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WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal provided dedicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

MICRO, SMALL, AND MEDIUM ENTERPRISES: ENGINES OF INDIA'S ECONOMIC DEVELOPMENT

AUTHORED BY - TULASI SANJEEVA RAYA GUPTA APPANA

Micro, Small, and Medium scale enterprises MSMEs significantly contribute to India's economy and form an estimated 30 % of India's GDP¹. Not only do they contribute considerably to the economic development but to employment creation, income enhancement, and the poverty alleviation. On the note of India's growing economy to a 5 trillion-dollar economy, the role of MSMEs is not negligible². This paper a focus on investigating about the performance of MSMEs in India and the analysis of the correlation between the government's policies and the contribution of MSMEs toward economic development and employment in India. This paper aims at identifying the various policies that the Government of India has deployed in its attempts to improve the growth of MSMEs. Schemes such as the MSME Development Act 2006, MUDRA where the loan limit is uplifted to 20 lakhs rupees, employment generation programme, CGTMSE are meant to offer credit facility, capital, and marketing opportunities to the micro and small scale enterprises. Also, the Self-reliant India Mission targets the development of the domestic manufacturing industry and relates to MSME's importance in attaining economic sovereignty. However, MSMEs face some challenges while operating, most of which are related to inadequate infrastructure, the MSMEs operating in the industry have restricted access to credit, fewer technological development, and excessive bureaucracy. Basically, these challenges affect their chances of expanding and hence, restricts their ability to boost the economy. Solving these problems is vital to create conditions for the comprehensive development of MSMEs and guarantee that they will play a large role in attaining the goal of having a 5-trillion economies. Thus, this paper focuses on the different government policies targeting MSMEs, their effectiveness, and existing challenges. In this regard, the collective influence of India's MSMEs has the capability to unlock potential and feed into the nation's economy and generate employment, thereby steadily eradicating poverty to make India among the world's economic giants.

¹ radhika pandey and amrita pillai Ideas For India, Covid-19 and the MSME sector: The 'identification' problem, <https://www.ideasforindia.in/topics/macroeconomics/Covid-19-and-the-msme-sector-the-identification-problem.html> . (last visited 3rd August2024)

² Economic Times, India to become USD 5 trillion economy, third-largest by 2027: RBI DG Patra, The Economic Times (Sept. 21, 2023), <https://economictimes.indiatimes.com/news/economy/indicators/india-to-become-usd-5-trillion-economy-third-largest-by-2027-rbi-dg-patra/articleshow/103844727.cms>. (last visited 4th august)

Keywords- MSME, Economic growth, Employment generation, Technological advancement, Financial assistance

Introduction

The Micro small and medium enterprise sector has emerged as one of the highly vibrant and dynamic sector of the Indian economy over the last 50 years MSME not on play a crucial role in providing a large employment opportunity at comparatively lower capital lower capital costs than large industries cost than large industries but also help in industrialization of rural and backward area it thereby reduces regional imbalances, assuring more equitable distribution of national income and wealth.

The definitions of Micro, Small, and Medium Enterprises (MSMEs) were revised by the Indian government on 1st July 2020, marking a significant change after 14 years since the MSME Development Act was enacted in India. This reclassification applies to all enterprises, whether they were established before or after 1st July 2020³.

The definition of a micro enterprise encompasses several key elements. A micro enterprise can be a manufacturing or service enterprise, and it may also operate as a trading enterprise. However, when functioning as a trading enterprise, it is classified as a micro enterprise only for the purpose of priority sector lending. The enterprise's investment in plant and machinery or equipment should not exceed one crore rupees, and its turnover should not exceed five crore rupees. Additionally, the enterprise must file for Udyam registration to be recognized as a micro enterprise.

A Small Enterprise is a business entity that can be either a manufacturing or service enterprise. Its net investment in plant and machinery or equipment (considering the depreciated cost, excluding the cost of pollution control, R&D, and industrial safety devices) does not exceed ₹10 crores, and its net turnover does not exceed ₹50 crores. Additionally, the enterprise is required to register under the Udyam Registration as a Small Enterprise.

