



# MSME contribution to GDP and Employment Generation

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## White Paper

The objective of this paper is to evaluate the contribution of the MSME sector to the GDP of the country. This paper also explores the various challenges faced by the sector and the government initiatives to evade them. The MSME contribution to employment generation is also evaluated.

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## CONTENTS

<b>1. Abstract.....</b>	<b>3</b>
<b>2. Introduction.....</b>	<b>3</b>
<b>3. Government Initiatives.....</b>	<b>4</b>
<b>4. Impact of Globalization.....</b>	<b>5</b>
<b>5. Conclusion.....</b>	<b>6</b>
<b>6. References.....</b>	<b>6</b>

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## **ABSTRACT**

The MSME sector stands for Micro, Small and Medium enterprises which are important for the functioning of the nation's economy. It provides employment opportunities for the staggering population in the country. The country's growth is measured by the Gross Domestic Product. The contribution by the MSME sector to the country's GDP and the various challenges faced the sector is evaluated in this paper. From being a very important sector for the growth and development of the country, government focus has been significant as well. Several initiatives to help the sector thrive are also discussed in the paper.

## **INTRODUCTION:**

MSME is considered to be the backbone of the national economic structure. It has been a bulwark to avert the economic shocks and the adversities faced by the country. The health of the economy is an important parameter for the development of the country. India is focusing to achieve the trajectory of high growth and the MSME's plays a pivotal role for the same. The economic snapshot of the country is depicted by its GDP or Gross Domestic Product. It is often measured by comparing it to the previous quarter or the previous year. The higher the GDP, the healthier is the economy. The GDP can be defined as the monetary value of all the goods and services produced within the country within a particular period of time. When the GDP of a country grows, the economy of that country is also becoming better. When the economy is sound, unemployment decreases and the wages increases. This is because as the businesses grow, there will be an increase in the demand for labor. The size of the economy and its growth rate is determined by this parameter.

The agility and dynamism of the MSME sector has enabled them to incorporate innovativeness to survive the economic stress. The MSME sector is significant to our economic growth because of their contribution to employment generation. They also have low capital and technology requirement for the businesses and hence focus on employing a larger number of people in the sector. They attribute to the promotion of industrial development in the rural area. It is a known fact that 70% of the Indian population live in the rural area. MSME's provide opportunities for the people from rural background. This in turn help the people earn a living and the consumption within the country increases and hence the economy grows. Hence this sector is very important for the economy and the country's growth on an international front. Eradication of poverty has been the promises of several governments that have taken the stage until today. Considering the staggering population of the country, eradicating poverty is a gargantuan task. This could be addressed to an extend by the employment opportunities provided through the MSME sector. MSME sector is also known to incorporate traditional or inherited skills and local resources to help promote them.

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**Out of the 1.3 billion population of the country, MSME's employ around 120 million people.**

These services could promote the 'Make in India' initiative. Becoming a self-sufficient country could be a vision that can be achieved in the future. MSME sector could pave the way for that future. There are 6.33 crore MSME's in India as of 2020, the majority of which are micro enterprises. The percentage contribution of manufacturing in the GDP is 14.82%, of which MSME's contribute 6.11%. This is a significant contribution and hence requires attention. Out of the 1.3 billion population of the country, MSME's employ around 120 million people. With the advent of globalization, the export of goods from the country also increased. MSME's contribute to around 45% of the overall exports of the country. Around 20% of the MSME's hail from rural background. From being confined within the boundaries, some of them have grown to acquire significant results.

## **GOVERNMENT INITIATIVES:**

The MSME sector has consistently maintained a growth rate of 10% and has a huge potential to grow if given the right push. Government has taken various initiatives to increase the competitiveness of the MSME sector through programme, procurement and marketing support for MSME's to participate in international exhibitions, trade fairs, conferences, summits, workshops, etc. The aforementioned initiatives are beneficial to the MSME sector and in turn fruitful to the economy. The MSME sector play a major role in social and economic restructuring of the country.

The government has embarked on a plethora of initiatives to remove the bottlenecks affecting the sector. This would make India the manufacturing hub and attract foreign investments. The Digital India Initiative is aimed at providing novel opportunities. Investments in research and development, technological upgradation and promoting international collaborations have helped the sector. Government has implemented the Micro and Small Enterprises Cluster Development program for the holistic development of the enterprises for enhancing the productivity and competitiveness. The Credit Linked Capital Subsidy Scheme enables technological upgradation in the MSME sector.

The National Manufacturing Competitiveness program is initiated by the Ministry of MSME which enables the sector to acquire tools for quality upgradation, productivity, design development, energy efficiency and marketing. This increases the competitiveness and productivity.

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The rural population earn their livelihood majorly through agricultural income. The MSME sector provides opportunities outside the agricultural sector in the form of both self-employment and wage employment. This contributes to the development of inclusive and sustainable community wherein people could earn their livelihoods from non-agricultural source at low cost. This also helps in the development of regional balance in social terms and gender equality. Several MSME's provide ways for women to earn income to support their family. The MSME sector is also known for its diversity in terms of size, technology employed, product range and services.

### **IMPACT OF GLOBALIZATION:**

Globalization has also paved way for opportunities in this sector. Many global companies are interested in strategic partnerships with the MSME sector. This is due to the very reason that the MSME sector provides innovative capabilities and niche and low-cost manufacturing. A combination of new technologies and local skills and capabilities attracts the international players. The skilled labor at competitive costs are an advantage that brings in the foreign companies. India could develop its capabilities in various industries. It has the potential to become an important player in the automobile industry by manufacturing auto parts at competitive prices. Garment manufacturing could also achieve similar heights in the future. Other lucrative opportunities could be found in the electronics, chemical, leather, food processing, textiles, pharmaceuticals, travel and tourism industries, etc. The MSME sector has been drawn into the global value chains through different fields as aforementioned. Gaining access to the global markets is a strategically important for the development of this sector. The availability of opportunities is due to the increased importance given to this sector by the government.

MSME sector faces stiff competition from larger players. Inadequate infrastructure and lack of awareness are the major issues. The support from the government through the various initiatives are not adequate for the entire MSME sector. There is still lack of technical and financial support for the enterprises. Other challenges include reduced training initiatives for the entrepreneurs and lack of expertise of marketing of their products and services. The availability of credit facility from the banking institutions are difficult and hence pose a threat for the survival of the sector. All of the aforementioned challenges should be removed for the sector to prosper. This is very important for the growth of the economy.

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## **CONCLUSION:**

The economic structure is maintained by the consumption and demand of the consumers and the employment plays a significant role for the same. This paper explores the various challenges faced by the MSME sector and the measures taken by the government to evade them. The mere survival of the sector is not sufficient as they employ a vast majority of the population of the country. Several other effective initiatives are also brought in to help the sector thrive.

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