

Unleashing MSMEs' Potential in India: Challenges, Opportunities, and Policy Imperatives.

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ABSTRACT

A study of the Micro, Small, and Medium Enterprises (MSME) sector in India is presented in this chapter, which examines its significance, challenges, opportunities, as well as the policy measures needed to assist its growth and development. MSME sector contributes significantly to India's economy, fostering innovation, generating employment, and promoting inclusive growth. While the sector has great potential, various constraints prevent it from fully realizing its potential. According to the findings of the study, despite the implementation of many governmental measures, there are still significant areas that require attention in order to enhance the resilience and effectiveness of the Micro, Small, and Medium Enterprises (MSME) sector within the nation.

Keywords: MSMEs Employment, Woman Empowerment, Ministry of MSME, GDP, Innovation and Entrepreneurship

INTRODUCTION

Micro, Small, and Medium Enterprises are known as MSMEs. These enterprises contribute significantly to the country's economic development, employment generation, and innovation. MSMEs are classified by the Indian government according to criteria such as investment in plant and machinery or equipment and annual turnover. In accordance with the provision of Micro, Small & Medium Enterprises Development

(MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below:

1. A micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
2. A small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
3. A medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees. (Ministry of Micro 4-5)

The organizational structure of the Ministry of MSME consists of Small & Medium Enterprises (SME) Division, Agro & Rural Industry (ARI) Division, Administration & Financial Institutions (AFI) Division, Integrated Finance Wing (IFW) and Data Analytics and Technical Co-ordination (DATC) Wing, besides the Office of the Development Commissioner (DC, MSME) as an attached office and other subordinate organisations. (Ministry of Micro)

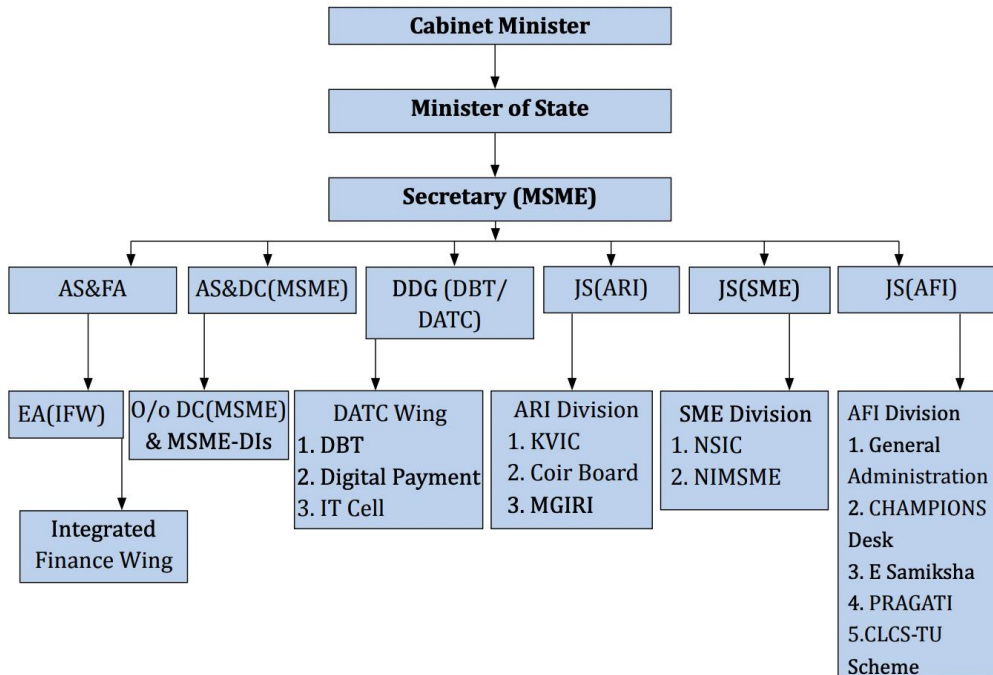


Figure 1 The organizational structure of the Ministry of MSME

Source: <https://msme.gov.in/sites/default/files/MSMEENGLISHANNUALREPORT2021-22.pdf>

