

13

Chapter

# UNDERSTANDING THE DYNAMICS AND CHALLENGES OF MSMEs IN INDIA

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**DOI:** <https://doi.org/10.52458/9789388996969.nsp2023.eb.ch-13>

**Ch.Id:** [GU/NSP/EB/ESTDCI/2023/Ch-13](https://doi.org/10.52458/9789388996969.nsp2023.eb.ch-13)

## **ABSTRACT**

*MSMEs are a vital pillar of India's economy, regulated by the MSMED Act, 2006, and supervised by the Ministry of MSME. Recent revisions in criteria, effective since July 2020, now consider both turnover and machinery investment to categorize MSMEs. Scarce access to finance, informality among manufacturing MSMEs, technological limitations, insufficient skill development, and fierce competition – both domestically and globally – challenge their growth. Bureaucratic complexities further obstruct progress. This study deals with various challenges and issues and highlighting the pivotal role of MSMEs in India's economic landscape and offering strategies to enhance their resilience and global competitiveness.*

**Keywords:** *Formalization Issues, Technology Access, MSME Challenges, Financial Constraints & Skill Development.*

## **13.1 INTRODUCTION**

MSME (Micro, Small, and Medium Enterprise) are regulated under the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006. MSMEs are managed under the Ministry of MSME.

MSMEs were categorised based on the amount invested in plant and machinery/equipment. With revision of the regulations which is effective from July 2020, annual turnover has added as a criterion. The classification criteria are: (a) Micro Enterprise: Investment in Plant and Machinery or Equipment is less than INR 1 crore and Annual Turnover is less than INR 5 crore; (b) Small Enterprise: Investment in Plant and Machinery or Equipment is less than INR 10 crore and Annual Turnover is less than INR 50 crore; (c) Medium Enterprise: Investment in Plant and Machinery or Equipment is less than INR 50 crore and Annual Turnover is less than INR 250 crore (Das and Joseph, 2010).

## **13.2 CHALLENGES FACED BY MSMEs**

- **Financial Constraints:** This is a significant impediment for the MSME sector. Only 16% of SMEs have timely access to finance, forcing small and medium-sized businesses to rely on their own resources.
- **Lack of Formalization:** Almost 86% of the country's manufacturing MSMEs are unregistered. Only about 1.1 crore of the 6.3 crore MSMEs are registered with the Goods and Services Tax (GST) regime, and the number of income tax filers is even lower. As a result of limited availability and access to data, as well as legacy underwriting methods, the credit requirement of Indian MSMEs' have largely gone unmet (Khan, 2020).

- **Access to Technology:** Majority of MSMEs use outdated technology that prevents them from keeping up with the modern world. Adoption of new technology is difficult and expensive, especially in manufacturing where both physical equipment and software are involved. Lack of access to the IT education contributes to the technological gap. Another significant factor is a **lack of awareness**, which **reduces willingness to invest in advanced technology solutions**.
- **Skill Development:** Skilled employees are critical for business growth. Multinational corporations (MNCs) recognise this and place on-the-job training at the heart of their operations. Unfortunately, small-scale businesses **fail to upskill their workforce**, causing them to suffer unknowingly.
- **Creativity:** Businesses are becoming more **knowledge-based**, and their success and survival are inextricably linked to their **creativity**, and **innovation**. To remain competitive, MSMEs must learn and incorporate the process of innovation into their daily operations. However, they lack the resources and capacity to undertake innovations.
- **Red-Tapism:** MSMEs require various approvals and entrepreneurs are forced to navigate various government departments in the order to obtain construction permits, enforce contracts, pay taxes, start a business, and trade across borders. In addition, regulatory risks and policy uncertainty limit scaling-up of MSMEs (Sharma et. al., 2005).

### **13.3 SKILL DEVELOPMENT PROGRAMMES FOR MSME BY GOVERNMENT**

The government of India through its various administration bodies and institutions provide a platform to develop the skills of the entrepreneurs. There are a number of skill development programs are being organized throughout the years for the youth to become entrepreneurs.

There are various training schemes such as National SC/ST Hub, Coir Vikas Yojna, Mahila Coir Yojna, Capacity building programs etc. are the best platforms. The skill training programs data since 2016 to 2023 are mentioned below chart (Toke and Kalpande, 2020).

