

A CURRENT STUDY ON PROBLEMS AND PROSPECTS OF MSMEs IN INDIA

Dr. Renati Jayaprakash Reddy

Professor, Acharya Institute of Management and Sciences, Bangalore, Karnataka

Sreedhar.B.N

Research Scholar, AIMS Centre for Advanced Research Centre

University of Mysore, Karnataka

*Corresponding authors | Received: 25/10/2024 | Accepted: 21/11/2024 | Published: 15/12/2024

Abstract

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Indian economy, contributing significantly to GDP, employment, and exports. However, despite their critical role, MSMEs face numerous challenges, including limited access to finance, technology constraints, and regulatory hurdles. This paper examines the current problems and future prospects of MSMEs in India through a secondary data analysis approach. By evaluating government initiatives and global trends, the study offers actionable insights and recommendations for the sustainable growth of MSMEs in India.

Keywords: MSMEs, India, Challenges, Prospects, GDP, Export, Employment, Government Policies, Economic Growth

Introduction

The MSME sector in India constitutes over 63 million units, employing more than 110 million people and contributing approximately 30% to the GDP and 45% to exports (Ministry of MSME, 2023). The sector acts as a catalyst for economic growth, especially in rural and semi-urban areas. Despite its potential, MSMEs face significant challenges that limit their growth and sustainability.

Importance of MSMEs in the Indian Economy

MSMEs drive innovation, promote inclusive growth, and foster regional development. They play a critical role in addressing unemployment and bridging the rural-urban divide.

Need for the Study

Given the challenges posed by global competition, digital transformation, and post-pandemic recovery, understanding the current state and future prospects of MSMEs is essential to devise targeted strategies for their development.

Scope of the Study

This study focuses on analyzing the problems and opportunities for MSMEs in India using secondary data from reports published between 2018 and 2024. It covers rural and urban MSMEs, manufacturing and service sectors, and evaluates government interventions such as the Atmanirbhar Bharat initiative.

Review of Literature

Ravi (2019): Highlights financial challenges as a primary barrier for MSMEs.

Kumar & Singh (2020): Discuss the impact of digitalization and technology adoption.

NITI Aayog Report (2022): Evaluates government initiatives and their effectiveness in addressing MSME challenges.

Research Gap

Existing studies extensively cover challenges faced by MSMEs, but limited research evaluates the prospects and long-term impact of recent government initiatives like the Emergency Credit Line Guarantee Scheme (ECLGS) and digital inclusion programs.

Research Questions

What are the major challenges faced by MSMEs in India today?

How effective are government policies in addressing these challenges?

What future opportunities exist for MSMEs in a globalized and digitalized economy?

Objectives of the Study

To analyze the problems faced by MSMEs in India.

To evaluate the role of government interventions in MSME development.

To assess the growth prospects for MSMEs in the current economic scenario.

Hypotheses

H₀: Government policies have no significant impact on the growth of MSMEs.

H_a: Government policies significantly impact the growth of MSMEs.

Problem Statement

Despite their contribution to the economy, MSMEs struggle with issues such as inadequate access to finance, low technology adoption, skill shortages, and regulatory burdens. These challenges hinder their potential to scale up and compete in a globalized market.

Limitations of the Study

Data from the MSME's in Bangalore is considered only.

Dependence on secondary data limits real-time insights.

The study focuses on India, and findings may not be applicable globally.

Temporal scope: Data analyzed is primarily from 2018 to 2024.

Research Methodology

The present study is a descriptive and analytical study based on the Primary and secondary data. The data are collected from the MSME's directly on the problems faced by them. Also the secondary data from RBI, Ministry of MSME, NITI Aayog, World Bank, and

journal articles. The Statistical Tools utilized for the Descriptive statistics is to analyze trends and Regression analysis to test hypotheses.

Data Analysis

The Descriptive Analysis is based on the secondary data of RBI, Ministry of MSME, NITI Aayog, World Bank, and journal articles. The important aspects regarding MSME's are considered in this research article.

MSME Contribution to GDP (2018–2024)

The MSME contribute to the GDP to a great extent. The MSMEs contribute around **30% of India's GDP**, with the manufacturing sector accounting for **6%** and services sector contributing around **24%**. The Growth rate of MSME contribution: **3.36% CAGR** from 2018 to 2023, slowed down due to COVID-19 in 2020 but recovered in 2022.

Table 1: MSME Contribution to GDP (2018–2024)

Year	Share of MSME in GDP	Growth Rate (%)
2018-19	29.75%	1.62
2019-20	30.27%	1.74
2020-21	27.24%	-10.00
2021-22	29.15%	7.01
2022-23	29.00%	-0.51
2023-24	30.00%	1.00

Employment Generation

MSME is the second largest employment providers in the country after agriculture. The MSMEs employ over **110** million people, contributing to around **40%** of India's total workforce. The Rural MSMEs account for **52%** of total employment, highlighting their importance in bridging the rural-urban divide.

Table 2: Employment Trends in MSMEs (2018–2023)

Year	Employment (in millions)	Rural (%)	Urban(%)
2018	102	50	50
2020	108	51	49
2023	110	52	48

Export Contribution

The MSME also contribute to the export of the country. The Rural MSME experts in crafts are contributing to large extent. The MSMEs contribute approximately **45%** to India's total exports. MSME contribute to the Sectors such as textiles, gems, and handicrafts dominate

MSME exports. The MSME employees the people who are very capable and family oriented, who are practising the crafts from ages. These products are unique and looks very beautiful, which are admired over the world.