The graph generated by Google Ngram¹, which depicts the frequency of publications addressing MSMEs from 2000 to 2019, provides empirical evidence supporting the substantial increase in scholarly works pertaining to MSMEs contribution since the beginning of the 21st century. The MSME industry plays a key part in the development of the Indian economy. Its contribution to the country's GDP is over a third of the country's GVA and it generates nearly half of the country's exports. As per the information received from Central Statistics Office, Ministry of Statistics & PI, Share of MSME Gross Value Added (GVA) in All India Gross Domestic Product at current prices (2011-12) for the year 2018-19 and 2019-20 were 30.5% and 30.0% respectively. (PIB, Contribution of MSMEs to GDP)

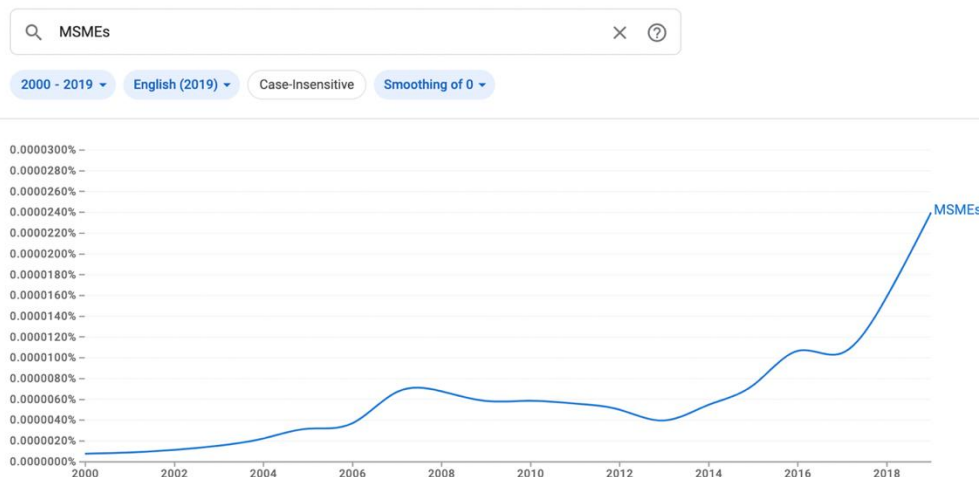


Figure 2 The frequency of use of the term 'MSMEs' from 2000 to 2019.

Source: https://books.google.com/ngrams/graph?content=MSMEs&year_start=2000&year_end=2019&corpus=en-2019&smoothing=0

Almost 14 years after the MSME Development Act came into being in 2006, the Atmnirbhar Bharat package announced revisions to the MSME definition on 13th May, 2020. According to this announcement, the investment threshold and turnover threshold for micro manufacturing and services units have been increased to Rs. 1 crore and Rs.5crore, respectively. The investment limit and turnover limit for small units have been increased to Rs. 10 Crore and Rs. 50 Crore, respectively. The limit for medium units was also raised to Rs. 20 crores of investment and Rs.

¹The Google Ngram viewer is an online search engine that presents user-selected words or phrases (ngrams) in a graphical format, illustrating their frequency of occurrence within a given corpus ("Text Analysis Tools").

100 crores of turnover. A further upward revision of the MSME Definition was decided by the Government of India on 01.06.2020. In the case of medium enterprises, the investment will be Rs. 50 crore and the turnover will be Rs. 250 crore. (PIB 1)

As per the MSMED Act, 2006, criteria for defining MSMEs differed for manufacturing and service units. However, after 2020, a new composite formula of classification will apply to both manufacturing and service units. As a result, there will be no difference between the manufacturing sector and the service sector. The turnover criterion has also been added.

Micro, Small, and Medium Enterprises (MSME) account for a significant portion of the Indian economy. Various types of businesses operate in this sector, which varies in scale, size, and scope. Despite its broad definition, the term "MSME" refers to a wide range of organizations, from small family-owned businesses in local communities to relatively larger businesses engaged in manufacturing.

A micro enterprise is the smallest enterprise in the MSME sector, often run by a single individual or a group of individuals. The sector's vast number of micro enterprises contributes to the economic vitality of local communities by providing neighbourhood shops, small-scale service providers, and artisans. There may be some more established presence in the industry in a small business than a micro enterprise. These enterprises, which bridge the gap between micro enterprises and large corporations, include small manufacturing companies, service providers, and startups. Medium-sized enterprises are larger than micro and small businesses. They have more advanced operations, higher turnover, and a higher number of employees. They can also engage in export activities and contribute significantly to local economies.

