



# Recent Developments of MSMEs in India

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## ABSTRACT

*The Micro Small and Medium Enterprises (MSMEs) sector is a major contributor to the socio-economic development of the country. In India, the sector has gained significant importance due to its contribution to Gross Domestic Product (GDP) of the country and exports. The sector has also contributed immensely with respect to entrepreneurship development especially in semi-urban and rural areas of India. MSMEs are considered pillars of the Indian economy due to their considerable contribution to the economy, exports and employment generation. Businesses in these sectors are responsible for most jobs created in the country and contribute significantly to economic growth. MSME growth has been tremendous in India in the past few years, and its growth potential is enormous. However, despite their potential, these businesses face challenges. The review outlines key policy implications to develop a comprehensive policy that alleviates the existing challenges and recent developments occurred in this sector.*

**KEYWORDS:** MSMEs, Employment, Growth, Challenges of MSMEs.

## INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are important part of economy due to their contribution towards economy growth, employment generation and etc. In present scenario of business, the micro, small and medium enterprises have been accepted as the engine of growth for promoting equitable development. The MSME'S also have the vital role in dispersal of industries and generation of employment opportunities. The MSME'S are providing job more than 6 crore people. The MSME sector is contributing 8% of country's GDP, 45% of manufacture and 36% its exports. The MSME's sector has consistently registered higher growth rate compare to the overall industrial sector. The distribution of MSME'S in all over India is not equal because of unavailability of raw material, unawareness or lack of

entrepreneurial skills development and lack of support of financial and technical assistance from concerning local authorities at district or state and central level. The unavailability of adequate and timely credit facility, high cost of credit, lack of modern technology, no research and innovations, insufficient training and skill development, complex labor laws are the main problems of the MSME'S. Although, there are various opportunities are available in the development of MSME'S. The MSME'S sector can also attract to the foreign investment and technology. The employment is more possible through the development of MSME'S. THE MSME'S will be able to satisfy the needs of the customers up to a great extent after considering their expectations primarily. Migration of rural youths can stopped by providing them chance to work at their

place. The mutual change of technology among the different types of MSME'S, financial and technical assistance, liberal labour laws , training and skills formation will assist in the development of MSME'S`.

In November 2021 the government announced the Special Credit Linked Capital Subsidy Scheme for the MSMEs (Micro Small and Medium Enterprises) in the services sector. The scheme has a provision of 25 per cent capital subsidy for procurement of service equipment through institutional credit to the SMEs for advancement of their technology.

In July 2020, by redefining the MSMEs, the Finance Minister addressed the 'fear' of MSMEs losing their benefits under various schemes if they expanded.

Accordingly, a firm is classified under MSME – Medium category, if its investment in plant and machinery or equipment does not exceed 50 crore and its turnover does not exceed 250 crore. This policy change certainly gave a 'comfort zone' for the MSMEs. It is well established in literature that Indian MSMEs were discouraged from scaling up their operations mainly due to regulatory limits on their assets.

Also, MSMEs face legacy issues such as information asymmetry, non-registration of firms, inadequate and untimely credit, delayed receivables, technological obsolescence, negligible market linkages, absence of exit policy, etc.

#### **ISSUES & CHALLENGES FACED by MSME:**

The following are a few primary challenges facing MSMEs that affect their growth prospects.

##### **1. Financial Issues**

MSMEs in India face many challenges due to a lack of finance. Most MSME owners come from rural and education-deprived areas, and their ignorance of government benefits makes them unaware of their special financial privileges. Their carelessness leads them to make bad financial decisions, causing financial difficulties.

##### **2. Skills**

Since Indian MSMEs depend heavily on informal workers who are often underpaid and lack the technical skills necessary to boost productivity, Indian MSMEs are far behind their counterparts in other countries. In the long run, this impacts the growth prospects of smaller firms by making them take on jobs requiring limited skill and expertise.

