

Future Prospects of Msmes for Better Growth of Indian Economy

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Abstract: Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in the growth of the Indian Economy. In the last five decades, MSMEs have grown enormously; according to the statistics, MSMEs have a vast network of around 30 million units, over 70 million people are getting employment through MSMEs, they manufacture over 8,000 products, contributing about 45% to manufacturing output and about 40% of exports directly and indirectly. Significantly, after agriculture, MSMEs are the second biggest employment provider in the country. After independence of India, MSMEs help to boost the economy of India. This paper is to focus on performance of MSME & growth and opportunities. It is concluded that this sector significantly contributes in employment, exports and manufacturing output.

Keywords: MSME, Make in India, GDP, growth, employment, opportunities.

1. FUTURE PROSPECTS OF MSMES

- 1.1. Employment generation: There are large opportunities in the field of manufacturing and service rendering of MSME's. In the field of retail and manufacturing sector, MSMEs are generating different and ample amount of employment.
- 1.2. Focus on customer satisfaction: Primarily, MSMEs manufacturing goods focus on test and preferences, liking and disliking of the consumer. But now a day they produce goods according to the needs or expectations of the customers. So the MSMEs can be more customer satisfaction oriented.
- 1.3. Minimization of regional imbalance: The MSMEs will utilize the manpower of rural areas so such areas of the nation can equally developed through the running of MSME units in rural areas. So this is helpful to minimize or remove the regional imbalance.
- 1.4. Development of Export: In the international market, there will be a large demand of Indian product like wooden items, other handmade articles etc. So MSMEs have the potential to improve the export of India.
- 1.5. Attraction of Foreign Investment: The Indian MSMEs are the growing sectors and their growth rate and return on investment is satisfactory. This sector can attract foreign investment in India, so their growth rate increasing drastically.

2. STRATEGY INTERVENTION FOR REVITALIZATION AND GROWTH OF MSMES

The new wave MSME should enable the development of a business eco system that enables and continuously support business that are gearing to deliver the right product, the right quality, the right solution and the right service at a competitive price, both in domestic and international markets. Significant changes in economic environment are being heralded in by the WTO. Indian Government is stood on policy that 'promotion and not protection is the solution to the issues of survival and growth'. Hence, while reservation of goods for exclusive production continues, the focus must now be on strengthening competencies. This implies a holistic look at the concerns of industry. The 'Digital India' revolution also provides a great opportunity to promote MSME participation in the Information, Communication and Telecommunication (ICT) sector, in line with the government vision. Many developed and developing economies have demonstrated that the MSME segment constitutes the backbone for maintaining growth rates as well employment generation rate and provides stability during

economic downturns. It is therefore very crucial that as India embarks on a new wave economy, it adopts an MSME opportunity framework that will provide the necessary impetus to seize the opportunities created by:

- Emergence of domestic demand led by significant increases in spending and consumerism;
- Increase in spending in infrastructure and defence sectors;
- Increase in foreign direct investments in existing and emerging businesses in India;
- Foreign companies investing in India for their global market requirements (Make in India); and
- The double digit growth expected in numerous business sectors.

In order to be globally competitive it will be essential for India's entrepreneurial skills to be global in their outlook and adopt innovation, develop world class technologies and to skill the nation's favorable age profile of human resources. India will have to develop stronger support in providing an enabling business environment. The business environment should aim to enable greater number of companies to sustain from a start-up stage to the next level of growth and maturity and should nurture these businesses into billion dollar plus enterprises over the next decade. Interventions should remove the hurdles for growth in future. They must encourage a flawless movement from small to medium to large. The Indian Government, therefore, is working on a new vision for the SSI sector through a flexible approach and a motivated team. The encouragement role of Government now involves new dimensions such as arguing cases before the world trade body or dispute redressal, communicating needs of small enterprises before decision makers and other agencies.

3. STEPS TO BE TAKEN

3.1. Increasing Domestic Manufacturing Capabilities

The government can play a crucial role in creating domestic manufacturing capabilities by leveraging proposed public procurement and projects.

- For example, Mega public projects such as Sagarmala, Bharatmala, industrial corridors, and the Pradhan Mantri Awas Yojana (PMAY) can stimulate domestic manufacturing activities.
- This should be accompanied by a simplification of the regulatory process.

3.2. Cluster Manufacturing

Efforts should be made to develop self-sufficient clusters of manufacturing competence, with Cluster Administrative Authorities, empowered to provide single window clearances to entrepreneurs and investors.

3.3. Leveraging Industrial Revolution 4.0

Disruptive technology, while leading to job losses in traditional areas, also presents new job opportunities.