MSMEs' Contribution to GDP, Employment Generation, and Exports

India's Micro, Small, and Medium Enterprises (MSMEs) make a significant contribution to the economy and society due to their significant impact on the economy. The role of MSMEs in shaping economic growth, employment generation, innovation, and social development is crucial. Below are some key areas in which they make a significant contribution:

MSMEs contribute a substantial amount to India's Gross Domestic Product (GDP). The sheer number and cumulative economic activity of MSMEs translate into a significant contribution to the country's GDP, even though their turnovers may be smaller than those of large corporations. In accordance with the Ministry of Statistics and Program Implementation, MSME gross value added (GVA) is the following percentage of India's gross domestic product (GDP).

Table 1 Share of MSME GVA in all India GDP

Year	2018-19	2019-20	2020-21
Share of MSME GVA in all India GDP(%)	30.50	30.50	26.63

Source: <https://pib.gov.in>

It is important to reduce unemployment and underemployment, especially in rural and semi-urban areas, through the creation of jobs by SMEs. Both skilled and unskilled workers are catered to by these companies, which provide jobs across a wide range of sectors and industries. According to the National Sample Survey (NSS) 73rd round conducted during 2015-16, the MSME sector has created 11.10 crore jobs (360.41 lakh jobs in manufacturing, 0.07 jobs in non-captive power generation and transmission, 387.18 lakh jobs in trade and 362.82 lakh jobs in other services) in rural and urban areas.

Table 2 Job created by MSMEs

Broad Activity Category	Employment (in lakh)			Share(%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Electricity*	0.06	0.02	0.07	0
Trade	160.64	226.54	387.87	35
Other Services	150.53	211.69	362.22	33
All	497.78	612.10	1109.89	100

* Non-captive electricity generation and transmission

Source: MSME annual report 2022-23

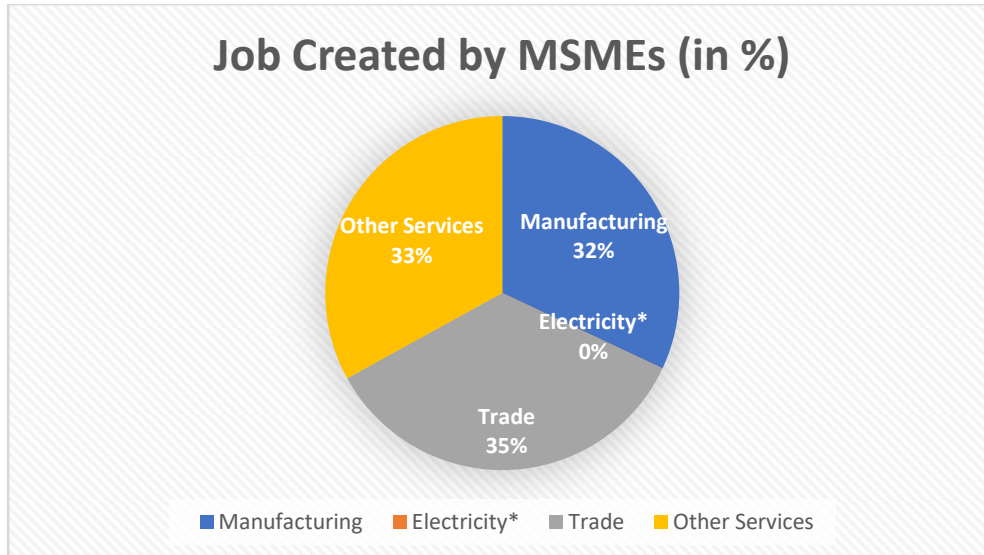


Figure 3 Job created by MSMEs (%)

Innovation and Entrepreneurship: Many innovative ideas and entrepreneurial ventures emerge from the MSME sector. These enterprises are often more agile and adaptable to market changes, leading to the development of new products, services, and business models. This spirit of innovation helps drive economic growth and competitiveness.