A Medium Enterprise is defined as a manufacturing or service enterprise where the net investment in plant and machinery or equipment (calculated as the depreciated cost, excluding

³ Q.1. What is the definition of MSME, Ministry of Micro, Small & Medium Enterprises (June 25, 2022), <https://msme.gov.in/faqs/q1-what-definition-msme>.

costs related to pollution control, R&D, and industrial safety devices) does not exceed ₹50 crores. Additionally, its net turnover, which is the total turnover minus export turnover, does not exceed ₹250 crores. To qualify as a medium enterprise, it is also required to file an Udyam registration.

Not only in India MSME play a big role in the global scale but categorization of MSME is quite different from India according to the World Bank are defined as micro enterprises :1-9 employee's small enterprises: 10-49 employees and medium enterprises:50-249 employees of other variables such as turnaround and assets. MSMEs play an important role in the wider ecosystem of firms. Start-ups and young firms, generally small or micro firms, are the primary source of net job creation in many countries and are the driving force of innovation and sustainability in the private sector. There are about 365-445 million MSMEs in emerging markets: 25-30 million are formal SMEs, 55-70 million are formal micro, and 285-345 million are informal enterprises⁴ they are engines of economic growth and employment, accounting for 90 per cent of businesses, up to 70 per cent of all jobs and 50 per cent of gross domestic product (GDP) at the global level. ⁵

In India, MSMEs contribute around 29.1% to the country's GDP and employ over 40% of the nation's workforce. Furthermore, the sector plays a significant role in exports, accounting for 45.56% of India's total exports in 2023-24⁶. Despite their significant contributions, MSMEs in India face numerous challenges, including limited access to credit, inadequate infrastructure, technological obsolescence, and bureaucratic hurdles. These challenges have constrained the sector's ability to scale and fully capitalize on its potential. Addressing these issues is crucial for achieving India's goal of becoming a \$5 trillion economy by 2025.

This research paper aims to explore the performance of MSMEs in India, analyse the effectiveness of government policies, and identify the challenges hindering the sector's growth. By doing so, the study will provide insights into how MSMEs can continue to be a driving force behind India's economic ascent.

⁴ [%Sitetitle%], United Nations Partnerships for SDGs platform https://sustainabledevelopment.un.org/content/documents/26073MSMEs_and_SDGs.pdf page 4.

⁵ Pamela Coke-Hamilton, UN Chronicle (June 26, 2023), <https://www.un.org/en/un-chronicle/micro-small-and-medium-sized-enterprises-are-key-inclusive-and-sustainable-future>.

⁶ Contribution of MSMEs to the country's GDP, (Dec. 11, 2023), <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1985020>.

Literature review

Let's understand the evolution of MSME the quest for industrial development started soon after independence in 1947 the objective of the government was to maintain a sustained growth in productivity; to enhance gainful employment; to achieve optimal utilization of human resources; to attain international competitiveness and to transform India into a major partner and player in the global arena. The first industrial policy 1948 defined the broad parameters of state in industrial development both as entrepreneur and authority. It is made clear that India is going to have a mixed model that divides industries into 4 categories of strategic industries (public sector) which include arms, ammunition, atomic energy, and rail transport. Basic/key industries (public cum private sector) which included six industries like coal, iron and steel aircraft etc. important industries (controlled private sector) it included 18 industries including heavy chemicals, sugar cotton etc. and other industries (private and cooperative sector) these included all other industries which were not included in the above mentioned three categories.

When the policy was revised by the government on 1956, it was regarded as "Economic Constitution of India" or "The Bible of State Capitalism"⁷ The policy emphasized the need to expand the public sector to build up a large and growing cooperative sector and to encourage separation of ownership and Management in private industries and above all prevent the rise of monopolies we can say that it ensuring a more of an equitable distribution of national income. this policy has provided a basic framework for the government policies in regard to industries till June 1991. In this the industries have been categorized into 3 categories schedule A which consist of 17 industries which was exclusive to responsibility of the state schedule B consist of 12 industries which was open for both private and public sector schedule c which consist all other industries not included in these 2 schedules which were left open to the private sector however the state has reserved the the right to undertake any type of industrial production. The industrial policy 1956 has stressed the importance of cottage and small scale industries for expanding employment opportunities and for wide decentralization of economic power and activity.

The industrial policy was revised and announced a new policy called 'industrial policy 1977'⁸ the main thrust of this policy was the effective promotion of cottage and small industries widely

⁷dr Rajeev babe, treatise in micro, small and medium enterprises chapter 1.

