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Original Article

MSMEs and Cluster Development In India: Assessing Economic Impact And Policy Initiatives

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Abstract: *Micro, Small, and Medium Enterprises (MSMEs) play a vital role in India's economic development, contributing significantly to employment generation, industrial output, and exports. These enterprises constitute a major share of the country's business ecosystem, accounting for nearly 30% of GDP and 45% of total manufacturing output. Despite their importance, MSMEs often face numerous challenges, including inadequate access to finance, lack of infrastructure, limited technological adoption, and restricted market reach. To address these issues and enhance the competitiveness of MSMEs, the Government of India has introduced the Cluster Development Programme (CDP), which focuses on creating clusters of MSMEs operating in similar industries within a defined geographic location. This approach facilitates collective efficiency, resource sharing, common infrastructure development, and skill enhancement. This paper examines the impact of MSMEs in India's economic growth and analyses the role of government policies and initiatives in supporting cluster development.*

Keywords: *MSMEs, Cluster Development Programme, Economic Growth, Competitiveness.*

I. INTRODUCTION

MSMEs, which are considered the backbone of the Indian economy, contribute about 30% of the GDP and over 45% of the manufacturing exports. About 63.38 million businesses make up the MSME sector, with 31% of them involved in manufacturing, 36% in commerce, and 33% in other services, according to the Ministry of MSMEs' Annual Report for 2023–2024. Additionally, it shows that 111 million people, or around 21% of all workers, are employed in the MSME sector. According to estimates, MSMEs make about 40% of value addition in the manufacturing sector and over 90% of India's industrial units. Despite their significant contributions, these enterprises face challenges such as a lack of credit, inadequate infrastructure, and poor market access.

MSMEs of the same or similar activities group together in particular geographical regions on account of accessibility of raw materials and other inputs, availability of skilled workers, use of common distribution channels and marketing strategies, etc. Thus, a cluster can be defined as a group of enterprises located within an identifiable and, as far as practicable, contiguous area and producing the same/ similar products and services. As compared to individual enterprises, an enterprise in a cluster has the potential to achieve the level of competitiveness and overcome its common challenges. Alfred Marshal's study from 1890 introduced the basic concept of a cluster, which most economists have called agglomeration. One of the first experts to investigate the phenomenon of clustering in industrial groups was Alfred Marshall. In 1920, Alfred Marshall provided an explanation for why certain specialized industries concentrated in particular areas through the concept of industrial districts, which he defined as the concentration of specialized businesses of a particular type in a single locality (Rawat et al., 2017).

The industrial structure of India, which is primarily made up of MSMEs, also has the tendency to regularly form clusters. In India, clusters have existed for centuries and are regarded as an ancient phenomenon. About 6400 clusters are thought to exist in India, of which 5847 have been recognized. Of these, 540 are handloom clusters, 2864 are handicraft clusters, and 2443 are SME clusters (Rawat et al., 2017). Cluster Development Programmes (CDPs), especially in traditional industry, did not become popular at the national level in India until 2002–2003. With the launch of the Small Industries Cluster Development Programme (SICDP), the Ministry of MSME took the lead in the program. The program was subsequently renamed the Micro and Small Enterprise Cluster Development Program (MSECDP) in 2006. Additionally, the Ministry established the National Manufacturing Competitiveness Programme (NMCP), a program to assist MSMEs, and launched the Scheme for Fund for Regeneration of Traditional Industries (SFURTI), a cluster development initiative for household (khadi and village industries) enterprises (FMC, 2022). The Ministry of MSMEs, Government of India, has adopted the Cluster Development Programme as a tool for developing and enhancing the productivity and competitiveness of MSMEs in the country.

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II. OBJECTIVES OF THE STUDY

- To evaluate the impact of MSMEs on the economic growth of India.
- To analyse the role of government policies and initiatives in supporting cluster development.

III. RESEARCH METHODOLOGY

A) Research Design

This study adopts a descriptive and analytical research design based on secondary data.

B) Sources of Data

The study is based on secondary data. For the research, various Annual Reports of Ministry of Micro, Small and Medium Enterprises and administrative reports have been taken for detail study. The secondary data of the study also include research papers, journals, news articles, etc.

