

MSME India Guide for Foreign Investors: Classification, Support Schemes, Sector Opportunities

June 5, 2023 Posted by [India Briefing](#) Written by [Khyati Anand](#) Reading Time: 10 minutes

In the Indian business landscape, micro, small, and medium enterprises (MSMEs) hold immense significance as key drivers of growth, employment, and innovation.

MSMEs act as crucial ancillary units to large businesses, providing vital support and fostering synergistic collaborations. Their presence creates a dynamic marketplace that encourages collaboration, partnership, and innovation.

With favorable government initiatives and policies, they enjoy a conducive business environment that promotes investment, enhances competitiveness, and fuels their growth. Together, MSMEs and large enterprises form a powerful ecosystem that propels Indian businesses towards sustainable growth and prosperity.

How MSMEs make up India's economic backbone

MSMEs, categorized based on their investment in plant and machinery or equipment, make up around 33 percent of India's GDP. Moreover, their projected contribution of US\$1 trillion to India's total exports by 2028 underscores their crucial role in the country's economic prosperity. As reliable and agile business partners, MSMEs contribute to the diversification and expansion of supply chains, while their entrepreneurial spirit drives innovation within their sectors.

According to media reports, the Government of India aims to create five million new jobs in the MSME sector by 2025. For FY 2023-24, the government has increased its budget allocation for MSMEs by 42 percent compared to previous years. As part of the Union Budget 2023, the government has established a fund of INR 100 billion for the development of technology and infrastructure in the MSME sector. This fund aims to provide financial support to MSMEs for adopting new technologies, improving production processes, and modernizing operations.

MSMEs in India are not only substantial contributors to the overall economy but also serve as engines of employment generation. With 63 million enterprises and opportunities for 120 million individuals across diverse sectors and regions, they rank second only to agriculture in terms of employment generation.

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Definition and classification criteria

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 governs the coverage and investment ceiling of MSMEs in India.

Since July 1, 2020, a new definition of MSMEs has come into effect, focusing on their net turnover and net investments in essential assets such as plants, machinery, and equipment. This revised definition applies to both goods-based and service-based MSMEs, providing a comprehensive framework for classification.

Under the new definition, net investment refers to the difference between the investments made in pollution control, research and development, and the installation of safety devices, and the total investment in plant and machinery. This criterion ensures that MSMEs prioritize sustainable practices, innovation, and safety measures in their operations.

Net turnover, on the other hand, is determined by subtracting the export turnover from the total turnover of the MSME. This metric captures the domestic business activities and the extent of international trade for the enterprise.