##### **3. Marketing and Managerial-Related Challenges**

MSME growth remains a significant hurdle due to the absence of entrepreneurial, managerial, and marketing skills. Boosting sales and acquiring new customers requires the right marketing strategies. Additionally, MSMEs face challenges related to ineffective marketing strategies, lack of market analysis, and identifying target audiences in India. Thus, MSMEs cannot compete due to a lack of professionalism and structured management.

##### **4. Technology Remains a Primary Deterrent**

Due to a lack of expertise and awareness, most businesses miss out on the latest technological developments. To grow their businesses, MSMEs must keep up with the changing trends in technology.

##### **5. Labour-Related Challenges**

A successful manufacturing enterprise depends on skilled labor. Many inconsistencies exist in MSMEs regarding skilled personnel and complying with labor laws. The lack of affordable skilled labour further compounds MSMEs' woes.

#### **GROWTH OF MSMEs:**

Inadequate management skills hamper business expansion and often cause non-competitiveness of small enterprises. A successful business must be able to grow workforce, cater to diverse customer needs, manage inventory, deal with new competitors, keep the supply chain running and sustain the company's culture. More often than not, entrepreneurs undermine the importance of effective management and face numerous hurdles when the business expands at the later stage.

The rate of changes is accelerating rapidly. The role of creativity and innovation has increased in this change process for survival. Businesses are becoming knowledge-based and their success & survival is directly related to their creativity, innovation, discovery and inventiveness. MSMEs will have to learn and imbibe the process of innovation in their day to day working to remain competitive.

MSMEs struggle to hire skilled and competent manpower. Lack of name recognition of the company reduces the talent pool from which MSMEs can hire employees as there are fewer responses to job postings by small-scale businesses. Even after finding the right candidate from this small pool, MSMEs lose the right candidate due to inability to offer competitive salary, job



security and career development opportunities similar to larger organizations.

As the MSMEs contribute around 30 per cent to India's GDP, employ about 11 crore people, constitute nearly 40 per cent of total exports, and more than half of them are located in rural India, the government is keen to rev up this sector to achieve inclusive growth thereby attaining self-reliance (Atmanirbhar Bharat).

An analysis of CMIE Prowess database reveals that the Indian MSMEs mainly rely on unsecured loans and take few long-term loans for capex. This is further corroborated by the research finding from a recent study (NIRDPR, 2021) that nine out of 10 MSMEs depend on informal sources (mostly unsecured loans) for their working capital and term loans.

Lack of sufficient asset cover (collateral) discourages them from taking secured loans at lower interest rate and hence they have to rely on unsecured loans at higher interest rates. This dents profitability and economic viability of their businesses.

After a gap of 14 years, the government revised the definition of MSMEs by factoring in inflation and depreciation of the Rupee vis-à-vis other currencies between 2006 and 2020. In January 2006 the USD/INR was quoted at ₹45 and it depreciated to nearly ₹71 in January 2020 (58 per cent). This made the MSMEs to operate at a low scale by creating subsidiaries/sister concerns/Export Oriented Units with a view to receiving incentives from the government.

According to the new definition, export revenue is deducted from total sales while estimating the turnover of MSMEs, which is a positive sign not only for the sector but also for exports. Since the old MSME definition had a regressive effect on the firms' exports, expansion plans and employment generation, the new policy is expected to act as a catalyst for development of 'new India'.

The BSE SME (small and medium enterprises) platform is expected to witness >60 SMEs to enter the market in one year (2021-22) to bring up equity funds for meeting their business requirements. The initial public offering (IPO) route witnessed 16 SMEs enter the market; they raised Rs. 100 crore (US\$ 13.74 million) in 2020. In June 2021, Bombay Stock Exchange (BSE) announced that it has collaborated with Electronics and Computer Software Export Promotion Council (ESC) to build awareness among small businesses and start-ups about advantages of listing.

MSMEs are being encouraged to market their products on the e-commerce site, especially through Government e-Market place (GeM), owned and run by the government, wherefrom Ministries and PSUs (public sector undertakings) source their procurement.

