

# A Systematic Literature Review on Role of Micro, Small and Medium Enterprises (MSMEs) in Indian Economy

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## ABSTRACT

This Literature Review systematically examines the Role of Micro, Small and Medium Enterprises (MSMEs) and opportunities and challenges Faced by this MSME Sector. Following PRISMA guidelines, used predefined eligibility criteria to search the database of Google scholar for peer reviewed published literature that evaluated the Role of MSMEs in Indian economy and opportunities and challenges associated with this Sector. After screening the title, Abstract and full text of the retrieved results, evaluation done for the relevant data. 24 out of 224 met our criteria. Micro, Small and Medium Enterprises (MSMEs) play significant role in mitigating the problems of unemployment and ensuring equitable regional development. Despite the Significance Role in economy MSMEs has to face many challenges such as inadequate fund, poor infrastructural facility, inadequate marketing linkages, lack of skilled workforce etc. MSMEs will not be flourishing without adequate support of Government and Financial Institutions. Therefore, Government has taken various steps towards helping and sustaining this MSME sector.

**Keywords :** Micro, Small and Medium Enterprises (MSMEs), Opportunities, Challenges, Indian Economy, Productivity, Employment

## I. INTRODUCTION

Micro, Small and Medium Enterprises (MSME) is playing an important role in ensuring equitable regional development and economic growth worldwide. MSMEs play a vital role in creating jobs for Unskilled, Semi-skilled and Skilled workers with

low capital. This Sector is mainly labor-intensive. MSMEs Sector is the second largest employment generator sector after the agriculture sector which include all type of industries like Cement Industries, Steel Industries, Textiles Industries, handicrafts Industries, Khadi Products and Hosiery Products Business and services like Back-office Operation

Related Services, Auto Repair Services and Garages, Training and Educational Institute, X-Ray Clinic, Xeroxing, Tailoring, Laundry and Dry Cleaning etc. Indian MSME was Defined on the bases of Employees before 2006 because Indian MSME does not have fix Standard or definition before 2006(Das 2021). SME Classification on the bases of the number of Employees is given Table 1:

Table 1 SME Classification

Enterprises	Number of Employees
Micro	2-9 Employees
Small	10- 49 Employees
Medium	50-249 Employees

(Source: Das 2021)

The Government of India has introduced Micro, Small and Medium Enterprises (MSMEs) in agreement with the Micro, Small and Medium Enterprises Development Act 2006 in which Indian MSMEs are classified into two categories namely Manufacturing and Service Enterprises.

#### (A) Manufacturing Sector

Enterprises	Investment in Plant and Machinery
Micro	Does not exceed 25 lakh rupees
Small	More than 25 lakh rupees but does not exceed 5 crore rupees
Medium	More than 5 crore rupees but does not exceed 10 crore rupees

(Source: The Micro, Small and Medium Enterprises Development Act 2006)

#### (B) Service Sector

Enterprises	Investment in Equipment
Micro	Does not exceed 10 lakh rupees
Small	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium	More than 2 crore rupees but does not exceed 5 crore rupees

(Source: The Micro, Small and Medium Enterprises Development Act 2006)

On 1st June 2020 Union Cabinet revised the SME Definitions based on Investment in Plant or Machinery OR Equipment and annual Turnover for both the Manufacturing and Service Sector (Das 2021). Revised Classification applicable w.e.f 1st July 2020

**Table 2** Revised Classification of Micro, Small and Medium Enterprise (MSME) Sector

Composite Criteria: Investment in Plant & Machinery / Equipment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing and Service Enterprise	Investment in Plant and Machinery or Equipment up to <b>1</b> crore And Annual Turnover does not exceed <b>5</b> crore	Investment in Plant and Machinery or Equipment up to <b>10</b> crore And Annual Turnover does not exceed <b>50</b> crore	Investment in Plant and Machinery or Equipment up to <b>50</b> crore And Annual Turnover does not exceed <b>250</b> crore

(Source: msme.gov.in; Das 2021; Patel and Tripathi 2022)

The Micro, Small and Medium Enterprises (MSMEs) sector has emerged as a highly vibrant and dynamic

sector of the Indian Economy. MSMEs not only provide large employment opportunities but also help in the industrialization of rural & Backward areas so that regional disparities are reduced (S. Chandrasekhar and N. Radha, 2019; Verma et al 2020;

