

# State of Affairs of Indian Small and Medium-Sized Businesses and Their Socio-Economic Contributions

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**Abstract:- This paper asserts the position of India's small and medium-sized businesses and helps understand the major contributions made by them in different spheres of the economy and for different sectors of people in the society.**

## I. INTRODUCTION

Indian SMBs are the growth engines of the Indian economy. To truly acknowledge the potential and strategize to catapult its growth into the next orbit one needs to be well-acquainted with the contributions of SMBs toward the Indian economy. Contradictory to their name, small and medium-sized businesses contribute profoundly to the country's growth. However, SMBs do not just play a crucial role in the Indian economy and contribute to the GDP but also drive competition, cater to niche markets, generate employment opportunities, encourage entrepreneurship, and contribute tremendously to social causes. This paper covers economic contributions made by SMBs, their social impact especially towards the weaker sections of society, challenges and limitations faced, and schemes and programs formulated by the Government to assist SMBs in navigating these challenges and helping them grow.

## II. CONTRIBUTIONS OF SMBS TO THE ECONOMY AND GDP

SMBs have created a plethora of employment opportunities in our country. According to data from the Ministry of Micro, Small, and Medium Enterprises, small businesses in India employ about 120 million people, about 40% of the country's workforce. The youth of India is skilled and competent and yet a huge number of them are unemployed due to the large size of the population and a comparatively smaller number of suitable jobs. These business structures have significant labor and human resource requirements and fulfillment of these requirements reduces the weight of unemployment in India. They are the second largest employment generator in India, bagging the rank right after the agriculture industry. Additionally, they also account for a significant portion of the country's economic output. According to the National Sample Survey Office, small businesses contribute about 45% of manufacturing production and 40% of the country's exports. Thus, the industrial production units are heavily dependent on these businesses. SMBs foster a healthy environment for innovations and prolific ideas to thrive whilst creating an ecosystem of support as the minuscule market size thrives the

workforce to compete with their authentic ideas while satisfying the needs of the public. Most importantly they accelerate the rate of development of the local and rural communities as numerous backward, poverty-stricken communities break free from the shackles of traditional barriers and actively take the initiative in establishing small-sized businesses. This happens as small businesses are comparatively easier to establish and manage due to the lesser capital requirements, and access to credit with lower rates of interest. This leads to the formation of a diverse, cohesive, and supportive framework of businesses where every individual and group is offered a fair shake to create an identity along with the betterment of society. They also efficiently bridge the gap between the richer and poorer sections of the economy and improve living standards and this in turn leads to better distribution of income amongst the population. This means greater demand for goods and services at affordable prices for the consumers and increased supply and profits for the producers. This satisfies the purpose of an economy. Around 20 percent of these enterprises operate in rural and backward areas according to a media report quoting Confederation of Indian Industries. SMBs build stronger customer connections by inculcating a personalized touch in their business style and creating a strong, loyal, and repetitive base of consumers, this becomes one of the major differentiating factors between small and medium-sized businesses and larger businesses. Many SMBs in India have established impressive consumer connections due to their determination and constant feeling of social accountability and responsibility which has led them to deliver the best outputs at economical price points, impressive quality feeling of personal touch.

## III. CONTRIBUTION OF SMBS TO SOCIAL CAUSES

Every business in the country has a social responsibility that must be fulfilled as these very businesses operate within the society and thus for the society. A firm's foremost responsibility is the good of society as this very society enables the businesses to carry out their activities that cater to their profit maximization objective and provide the market and resources of all kinds. Small and medium-scale businesses however realise this responsibility more than others as they possess a greater sense of accountability and are connected to society and the consumers at the micro level as they are generally community-based. SMBs usually implement strategies to align with the purpose of social responsibility as it also indirectly benefits the business by

creating a good public image of the firm that attracts consumers, partnerships, and greater profits. Business Wire research shows that consumers expect the brands they support to be socially responsible. 70% of consumers want to know what the brands they support are doing to address social and environmental issues. Whether firms carry out activities and make decisions that are ethical and desirable by society to create an attractive public image or because they genuinely assume the need to do good for society is not of great concern as no matter what the reason, decisions are made for the welfare of the society.

Not only do SMBs create employment opportunities, contribute to economic growth, and GDP, and reduce economic inequalities by trying to provide income to the weaker sections of society but they also prevent migration, prevent brain drain, and establish links between different sectors of the economy. Especially In the rural areas of India, the establishment of cottage and rural industries has slowed down migration as now people are unveiling the true potential of SMBs and making them their source of livelihood whilst contributing to the development of these places instead of migrating to urban areas in search of employment. The time taken to complete the cycle from the generation of demand to its completion is way quicker and easier for the entrepreneur due to the flexibility and adaptability provided by the small size of the business,

#### **IV. WOMEN-LED SMBS AND THE TRADITIONAL HANDICRAFT INDUSTRY AS AN SMB**

SMBs aid women entrepreneurs in establishing inclusive and successful businesses. However, the percentage of women-led SMBs is quite disheartening and must be alleviated in the coming years. There exist 15.7 million women-owned enterprises in India, constituting 22 % of all enterprises in the country, providing employment to 27 million citizens. Women comprise 14 % of the total entrepreneurs in India or 8 million women. In a country like India where women were treated like nobodies and were never given the right to work, we are now experiencing an inspiring wave of revolution. They have strategically converted their skills into their livelihood by setting up small and medium-scale businesses. In the predominant Indian society, women had no power both at home and outside, no rights, and lacked financial independence, security, and stability due to the prevailing notion that their rightful place was inside the four walls of their houses. Naturally, Indian women possessed many soft skills, be it cooking, knitting, sewing, embroidery painting, etc. These women realized the potential these skills had and generated stable sources of income, promoting women's empowerment whilst performing activities that they desired. SMBs are the most chosen form of business due to the ease of formation, setting up, low capital requirements, and management. Big and established businesses see potential in SMBs so why don't we?