The Government of India is actively engaged in initiatives aimed at creating a cashless economy and ensuring that all citizens have quick access to seamless digital payment services. The Government has prioritised the promotion of digital payments as a means to include all segments of the country inside the formal framework of digital payment systems. The overarching objective is to ensure that every individual in India has access to a streamlined digital payment system that is characterised by convenience, simplicity, affordability, efficiency, and robust security measures. The graph below illustrates the Digital Transaction for the Ministry of MSME and its affiliated Offices during the fiscal year 2021-22.

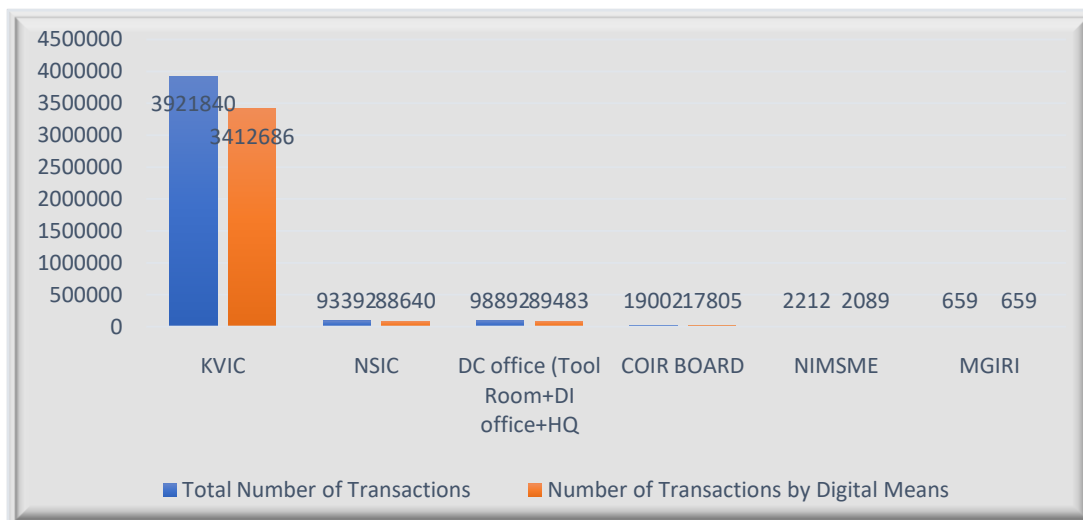


Figure 4 Digital Transaction for the Ministry of MSME and its attached Offices (2021-22)
 Source: Annual report (2021-22), Ministry of Micro, Small and Medium Enterprises

Export Promotion: A significant number of MSMEs engage in export-oriented activities, contributing to India's foreign exchange earnings. They produce goods and services that are competitive in international markets, helping to expand the country's export base. As per Directorate General of Commercial Intelligence & Statistics, the share of export of MSME specified product in all India exports during the year 2020-21 and 2021-22 was 49.4% and 45.0% respectively. (PIB, Contribution of MSMEs to GDP)