As of November 2022, the GeM portal has served 12.28 million orders worth Rs. 334,933 crores (US\$ 40.97 billion) from 5.44 million registered sellers and service providers for 62,247 buyer organizations.

As per data from the Ministry of Micro, Small & Medium Enterprises, as of November 25 2022, the Udyam Registration portal registered 12,201,448 MSMEs, replacing the former process of filing for a Udyog Aadhaar Memorandum (UAM). Registered micro-enterprises stood at 11,735,117 (96.17%), followed by small enterprises at 426,864 (3.49%) and mid-sized enterprises at 39,467 (0.32%).

Domestic business requires a strong financial stimulus with concessional working capital loans to ensure adequate liquidity is maintained in business operations from the government and financial institutes.

Indian Micro, Small and Medium Enterprises (MSMEs) are rapidly adopting digital payments over cash, with 72% payments done through the digital mode compared with 28% cash transactions. Rise in digital adoption presents prospects for further growth in the sector.

#### RECENT DEVELOPMENTS OF MSMEs:

- In June 2022, the central government announced a new initiative called "Promotion of MSMEs in North Eastern Region and Sikkim." The main purpose of this project was to stimulate MSMEs in the North East by establishing mini-technological centers, developing new and existing industrial estates, and promoting tourism.
- In November 2021, the Small Industries Development Bank of India (SIDBI) inked a pact with Google to pilot social impact lending with financial assistance up to Rs. 1 crore (US\$ 133,939.60) at subsidized interest rates to micro enterprises. To reinvigorate the Indian MSME sector, Google India Pvt. Ltd. GIPL, will bring a corpus of US\$ 15 million (~Rs. 110 crore) for micro enterprises as a crisis response related to COVID-19.
- In November 2021, digital freight forwarder Freightwalla launched a shipment tracking service for MSME exporters and importers based on predictive analytics to help businesses tackle risks associated with shipment delays and improve supply chain efficiency.

- In November 2021, Cash invoice, a supply chain financing (SCF) platform, announced that it will aid MSMEs with over Rs. 10,000 crore (US\$ 1.33 billion) worth of financing in the year ahead, as it has risen Pre-Series A funding of US\$ 1 million from Action Venture Lab.
- In October 2021, Sundaram Finance and the MSME Development Institute (Chennai), provided marketing assistance to MSMEs. Entrepreneurial and managerial development of MSMEs will be done through an incubator scheme that will give innovators opportunities to develop and nurture ideas for the production of new products.
- In September 2021, Aerospace Engineers Private Limited, a Tamil Nadu-based MSME, secured a contract from Boeing to produce and supply critical aviation components.

## FINDINGS:

Despite this, MSMEs in India suffer from the problems of financial assistance, lack of business expertise, and technological obsolescence. Indian SMEs are also facing tough competition from their global counterparts due to liberalization, redundant manufacturing strategies and uncertain market scenarios. While MSME firms face numerous challenges, the government strives to make this sector more competitive. There is a gradual decrease in funding costs while the public and private sectors strive to develop more competitive products. Furthermore, MSME firms in India are typically less creditworthy than their larger counterparts. As MSMEs have no assets to surrender as collateral, lenders cannot analyses or know whether they can repay their loans.

## CONCLUSION:

Furthermore, a lack of education, knowledge about market trends, consumer preferences, and advanced technology has hindered the development of this sector. The problems faced by the small traditional enterprises with poor support system and little exposure, particularly in accessing technology and maintaining competitiveness, have been formidable. The non-availability of institutional finance on affordable and easy terms is seen as the biggest challenge faced by MSMEs. Further adding to the limitations of MSMEs are lack of formalized contractual relations and the reliance on cash payments. Apart from this, most of the

small-scale enterprises do not have access to well researched database – whether it pertains to market intelligence or technology. This information needs to be disseminated proactively, and on a regular basis.

## Conflict of interest statement

Authors declare that they do not have any conflict of interest.

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