IV. REVIEW OF LITERATURE

Gade (2018) stated that MSMEs play a part in economic activity in both concrete and abstract ways. MSMEs create jobs and eventually lead to self-sufficiency. MSMEs contribute consistently to the growth of society and can be a powerful tool for harnessing India's natural resources. If MSMEs are founded in impoverished areas, they can greatly aid in removing regional disparities. More jobs are being created by MSMEs per unit. Their distinctiveness must be fostered in an overt and obvious way if this contribution is to continue.

Jena (2017) stated that Micro, Small and Medium Enterprises (MSMEs) are given considerable importance in developed as well as developing economies because of their role in economic growth, export promotion, job creation, regional and local development and social cohesion. The understanding that entrepreneurship and a vibrant SME sector are critical for economic restructuring and poverty alleviation also contributes to the significance of SSIs and MSMEs in developing nations.

Das (2015) stated that the expansion of industries in a particular region is encouraged by cluster development, which raises the demand for both skilled and unskilled workers and increases employment opportunities.

Venkatesh & Kumari (2012) stated that in order to achieve inclusive growth and sustainable development, the inefficient MSME clusters should increase their sales and exports, as a decrease in the number of enterprises and employment is practically not possible. Furthermore, MSMEs have been able to enhance their infrastructure and boost technical efficiency thanks to government initiatives to support the sector. The sector's share of national exports accurately reflects its capabilities in the global marketplace.

Department of Industrial Policy and Promotion (2011) stated that the MSME sector's cluster growth plans frequently lack the necessary flexibility and investment potential. Furthermore, the creation of common infrastructure is a major priority of the plans, accounting for around 80% of total expenditures under the various cluster development programs. It seems to guarantee expenditure while neglecting to invest in BMO capacity building and social capital building, which are essential for clusters to expand sustainably.

Sudesh Kumar (2005) explained the development of the SSI cluster in India, which has hugely contributed to the phase of broad and extended industrialization in all states. About 350 small-scale industry clusters and 2000 rural and artisan-based clusters are thought to exist in India, according to a 1996 UNIDO survey of Indian SSI clusters. These clusters are thought to be responsible for 40% of manufacturing-related employment and nearly 60% of manufactured exports. In India, these clusters have existed for a number of decades, and occasionally for centuries.

Porter (1998) advocated clusters as Geographic concentrations of interconnected companies and institutions in a particular field, linked by commonalities and complementarities.

Porter (1998) stated that clusters promote higher productivity through economies of scale and scope. Firms within clusters can access specialized inputs and labor, allowing them to operate more efficiently than isolated firms.

V. ROLE OF MSMEs IN THE DEVELOPMENT OF THE INDIAN ECONOMY

Micro, small, and medium-sized businesses, or MSMEs, are frequently referred to as the "engine of growth" in emerging nations like India. It is essential to India's egalitarian growth. According to estimates, MSMEs make about 40% of value addition in the manufacturing sector and over 90% of India's industrial units. The importance of MSMEs in generating income and jobs in the Asian region is becoming more widely acknowledged. Since MSMEs have less demanding needs than major firms in terms of money, technology, management, and even utilities, they are easier to begin.

The role of MSMEs in the economic development of India can be explained with the following relevant parameters: \

A) Contribution to the Nation's GDP:

The MSME sector has become a major contributor to the nation's GDP. As per the latest information received from the Ministry of Statistics and Programme Implementation, the share of MSME Gross Value Added (GVA) in India's Gross Domestic Product (GDP) is nearly 30 per cent. The table explains the percentage share of MSME GVA in the nation's GDP from the year 2017-18 to 2022-23:

TABLE 1: Share of MSME GVA in All India GDP (%)

Year	Share of MSME GVA in All India GDP (%)
2017-18	29.7
2018-19	30.5
2019-20	30.5
2020-21	27.3
2021-22	29.6
2022-23	30.1

Source: *Ministry of MSMEs*

B) Contribution to the Nation's Exports:

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in India's export landscape, contributing nearly 45.79% to the country's total exports as of May 2024. Despite medium-sized enterprises making up only 0.3% of total MSMEs, they account for around 40% of the sector's exports, highlighting a structural imbalance. With over 1.7 lakh MSMEs currently engaged in exports, the sector remains a vital driver of India's trade performance and economic growth. According to data extracted from the Directorate General of Commercial Intelligence and Statistics' (DGCIS) Data Dissemination Portal, the following represents the percentage of MSME-specific exports among all Indian exports.