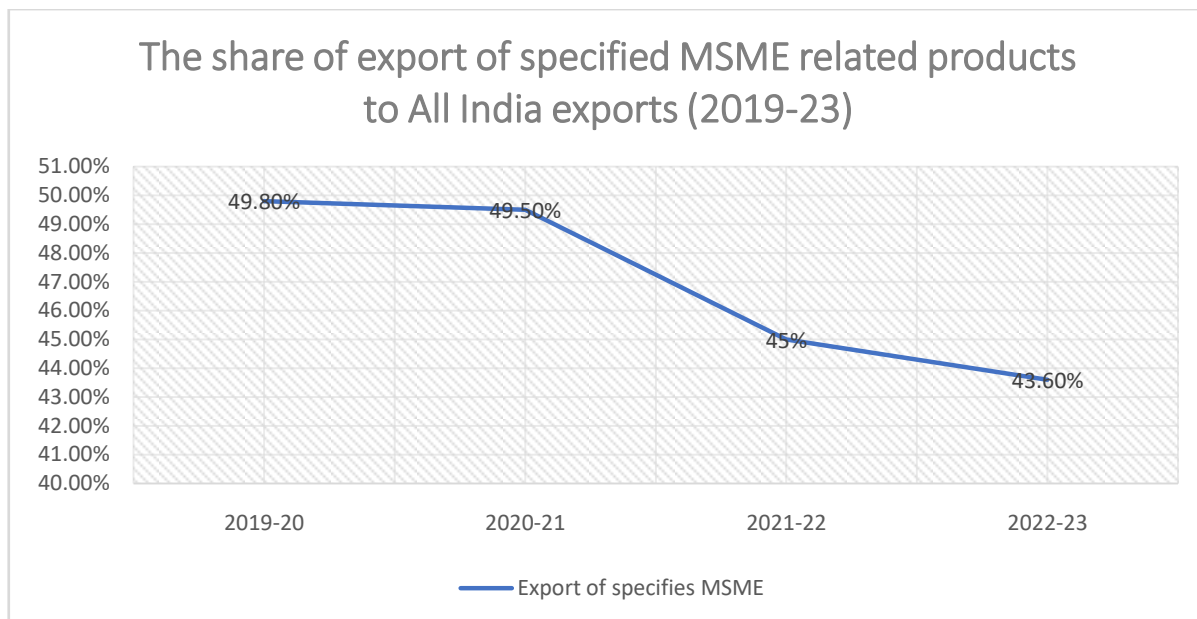


Figure 5 The share of export of specified MSME (2019-23)

Balanced Regional Development: MSMEs are spread across various regions of India, including rural and less-developed areas. Their presence promotes balanced regional development by reducing the concentration of economic activities in urban sectors.

Skill Development: The micro, small, and medium enterprises (MSMEs) also offer training programmes aimed at improving the skills of current entrepreneurs and the workforce, with the goal of enhancing their performance. These training programmes are offered through different initiatives such as MSME-TCs, Assistance to Training Institutions (ATI), National SC/ST Hub, Capacity Building, Coir Vikas Yojna Skill Upgradation & Mahila Coir Yojna, and others. In addition, organisations operating under the Ministry also offer tailored training courses that are designed to meet the specific demands and requirements of the business. Many workers gain valuable experience and expertise through their employment in these enterprises. Total number of 1,94,689 persons have been trained up to 31.12.2021 in the year 2021-2022. (Ministry of Micro 17)

Women's Empowerment and Inclusion: MSMEs create avenues for women and marginalized communities to participate in economic activities. They offer opportunities for income generation, self-employment, and entrepreneurship, contributing to women's empowerment and social inclusion.

Challenges

It is not uncommon for Indian micro, small, and medium enterprises (MSMEs) to face a wide range of challenges that can hinder their growth and development. There are a variety of challenges facing Indian MSMEs that can significantly impact the sustainability and health of the sector. Among these are:

1. Availability of finance

Due to credit risks and collateral requirements, MSMEs often have difficulty obtaining adequate financing from formal financial institutions, and the cost of borrowing for MSMEs can be relatively high, making expansion, innovation, and modernization difficult for them. In addition, many small business owners are not knowledgeable about financial management and do not know how to navigate the financial system effectively. MSMEs can have trouble establishing and expanding because of large regulatory requirements, such as obtaining licenses and permits, and excessive paperwork can slow down operations.

2. Implementing new technologies

The lack of resources, technical know-how, and infrastructure often makes it difficult for MSMEs to adopt and integrate modern technologies, and disparities in digital literacy and access to technology can make it difficult for MSMEs to fully participate in the digital economy and take advantage of online markets.

3. Availability of skilled workers and access to the market

It is difficult for MSMEs to enhance workforce capabilities due to limited resources for training and skill development, which can lead to productivity gaps and hinder innovation. Many small and medium-sized businesses

(MSMEs) face distribution, marketing, and logistics constraints, making it difficult for them to reach larger markets. Additionally, foreign and domestic MSMEs often face intense competition from larger corporations, making it even more challenging for them to carve out a niche and compete effectively.

4. The deficiency of infrastructure and the lack of access to utilities

A variety of factors can affect operational costs and efficiency, including poor roads, unstable power supplies, and insufficient transportation networks. MSMEs may have difficulty accessing basic utilities like water, electricity, and sewage

An integrated and multifaceted approach is required to address these challenges, including policy reforms, capacity building, greater access to financing, increased technology adoption, and skill training. In order to create an environment conducive to the growth and success of MSMEs in the country, the Indian government and relevant stakeholders must address these obstacles.

