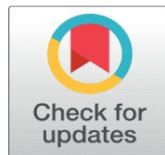
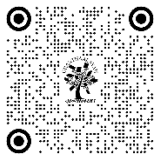


OPPORTUNITIES AND CHALLENGES FOR MICRO, SMALL & MEDIUM ENTERPRISES (MSMES) IN INDIA: A DETAILED STUDY

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DOI

[10.29121/shodhkosh.v5.i6.2024.1989](https://doi.org/10.29121/shodhkosh.v5.i6.2024.1989)

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

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ABSTRACT

Purpose: The purpose of the study is to review the existing opportunities and challenges of MSMEs in India mainly after implementation of GST. MSMEs make up more than 90% of all enterprises in most economies, are the main drivers of job growth, and contribute significantly to both industrial output and exports. MSMEs are essential to the broader industrial growth in India as well. When compared to the industrial sector as a whole, the MSME sector has had more expansion in recent years. Since then, 50% of MSMEs in India are owned by poor communities, it is possible to assess the significance of the MSME sector. MSMEs have contributed praiseworthy role in the conversion of the economy of India is rural economy to an industrialised one. The second largest employer in India is the MSME sector, right behind the agricultural sector. They are extensively spread out around the nation and generate a wide variety of goods and services to satisfy the demands of local, national, and multinational supply chain as well as local and worldwide marketplaces. To grow this industry and increase its competitiveness, the government has offered a number of plans and initiatives. Nevertheless, this industry has been contributing a large portion in India's economy but there are numerous obstacles that make the running of this sector incredibly challenging. The current study makes an effort to pinpoint key opportunities and restrictions for MSMEs in India.

Design/Methodology/Approach: The study mainly includes the review of secondary data collected from various authors, journals, magazines, government's websites and other various unpublished sources.

Findings: The study makes an effort to draw attention to the different government initiatives created to support the MSME sector in India. The study showed that while the government is making every effort to support MSMEs through a variety of measures, there are still many restrictions and challenges that this industry must overcome.

Future Scope of Research: As we all know, the Indian economy is still in its early stages, and the implementation of GST in India is only five years old. Therefore, there are many sectors and areas in the Indian economy that are not fully developed, and the development of these sectors in the near future will create more opportunities and challenges for MSMEs.

Keywords: MSME, Opportunities, GST, Economy, Government Schemes

1. INTRODUCTION

Micro, Small, and Medium-Sized Businesses (MSMEs) have a crucial part in the economic development of a nation. 30% of the GDP are all derived from this industry and employ 110 million people (**Ministry of MSME, Annual Report 20-21**). It is remarkable that during the past ten years, the MSME sector has continued to develop more quickly than the entire industries. The poll shows that these businesses' exports are increasing despite rising raw material costs, weak global demand, and strong international competition. Currently, a vast range of items, from straightforward consumer goods to highly pure, intricate finished goods, are produced in this industry. It has grown to be a significant producer of pharmaceuticals, electronic and electrical equipment, consumer goods, and medications. Economic growth is probably going to be amplified by the sector's pace. The MSMED Act states that MSMEs are identified based on their investments in facilities, machinery, and equipment for service providers.

There are both positive and negative impacts of the Goods & Service Tax (GST) introduction in our country on all industries. The MSMEs must continue to experience sustainable growth of GST in order to support the new indirect tax. Producers, distributors, and consumers are only a few of the several economic players who are concerned about tax sustainability. Tax sustainability can be defined as the way the tax system works and how it interacts with different economic agents to fulfil the needs of a country's present economic growth, such as GDP, without endangering the ability of the country to meet its future needs. The sustainability of GST is concerned with the coordination of tax revenue to spur economic expansion and help a nation become developed. In order to eliminate effects of cascading and unify the India under a one system of taxation, the GST a form of indirect taxation merges the current central and State taxes with the national tax. With the advent of the GST in India, the concept of "One Country, One Market, and One Tax" was expanded.

GST's long-term effects on Micro, Small, and Medium Businesses have changed them. For MSMEs, this investigation will be useful in minimising the negative effects of the government's implementation of the GST.

More than 90% of all business companies and a sizable portion of employment in industrial output and exports, which are credited with raising employment rates, are MSMEs in the majority of economies. MSMEs are a significant part of India's overall industrial economy as well. The industry has shown excellent innovation and adaptation to avoid the recent economic slump and recession thanks to its agility and dynamism.

The MSME sector has gradually gained attention, with the government, other government agencies, businesses, and banks receiving more of the attention. Change dependent on policy. Field investment: The sector now has a wealth of commercial options thanks to globalisation and India's robust economic growth.