TABLE 2: Share of MSME GVA in All India GDP (%)

Year	Share of Export of MSME-related products in All India Export (%)
2019-20	49.75
2020-21	49.35
2021-22	45.03
2022-23	43.95
2023-24	45.73
2024-25	45.79

Source: *Ministry of MSMEs*

C) Major driver of enterprise development in India:

The National Sample Survey Office, Ministry of Statistics & Programme Implementation, conducted the 73rd round of the National Sample Survey (NSS) in 2015–16. The survey found that 633.88 lakh unincorporated non-agriculture MSMEs were involved in various economic activities, including manufacturing (196.65 lakh), non-captive electricity generation and transmission (0.03 lakh), trade (230.35 lakh), and other services (206.85 lakh).

Table 3: Estimated number of Enterprises

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Electricity*	0.03	0.01	0.03	0
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
All	**324.88**	**309.00**	**633.88**	**100**

**Non-captive electricity generation and transmission*

Source: *Annual Report 2023-24, Ministry of MSMEs*

D) Driving Rural Enterprise Growth

The micro sector, with 630.52 lakh estimated enterprises, accounts for more than 99% of the total estimated number of MSMEs. The small sector with 3.31 lakh and the medium sector with 0.05 lakh estimated MSME accounted for 0.52% and 0.01% of the total estimated MSME, respectively. Out of 633.88 estimated numbers of MSMEs, 324.88 lakh MSMEs (51.25%) are in rural areas and 309 lakh MSMEs (48.75%) are in the urban areas.

Table 4: Distribution of Enterprises in Rural and Urban Areas

Sector	Micro	Small	Medium	Total	Share
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

Source: *Annual Report 2023-24, Ministry of MSMEs*

E) Promoting Women Entrepreneurship

Out of 633.88 MSMEs, 608.41 lakh (95.98%) MSMEs were proprietary concerns. There was a dominance of males in the ownership of proprietary MSMEs. Thus, for proprietary MSMEs as a whole, males owned 79.63% of enterprises as compared to 20.37% owned by females. There was no significant deviation in this pattern in urban and rural areas, although the dominance of male owned enterprises was slightly more pronounced in urban areas compared to rural areas (81.58% as compared to 77.76%).

Table 5: Distribution of workers by gender in rural & urban areas

Sector	Male	Female	All
Rural	77.76	22.24	100
Urban	81.58	18.42	100
All	79.63	20.37	100

Source: *Annual Report 2023-24, Ministry of MSMEs*

F) Contribution to Employment Generation

MSMEs are providing good employment opportunities to the youth of our country. The MSME sector's robust expansion is strengthening backward and forward links and attracting additional investments. In the country's rural and urban areas, the MSME sector has been generating 11.10 crore jobs (360.41 lakh in manufacturing, 387.18 lakh in trade, 362.22 lakh in other services, and 0.07 lakh in non-captive electricity generation and transmission), according to the 73rd round of the National Sample Survey (NSS), which was conducted between 2015 and 2016. The activity-wise distribution of MSMEs is displayed in the following table.

TABLE 6: Estimated Employment in MSME Sector

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
Total	**497.78**	**612.10**	**1109.89**	**100**

**Non-captive electricity generation and transmission*

Source: *Annual Report 2023-24, Ministry of MSMEs*

G) Upliftment of Socially Backward Communities

According to the Annual Report for 2023-24 by the Ministry of MSMEs, the majority of micro, small and medium enterprises owners across India belonged to socially backward classes. Nearly 66.27% of all MSMEs were held by socially disadvantaged groups, 49.72% of which were owned by OBCs. SC and ST owners made up only 12.45% and 4.10% of the MSME sector, respectively. Socially disadvantaged groups owned over 73.67% of MSMEs in rural areas, with OBCs accounting for 51.59% of these businesses. Nearly 58.68% of people in urban areas were members of socially backward groups, with 47.80% of them being OBCs. The percentage distribution of MSMEs by owner social group is displayed in the table below.

