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An Effective Assessment Of The Growth And Challenges Of Msmes In India

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ABSTRACT

This article delves into the challenges and opportunities that Micro, Small, and Medium-sized Enterprises (MSMEs) in India face. These enterprises play a crucial role in creating jobs, boosting income, and reducing poverty. However, they encounter various obstacles that hinder their growth potential. The purpose of this article is to identify and analyse these challenges, explore potential opportunities, and outline a roadmap for the success of MSMEs.

Key challenges include restricted access to finance, difficulties in marketing and sales, slow technology adoption, a shortage of skilled labour, complex regulatory requirements, and insufficient infrastructure. Despite these hurdles, MSMEs can thrive by adopting specific strategies such as seeking alternative financing sources, building a strong brand identity, enhancing technology use, attracting and retaining talent, streamlining regulatory processes, and collaborating on infrastructure development.

The Indian government has introduced several initiatives to support MSMEs, including the Udyam Registration Portal, policies that favour MSME financing, financial assistance programs, tax incentives, and subsidies. Nevertheless, access to finance and credit remains a significant challenge for many MSMEs. By building a solid credit history and leveraging government schemes and subsidies, MSMEs can improve their financial access.

Keywords: Challenges, Infrastructure, Collaboration, MSMEs, Incentive, Subsidy

INTRODUCTION

The MSME sector is playing an increasingly vital role in driving the growth of the Indian economy. Serving as a key catalyst for the nation's socioeconomic transformation, this sector is instrumental in achieving national objectives such as boosting employment, reducing poverty, and curbing rural-to-urban migration. MSMEs foster the adoption of indigenous technologies and contribute to the creation of a dynamic entrepreneurial ecosystem.

Although the MSME sector has shown consistent growth in recent years, this progress has often been constrained, leading to inefficient resource utilization. One of the primary challenges hindering the expansion and development of MSMEs is the limited access to financial resources, which makes small enterprises particularly vulnerable during economic downturns. Therefore, it is essential to address the issues that impact the establishment, growth, and sustainability of businesses within this sector.

Credit lending institutions are now playing a critical role in the development of the MSME sector. Both the Indian government and financial institutions have made substantial efforts to promote and support MSMEs. This article provides an in-depth examination of the development and expansion activities within the Indian MSME sector over recent years, highlighting the role of various financial institutions in fostering growth

across the nation. It also seeks to explore potential opportunities and challenges related to securing funding through financial institutions, offering insights for policymakers to consider in order to achieve more sustainable outcomes in the future.

REVIEW OF LITERATURE

Tyagi (2022) - India's MSME sector boasts 5,767,734 enterprises, as of November 26, 2021, with micro-enterprises dominating at 5,441,220, trailed by small enterprises at 293,555, and mid-sized enterprises at 32,959, making up 29% of India's GDP and responsible for 40% of the country's total exports and about 25% of GDP from the service sector, and several factors, including favourable industrial policies, encouragement of FDIs, technology, and access to capital, were identified as responsible for the sector's growth, while the Indian Government introduced numerous policies such as PMEGP, CGTMSE, Interest Subvention Scheme, and CLCSS to foster its growth.

Srikanth and Suresh's (2022) - The scaling up of operations for MSMEs in India has been restricted by regulatory constraints on assets, but the Indian government's new policy change has been introduced to support growth by providing a Special Credit Linked Capital Subsidy Scheme for MSMEs in the services sector, which offers a 25% capital subsidy for the procurement of service equipment through institutional credit. With a substantial contribution to India's economy, accounting for almost 40% of total exports, employing around 11 crore people, and constituting around 30% of its GDP, the MSME sector plays a crucial role, especially in rural areas, but to further accelerate growth, MSMEs must have access to more efficient factors of production, such as modern technology, enabling infrastructure, a vibrant entrepreneurship culture, free access to capital, proper land acquisition policies, industry-friendly labour reforms, and simplified tax policies; leveraging the new policy change can assist MSMEs to extend their services and expand their exports.

Thiripurasundari, K and V. Gurumurthy (2009) - The study highlights the challenges of micro, small and medium enterprises of India. One side the globalization is an opportunity as well as another side it is a challenge for the indigenous MSME'S. The Indian MSME'S are facing a great problem due to larger production of foreign manufacturing concern. The financially strong MSME'S will survive strongly at globalized platform.

Bhavani, T.A. (2011) - This study reveals that how the all aspects of the MSME'S (Employment, Leading sector of MSME'S, Investment in fixed assets) being change in modern perspective. The technological advancement and protection of MSME'S through various subsidy schemes and liberal availability of credit will be a great help.

RESEARCH OBJECTIVES

- To know the present status of MSMEs in India.
- To identify and analyse the key challenges faced by MSMEs in India.
- To explore the opportunities available to MSMEs in India.