Big brands like USHA, a sewing machine company have promoted rural women to the best of their capabilities by shortlisting over 30 rural women from four states - Rajasthan, Gujarat, West Bengal, and Puducherry and made a mark during the country's most reputable fashion event - the Lakme Fashion Week 2018 in Mumbai.

The Indian consumer market is becoming seemingly aware of the protection of the intellectual rights of craftsmen. A large number of jobs were lost in the traditional handicraft, and textile industries during the nineteenth century which led to the decline of the traditional Indian craft industries and is making a steady yet lethargic recovery. But the ancillary system of the SMB industry is keeping alive the lost essence of our rich Indian heritage. According to IMARC Group's latest published report, titled "India Handicrafts Market: Industry Trends, Share, Size, Growth, Opportunity and Forecast 2023-2028," The Indian handicrafts market reached US\$ 3,968.0 Million in 2022. Looking forward, IMARC Group expects the market to reach US\$ 6,218.4 Million by 2028, exhibiting a growth rate (CAGR) of 7.7% during 2023-2028.

The handicraft industry in India is dominated by female artisans with over 56% of total artisans. This industry employs nearly 212,000 artisans and offers about 35,000 products. The handicraft industry is becoming increasingly popular due to the travel and tourism industry as tourists spend large sums of money on these hand-crafted goods. To the Indian consumer, these goods are also considered works of fine art and they use them as décor items and for gifting purposes. Most of the manufacturing units for these small-scale industries are based in rural areas and small towns.

What makes the handicraft industry even more vital is that it makes India the largest handicrafts exporting country thus strengthening exports and contributing significantly to the economy. In FY23, the total exports of handicrafts stood at Rs. 30,019 crore (US\$ 3.60 billion). In 2021-22, the total exports of Indian handicrafts were valued at US\$ 4.35 billion, a 25.7% increase from the previous year.

#### **V. LIMITATIONS OF SMBS AND GOVERNMENT INITIATIVES**

Due to the small, scattered, and disoriented structure of the developing and ever-evolving SMBs, they face a fair share of tribulations, namely:

- Hiring and retaining talent
- Expensive real estate or office and manufacturing spaces
- Highly competitive market especially at the global level
- Limited capital and cash flow
- Problems related to digitalization
- Small base of clients
- Limited managerial skills
- Rising costs of resources and decreased revenue

The Government of India was aware of these intricacies and hence launched various schemes to overcome the challenges faced by the SMBs and skyrocket their growth:

- Stand-up India: This scheme was introduced by the government to avail loans for businesses led by scheduled caste/scheduled tribes and women.
- Bank that governs this scheme: Small Industries Development Bank of India Loan granted: Ranges from Rs. 10 Lakhs to Rs.1 crore.
- MUDRA Loans: These loans are sanctioned by the Micro-units Development and Refinance agency organization. The theme behind these loans is to “fund the unfunded.” All bank branches across India govern this scheme.
- NABARD: It is the National Bank of Agricultural and Rural Development which was set up in 1982 to promote rural development by supporting rural artisans and small businesses based in rural areas. It also provides financial assistance to cooperative banks thus strengthening rural finances. Additionally, it organizes training and development programs for entrepreneurs.
- SIDBI: The Small Industries Development Bank of India was set up as an apex bank to provide direct and indirect financial assistance and to meet the credit needs of small business organizations.
- NSIC: The national small industries corporation was set up in 1955 which fosters their growth by providing imported machines, exporting their products, and developing software technology parks.
- RWED: Rural and Women Entrepreneurship development program was set up to provide training manuals and training for women entrepreneurs.
- DIC: District Industrial Centres were established in 1978 to provide support, services, and facilities to entrepreneurs to set up small-scale industries. They are established in every district for the growth of these businesses financially.
- Pradhan Mantri Mudra Yojana (PMMY): Was launched in 2015 and offers loans up to Rs. 10 lakhs, with no collateral required for loans up to Rs. 50,000. This scheme has funded many SMBs and has also supported them with growth and expansion.

Numerous more schemes, policies, and institutions that support SMBs are listed below;

- Credit Guarantee Fund Scheme for Micro and Small Enterprises
- Micro & Small Enterprises Cluster Development Programme
- Scheme for implementation of ISO in Khadi and village industry
- Micro Small and Medium Enterprises (MSME) SAMADHAAN - Delayed Payment Monitoring System
- Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
- Assistance to Training Institutions (ATI) Scheme
- Skill Upgradation and Mahila Coir Yojana under SIDBI
- Procurement and Marketing Support (PMS) Scheme
- National Entrepreneurship Development Programme (NEDP)

- Prime Minister Employment Generation Programme (PMEGP)
- Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE)

## VI. CONCLUSION

Therefore, we conclude that SMBs are of vital importance to the Indian economy and it is more than important to educate oneself on the nature and state of affairs of SMBs.

- There exists a whopping 42.5 million (excluding the startups) of small and medium-sized businesses constituting over 40 % of the country's exports leading to an average growth rate of about 10 percent.
- The market size of SMBs in India is expected to reach a staggering 2 trillion dollars and create the availability of 50 million additional jobs by 2024.
- As stated by the research and survey conducted by the Times group SMBs contribute to up to 36% of the country's total manufacturing output which is 1/3<sup>rd</sup> of the country's output goes to SMBs.
- SMBs are relatively easier to establish and are becoming increasingly popular amongst the people of India regardless of their backgrounds.
- SMBs face a fair share of struggles especially related to the issue of finance which they overcome to a great extent with the help of schemes, policies, and programs designed by the Indian government.

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