TABLE 7: Percentage Distribution of MSMEs by Social Group of Owners

Sector	SC	ST	OBC	Others	Not known	All
Rural	15.37	6.70	51.59	25.62	0.72	100.00
Urban	9.45	1.43	47.80	40.46	0.86	100.00
All	**12.45**	**4.10**	**49.72**	**32.95**	**0.79**	**100.00**

Source: *Annual Report 2023-24, Ministry of MSMEs*

VI. MEANING OF CLUSTER

Clusters are geographic concentrations of connected businesses and institutions in a particular industry. These actors include suppliers of specialized inputs for components, machinery, and services, providers of specialized infrastructure, customers, manufacturers of complementary goods, businesses in sectors requiring specialized knowledge, technologies, or shared inputs, as well as the government and other institutions like universities (Rawat, et al., 2017).

VII. NEED FOR CLUSTER DEVELOPMENT APPROACH

- To promote the long-term growth and sustainability of Micro and Small Enterprises (MSEs) by addressing shared challenges such as technological advancement, skill development, quality enhancement, and improved market access.
- To strengthen the collective capabilities of MSEs through the formation of self-help groups, consortia, and the development of industry associations.
- To develop or upgrade infrastructure in both new and existing industrial areas or MSE clusters.
- To establish Common Facility Centres (CFCs) that provide services such as testing, training, raw material storage, effluent treatment, and support for complementary production activities.
- To encourage the adoption of green and sustainable manufacturing practices within clusters, facilitating the transition of enterprises to eco-friendly production methods and products.

VIII. GOVERNMENT INITIATIVES FOR CLUSTER DEVELOPMENT

The Government of India has undertaken several initiatives to promote cluster development, recognizing its potential to enhance the competitiveness and productivity of Micro, Small, and Medium Enterprises (MSMEs). Key programmes include the Micro and Small Enterprises Cluster Development Programme (MSE-CDP), which supports infrastructure development and the creation of Common Facility Centers (CFCs), and the Scheme for Fund for Regeneration of Traditional Industries (SFURTI), aimed at revitalizing traditional artisan clusters. Other initiatives like the Industrial Infrastructure Upgradation Scheme (IIUS) and various sector-specific schemes under the Ministry of Textiles further contribute to improving infrastructure, technology adoption, and market access. These efforts collectively aim to foster sustainable growth, skill development, and innovation within MSME clusters across the country.

A) Micro & Small Enterprises Cluster Development Programme (MSE-CDP):

The Ministry of MSME is implementing the Micro and Small Enterprises - Cluster Development Programme (MSE-CDP) for the development of clusters. The objective of the scheme is to enhance the productivity and competitiveness of Micro and Small Enterprises (MSE) by extending financial assistance as Government of India (GoI) grant for establishment of Common Facility Centers (CFC) in the existing clusters and for the establishment of new or the upgradation of existing Industrial Areas, Estates and Flatted Factory Complexes. MSE-CDP is a demand-driven scheme and a Central Sector Scheme. The programme includes the following-

a. Common Facility Centers (CFCs): 70% of the project cost (Rs. 5.00 crore to 10.00 crore) and 60% of the project cost (Rs. 10.00 crore to 30.00 crore) are the maximum amounts that the GoI grant can cover. The GoI grant will cover 70% of the project cost (Rs. 10.00 crore to 30.00 crore) and 80% of the project cost (Rs. 5.00 crore to 10.00 crore) in the case of Aspirational Districts, NE & Hill States, Island territories, and clusters with more than 50% micro/village or women-owned or SC/ST-owned units. The GoI aid would be computed by taking into account the maximum eligible project cost of Rs. 30.00 crore; however, CFC projects costing more than that might also be taken into consideration.
b. Infrastructure Development: The GoI grant will be restricted to 60% of project cost (Rs. 5.00 crore - 15.00 crore) for setting up of new Industrial Estate / Flatted Factory Complex and GoI grant will be 50% of project cost (Rs. 5.00 crore - 10.00 crore) for up-gradation of existing Industrial Estate / Flatted Factory Complex. In case of NE & Hill States, Island territories, Aspirational Districts, LWE affected districts and clusters with more than 50% micro/village or women owned or SC/ST owned units, GoI grant will be 70% of project cost (Rs. 5.00 crore - 15.00 crore) for setting up of new Industrial Estate / Flatted Factory Complex and 60% of project cost (Rs. 5.00 crore - 10.00 crore) for up gradation of existing Industrial Estate / Flatted Factory Complex. The ID project with a cost of more than Rs. 10.00 crore/15.00 crore can also be considered, but the GoI assistance would be calculated by taking into account the maximum eligible project cost of Rs. 10.00 crore/15.00 crore.