- A greater connect between government-industry-academia is required to identify the changing requirements in manufacturing and prepare an employable workforce.
- Also, the Industrial Revolution 4.0 will boost the Industrial supply chains in India.

3.4. Need to improve Ease of Doing business

Reforms: India has already taken several steps, due to which ease of doing business in India has improved significantly (India's ranking in ease of doing business report has improved from 142 in 2014 to 63 in 2020).

- However, still some reforms are needed in regard, especially in the field of land, labour reforms and in enforcing contracts.

3.5. Making Indian Products to Match Global Standards

There is a need for harmonizing Indian quality standards with global standards in many sectors.

- Lack of harmonization has affected Indian exports and prevented the leveraging of trade agreements adequately.

- There is a need to promote ZED manufacturing (Zero effect- Zero Defect) as envisaged by Make in India.

4. ISSUES AND CHALLENGES

The MSME sector, the backbone of the economy that provides 25 per cent of employment, 32 per cent of the GDP and 45 per cent of exports, is unhappy despite the Rs 3 trillion line of credit for loans without collateral (Nayyar, 2020). In MSME stakeholders' experience, lenders are not always supportive in extending loans, while buyers (central and state governments, public sector firms and the private sector) owe them as much as Rs 5 trillion which has resulted in a piquant situation in which they do not have the resources to pay wages or meet fixed costs on electricity, rent or interest during the lockdown period (Nayyar, 2020). MSME revival package announced by the Government of India has further dampened the mood of the stakeholders in the MSME sector. Despite the pivotal role and strategic importance in the context of industrial development and economic growth of the country, the MSME sector experiences several constraints and challenges. Several key issues remain to be addressed properly and measures yet to be taken in the interest of sustainable industrial development. The Committee on financial architecture of MSME sector in their Report submitted in the February, 2015 has identified some key issues¹⁶. These include; i) Equity as a source of financing is underutilized and the prevalence of investment by venture capital and angel investors is low, ii) MSMEs face the problem of delayed payments from their buyers which adversely impacts their working capital as well as their next cycle of production, iii) MSMEs lack adequate information about various schemes and benefits available by the government, iv) Financial institutions/Banks face challenges in credit risk assessment of MSMEs, v) The utilization of the available credit guarantee and insurance schemes by banks has been low.

Some of the major challenges confronted by these enterprises include; lack of adequate credit and capital, poor and inadequate infrastructural facilities, inadequate access and marketing linkages, technological obsolescence and inadequate application of new technology, lack of skilled human resources, dilatory and cumbersome regulatory practices for clearance and poor adaptability to emerging international trends. This calls for the need for strategic intervention to improve coordination and linkages between various stake-holders including the Government, industries and other agencies/associations working in this field.

4.1. Lack of Adequate Capital and Credit

One of the greatest challenges which constrain the growth of MSMEs in our country relates to inadequate capital and credit facilities. Easy and timely access to credit is crucial factor to development and growth of enterprises. The Report of the Working Group on Rehabilitation of sick MSMEs by the Reserve Bank of India has identified this situation as a crucial reason for industrial sickness of this sector. Complex collaterals instead by the banks, cumbersome sanction procedures and delay in disbursement and high rate of interest on term loans further worsen the situation.

4.2. Poor and Inadequate Infrastructural Facilities

Deficiencies in the infrastructure and poor support facilities marked by inadequate access to basic facilities like water, power supply, road/rail connectivity etc. adversely affect this sector and contribute to enhance their operational cost by rendering the MSMEs less competitive in the challenging market situations.

4.3. Inadequate Access and Marketing Linkages

Poor marketing linkages characterized by inadequate Government support and patronage, lack of adequate marketing infrastructure/ network facilities continue to be a greater challenge for marketing and sale of MSME products. In a non-cluster situation, these enterprises get segregated and are unable to ensure reduction in procurement cost from big companies and fail to streamline the output-supply chain.

4.4. Lack of Skilled Human Resources

Non-availability of skilled workforce and better managerial/entrepreneurial expertise at affordable cost near the location of enterprises is another such big challenge for the MSMEs in our country. Lack of managerial competence, absence of proper training on resource planning and capital management etc. hinders the growth of enterprises.

4.5. Lack of Access to New Technology

Most of the industries today require application of advanced technology in their operations whereas in the Indian context continuance of low technology base results in low productivity by making these enterprises uncompetitive in the ever-widening market contexts. Apart from enhancing productivity and quality, new technology should be adopted for an overall transformation and competitive edge.

