MSME sector holds the potential to considerably enhance the socio-economic circumstances within society.

<sup>28</sup>Irene Carrasco. 7 Advantages and 7 disadvantages of being an SME's. <https://integriaims.com/en/author/irene/page/3/>

<sup>29</sup>A Thangaraja. A study on consumers' attitudes towards packaged drinking water in Tirumala district, Manonmaniam Sundaranar University, Tiruchirappalli, Shodhanga 2015 | <http://hdl.handle.net/10603/53351>

