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## INDUSTRY OUTLOOK

### MSME INDUSTRY OUTLOOK: GROWTH AND CHALLENGES

01 April 2024

#### Introduction

The MSMEs have fostered equitable economic growth and also played a critical role in creating employment opportunities and significantly contributing to the nation's social development [1][2]. The MSME sector has emerged as a vibrant and dynamic sector of the Indian economy, fostering entrepreneurship, and generating self-employment opportunities at comparatively lower capital cost, next only to agriculture. India has 633.9 lakh million micro, small and medium enterprises (MSMEs), contributing almost a third of the country's GDP. Also, as of August 2023, MSMEs employed 12.36 crore people in India [3]. Similarly, the annual report of the MSME Ministry for FY23, which cites data from the National Sample Survey (NSS) conducted in 2015-16, reveals that there approximately 63 million MSMEs in India. These MSMEs contribute around 30 per cent to India's GDP and over 40 per cent to its exports. Additionally, the survey revealed that the Indian government aims to augment employment in the MSME sector by 5 crore by the year 2025.

A new definition of MSMEs was adopted as part of the Aatmanirbhar Bharat package, which came into effect on May 13, 2020. This came 14 years after the Micro, Small and Medium Enterprises Development (MSMED) Act was passed in 2006.



The purpose of revising the definition was to adopt a more realistic approach in establishing an objective system of classification and to create an ecosystem of ease of doing business in the country (see Figure 1).

**Figure 1: Revised Definition of MSMEs with effective from May 13, 2020**

<b>Manufacturing Enterprises and Enterprises rendering Services</b>		
<b>(Revised classification with effect from July 1, 2020)</b>		
<b>Criteria</b>	Turnover	Investment
<b>Micro</b>	Rs. 5 crore (US\$ 610,000)	Less than Rs. 1 crore (US\$ 120,000)
<b>Small</b>	Rs. 50 crore (US\$ 6.1 million)	More than Rs. 1 crore (US\$ 120,000) but less than Rs. 10 crore (US\$ 1.2 million)
<b>Medium</b>	Rs. 250 crore (US\$ 30.4 million)	More than Rs. 10 crore (US\$ 1.2 million), but less than Rs. 50 crore (US\$ 6.1 million)