New criteria for classification of MSMEs

Much awaited were the modifications to the categorization standards. Although it had been suggested for a while, the government only recently issue the notification on 1st June'2020. The notification shall come into effect from 2020, July, 01.

Investment in Plant & Machinery/equipment and Annual Turnover

Categorization	Manufacturing Enterprises and Enterprises rendering Services (No Distinction)	
	Turnover Limits	Investment in Plant & Machinery
Micro Enterprises	Less than 5 crore	Less than 1 crore
Small Enterprises	Less than 50 crore	Less than 10 crore
Medium Enterprises	Less than 250 crore	Less than 50 crore

(Source: Msme.gov.in)

2. LITERATURE REVIEW

How globalization affected the ability of small businesses to export, and she came to the conclusion that while this effects was significant during the safeguard era, it continued to develop throughout the liberalization era as well, but at a seemingly stationary rate. Hence, the government should keep up its policy of boosting these SSIs' efficiency through the addition of innovation, funding, and marketing assistance. **Subrahmanya Bala (2011)**

The effects of GST after it is put into place, how GST differs from current taxation, and what advantages and difficulties GST will present once it is put into practice. Also, GST will aid in accelerating the nation's total GDP (GDP). Authorities are using GST as a sales tax system as it is now generally recognized on a global scale. **Milandeep Kour (2016)**

This study tried to conduct research on MSMEs in India, which are important economic drivers and contributors to the Indian economy. Owing to its strong labour absorption and low capital-intensiveness, the MSME sector has considerably contributed to the nation's manufacturing production, employment generation, rural industrialization, and exports. The industry creates the second-highest number of jobs, right after agriculture. It is estimated that this industry will support 120 million jobs and account for roughly 46% of India's overall exports. **Rajkumar Salgar (2017)**

On July 1, 2017, The Goods and Services Tax (GST), an indirect tax that was implemented across the country and eliminated a number of cascading levies, was enacted in India. The Goods and Services Tax (GST), an indirect tax that was implemented across the country and eliminated a number of cascading levies, was enacted in India. It is accurate to say that GST represents a "Significant Step Forward into Change" and a "Fantastic Turn for Honesty" in India. A more realistic phrase would be to say that one person "gives birth" to something while another "enriches" it. Long-standing

problems include the need to harmonise the various oblique tax kinds and develop a "one taxation" system. **M. Jayalakshmi & G.Venkateswarlu (2018)**

This study aims to understand the impact of the GST on India's MSME sector. A survey of Indian MSME owners is conducted following a series of qualitative in-person interviews. The paper offers a multifaceted analysis of the differences between the effects of the projected and existing GST systems on MSMEs and the related tax compliance.

Vidit Mohan (2018)

The effects of the GST on India's small, medium, and large businesses. The goal of the GST is to consolidate all indirect taxes under one roof. A single tax known as the Goods and Services Tax (GST) is applied to all supplies of products and services from the producer to the consumer. **Somani (2018)**

This study looks into the effects of the GST and how they would affect the MSME market. Indian economy and additionally, the MSME sector's business dynamics are altered by this tax reform. The MSME sector is a crucial part of our economy and has a substantial impact on our nation's GDP. **Chitra Suraj Ashtekar (2019)**

The survey looks at how satisfied the MSME sector is with India's implementation of the GST. The study looks into how GST affects Indian Micro, Small, and Medium Businesses. **Smt. Usha C (2020)**

According to their analysis, "The majority of business owners have only hazy knowledge of the GST law as a whole and its independent application. A negative perception of GST has resulted from a lack of information". **Pankaj Goel, Sandhya Mehta (2020)**

3. OBJECTIVE OF THE STUDY

- 1) To assess the MSMEs sector's opportunities in India.
- 2) To identify the main issues that the MSMEs industry is facing.

4. RESEARCH METHODOLOGY

Secondary data are used in this research. The secondary data were gathered through action plans, handbooks, and reports, both published and unpublished. Textbooks, journals, magazines, news publications, government gazettes, government reports, the internet, etc. have all been used as well.

5. OPPORTUNITIES FOR MSMEs IN MAJOR SECTORS

The proportion of MSMEs in these growth sectors may rise significantly in light of the anticipated growth trends in the major industries and some areas of opportunity. By serving as a reliable supplier, vendor, and client for big businesses across a range of industries, MSME can act as a solid skeleton for the industry's expansion. As MSMEs expand in the new wave of entrepreneurship, opportunities for women entrepreneurs will be created, and skilled resources will be developed in the following areas of opportunity:

I. Telecommunication:

- Innovative services and content are offered to mobile subscribers by over-the-top (OTT) service providers.
- Production of inexpensive mobile phones, handsets, and gadgets.
- Services focused on providing analytical solutions for mobile customer data.
- Equipment for telecom networking, such as switches and routers, is manufactured domestically.