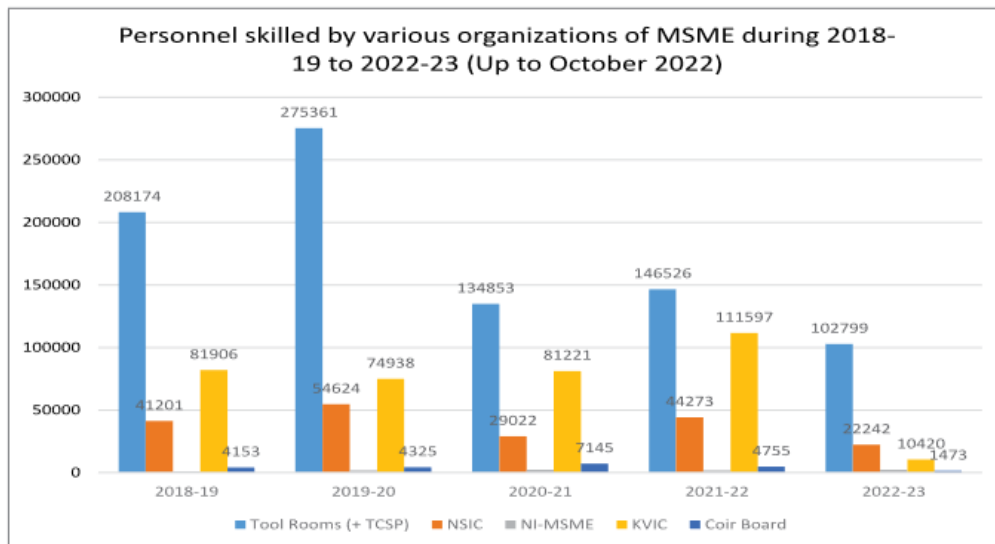


Figure-13.1: Skill Training Programs Data-2016 to 2023

Sources: MSME Annual Report 2022-23, Government of India

### 13.4 URBAN AND RURAL MSME CONTRIBUTION

The percentage share of urban and rural MSME has increased in last few decades and the data for 2022-2023 has shown in the below graph (MSME, 2023).

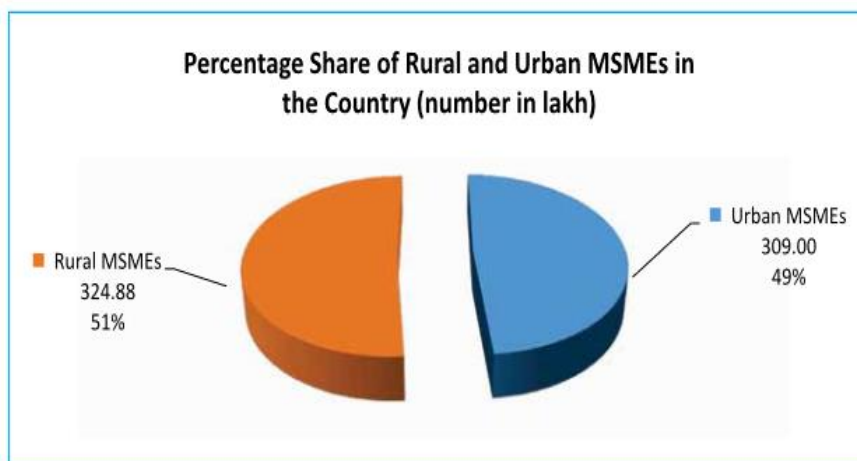


Figure-13.2: Urban and Rural MSME Contribution

Sources: MSME Annual Report 2022-23, Government of India

### 13.5 CATEGORY WISE DISTRIBUTION OF OWNERSHIP OF ENTERPRISES

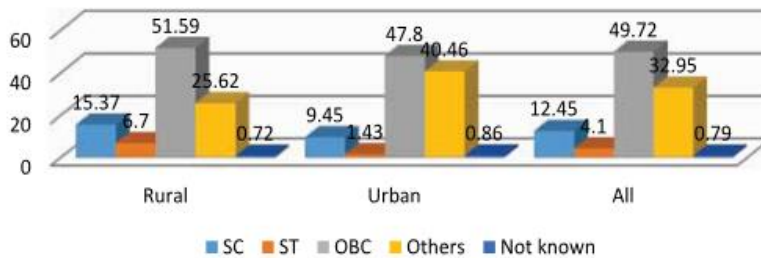
The data for the category wise ownership of enterprises in both rural and urban areas has shown in the below table for year 2022-2023 (MSME, 2023).