Opportunities

In India, there are many opportunities for growth and expansion for Micro, Small, and Medium Enterprises (MSMEs). It is important for MSMEs to explore different avenues of growth in order to improve their competitiveness, innovate, and gain access to new markets. Here are some of the key opportunities:

1. The international market and exports

With globalization, small and medium-sized businesses can take advantage of their adaptability and flexibility to gain access to international markets and grow their customer base. Through online marketplaces and e-commerce, MSMEs are able to sell their products and services to a global audience, bypassing traditional channels of distribution.

2. Adoption of technology and innovation

With the help of digital technologies, organizations can improve operational efficiency, streamline processes, and engage customers in new ways. As consumers' needs change, companies can develop innovative products, services, and processes by investing in research and development (R&D).

3. Support and initiatives of government

MSMEs are often encouraged to invest, adopt new technologies, and grow by government incentives, subsidies, and grants. MSMEs can thrive in an environment that is conducive to policy reforms designed to reduce regulatory barriers and promote ease of doing business.

4. Skill Development and Human Capital

The MSMEs in their communities can play a role in promoting entrepreneurship by investing in employee training and skill development. MSMEs can enhance productivity, improve quality, and offer more advanced services by investing in employee training and skill development.

5. Collaboration and Networking

Partnerships Collaborating with other MSMEs or larger companies can lead to shared resources, knowledge exchange, and joint marketing efforts. Industry Associations: Joining industry associations and trade groups provides networking opportunities, access to market information, and collective advocacy.

6. Social and Environmental Responsibility

By adopting sustainable practices, companies can attract environmentally conscious consumers and expand their market share in markets that prioritize ecologically friendly products. Through community involvement and ethical practices, MSMEs can enhance their brand image by demonstrating social responsibility.

By Taking full advantage of these opportunities and adopting a strategic approach can help MSMEs achieve sustainable growth, improved market share, and increased competitiveness

Policy Imperatives: Empowering Micro, Small, and Medium Enterprises (MSMEs) requires a supportive policy environment that addresses their unique challenges and promotes their sustainable growth. Here are several policy interventions that can contribute to the empowerment of MSMEs:

1. Providing financial support

Establish collateral-free lending programmes aimed at facilitating credit access for micro, small, and medium enterprises (MSMEs) by eliminating the requirement for significant collateral, hence streamlining the process of securing capital for these entities. Micro, Small, and Medium Enterprises (MSMEs) have the opportunity to enhance their growth prospects through many means such as expansion, technology adoption, and innovation. One effective approach is to avail themselves of interest rate subsidies, which serve to reduce their borrowing expenses.

The objective is to enhance the accessibility of venture capital and angel funding opportunities for startups and early-stage micro, small, and medium enterprises (MSMEs).

2. Regulatory Reforms

The process of obtaining licenses and permits can be simplified and digitized, reducing bureaucratic red tape and saving MSMEs time and resources. Provide MSMEs with a single-window clearance system that enables them to receive all approvals from various government departments in one place. MSMEs can be relieved of administrative burdens by simplifying and standardizing compliance procedures, including tax filings and regulatory reporting.

3. Skill Development and Training

The objective is to enhance the skills and productivity of the workforce through the development of customised training programmes and workshops that cater specifically to the needs of micro, small, and medium enterprises (MSMEs). The primary objective of entrepreneurship development training is to equip those who aspire to become entrepreneurs with the necessary competencies and expertise required for effective firm ownership and management.

4. Export Promotion

The provision of assistance to Micro, Small, and Medium Enterprises (MSMEs) in their efforts to engage in international trade, including the facilitation of market information dissemination and the provision of support services. The provision of export credit insurance serves as a means to manage risks associated with international trade and foster the expansion of Micro, Small, and Medium Enterprises (MSMEs) in foreign markets.

5. Incentives for technology adoption

The provision of a technology upgrade fund can facilitate the enhancement of technology among Micro, Small, and Medium Enterprises (MSMEs), enabling them to embrace contemporary equipment and processes. Additionally, this fund can also provide MSMEs with valuable technical assistance and support through technology incubators.