⁸ Drishti IAS, Drishti IAS PDF, (June 2, 2022), <https://www.drishtiias.com/pdf/1654166394.pdf>. (last visited 18th august)

dispersed in rural areas and small town. This policy classified the small sector into 3 groups cottage and household sector, tiny sector and small scale industries.

Then the globalization has entered India the era of economic liberalization and financial reforms started after 1991 the strategy of reforms introduced in July 1991 the strategy of reforms introduced in July 1991 presented a mixture of macroeconomic stabilization and structural adjustment. The objective of industrial policy 1991 was to raise efficiency and accelerate economic growth the industrial growth. The key features of industrial policy 1991 are de reservation of public sector, delicensing, disinvestment of public sector, liberalization of foreign investment, foreign technology agreement etc.⁹.

In 1993 the government enacted the interest on delayed payment s to small scale and ancillary industrial undertakings act, 1993 to provide for and regulate the payments of interest on delayed payment or small scale and ancillary undertaking. later a bill was introduced in lok Sabha in May 2005 titled small and medium enterprise development later renamed and presented in 2006 as micro, small and medium enterprises.

The Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006, was a significant step towards fostering the growth of micro, small, and medium businesses in India. By defining MSMEs based on investment in plant and machinery, the Act aimed to streamline access to loans and encourage healthy competition. However, the reliance on investment criteria, rather than turnover, posed challenges, especially in an inflationary context where many businesses struggled to qualify under the Act's stringent definitions.

The MSMED Act's focus on the manufacturing and service sectors further limited its applicability. The definitions provided under the 2006 Act were as follows:

Micro Enterprises: In the manufacturing sector, the maximum limit for investment in plant and machinery was set at ₹25 lakhs. In the service sector, the maximum investment in equipment was capped at ₹10 lakhs¹⁰.

⁹ dr Rajeev babe, treatise in micro, small and medium enterprises chapter 1.

¹⁰ The micro, small, medium Enterprises Development act 2006 section 7 subsection 1 Acts of the parliament, 2006(India)

Small Enterprises: For the manufacturing sector, investments in plant and machinery ranged from ₹25 lakhs to ₹5 crores. In the service sector, investments in equipment ranged from ₹10 lakhs to ₹2 crores¹¹.

Medium Enterprises: In the manufacturing sector, investments in plant and machinery were set between ₹5 crores and ₹10 crores. In the service sector, investments in equipment ranged from ₹2 crores to ₹5 crores¹².

The different definitions applied to the manufacturing and service sectors made it restrictive, preventing MSMEs from scaling up effectively. This ultimately highlighted the need for amendments to ensure that the Act could adapt to the changing economic landscape.

The MSME Act was amended in 2020 it was amended to address the shortcomings of the earlier framework by standardizing the criteria across sectors rather than dividing them. The Act significantly raised the ceiling limits for investment and turnover, making it more inclusive and reflective of current economic conditions. Additionally, the 2020 Act recognized and included the trade sector within its scope, further broadening its applicability and ensuring that a wider range of enterprises could benefit from its provisions¹³.

There are several schemes initiated by the Indian government in this paper we are going to talk about few key schemes of MSME in this paper: MUDRA (micro unit's development and redefined agency) loans, prime minister employment generation programme, credit guarantee fund trust for micro and small enterprises, self-reliant India mission also known as Aatmanirbhar Bharat Abhiyan.

The MUDRA (Micro Units Development and Refinance Agency) loan scheme was launched on April 8, 2015, under the Pradhan Mantri MUDRA Yojana (PMMY) by the Government of India. This scheme enables MSMEs to access loans ranging from ₹50,000 to ₹20 lakh. Since its inception, the scheme has facilitated the opening of over 40.82 crore loan accounts, with more than ₹23.2 lakh crore sanctioned. Notably, around 21% of these loans were granted to

¹¹ The micro, small, medium Enterprises Development act 2006 section 7 sub section 1 b Acts of the parliament, 2006(India)

¹² The micro, small, medium Enterprises Development act 2006 section 7 sub section 1 c Acts of the parliament, 2006(India)

¹³ (June 1, 2020), https://msme.gov.in/sites/default/files/MSME_gazette_of_india_0.pdf.

new entrepreneurs, emphasizing the scheme's role in fostering new business ventures across the country.¹⁴