4.6. Dilatory and Cumbersome Regulatory Practices

Cumbersome and dilatory regulatory clearances relating to sanction and disbursement of loans from commercial banks, collateral securities/guarantees, for construction permits, resolving insolvency and taxation etc. continue to be the constraining factors for many MSMEs. Absence of a common regulatory body and inadequate provisions for start-ups affect the growth of such enterprises. Non-adherence to RBI guidelines regarding revival/rehabilitation of sick enterprises by the Banks is another such constraint that needs to be addressed.

5. SUGGESTIONS

Although the performance of the MSME sector has been commendable over the years in terms of employment generation, growth of exports and in bringing about social transformation, a lot more need to be done for their continued growth and sustained development. The issues and constraints that hinder their growth need to be identified and properly addressed. Some suggestions to improve the performance of MSMEs are indicated below;

5.1. easy access to finance and credit

Institutional finance/credit from banks and other financing institutions should be promptly available without long and cumbersome procedures. Sanction of credit / loan applications by public sector banks should be made within a reasonable time frame at affordable and reduced rate of interest.

5.2. stepping up infrastructural and support facilities

Deficiencies in basic infrastructural facilities like water, power supply, road/rail and telephone connectivity, etc. should be addressed on priority basis. Use of solar or renewable energy as an alternative source should be encouraged in rural areas on subsidized basis. A cluster-centric or cluster development approach should be adopted for a number of enterprises working in closer proximity.

5.3. creation of adequate marketing linkages

For enhancing sale of products, regular trade fairs/exhibitions etc. should be conducted for creation of a larger platform for better marketing facilities. The Govt. of India policy regarding 20% mandatory procurement of MSME products by government Departments/ State PSUs should be ensured

5.4. skill development and capacity building

Initiatives should be taken for skill / competency development of human resources. Infrastructural and professional support from Rural Self Employment Training Institutes (RSETI) and suitable training institutes may be obtained for conducting training of entrepreneurs and workers engaged in different activities. Awareness / sensitization programmes and TV/Radio talks should be conducted

5.5. access to modern tools and technology

MSMEs today need to adopt and adhere to quality parameters of international standards in the context of a globalized market. Technological obsolescence should be replaced by adoption of modern and latest tools and technology for increased productivity and quality product for competitive advantage

5.6. policy intervention and support mechanisms

Industry-friendly policies should be initiated by the government for promoting infrastructural support facilities and for easy availability of finance by the scheduled banks. Government and Banks should take steps for revival of sick units as per RBI Guidelines and Credit Guarantee Fund Trust for Micro and Small Enterprises (CGAMSE) Scheme. Sick enterprises should be given one time settlement (OTS) facility by the banks before enforcing measures under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act. Single window system for approval of MSME projects may be streamlined for clearance.

Creation of an apex National MSME Authority under the Ministry of MSME, universal registration and financial inclusion of MSMEs, increase the flow of equity to the MSME sector and steps to enhance effectiveness and utilization of credit guarantee/insurance schemes etc. are some of the recommendations of the Committee on financial architecture of the MSME, 2015.

6. GOVERNMENT INITIATIVES TO SUPPORT THE GROWTH OF MSMEs.

To support and foster MSME, the Ministry of MSME has launched and implemented various schemes offering credit support, new enterprise development, formalisation, technological assistance, infrastructural development, skill development and training, and market assistance to MSMEs through initiatives like:

6.1. Udyam Registration Portal

The government notified composite criteria for classifying an enterprise as micro, small, and medium based on investment and turnover. To ensure conformity to the new criteria and enhance the ease of doing business, the government launched the Udyam Portal to facilitate the permanent registration of MSMEs. There is no registration fee, and an enterprise is issued a digital certificate based on self-declaration. The Udyam certificate enables MSMEs to access several government initiatives such as:

6.2. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

The CGTMSE, operational under the Government of India and the Small Industries Development Bank of India (SIDBI), offers credit guarantees to help MSMEs access bank credit without the hassles of crushing collaterals or third-party guarantees. MSMEs can access collateral-free loans up to INR 5 Cr, with a guaranteed coverage of up to 85% for multiple loan categories under CGTMSE. The scheme has covered over 67 lakh beneficiaries in the first 22 years of its existence and has had a positive impact on six major areas in the MSE sector, viz., technology up gradation, skill degradation, market development, sustainability of the scheme, economic impact, and social impact. During January-November 2023, 12.50 lakh guarantees were approved, amounting to INR 1.46 Lakh Cr.

6.6.1. The Prime Minister Employment Generation Programme (PMEGP)

Established to create employment opportunities for MSMEs in India, the PMEGP provides loans and working capital — INR 25 Lakh for manufacturing and INR 10 Lakh for service sector MSMEs — through bank disbursement.