**Table-13.1: Category Wise Distribution of ownership of Enterprises**

Sector	SC	ST	OBC	Others	Not known	All
Rural	15.37	6.70	51.59	25.62	0.72	100.00
Urban	9.45	1.43	47.80	40.46	0.86	100.00
All	12.45	4.10	49.72	32.95	0.79	100.00

Sources: MSME Annual Report 2022-23, Government of India

**Percentage Distribution of Enterprises by Social category of owners**



**Figure-13.3: Distribution of Ownership of Enterprises**

Sources: MSME Annual Report 2022-23, Government of India

### 13.6 GENDER WISE OWNERSHIP OF ENTERPRISES

The gender wise (Male/Female) ownership of the enterprises in 2022-2023 annual report is mentioned below. First figure is for the percentage distribution of the enterprises in urban and rural areas for male and female ownership while the below table shows the gender wise ownership of the male female in micro, small and medium enterprises (MSME, 2023).

**Table-13.2: Gender wise ownership of enterprises**

Sector	Male	Female	All
Rural	77.76	22.24	100
Urban	81.58	18.42	100
All	79.63	20.37	100

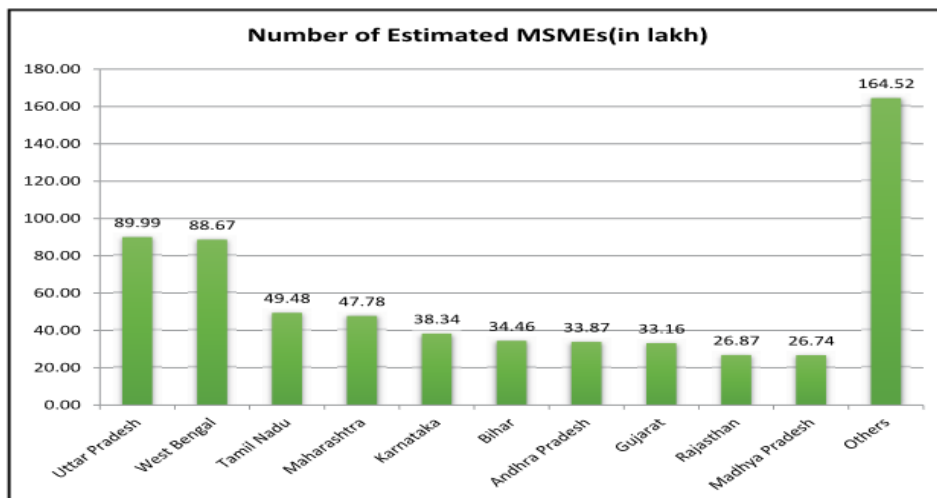
  

Category	Male	Female	All
Micro	79.56	20.44	100
Small	94.74	5.26	100
Medium	97.33	2.67	100
All	79.63	20.37	100

Sources: MSME Annual Report 2022-23, Government of India

### 13.7 STATES WISE DISTRIBUTION OF MSMES

The state wise distribution of MSMEs in India as per the 2022-2023 annual report is mentioned below (MSME, 2023).



**Figure-13.4: States wise distribution of MSMEs**

Sources: MSME Annual Report 2022-23, Government of India

### 13.8 CONCLUSION

This book chapter discussed the current growth and challenges of the Micro, Small, and Medium Enterprises (MSMEs) sector in India. There are various challenges

such as access to technology, lack of formalization, inadequate skills and various other issues has discussed in the form of above-mentioned text.

Furthermore, it has also discussed that the government has initiated to manage or provide the facility by their different institutional bodies to the mass population in last few years to enhance the skills and fulfill the skill gap for the entrepreneurs.

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