The Prime Minister's Employment Generation Programme (PMEGP), launched in August 2008, is a credit-linked subsidy scheme administered by the Ministry of Micro, Small and Medium Enterprises. Its primary objective is to generate employment opportunities in both rural and urban areas by establishing new self-employment ventures, projects, and micro-enterprises. PMEGP was created by merging two previous schemes—the Prime Minister's Rojgar Yojana (PMRY) and the Rural Employment Generation Programme (REGP), which operated until 31st March 2008. An outlay of ₹13,554.42 crore has been approved for PMEGP for the five financial years from 2021-22 to 2025-26, aimed at setting up approximately 4,00,000 projects and creating employment for 30,00,000 people, with an average of eight persons per unit¹⁵. One of the components of this scheme is the Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE), which offers collateral-free loans of up to ₹100 lakhs to MSEs on the payment of a guarantee fee to the bank by the enterprise¹⁶.

The government aiming for a 5 trillion dollar economy and has understood that MSME is going to play a major role even in the 2024 Union Budget has allocated ₹22,137.95 crores to the MSME sector, emphasizing employment, skilling, and the middle class¹⁷. Key initiatives include the Credit Guarantee Scheme, they provide a collateral-free loans to MSMEs for machinery purchases, and a new mechanism ensuring continued bank credit during stress periods. The Mudra loan limit under the 'Tarun' category has been increased to ₹20 lakhs for previously successful borrowers. Additionally, mandatory on boarding on the Trade Receivables Discounting System (TReDS) platform has been expanded by lowering the turnover threshold for buyers from ₹500 crores to ₹250 crores. Furthermore, financial support for 50 food irradiation units, the establishment of e-commerce export hubs, and initiatives like the Critical Mineral Mission and offshore mining underscore the government's focus on infrastructure and innovation within the MSME sector. The budget also highlights the

¹⁴ More than 40.82 crore loans amounting to ₹23.2 lakh crore sanctioned under Pradhan Mantri MUDRA Yojana (PMMY) since inception, (Apr. 8, 2023), <https://pib.gov.in/PressReleasePage.aspx?PRID=1914739>.

¹⁵ Prime Minister's Employment Generation Programme, <https://www.myscheme.gov.in/schemes/pmegp>.

¹⁶ 1. Prime Ministers Employment Generation Programme, PMEGP, Ministry of Micro, Small & Medium Enterprises (Jan. 30, 2024), <https://msme.gov.in/1-prime-ministers-employment-generation-programme-pmegp>.

¹⁷ Ashish Pandey, Budget 2024: Which MSME schemes got more money and which ones have lost out, The Economic Times (July 24, 2024), <https://economictimes.indiatimes.com/small-biz/sme-sector/budget-2024-which-msme-schemes-got-more-money-and-which-ones-have-lost-out/articleshow/111981282.cms>.

development of Digital Public Infrastructure (DPI) applications across various sectors, including credit, e-commerce, and logistics, which aim to bolster the operational efficiencies and market reach of MSMEs in India.¹⁸

MSMEs in India face numerous challenges that hinder in their growth and contribution to the economy. One of the primary obstacles is limited access to finance, often due to the inadequacy of collateral assets and a lack of financial literacy among entrepreneurs. This financial constraint makes it difficult for MSMEs to secure necessary funding for expansion and operational needs. Moreover, MSMEs struggle with marketing and sales, particularly in establishing strong brand identities in a competitive market. The technological challenges they face are significant as well, with many enterprises lacking access to modern technologies that could enhance productivity and efficiency. Retaining skilled manpower is another critical issue, as MSMEs often find it difficult to compete with larger firms in offering competitive wages and benefits.

In a research it was highlighted that awareness gap among MSME owners regarding government support schemes. Out of 85 enterprises surveyed, 49 were completely unaware of any such schemes. Among those who were aware, most knew only 1 to 4 schemes, and only 10 out of the 85 enterprises had successfully obtained finance through an MSME credit support scheme. This indicates a pressing need for better outreach and education to ensure that MSMEs can take full advantage of available government resources.¹⁹

Research Objective:

The research paper is aimed to examine the effect of government policies on the growth and performance of Micro, Small and Medium Enterprises (MSMEs) in India and to find out their contribution towards economic development employment and poverty alleviation. Also, the paper will identify the likely to be faced by the MSMEs that are expected to play central role to realize the targeted \$5 Trillion economy in India.

