



MANAGING CHALLENGES & OPPORTUNITIES IN GROWTH OF MSMEs IN INDIA

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ABSTRACT

Micro, small and medium sized (MSME) companies play an important role in India's economic growth, making significant contributions to employment, industrial production and exports. Recognizing their importance, the government has implemented a variety of policies focused on financial support, tax reform and digital transformation. Tax reforms, particularly, simplified compliance, but claimed strong management and compensation. Digital initiatives, such as the registration of UDYAM and Digital MSME, contributed to formalization, but many companies, especially in rural areas, do not have the necessary digital literacy and infrastructure. Government policies and recent developments, risks and challenges faced by the sector, major Government schemes initiated for the sector and opportunities ahead to enhance the MSME performance in India. However, the envisaged future growth in MSME sector requires adequate hassle-free financial support, induction of skilled work force, infrastructural assistance, ease of statutory compliance for faster processing of loans and credits and other amenities. MSME sector has come up as the major growth driver of the Indian economy, contributing nearly 40 percent of the nation's GDP and creating employment opportunities.

Keywords: MSMEs, Government Policies, Financial Inclusion, Digital Transformation.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indian economy, contributing significantly to employment generation, industrial production, and exports. They form the backbone of India's manufacturing and service sectors, driving innovation and fostering entrepreneurship. Recognizing their importance, the Indian government has implemented various policies to promote the growth and sustainability of MSMEs.

Micro, Small, and Medium Enterprises (MSMEs)

Revised Classification applicable w.e.f. 1st April 2025

Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs. 2.5 crore and Annual Turnover not more than Rs. 10 crores	Investment in Plant and Machinery or Equipment: Not more than Rs. 25 crore and Annual Turnover not more than Rs. 100 crores	Investment in Plant and Machinery or Equipment: Not more than Rs. 125 crore and Annual Turnover not more than Rs. 500 crores

OBJECTIVES OF THE STUDY

The fundamental objectives of the present study are to understand:

1. Functioning of the MSME sector
2. Government policies and recent developments in MSME sector
3. Major challenges in MSME sector
4. Opportunities ahead to enhance MSME performance in India

Functioning of MSME Ministry of India

There are five statutory bodies under the MSME Ministry which are responsible for aiding MSMEs w.r.t Government schemes and policies. These are as under: like,

- a) **Khadi and Village Industries Commission (KVIC):** The primary focus of KVIC is to create employment in rural areas, provide saleable articles and create self-reliance amongst people to build a strong rural community spirit. There are approximately 15431 khadi sales outlets out of which 7050 (46 percent) are owned by KVIC and spread across the country.
- b) **Coir Board of India (CBI):** India is the largest producer of coir in the world employing approximately 8 lac persons and involving consumers in households, co-operatives, NGOs, manufacturers and exporters. Coir export grew by 92442 MT (35 percent) i.e. Rs. 45522 lacs (62 percent +) between Apr-June '20 and Apr-June '21 respectively.
- c) **National Small Industries Corporation Limited (NSIC):** NSIC is an ISO9001-2015 certified Mini Ratna GOI enterprise responsible for expansion of MSME in India. Product profiles under NSIC are light engineering, agro and food processing, pharmaceuticals, chemical, auto component, knitwear and garments, plastic and rubber, leather and footwear and many others. PBT of NSIC grew by Rs.68.91 Crs. (109 percent) in 2019-20 over. 2018-19 whereas, dividend payout grew by Rs. 27.74 (437 percent) respectively.
- d) **National Institute for Micro, Small and Medium Enterprises (NI-MSME):** NI-MSME handles a wide range of activities with reference to MSMEs like training and consultancy, research and development, expansion and extension and information services. NSIC has conducted 16198 training programs including 6022 skill development programs with 548815 participants who were trained, handled 947 research and consultancy services and trained 176223 unemployed youths.
- e) **Mahatma Gandhi Institute for Rural Industrialization (MGIRI):** MGIRI consists of 6 major divisions viz. khadi and textile industries, bio-processing and herbal, chemical, rural crafts and engineering, rural infrastructure and energy, management and systems respectively. The vision of MGIRI is to accelerate rural industrialization in line with Gandhian philosophy of sustainable and self-reliant village economy as well as support in product upgradation of rural industry to enable gain wider acceptability in both national and global markets.



Fig. 01: Contribution of MSME in India

Recent Developments in MSME

Following are the recent developments of MSME in India:-

1. The share of MSMEs in the country's Gross Value Added (GVA) increasing from 27.3% in FY2020-21 to 29.6% in FY2021-22 and 30.1% in FY2022-23 highlights its growing role in national economic output.
2. Exports from MSMEs have seen substantial growth, rising from ₹3.95 lakh crore in FY2020-21 to ₹12.39 lakh crore in FY2024-25.
3. The number of exporting MSMEs has also surged, increasing from 52,849 in FY2020-21 to 1,73,350 in FY2024-25 (up to May 2024).
4. MSMEs contribution to India's total exports has steadily grown, reaching 43.59% in FY2022-23, 45.73% in FY2023-24, and 45.79% in FY2024-25 (up to May 2024).