6. Development of infrastructure, access to markets, and promotion

Micro, Small, and Medium Enterprises (MSMEs) have the potential to achieve cost reduction and foster collaboration within industrial clusters through the practise of infrastructure and facilities sharing. The implementation of business incubators can be considered as a viable approach to support the growth and development of startups and early-stage micro, small, and medium enterprises (MSMEs). These incubators serve as dedicated spaces that offer not only physical workspace but also a range of resources and mentorship opportunities to facilitate the progress of these ventures. By facilitating the participation of Micro, Small, and Medium Enterprises (MSMEs) in trade fairs, exhibitions, and online platforms, we can offer valuable marketing assistance. Promote the adoption of e-commerce among Micro, Small, and Medium Enterprises (MSMEs) through the provision of training programmes focused on online selling techniques, as well as supporting their integration into digital markets.

7. Research and Development

Contribute to the advancement of innovative goods and procedures inside Micro, Small, and Medium Enterprises (MSMEs) through the provision of financial support for Research and Development (R&D) initiatives. Facilitate the dissemination of technological advancements from major firms to small and medium-sized enterprises (SMEs) in order to foster and enhance innovation. Indeed, it is a verifiable fact that the government undertakes numerous policies and programmes with the aim of fostering the growth of Micro, Small, and Medium Enterprises (MSMEs). Nevertheless, it is within the purview of governments to establish a conducive atmosphere that fosters economic expansion, ingenuity, and long-term viability through the implementation of such policies and initiatives. According to the study conducted by Venkatesh and Muthiah (2012), there has been a significant increase in the prominence of small and medium enterprises (SMEs) within the industrial sector. These enterprises have emerged as a key focus for future growth. The need of fostering the small and medium-sized enterprise (SME) sector for the economic prosperity of the nation was underscored. The literature presented above examines several dimensions, namely performance, growth, and challenges, pertaining to Micro, Small, and Medium Enterprises (MSMEs) within the Indian economy. It emphasises the need for ongoing research in this area.

CONCLUSION

Micro, Small, and Medium Enterprises (MSME) are of significant importance in the context of India's economic growth, employment generation, and innovation. Micro, Small, and Medium Enterprises (MSMEs) present a multitude of challenges and opportunities, and their impact on the socioeconomic fabric of the nation is always evolving. Upon careful reflection, it becomes evident that there are various significant discoveries that arise when considering the complex aspect of the subject matter.

The MSME sector holds great significance due to its substantial quantity and wide-ranging variety. Micro, Small, and Medium Enterprises (MSMEs) play a significant role in fostering economic growth and promoting regional development. These enterprises encompass a wide spectrum, ranging from small-scale local firms catering to the needs of their immediate communities to medium-sized enterprises that actively participate in global trade. The significance of their contributions to India's Gross Domestic Product (GDP), employment generation, and skill development cannot be emphasised. However, Indian small and medium enterprises encounter a multitude of obstacles, such as restricted availability of financial resources, intricate regulatory frameworks, and impediments to the adoption of technology, all of which hinder their progress and expansion. Nevertheless, these obstacles present policymakers and stakeholders with a valuable chance to collaborate and implement focused solutions.

The challenge demands a holistic approach that incorporates financial inclusion, streamlined regulations, and robust technology integration. It is then possible to unlock the full potential of MSMEs and create a climate where innovation thrives, businesses thrive, and prosperity is widely shared by the policy ecosystem. SMEs in India face a number of problems - absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non-availability of skilled manpower. (Dey 32)

Undoubtedly, micro, small, and medium enterprises (MSMEs) are poised to assume a pivotal role in shaping India's economic trajectory as it progresses. The MSME sectors possess the capacity to overcome obstacles and establish themselves as a formidable entity that supports India's pursuit of sustainable development, the generation of employment opportunities, and overall prosperity. This may be achieved through the implementation of appropriate policies, allocation of resources, and the collective determination of stakeholders. Despite the potential challenges that lie ahead, the prospect of a more prosperous future remains unwavering for both Micro, Small, and Medium Enterprises (MSMEs) and the entire nation.

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