¹⁸ Highlights Of The Union Budget 2024-25, (July 23, 2024), <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2035609>.

¹⁹ Singh, C., & Wasdani, P. (2016). Finance for Micro, Small, and Medium-Sized Enterprises in India: Sources and Challenges. SSRN. <https://doi.org/10.2139/ssrn.2833748>

Research Methodology

In this research paper, secondary data have been exclusively utilized to conduct a thorough analysis of the subject matter. These data were gathered from various schemes and platforms introduced by the Government of India to support Micro, Small, and Medium Enterprises (MSMEs) in improving ease of doing business. The data encompass an examination of government initiatives aimed at providing financial assistance, technological support, and market access to MSMEs, as well as platforms designed to streamline business processes and regulatory compliance. Additionally, a wide range of academic journals, research papers, articles, and other scholarly publications were reviewed. This secondary data has played a crucial role in offering a broader perspective, enhancing the research with insights from previous studies and expert analyses, and ultimately enriching the findings with diverse viewpoints and comprehensive understanding.

Analysis

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in India's economy. The country hosts a vast number of MSMEs, with a staggering 99% classified under the micro sector, accounting for an estimated 630.52 lakh enterprises. The small sector comprises 3.31 lakh enterprises, making up 0.52% of the total, while the medium sector is the smallest, with just 0.05 lakh enterprises, contributing a mere 0.01% to the total estimate.²⁰

MSMEs are spread all over India; out of 324.88 lakh MSMEs, 51.25% are in the rural area. However, MSMEs are concentrated in urban areas where they account for 309 lakh units, or 48.75% of the total. This distribution shows the high relevance and statistic of MSMEs in the rural and urban zones in the country.

As per the 73rd round of the NSS report on unincorporated non-agricultural enterprises conducted between July 2015 and June 2016, approximately 11.10 crore people were employed by MSMEs. These enterprises contribute over 29% to India's GDP and are responsible for more than 50% of the country's total export.²¹

²⁰ MSME annual report, (Feb. 15, 2023), <https://msme.gov.in/sites/default/files/MSMEANNUALREPORT2022-23ENGLISH.pdf>, 2.1.1.2

²¹ Contribution of MSMEs to the country's GDP, (Dec. 11, 2023), <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1985020>.

However, MSMEs still experience many problems, especially in the area of financing once they are started up. One of the major challenges is the lack of Collateral or any form of security, which is usually a requirement for accessing credit. Besides, long time taken to process loans, and little knowledge of the existing government schemes are other barriers. Procedural complexities, high service fees for loan requests, and the burdensome documentation requirements also contribute to the pressure. Small businesses, especially start-ups, are short of collateral and often unaware of the available financial support, thereby potentially making it difficult for them to select the right financing strategies.²²

In addition to financial hurdles, MSMEs face numerous other challenges, particularly in the era of globalization. These enterprises often struggle to compete with multinational corporations, which benefit from a skilled workforce and offer high-quality products at competitive prices. MSMEs are also burdened by the complex regulatory environment.

Business owners often have to navigate through government agencies to obtain the necessary approvals like building permits and contracts and ensure compliance with tax regulations. Additionally, the uncertainties surrounding regulations and policies further hinder their ability to expand and grow. A significant 86 percent of medium enterprises in India are operating without registration with only about 11 million out of 63 million businesses registered under the GST system. Due to access, to accurate data and outdated evaluation methods the financial needs of Indian small and medium enterprises continue to be largely unaddressed.

Majority of MSMEs use outdated technology that backs them because of which they are not able to keep up with the modern world adaption of new technology and training employees is difficult and expensive Most MSMEs continue to rely on outdated technology, which prevents them from keeping pace with global advancements. Adapting to new technologies and training employees can be difficult and expensive. Furthermore, the majority of MSMEs are unaware of the schemes available to them. According to a survey, 49 out of 85 enterprises reported having no knowledge of any schemes, while others were familiar with just one to four schemes. Of those, only 10 out of 85 enterprises had obtained financing through a scheme.²³

²² Singh, C., & Wasdani, P. (2016). Finance for Micro, Small, and Medium-Sized Enterprises in India: Sources and Challenges. SSRN. <https://doi.org/10.2139/ssrn.2833748>

²³ Singh, C., & Wasdani, P. (2016). Finance for Micro, Small, and Medium-Sized Enterprises in India: Sources and Challenges. SSRN. <https://doi.org/10.2139/ssrn.2833748>

The employment opportunities for the MSMEs therefore must be embraced and nurtured especially in the urban environment. The financial sector should also pay more attention to the mid-size companies which are also few in India; most of the companies here are from the micro-enterprise segment. It is therefore important that the micro-enterprises are taken and incorporated into medium enterprises so as to enhance the balance of the sector for its sustainability.