Table 3: MSME Export Contribution (2018–2023)

Year	Total Exports (USD Billion)	MSME Share (%)
2018	330	44
2020	290	43
2023	400	45

Challenges Faced by MSMEs

The MSME contribute to the economy significantly, however the MSME are facing challenges. The challenges are unique in nature because of the size of the organisation. The Challenges faced by the MSME are: -

- 1. Access to Finance-** The Finance is very important to the organisation, access to finance by MSME is very difficult. The initial Capital access is very difficult, as the Financial Organisation demand collateral assets for providing the Capital. The own Capital by the MSME would be very minimum or less. Also working Capital for day to day is very much required to run the organisation smoothly, these is also difficult to get from the financial organisation. The government is supporting the MSME in this aspect. Despite schemes like MUDRA and Emergency Credit Line Guarantee Scheme (ECLGS), **59%** of MSMEs lack access to formal credit. Total credit gap: **₹25 lakh crore** (SIDBI, 2023).
- 2. Technology Adoption-** The technology is growing at a rapid pace. The organizations have to adopt the technology to compete with others and to meet the demand of the customers. The MSME have to adopt the technology to survive and grow. These Technology adoptions require huge capital, which the MSME have to source. The huge capital requirement for the technology, many MSME cannot adopt them and fall behind in the market. Only **32% of MSMEs** have adopted digital tools for operations. Rural MSMEs lag behind urban counterparts.
- 3. Regulatory Hurdles –** The MSME are organisations which are small in size, they don't have many staff to look after each aspect. There are many regulatory rules and guidelines the MSME have to adhere to. These rules and guidelines become hurdles for the MSME and it would be difficult to follow. MSMEs face over **15 compliance requirements monthly**, with penalties for delays being significant.

Inferential Analysis

The MSME growth is analysed considering the government support to them. The regression analysis is compiled using the secondary data, the dependent variable is MSME growth rate, independent variables: financial aid, export incentives, and technology schemes. The regression results are follows:

Regression Model Results

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where:

Y = MSME growth rate

X₁ = Financial aid (₹ crore/year)

X₂ = Export incentives (₹ crore/year)

X₃ = Technology adoption rates (%)

Variable	Coefficient (β)	Significance (p-value)
Financial Aid (X ₁)	0.45	0.01
Export Incentives (X ₂)	0.32	0.02
Technology Adoption (X ₃)	0.30	0.001

Interpretation

The Government is proving the financial aid to the MSME and also support them to export with many incentives. The p value for the financial aid is 0.01 and for export incentives is 0.02. These values are lesser than the $p < .05$, which indicates that the financial aid and export incentives positively correlate with MSME growth. The government policies have significant impact on the growth of MSME, whereby the Hypothesis H_a: Government policies significantly impact the growth of MSME is accepted. The government policies are contributing to the growth of the MSME in the country.

The technology adoption is very much required to the MSME. Technology adoption ($p < 0.01$) has the most significant impact on MSME growth, emphasizing the need for digital transformation.

Key Insights from Data Analysis

The MSME are contributing to the economy very significantly it can be observed that

1. MSME growth rebounded after the COVID-19 slowdown but remains uneven across sectors.
2. Credit access and digital adoption are critical growth drivers but remain underutilized.
3. Government policies have had a measurable impact, but their implementation and reach need improvement.

Descriptive Analysis

GDP- The MSME contribution to the GDP, Export and Employment generations indicates the importance of MSME. The MSME contribution to the GDP is increasing every year, but in 2021 it is negative because of the Covid-19 where the economy was in very bad shape. The economy started to open up after the initial months of lockdown and government restrictions. The MSME contribution after 2021 has increased is continuing.

Employment: The MSME is the second largest employment provider in the country after agriculture. The MSMEs employment is increasing every year and now it is 110 million individuals. The MSME employs more than 50% of the total employed in rural areas.

Export Contribution: The MSME are exporting to 45% of the total export as on 2024. The MSME export contributions is increasing years by 2%. MSME by exporting are contributing to the foreign exchange reserves of the country. The MSMEs account for 45% of India's exports, with significant contributions from textiles and handicrafts.

Findings: The MSME study and research on the contribution and challenges are elaborate. The important findings are:

Financial Barriers: Inadequate access to formal credit remains a critical challenge.

Technological Challenges: Low digital adoption limits operational efficiency.

Regulatory Hurdles: Complex compliance requirements discourage small enterprises.

Suggestions

The research has given important aspects of MSME. The suggestions to the Government are:

Policy Recommendations: Simplify compliance processes, enhance credit accessibility, and strengthen public-private partnerships.

Industry Recommendations: Encourage digital transformation and innovation through affordable technology solutions.

Conclusion

MSMEs plays very pivotal role to India's economic development. Addressing their challenges and leveraging opportunities will require collaborative efforts from the government, financial institutions, and industry stakeholders. The findings underscore the need for targeted interventions to ensure the long-term sustainability and competitiveness of MSMEs.

References

- Ministry of MSME. (2023). *Annual Report, 2023*.
- NITI Aayog. (2022). *The Role of MSMEs in Economic Growth*.
- Ravi, S. (2019). Financial Barriers and MSMEs. *Economic Times Journal*, 12(4), 45-60.
- World Bank. (2022). *India's MSME Sector: Challenges and Opportunities*.