Major challenges in MSME sector

Following are some major challenges of MSME in India:-

1. **Lack of collateral / lack of credit history:** Given the small size of business and lack of credit history of MSMEs, banks and other financial institutions are unwilling to lend without security. Moreover, most of the enterprises are unable to provide collateral. However, as per RBI guidelines, banks/FIs cannot insist on collateral security for loans up to ₹10 lakh. Further, to facilitate collateral-free lending, loans up to ₹10 crore for MSEs can be covered under CGTMSE.
2. **Limited financial literacy and management skills:** Many MSME owners lack the skills to manage their cash flow and inventory, resulting in operational difficulties. The lack of financial skills also hampers their debt management as they are unable to negotiate for a better interest rate or terms for credit.
3. **Lack of awareness about credit schemes:** The government, through various financial institutions and bodies, has introduced an array of schemes to make credit more accessible and affordable for MSMEs. However, many owners of these enterprises are unaware of these schemes and so do not get cheaper or collateral-free loans.
4. **Inability to tap into capital markets:** MSMEs are unable to tap into capital markets, given their size and nature of operations, readiness in terms of required transparency and disclosures and regulatory norms.
5. **Poor infrastructure:** Though, MSME'S are developing so rapidly, but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.
6. **Unavailability of raw material and other inputs:** For MSME's required raw material skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.



Fig. 02: Major Challenges for MSME in India

Opportunities exist to enhance the performance of MSMEs in India

Several key opportunities exist to enhance the performance of Micro, Small, and Medium Enterprises (MSMEs) in India. These include leveraging digital technologies for market expansion, improving access to finance, strengthening infrastructure, and fostering skill development.

1. Digital Transformation and E-commerce:

- **Market Expansion:**

Digital platforms like e-commerce and online marketplaces can help MSMEs reach a wider customer base, including international markets, boosting sales and visibility.

- **Digital Payments:**

Facilitating seamless digital transactions can streamline operations and reduce reliance on cash, improving efficiency.

- **Digital Marketing:**

Utilizing digital marketing tools can help MSMEs create targeted campaigns and reach specific customer segments, increasing their market penetration.

2. Access to Finance:

- **Government Schemes:**

Government initiatives like PMEGP, MUDRA loans, and the Credit Guarantee Scheme provide MSMEs with access to funding, subsidies, and financial assistance, supporting their growth.

- **Financial Literacy:**

Improving financial literacy among MSMEs, particularly in rural areas, can empower them to make informed financial decisions and manage their businesses effectively, according to Vision IAS.

- **Collateral-free Loans:**

Expanding access to collateral-free loans through schemes like CGTMSE can ease the burden on MSMEs, enabling them to secure the necessary capital for expansion.

3. Infrastructure Development:

- **Logistics and Connectivity:**

Improving infrastructure, including logistics and digital connectivity, can significantly enhance the efficiency and competitiveness of MSMEs.

- **Power and Water:**

Ensuring reliable access to power and water is crucial for smooth operations in manufacturing and other sectors.

- **Industrial Clusters:**

Developing and strengthening industrial clusters can facilitate knowledge sharing, resource optimization, and collective bargaining power for MSMEs.

4. Skill Development and Training:

- **Skilled Workforce:**

Investing in skill development programs, particularly for tech-intensive sectors, can equip MSMEs with the necessary talent to innovate and adapt to changing market demands.

- **Government and Private Initiatives:**

Collaboration between government and private sector organizations can ensure that training programs are relevant, accessible, and effectively address the evolving skill requirements of MSMEs.

- **Entrepreneurship Development:**

Promoting entrepreneurship and providing training in areas like business management, marketing, and finance can empower individuals to start and grow their own MSMEs.

Conclusion

The MSME sector in India is growing at good pace & even is providing employment opportunities to masses of the people. The contribution of Manufacturing Sector as well as Service Sector of MSMEs is significant to the total GDP of the Country. The Govt. of India has taken number of initiatives & is in the process of gearing up the growth of Micro, Small & Medium Enterprises in the country. The Govt. of India is also making number of tie-ups & agreements with the NGOs, Governmental agencies as well as with the universities for making it sure that proper implementation of Governmental policies for setting up of MSMEs is there & entrepreneurs are properly guided for starting their ventures. But still MSMEs are facing many challenges. The problem of unawareness towards technological advancement can be removed after running effective training and skill development programs. There should be low cost credit to the MSME'S.

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