II. Electronics:

- Semiconductor design, electronic component design, and high-tech manufacturing are all included in the design and production of electronic systems. A "National Electronics Mission," a nodal organisation for the electronics sector, has been proposed in order to provide MSMEs a chance to participate.
- Electronic parts with a focus on producing parts for customised electronic goods for the Indian market.
- Strategic electronics, with the Indian government eager to promote domestic production of goods required by the military services.

III. Healthcare:

- Delivering healthcare at a reasonable cost, especially in rural locations.
- Low-cost medical equipment is available for use in rural locations.
- Medical supplies such as syringes, scrubs, and surgical gloves.

- Low-cost surgical options to lower healthcare costs.

IV. Pharmaceuticals:

- Generics and API manufacturing.
- Nutraceuticals and nutracosmetics.

V. Food and Agriculture:

- Processed foods, prepared foods, premixes, milk and dairy products, baked goods, and processed meat.
- Backend infrastructure, including a farm collection centre and cold chain storage.
- Nutritious foods, drinks, and food additions such vitamin supplements, etc.
- Food packaging, creative food processing packaging.
- Contract production of crop fertilisers and crop protection chemicals.

6. POSSIBLE OPPORTUNITY AREAS OF MSMEs

There are 106 million people employed by approximately 46 million micro, small, and medium-sized businesses across a range of industries. Overall, 45% of Indian manufacturing and 40% of exports are accounted for by the MSME sector. Although the majority of disorganised enterprises (about 94%) are informal and unregistered, the push to register more firms is on the correct track. The MSME sector's GDP contribution ranges from 25 to 60% in several international nations. By 2020, India's MSMEs are anticipated to account for 15% of the country's GDP, up from the present 8%.

• Employment Generating Sector

Our economy used to be focused mostly on agricultural operations. Almost 80% of the jobs were generated by agricultural operations. But, over time, things changed and a disproportionately large amount of MSMEs are now responsible for creating new jobs. MSMEs are now the second largest employer in our nation, and they are to blame for the shift from an agrarian to an industrialised economy.

• Impact of globalisation on MSMEs

After liberalisation, the entire world has evolved into a market. Nowadays, there are less legal requirements for imports and exports. Almost 40% of all exports from our country are made up of MSMEs. If given additional consideration, this share may increase even more in the ensuing years.

• Credit Guarantee Fund Scheme for MSMEs

The bank offers financing facilities to aspiring business owners. Yet, in order to obtain credit from banks, one typically has to deal with issues related to collateral or third party guarantees. In 2000, the Indian government and SIDBI launched the Trust name "Credit Guarantee Fund" after realising this restriction. The Credit Guarantee Fund Trust for Micro Small Businesses is a programme run by this trust. Loans are given to aspiring business owners under this programme without the hassles of pledges or another person assurances. This program's goals are to boost the flow of finance to the small entrepreneur and inspire business owners to realise their aspirations. The main objective is for the leader to put feasibility of the project first and solely use the financed assets as the principal security to secure the credit facility. By way of the Credit Guarantee Plan, the Lender (Bank) is given the assurance that, in the unlikely event that the MSME unit that has been granted mortgage free loans from the Lender defaults on the loan, the trust will cover the lender's liabilities. Depending on the region and gender of the entrepreneur who requested the credit, the trust will cover up to 75% to 85% of the losses.

• Indigenisation

Promote all outputs and investments produced by major players and their MSME suppliers, particularly those that permit indigenization and/or import substitution by adjusting to research and development, innovation, and international technology.

• FDI Policy

The restrictive 24% equity ownership cap for industrial undertakings, whether domestic or foreign, in MSME has been eliminated with the adoption of the MSMED act 2006, and MSME are now purely defined based on investments in the

plant, machines, and equipment. Consequently, the industry asset caps, entry requirements, and other pertinent sectoral regulations are the only restrictions on FDI in MSME under the current policy.

- **Less Capital Intensive**

MSMEs don't need a lot of capital to get started. Micro, Small, and Medium-Sized Businesses depend heavily on the labour force and are labour intensive. It can be launched with little money and handled effectively.

- **Microfinance Programme**

According to the plan, the Indian government contributes money to SIDBI under a "portfolio risk fund (PRF)" that is used to meet the MFIs' and NGOs' security deposit requirements.