The scheme is implemented at the national level by the Khadi and Village Industries Commission (KVIC) and at the state and district levels by State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs), and banks. Since its inception in 2008 and until 30 November 2023, over 9.29 Lakh micro-enterprises have been supported across the country with the disbursement of a Margin Money subsidy of INR 34,517 Cr, generating a total estimated employment for around 78.36 Lakh persons.

6.6.2. Raising and Accelerating MSME Performance (RAMP)

Launched in July 2022, under the aegis of the Ministry of MSME, the World Bank-assisted RAMP scheme aims to improve the access of MSMEs to both the global market and credit. RAMP aims to foster the sector by accelerating Centre-State collaboration in MSME promotion and development, Enhancing the effectiveness of existing Ministry of MSME schemes for technology up gradation, Strengthening the Receivable Financing Market for MSMEs, Enhancing the effectiveness of Credit Guarantee Trust for Micro & Small Enterprises (CGTMSE), and promoting guarantee for greening initiatives of MSEs, and women-owned MSEs, and Reducing the incidence of delayed payments to MSEs. An outlay of INR 6000 Cr has been assigned for five years to ensure the implementation. The scheme aims to benefit over 5.5 Lakh MSMEs.

7. MSMEs AS INVESTMENT OPPORTUNITIES

As India steadily approaches the threshold of becoming a \$5 Tn economy by 2026-27, interest in the nation as an investment destination is soaring. The Indian MSME sector is projected to grow to \$1 Tn by 2028.

Its many winning advantages encompass a diverse range of investment opportunities across various industries and supply chain ecosystems, including but not limited to textiles, food processing,

agriculture, and more. Another distinct advantage that MSMEs offer is the opportunity to invest in enterprises beyond metropolitan cities. Investors can capitalise on the potential of the rapidly expanding rural MSMEs catering to an accelerating consumer base, disposable incomes, and a vibrant domestic market.

Moreover, with the relaxation of the FDI policy allowing a 100% FDI inflow under the automatic route for MSMEs and the various tax exemptions and tax holidays that the sector can avail, investments in Indian MSMEs have much to attract astute investors.

8. THE DIGITAL TRANSFORMATION OF MSMES

MSMEs are moving forward with renewed vim and vigour and a decided focus towards innovation and digitisation of operational procedures. Adopting new tools and systems ensures a sharper edge to their global competitiveness. Moreover, schemes like the Digital MSME Scheme, which empowers all MSMEs registered with the Udyam registration portal to adopt Information Communication Technology (ICT) tools and applications in their production and operations, ensure that the transition from traditional processes to digital ones is as seamless as possible. Furthermore, the Ministry of MSMEs has been allocated INR 22,137.95 Cr under the interim Budget 2024-25 for implementing various schemes and technology upgrades.

9. THE ROLE OF MSMEs IN BUILDING A SUSTAINABLE AND INCLUSIVE ECONOMY

MSMEs' role in fostering sustainability and inclusivity in the Indian economy is irrefutable. 20.5% of the MSMEs registered on the Udyam Registration Portal are led by women, accounting for 18.73% of the total employment generated by Udyam-registered MSMEs. While the numbers speak for themselves, to ensure the growth of the sector and the economy remains inclusive, equitable, and sustainable, the Ministry of MSMEs has undertaken various initiatives to foster MSMEs that value these goals. For example, the Credit Guarantee Scheme for Micro & Small Enterprises offers a 10% concession in annual guarantee fees and up to 85% guarantee coverage for female entrepreneurs. Meanwhile, the SAMARTH initiative provides more than 7500 women from rural and sub-urban areas with skill development and market development assistance to encourage female entrepreneurship.

On the other hand, the MSME Sustainable (ZED) Certification Scheme encourages MSMEs to streamline their processes to transition towards sustainability and reduce environmental costs. Furthermore, the scheme offers a 100% subsidy for ZED Certification for Women-owned MSMEs.

10. CONCLUSION

MSMEs and a focus on their growth are critical for the long-term prosperity of India's economy. MSMEs play a crucial role in the GDP growth, industrial production, and job creation in the nation's economy, and the various initiatives and regulatory reforms fostering them are a step in the right direction to ensure that untapped talent, resources, and growth opportunities are brought to the foreground. Undoubtedly, the Government is putting significant effort to uplift the condition of MSMEs, and their status is also improving with time. The MSMEs in India face a tough situation due to extreme competition from large industries due to withdrawal of subsidy, lack of infrastructure, anti-dumping policy, challenges on product standardization, total quality management etc. Though Globalization has increased competitiveness in Indian MSMEs to certain extent, still Indian MSMEs are not adequately prepared to compete with the global players. There has been a definite change in attitude of the Govt. from protection to promotion of the MSMEs.

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