Table 8: Achievement of MSE-CDP during the FY 2017-18 to 2023-24

Year	Projects Approved			Projects Completed		
	CFC	ID	Total	CFC	ID	Total
2017-18	9	12	21	13	11	24
2018-19	11	26	37	17	11	28
2019-20	38	35	73	11	11	22
2020-21	26	42	68	8	12	20
2021-22	18	13	31	3	13	16
2022-23	9	19	28	1	2	3
2023-24	20	26	46	10	30	40
Total	**131**	**173**	**304**	**63**	**90**	**153**

Source: *Annual Report 2023-24, Ministry of MSMEs*

B) SFURTI Scheme (Scheme of Fund for Regeneration of Traditional Industries)

Government of India has launched the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) with an aim to recognize the talent, creativity, enterprise of hard work of rural Artisan in a variety of fields, ranging from food products to handicraft; leather products, to ayurvedic medicines and to make the Traditional Industries more productive, profitable and capable for generating sustained employment for traditional industry Artisans and subsequently empower and convert them as self-governing entrepreneurs. It is a Cluster based scheme of the Government of India.

The scheme covers three types of interventions:

- **Soft interventions** – Activities to build general awareness, counselling, skill development and capacity building, exposure visits, market development initiatives, design and product development, etc.
- **Hard interventions** – Creation of common facility centres, raw material banks, upgradation of production infrastructure, warehousing facility, tools and technological upgradation, etc.
- **Thematic interventions** – Interventions on a cross-cutting basis for brand building, new media marketing, e-commerce initiatives, research and development, etc.

A maximum of Rs. 5 (five) crore can be allocated for financial support for any given project in order to support thematic, hard, and soft initiatives. Between 2015 and December 10, 2023, 513 clusters have been granted with GoI grants of Rs. 1335 crore under the Scheme for Fund for Regeneration of Traditional Industries (SFURTI), which will assist around 3.03 lakh artisans. 87 of these clusters are approved in the North-eastern Region. During the period 01-04-2023 and 31-03-2024, 15 SFURTI cluster proposals have been approved, and 50 clusters have become functional.

C) State-Specific Cluster Development Programs

A few State Governments have initiated State-funded Cluster Development Programme to support soft and hard interventions in clusters with limited funding support. In order to strengthen this activity, this component would provide co-funding of the CFC projects of the State Cluster development Programme on a matching share basis. The Gol fund would be limited to the State Government share of Rs. 5.00 crore, whichever is lower. The GoI assistance would be 90% of the project cost, not exceeding Rs.5.00 crore in respect of CFC projects in North East/Hilly States, Island territories, Aspirational Districts/L WE affected Districts, as well as for projects where beneficiaries are SC/ST/Women owned enterprises, as per the scheme guidelines of State Cluster Development Programme. Many states, such as Maharashtra and Tamil Nadu, have launched their own cluster-based MSME promotion policies.

D) Cluster Development Programme, Textiles Committee of India

The objective of this scheme is capacity building of SMEs, through a cluster-based approach, by way of fostering the collective efficiency of SMEs and improving the support systems, so that the emerging opportunities on account of globalization and liberalization are exploited. The scheme is implemented by the Textiles Committee itself. A Diagnostic Study is conducted in selected clusters to identify gaps and support initiatives required to be provided by various organisations.