Das 2021). MSME Contribute about 33.4% to manufacturing output, 45% to export and 120 million people Employed (G.Vincent 2020). The Contribution of MSMEs to the country's Gross Value Added was 31.60% and the contribution to Gross Domestic Product was 28.77% in 2015-16 (S. Chandrasekhar and N.Radha, 2019). MSMEs are mostly Labor intensive and the largest Employment generator in Rural India (Verma et al. 2020). In this way, MSMEs are the engine of Growth and a Pillar of Economic Development of India. But this Sector also faces some Challenges despite various initiatives taken by the Government. There are Various Challenges associated with the MSME Sector such as poor infrastructure, lack of finance, lack of access to an adequate credit facility, lack of skilled workforce, lack of access global market etc (G.Vincent 2020; Rajni and Rajeev 2019; K. Nandeewaraiah and A.V. Ramana 2019; G.K. Nagaraju 2018; Kumar 2018).

## II. Objective of the Study

1. To Review the Literature on the Role of Micro, Small and Medium Enterprises (MSMEs) in the Indian Economy
2. To assess the opportunities and challenges associated with Micro, Small and Medium Enterprises (MSMEs) based on Literature review

### 3. Methodology of the Study

The Preferred Reporting Items for Systematic reviews and Meta-Analysis (PRISMA) Guidelines were used to conduct this Systematic Literature Review. The Author conducted a systematic review of the articles

that focused on the Role of Micro, Small and Medium Enterprises in the Indian Economy and the Opportunities and Challenges of this Sector. The Online Database of Google Scholar was searched from the date of 30<sup>th</sup> August 2022 to 1<sup>st</sup> September 2022.

### 3.1 Procedure and Search Strategy

The Literature review took place from the date of 30<sup>th</sup> of August 2022 and focused only on Google Scholar online database. The Topic considered for the selection of articles was related to MSMEs and their Role in the economic development of India. The Following Keywords were used "Role of Micro, Small and Medium Enterprises", "opportunities", "Challenges", and "India". After this first search 224 results were obtained. After that language filter was applied, selecting only those papers published in the English language, 208 Results were obtained. Then taking into account only the works Published from 2018 to 2022(Recent Published works), left a total of 101 Results. Finally limiting the search to 24 articles, make up the sample of this study.

### 3.2 Inclusion and Exclusion Criteria

The Criteria that were established for the selection of the article were (1) Articles focusing on role of MSMEs in Indian economy (2) Paper relating to opportunities and challenges associated with MSMEs. In order to apply these inclusion criteria, first preliminary reading of the title and summary of each article was carried out, which made it possible to eliminate the papers that did not meet the inclusion criteria as per table 3. Then more detailed reading of the selected articles was carried out, leaving the final sample of 24 Papers (Figure 1).