The government, through initiatives such as Aatmanirbhar Bharat and Make in India, has been supporting MSMEs as they play a major role in the industrial sector. However, the responsibility falls heavily on MSMEs to reduce costs without compromising on quality, particularly through the upgrading of technology. Although government support exists, significant gaps remain in meeting the needs of MSMEs²⁴.

Discussion

Micro, Small, and Medium Enterprises (MSMEs) have emerged as one of the most vibrant and dynamic sectors in India's economy. With a contribution of approximately 29.1% to the country's GDP and employing over 40% of the national workforce, MSMEs have firmly established their role in fostering industrial growth, particularly in rural and semi-urban areas. Their contributions are not limited to domestic growth; they play a significant role in India's exports, accounting for nearly 45.56% of total exports in the fiscal year 2023-24. Despite their contributions, the sector faces a myriad of challenges that hinder its growth potential.

Government initiatives and policies aimed at bolstering the MSME sector have been central to India's economic development strategy. Various schemes such as the Micro Units Development and Refinance Agency (MUDRA) loans, Prime Minister's Employment Generation Programme (PMEGP), and Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) have been designed to provide financial assistance, boost employment, and enhance access to credit for MSMEs. The 2020 amendment to the MSME Development Act, which raised the investment and turnover limits, has further widened the scope of MSME classifications, allowing more enterprises to benefit from government schemes.

²⁴ Shetty, Meera Omkar, & Ganesh Bhat, S., (2022). A Performance Analysis of Indian MSMEs. International Journal of Applied Engineering and Management Letters (IJAEML), 6(2), 197-216. DOI: <https://doi.org/10.5281/zenodo.7112375>

Nonetheless, the effectiveness of these policies cannot be said to be implicitly credible in every way. If MUDRA, for instance, has helped in disbursement that reached a staggering ₹23,289.28 billion mark, provided approval for over 40.82 crore loan accounts, the impact on job generation and expanding operations are still modest. Studies conducted on the topic have revealed that there is still a disconnect as regards the knowledge of these schemes with many MSMEs still in the dark on how they can benefit from them. Out of those people who have inadequate information about governmental support programs only a small portion of them actually gets the available financial aid because of excessive red tape, overly complicated paperwork and formalities, extensive applications and documentation.

The one of the major issues of concern that affect MSMEs includes; The problem of inadequate access to credit. Lack of collateral, long processing time for loans and high charges are among some of the biggest hurdles to funding for such businesses. The general poor level of financial literacy among the owners of MSMEs is compounded by the fact that most of the sector's players belong to the micro-enterprise category.

This is another challenge that face MSMEs, Technology. That is why with the emergence of globalization a problem was noted for the first time, technological obsolescence. Most MSMEs are still using old technologies which hinder their productivity and competitiveness of the companies. The cost of installing new technology and training the workforce is expensive for small organisations especially in marginalised regions of the country. This technological dearth hinders MSMEs from operation at par with the multinational organizations that enjoy more efficient machinery and technologies.

Also, the issue of compliance with regulations and the burden of bureaucratic requirements are sensitive to MSMEs. The business people undergo many formalities to transact with government approvals such as building permit, and ensuring their contracts are implemented. These regulatory pressures are accompanied by the issues of non-uniformity and irrelevance of the policies implemented resulting in a dampened growth and scalability.

Another significant challenge that MSMEs face is geographic disparity. While a large portion of MSMEs is concentrated in rural areas (51.25%), the level of access to infrastructure, financial services, and markets in these regions lags behind urban centres. As a result, rural MSMEs often struggle with limited resources and connectivity, which impedes their growth.

Despite the government's focus on rural industrialization, more needs to be done to address the specific challenges faced by MSMEs in these areas.

Furthermore, within the MSME sector, the overwhelming majority of enterprises are classified as micro-enterprises. Of the 633.88 lakh MSMEs in India, 99% are micro-enterprises, with the small and medium sectors making up only 0.52% and 0.01% of the total, respectively. This skewed distribution suggests that many micro-enterprises are not scaling up to small and medium-sized enterprises, which limits their potential to generate higher levels of employment and contribute more significantly to the national economy.