OVERVIEW OF MSME IN INDIA

Micro, Small, and Medium Enterprises (MSMEs) are the foundation of the Indian economy. They contribute to almost 8% of the nation's GDP, around 45% of the total manufacturing output, and roughly 40% of the country's exports.

The Indian government introduced MSMEs under the Micro, Small, and Medium Enterprises Development (MSMED) Act of 2006. These enterprises are engaged in the production, processing, or storage of goods and commodities, playing a critical role in the country's industrial and economic landscape.

Union Ministry of Micro, Small and Medium Enterprises (M/o MSMEs) has issued Gazette notification to pave way for implementation of the upward revision in the definition and criteria of MSMEs in the country. The new definition and criterion will come into effect from 1st July, 2020. After 14 years since the MSME Development Act came into existence in 2006, a revision in MSME definition was announced in the Atmanirbhar Bharat package on 13th May, 2020. As per this announcement, the definition of Micro

manufacturing and services units was increased to Rs. 1 Crore of investment and Rs. 5 Crore of turnover. The limit of small unit was increased to Rs. 10 Crore of investment and Rs 50 Crore of turnover. Similarly, the limit of medium unit was increased to Rs. 20 Crore of investment and Rs. 100 Crore of turnover. The Government of India on 01.06.2020 decided for further upward revision of the MSME Definition. For medium Enterprises, now it will be Rs. 50 Crore of investment and Rs. 250 Crore of turnover.

Table 1-Updated MSME definition and criteria in 2024

Type of Enterprise	Investment	Turnover
Micro	1 crore	5 crores
Small	10 crores	50 crores
Medium	50 crores	250 crores

Source – Ministry of MSME, Government of India

Role of MSMEs in the Indian Economy

As previously noted, MSMEs serve as the backbone of the Indian economy, offering employment to over 120 million people nationwide. These enterprises are widely seen as engines of economic growth and instruments for fostering more balanced development. MSMEs are acknowledged for driving the highest rate of economic expansion in the country. Their low investment needs, operational flexibility, and capacity to innovate with indigenous technology have elevated India to new levels of progress.

Table-2- Data on MSME Contribution to Indian Economy (at Current Price)

Year	MSME- Addition of Gross Value	Growth (%)	Total Addition of Gross Value	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	–	8106946	32.35	8736329	30
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

Source - Central Statistics Office (CSO), Ministry of Statistics & Program Implementation

Importance of MSMEs

- MSMEs provide employment to around 120 million people, making them the second-largest job provider after agriculture.
- They contribute approximately 6.11% to GDP from manufacturing and 24.63% from service activities, with nearly 4.5 million units spread across the country.
- As India aims to become a \$5 trillion economy, the MSME ministry has set a goal to increase the sector's GDP contribution to 50% by 2025.
- MSMEs are responsible for about 45% of India's total exports and play a crucial role in fostering inclusive growth by generating employment opportunities, particularly for individuals from lower socioeconomic backgrounds in rural areas.
- In tier-2 and tier-3 cities, MSMEs help expand access to banking services and products, which ultimately enhances the sector's overall contribution to the economy.
- Additionally, MSMEs drive innovation by supporting budding entrepreneurs in developing new products, thereby boosting market competitiveness and contributing to economic growth.

Features of MSMEs

- MSMEs play a vital role in enhancing the lives of workers and artisans by offering employment, loans, and various support services.
- They provide credit limits and financial assistance to banks, promoting financial inclusion.
- These enterprises foster entrepreneurship and skill development by setting up specialized training centres.
- They advocate for the advancement of developmental technology, infrastructure expansion, and overall sector modernization.
- MSMEs are committed to providing equitable support for accessing both domestic and international markets.
- They also offer quality certification programs and state-of-the-art testing facilities. Additionally, MSMEs support product development, innovation, collaboration, and packaging, staying aligned with current trends.

OPPORTUNITIES IN MSME

The Micro, Small, and Medium Enterprises (MSME) sector presents a plethora of opportunities for aspiring entrepreneurs and established businesses alike. With its diverse range of industries and flexible business models, MSMEs offer avenues for innovation, growth, and prosperity.