- **Infrastructural Development Scheme**

It first debuted in 1994. The initiative encompasses areas that are not covered by the Growth Centres programme. The IID scheme aims to provide developed sites with infrastructural facilities such as a distribution system for electricity, water, communications systems, sewerage, and control of pollution facilities, roadways, financial institutions, materials, storage areas, and commercial, as well as single integrated resources, standby data centres, etc. With a 50% reservation for rural areas and 50% of industrial plots designated for small firms, the plan incorporates both urban and rural areas. As part of the plan, the infrastructure of the current, ageing industrial complexes is to be improved and strengthened. The MSE-CDP has been designed to incorporate all of the IID system's currently in use components.

7. MAJOR ISSUES FACED BY MSMEs IN INDIA

- **Lack of prompt credit**

Perhaps the largest challenge facing MSMEs is this. For MSMEs, finding sufficient and timely credit is a highly challenging issue. Because MSMEs lack transparency, banks and financial institutions typically are a little hesitant to extend credit to them.

- **Limited Capital**

MSMEs typically lack capital. The proprietors lack the resources to put up a sizable complex with powerful machinery. The production process is then impacted by this.

- **Lowest Technological Level**

MSMEs frequently employ antiquated technology techniques, which reduces their efficacy and efficiency. Since the proprietors of the units are typically not extremely qualified, there is a shortage of technical expertise.

- **Low Production Capacity**

MSMEs are tiny businesses with few machines and workers. Because of this, MSMEs confront intense rivalry when it comes to the aspect of output quantity. Their production capacity is also lower than that of large businesses.

- **Credit costs are high**

MSMEs typically don't keep a formal balance sheet, and they operate in an opaque manner. A lender, such as a bank or other financial institution, finds it challenging to assess the credit eligibility of MSMEs. Due to the difficulty in determining MSMEs' ability to repay loans, banks impose an additional fee to cover the additional risk associated with lending to this sector.

- **Lack of Skilled Manpower**

The MSME sector is a labour-intensive sector that depends largely on the skill of its workforce. The majority of the time, the employees are either semi-skilled or unskilled. The calibre of the product being produced is impacted by this. Moreover, MSMEs lack a set procedure for precisely creating the product. Depending on the worker's expertise, it varies.

- **Insufficient Infrastructure and Facilities**

MSMEs lack access to a reliable power source. In reality, they typically only receive power for half a day, leaving them on their own for the rest of the day. Even the road connections between the units are inadequate. Most of the time, water supply does not meet requirements.

- **Collateral Requirements**

Bank offers financing options to beginning small business, but typically they require pledge or some other person assurance. This turns into a difficult task for the aspiring entrepreneur. A beginning businessman finds it incredibly difficult to put together the necessary collateral to obtain a bank loan, which prevents him from opening his own business.

- **Lack of Access to Raw Materials and Other Inputs**

The market does not always have the raw materials, skilled labour force, and other inputs that MSMEs require. Due to the unavailability of these components, it is quite challenging to produce the goods at low costs.

- **Absence of Marketing Channel Distribution**

The creative marketing channels are not being used by MSME's. Comparatively speaking, their sales promotion and advertising are weaker than those of international corporations. A really poor selling is caused by inefficient marketing and advertising.

- **No use of cutting-edge technology**

MSME owners are not familiar with cutting-edge manufacturing techniques. Their manufacturing method is outdated. The owners use conventional methods in the domains of cloth and fabricated metal.

8. CONCLUSION

The MSME industry has slowly expanded to become one of the important economic industry. Its impact on the Indian economy has been steadily growing. Because of this sector's significance to our economy, the government has created a number of programmes and policies for it. Over the past ten years, the Credit Guarantee Scheme has become one of the most well-liked programmes for the MSME sector.

Today, almost all banks approve loans under that programme, and the number of loans continues to grow daily. By offering a variety of programmes expressly created to meet the demands of the MSME sector, Small Industries Development Bank of India (SIDBI) is having a substantial impact on the growth of the MSME sector as a whole. Our economy is industrialising and has been expanding significantly over the past ten years. The MSME segment and small business owners contribute significantly to the GDP of our nation. MSMEs contribute significantly to the Indian economy, and the administration has created several programmes to support this sector. MSMEs require assistance from the government to function. For the developing MSME units, these programmes have created a number of new options.

There is no doubting that the MSME industry is an important factor in the growth of Indian to achieve five trillion economy, but there are still a number of obstacles that must be removed if this sector is to continue to play a larger role in the country's economy. Despite significant government effort, this sector still need significant assistance from banks and financial institutions to address the main issue of timely and sufficient credit requirements.

CONFLICT OF INTERESTS

None

ACKNOWLEDGMENTS

None

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