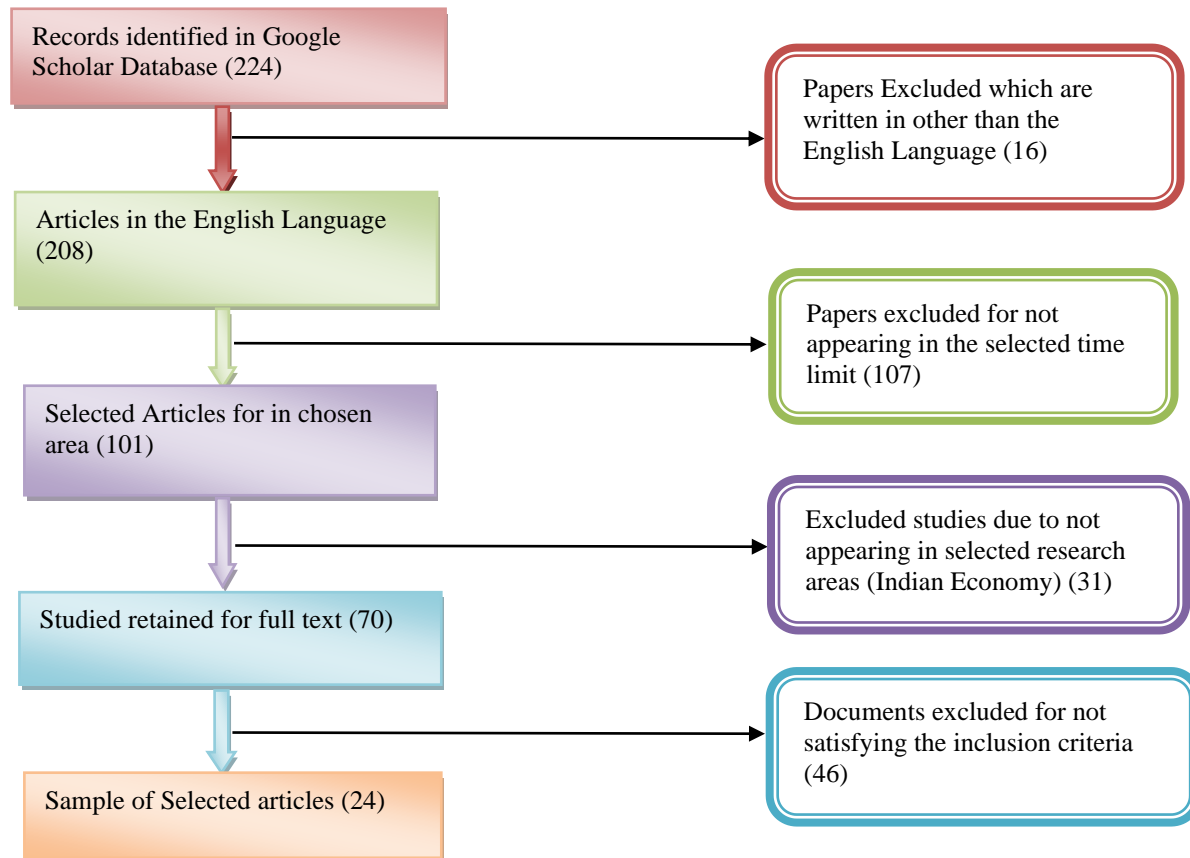
**Table 3.** Classification of Inclusion and Exclusion criteria

Criteria	Inclusion	Exclusion
Literature Type	Peer Reviewed Published Journal articles	Books, Book Chapters, Part of Dissertation Report, Institutional Repository, Part of Thesis, Conference papers, pre- Print without peer review
Language	English	Non-English language Literature

Country	India	Any other Country, State/region
Year	2018-2022	Before 2018

(Source: Author's Classification based on PRISMA guideline)

**Figure 1** Framework of the systematic literature review process



### 3.3 Characteristics of the Included Studies

Variables	No. of Studies
Study Design	
Quantitative	24 (100%)
Study Year	
2018	3 (12.5%)
2019	6 (25%)
2020	9 (37.5%)
2021	2 (8.33%)
2022	4 (16.67%)
Sources of the Data	
Google Scholar Database	24 (100%)
Study Setting	
Considering whole nation	20 (83.33%)
Considering State/region	4 (16.67%)
Types of Analysis	
Descriptive analysis	23 (95.83%)
Regression analysis	1(4.17%)

(Source: Author's calculation based on included studies)

### III. Key Findings in the Included Literature

The Included studies demonstrated the significant role of Micro, Small and Medium Enterprises in the Indian Economy in terms of Contribution to GDP, Employment Generation, Poverty alleviation, and reducing regional disparity (Jain 2019; Anjan Kumar 2022; Amit Kumar 2020; Das 2021; Verma et al 2020; K. Nandeeswaraiah and A.V. Ramana, 2019; Vijay and Sumalatha 2019; Rajni and Rajeev, 2019). Inclusive Growth is an integral part of economic growth for that employment generation is necessary which would absorb unemployment and make Inclusive growth possible (Zeba et al. 2021). MSMEs provide around 40% of employment to the total workforce, contribute 45% to manufacturing output and 40% of total export and produce around 6000 products from traditional to high-tech items (Das 2021; Amit Kumar 2020; G.K.Nagaraju 2018), favourable Environment, Improvisation in technology, adequate Financial support, training facilities to the workers providing for the MSMEs Sector then Rural Development and Urban Transformation can be Done ( Divya and Roopa, 2019).