- **Tapping into Niche Markets:** MSMEs have the opportunity to focus on niche markets and meet specific consumer needs, allowing them to establish a unique competitive edge.
- **Technological Advancements:** The rise of technology and digitalization presents new opportunities for MSMEs to expand their market reach, streamline business operations, and improve customer engagement.
- **Government Support:** Various government initiatives and support schemes aimed at promoting MSME development provide access to funding, training, and networking opportunities, helping to drive growth.
- **Emerging Trends:** MSMEs can capitalize on emerging market trends, leveraging their creativity to innovate and develop new products or services.
- **Economic Contribution:** The MSME sector offers a robust platform for entrepreneurs to contribute to economic development by creating jobs, fostering innovation, and promoting inclusive growth.
- **Employment Growth:** Employment opportunities within the MSME sector are projected to increase by over 50% over the next decade, with numerous benefits and growth prospects attracting significant participation and registration.
- **Industrialization:** As India moves towards a more industrialized economy, growth across various sectors is crucial to ensure stable and holistic development within the MSME sector.
- **Sectoral Growth Rates:** The manufacturing sector has experienced an 18% growth rate, while the services sector has seen a 34% increase in employment.
- **Potential in Specific Industries:** There is substantial growth potential in the khadi, coir, and village industries within the MSME sector.
- **Distribution of MSMEs:** Among the total number of MSMEs, 6.3 million are micro enterprises (over 99% of the total), 331,000 are small enterprises, and 5,000 are medium enterprises, accounting for 0.52% and 0.01% of the overall MSMEs, respectively.
- **Entrepreneurship Development:** Focus on training and developing entrepreneurship skills among educated unemployed youth.

- **Industry Development:** Enhance the growth and development of micro, small, and medium-scale industries.
- **Investment Attraction:** Draw investments to boost both industrial and social economic development within the state.
- **Modernization:** Upgrade and strengthen industrial units to ensure they are competitive on a global scale.
- **Competitive Environment:** Create a favourable environment that enables industries to compete at both national and international levels.
- **Industry-Friendly Policies:** Develop and implement industry-friendly policies to support the growth of industries.
- **Facilitation and Coordination:** Provide support and facilitate coordination between industries and other agencies to enhance overall effectiveness.

CHALLENGES FACED BY MSMES

- **Competition from Multinational Corporations:** In today's globalized economy, MSMEs face intense competition from foreign manufacturing companies that offer high-quality products at competitive prices.
- **Inadequate Infrastructure:** Despite their rapid expansion, MSMEs struggle with substandard infrastructure. This inadequacy significantly limits their manufacturing capacity and leads to higher production costs.
- **Unavailability of Raw Materials and Other Inputs:** MSMEs often face challenges in sourcing skilled labor and essential inputs. The scarcity of these resources makes it difficult to produce goods at competitive prices.
- **Lack of Advanced Technology:** Many MSME owners are unaware of modern production technologies, which hampers their ability to innovate and improve efficiency.
- **Insufficient Distribution and Marketing Channels:** MSMEs often do not utilize innovative marketing channels, resulting in poor sales. Their lack of effective marketing knowledge and advertising further exacerbates this issue.
- **Lack of Training and Skill Development Programs:** Many MSME owners are unfamiliar with new production methods. Government-led skill development programs are often inadequate to meet the sector's needs.
- **Financial Concerns:** MSMEs in India face significant financial challenges due to limited access to funding. Many MSME owners come from rural or less-educated backgrounds and are unaware of government benefits, leading to poor financial decisions and subsequent financial difficulties.
- **Lack of Innovation:** Most products from Indian MSMEs are based on outdated technology and lack creativity. The sector suffers from a shortage of entrepreneurs willing to adopt new technologies and techniques, which are transforming industries like eCommerce and contact centers. As a result, MSMEs struggle with outdated technology and low production levels, especially compared to larger enterprises.
- **Lack of Uniform Policies:** India has a limited number of MSME policies, leading to a lack of consistency in efforts to promote entrepreneurship and MSME growth. Although there have been some positive developments, more needs to be done at the national level to enable Indian businesses to compete globally for foreign investment and corporate partnerships.

CONCLUSION

In summary, the MSME sector is crucial to the Indian economy, making substantial contributions to GDP, exports, and industrial activity. Despite its importance, the sector encounters significant challenges, including limited access to finance, outdated technology, a shortage of skilled labour, and inadequate infrastructure.

The government has introduced various schemes and policies to support MSMEs, such as collateral-free loans, tax incentives, and subsidies. Additionally, private sector initiatives have been launched to empower MSMEs. The rise of alternative lending platforms, e-commerce, payment solutions, and digital technologies has revolutionized business operations, facilitating easier access to finance and broader markets for MSMEs. The recent revision of the MSME definition, which removes the distinction between manufacturing and services, is expected to further boost sector growth.

For MSMEs to maintain and expand their growth, they must have access to essential production factors, including labour reforms, effective land acquisition policies, advanced technology, improved infrastructure, and simplified tax regulations. The government must prioritize these areas to help MSMEs grow their services, enhance exports, and contribute to the overall economic development of India. Recent policy measures, such as the Special Credit Linked Capital Subsidy Scheme for MSMEs in the services sector and economic initiatives like the Atmanirbhar Bharat Abhiyaan, are anticipated to support MSMEs in overcoming their challenges. With adequate support and infrastructure, MSMEs have the potential to drive the Indian economy forward, create job opportunities, and foster inclusive growth.

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