For India to achieve its ambitious goal of becoming a \$5 trillion economy, the growth and development of MSMEs will be critical. Solving all existing impediments to the development of MSMEs particularly credit, technological support, and compliance issues will help give them greater contribution to this trend. Increased access to financial resources, more straightforward means of obtaining various government incentives, and specific purposive attempts to enhance the existing technology offer scope for the enhancement of productivity and the generation of competitive advantages in the sector. Furthermore, there will be a need to scale up the efforts aimed at the dissemination of information regarding various schemes introduced by the government, and especially within the rural regions if the MSMEs are to take advantage of the support as provided for by the government. The policy gap can therefore be closed by developing better communication networks and by easing the procedures for applying for the policies in the aforementioned enterprises.

That the government is already keen on its Aatmanirbhar Bharat (Self-Reliant India) and Make in India has begun to shift the environment in the right direction for MSMEs. By pumping capital into infrastructures, digital platforms and industrial development, MSME's stand to gain from increase operational capacity as well as access to the market. while MSMEs remain pivotal in India's uplifting journey the actual effort, continuous, and consistent to finding solutions to the existing problems that hinders their progress such as financing, technology, and jurisprudence will be a major factor for MSMEs in India. The combined impact of all these MSMEs can put India on the road map of achieving \$5 trillion economy apart from employment generation, poverty reduction and growth of economy.

Findings

The following are findings from the studies

1. MSMEs contribute an approximately a 29.1% to India's GDP and play a crucial role in exports accounting to 45%
2. In India the MSMEs are majorly situated in rural areas than in urban areas which helps to remove regional imbalance in the long run
3. Among MSME sector the 99% are operating under the micro sector
4. MSMEs are the base industries of local India and it has shouldered more responsibility to make India self-reliant.
5. The challenges faced by the MSMEs are financial constraints, technology obsolescence, complex regulatory, awareness gap and low registration rates

Conclusion

MSME played a crucial role in India's economic development over the past few decades. With their widespread presence across rural and urban areas, MSMEs serve as the backbone of the country's industrial landscape, contributing significantly to GDP and employment. However, despite their vast numbers and essential contributions, MSMEs face numerous challenges that hinder their growth and potential to be key drivers of India's economic ascent.

The major challenges affecting the sector especially in terms of finance, infrastructure and technology are also made worse by the low knowledge on government policies on the sector especially the policies aimed at enhancing the operations of the MSMEs. While programs such as MUDRA, PMEGP and the CGTMSE are aimed toward offering loans and supporting the development of entrepreneurs, many of the owners of MSMEs are either not aware of these programs or else find it hard to navigate through the red-tapism when it comes to availing them. Thirdly, financial institutions may demand security for the loans which most of the msme's cannot afford to offer due to the limited sources of funds available to them to fund expansion and to procure modern technology. Over the years, MSMEs have faced some challenges and the government policies, as much as they were intended to help have equally been a success and failure. The alteration of the definition of MSMEs under the MSME Act 2020 that changed the classification from investment, it also included the turnover, and embraced the trade sector was a good development. Nevertheless, a large number of these organizations remain uninformed of these policies and thus excluded from their advantages or disallowed by some

procedures. Moreover, the central government has put a premium on the sector towards the realization of its seven million dollars' economy as well as the Aatmanirbhar Bharat Abhiyan. However, the usefulness of these policies to deal with the current flow of issues that affect MSMEs cannot be determined at this moment. If MSMEs are to realize their full potential and provide the desired thrust to India's growth arithmetic, the government has to address the fundamental concerns relating to financing, technology upgrades, and administrative red tape. But to enable the MSMEs to fully utilize the available support, there is a need for enhancement of outreach and awareness. Simplified processes, more affordability of funds, and specific measures to modernize technology will be instrumental in finding ways of increasing the operations of these MSMEs to compete in the global markets. While MSMEs have demonstrated their resilience and capacity to drive economic growth, realizing their full potential will require a concerted effort from both the government and the private sector to overcome the barriers that currently limit their success. By addressing these challenges, MSMEs can play a pivotal role in helping India achieve its vision of becoming a global economic powerhouse.



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