Some other included studies discussed various challenges faced by Micro, Small and Medium Enterprises which are lack of finance, non-availability of sophisticated technology, poor infrastructure, lack of adequate credit facilities, lack of skilled workforce, and Lack of access to a global market, (Kumar 2018; K. Nandeeswaraiah and A.V. Ramana, 2019; T. Sezhiyan and D. Gnanadeiveegam, 2022)

Some studies refer to the COVID-19 Pandemic's impact on MSMEs. Due to Covid 19, MSMEs had faced various problems including working capital shortage, supply chain inefficiencies, suboptimal scale of operation, lack of skilled workforce, change in manufacturing strategy (Aniruddha 2020). Sanitizing material cost and cleaning premises additional expenditure, low productivity due to less working capital, reduced in working time etc. (Nagarajan Muthukrishnan 2020; Raghunathan et al., 2022) in

their study discussed the sectoral impact of COVID 19 for this total 80 responses received from Handloom, Handicraft, Dairy farm and Kudumbashrees in which 64 respondents agreed that hiring additional staff was the major challenges faced by various units whereas in other challenges working hours, unable of family reconcile, termination of employee and conflict among workers. Despite these additional challenges due to Covid 19, the MSME sector stands as a shield for the Indian Economy for preventing the employees' livelihood, Ministry of Technology Center, KVIC, and Coir board took various initiatives like the distribution of PPE kits, Sanitizers etc and both quantitative and qualitative measures taken by the Government (Shaikh and Saxena, 2020).

There is also an opportunity for MSMEs to flourish. India possesses diversity in agricultural produce and presenting this farm innovatively agro-based MSMEs will be advantageous for both the farmers and rural entrepreneurs, providing training and technology to artisans and craftsmen will enhance their business prospects. With the 'Make in India' Agenda and creating a good infrastructure to support the MSME, by assuring quality manpower, easy availability of credit, branding support, and reduction in input cost MSME can be part of Atmanirbhar Bharat in a more significant way (Joshi et al., 2020).

Various Schemes are there for promoting MSMEs like UdhyaMitraPortal to improve the accessibility of credit, MSME Sambhandh to monitor the implementation of the public procurement from MSMEs, Revamped Scheme of Fund for Regeneration of Traditional Industries, Micro & Small and Enterprises Cluster Development Program for enhancing the productivity and competitiveness, Credit Linked Capital Subsidy Scheme for upgradation of technology for MSMEs (G.Vincent 2020).

### IV. CONCLUSIONS

The above studies lead us to the conclusion that Micro, Small and Medium Enterprises have a significant role

in the Indian Economy. Micro, Small and Medium Enterprises are labour-intensive and require less capital investment. MSMEs contributed to GDP, Gross Value Added, employment opportunities, and exports earnings. MSMEs also play an important role in reducing poverty by absorbing the unemployed workforce. Despite this importance MSMEs face several challenges – difficulty to receive timely finance for working capital, lack of sophisticated technology, non-availability of skilled workforce, and poor infrastructure facility. Marketing functions are also a challenge for MSMEs in which they face poor bargaining power, low-quality products, inefficient logistics etc. These problems must be addressed properly and special attention should be given to Micro Enterprises. The Government of India has taken several steps to improve the condition of the MSMEs. Through government interventions in the form of financial, infrastructural and technology support, MSME would be strengthened which will create more employment opportunities. The Government should continuously monitor such schemes and should concentrate on the smooth implementation of the schemes.

Some Limitations of the Systematic Literature Review are as follow: This Study excluded all grey literature except MSME Report, MSME websites and non-English language article. The researcher considered research article from google scholar only. Including the peer-reviewed articles published from 2018 to 2022 only. It is difficult to judge whether all potential articles have been included in the review despite the systematic effort of the author. The final search was conducted on the 1<sup>st</sup> of September 2022. After this, any Publications were not included in the study.

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- Abbreviations
- [26]. MSMEs - Micro, Small and Medium Enterprises
- [27]. PRISMA - Preferred Reporting Items for Systematic Reviews and Meta Analysis
- [28]. GDP - Gross Domestic Product
- [29]. KVIC - Khadi & Village Industries Commission
- [30]. CAGR - Compound Annual Growth Rate
- [31]. PPE Kits - Personal Protective Equipment Kits

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