E) Integrated Handloom Cluster Development Programme (IHCDP):

The objective of this programme is to empower and build capacity of handloom weavers so as to meet the challenges of the market and global competition, facilitate collectivization of handloom weavers and service providers, provide common infrastructure, encourage convergence of schematic assistance and support service from various schemes and programmes of government and other agencies. IHCDP is an attempt to facilitate the sustainable development of handloom weavers located in identified clusters into a cohesive, self-managing and competitive socio-economic unit. The nodal entity in charge of retaining and allocating funds to the designated implementing agencies (IAs) is the Development Commissioner (Handlooms). There is an Apex Committee that oversees the project's overall monitoring. With the necessary knowledge and experience to carry out a project, the IAs can be organisations of the Central and State Governments, semi-Governmental organisations, NABARD, EDI, NHDC, and NGOs.

F) Industrial Infrastructure Upgradation Scheme (IIUS)

By establishing high-quality infrastructure through a public-private partnership approach in specific functional clusters or places with a higher potential to become globally competitive, the program aims to increase the domestic industry's ability to compete internationally. Selected competitiveness indicators will be created in cooperation with each industrial group in order to secure the performance improvements. The cluster is developed by means of a Special Purpose Vehicle (SPV), which is responsible for the construction, management, and upkeep of the infrastructure facilities established in the industrial areas.

IX. FINDINGS AND DISCUSSIONS

The major findings of the study are as follows-

- MSMEs are essential to India's equitable development. MSMEs contribute to the development of jobs and revenue because they make up nearly 90% of India's industrial units and 40% of value addition in the manufacturing sector.

- Through business innovations, Micro, Small, and Medium-Sized Enterprises (MSMEs) have been making a substantial contribution to the growth of entrepreneurial activities. In order to satisfy the needs of both domestic and international markets, MSMEs are expanding their reach throughout many economic sectors and offering a wide variety of goods and services. Approximately thirty percent of India's GDP comes from the MSME sector.
- This sector also plays an important role in contributing to India's exports. The share of MSMEs in the total exports of our country has been increasing year after year and accounts for almost half of India's exports. MSMEs contribute nearly over 45% of manufacturing exports.
- This sector employs around 111 million jobs in the rural and urban areas across the country, thus, providing good employment opportunities to the youth of our country.
- The majority of micro, small and medium enterprises owners across India belonged to socially backward classes. The socially backward groups- OBC, SC & ST owned around 66% of the total MSMEs thus uplifting the standard of living of these classes.
- The Government of India has undertaken several initiatives like the Micro and Small Enterprises Cluster Development Programme (MSE-CDP), Scheme of Fund for Regeneration of Traditional Industries (SFURTI), Industrial Infrastructure Upgradation Scheme (IIUS), Integrated Handloom Cluster Development Programme (IHCDP) and various sector-specific schemes under the Ministry of Textiles to promote cluster development, recognizing its potential to enhance the competitiveness and productivity of Micro, Small, and Medium Enterprises (MSMEs). These efforts collectively aim to foster sustainable growth, skill development, and innovation within MSME clusters across the country.

X. CONCLUSION

The Micro, Small, and Medium Enterprises (MSME) sector plays a pivotal role in India's economic development by contributing significantly to GDP, exports, employment generation, and the promotion of inclusive growth. Its wide presence in both rural and urban areas highlights its potential in reducing regional disparities and empowering socially and economically backward communities, including women entrepreneurs and marginalized groups. The formation of clusters among enterprises with similar activities has proven to be an effective strategy for addressing common challenges such as lack of infrastructure, limited market access, and low productivity.

Recognizing this potential, the Government of India has launched several cluster development initiatives such as MSE-CDP, SFURTI, and IHCDP, among others. These programmes aim to enhance competitiveness, provide shared infrastructure, support capacity building, and foster sustainable and inclusive growth. Through these initiatives, traditional industries and modern MSMEs alike are being empowered to become self-reliant, innovative, and globally competitive. Continued policy support, effective implementation, and stakeholder collaboration will be crucial in unlocking the full potential of MSMEs and driving India's long-term economic transformation.

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