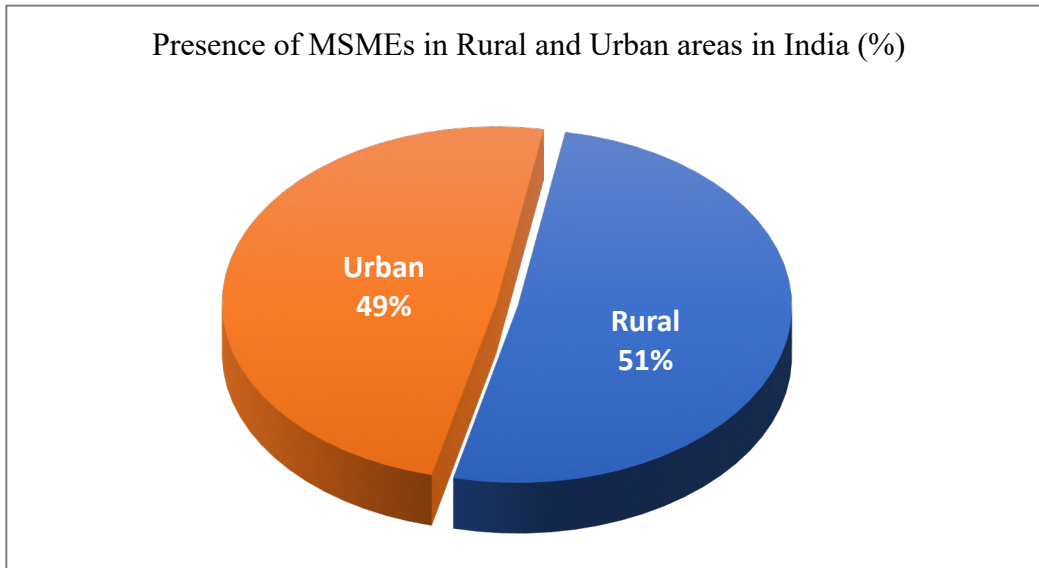
Source: The Ministry of MSME

In terms of employment classification, the number of people hired is a common criterion. In the Indian economy, small businesses emerge as the second-largest employment providers. Micro-enterprises employ fewer than 10 individuals, small businesses have a workforce ranging from 10 to 49 employees, and medium-sized businesses employ 50 to 249 individuals. Large enterprises, however, have a workforce of 250 or more people.

### **MSMEs in India**

There is a total of 633.9 lakh MSMEs in India. In India, over 99 per cent of total MSMEs qualify as micro-enterprises that make up 630.5 lakh enterprises. There are a total of 3.3 lakh businesses that qualify as small businesses, i.e., 0.5 per cent of all MSMEs and just 0.05 lakh qualify as medium businesses that sum of 0.01 per cent of all MSMEs. The rural-urban distribution reveals that 51 per cent of MSMEs, totalling 324.9 lakh enterprises, are located in rural areas, while the remaining 49 per cent, comprising 309 lakh enterprises, are located in urban areas (see Chart 1).

**Chart 1: Rural and Urban Distribution of MSMEs in India**

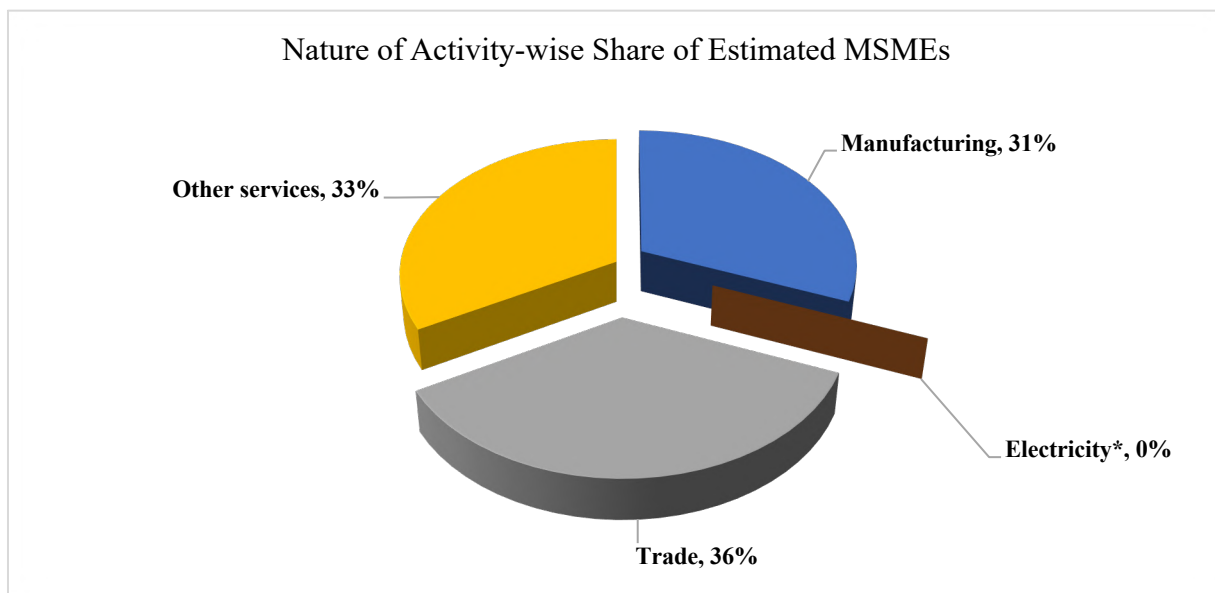


Source: Ministry of MSME, Government of India

**Nature of Activity-wise Share of Estimated MSMEs**

In terms of the nature of activity, manufacturing constitutes a significant share, accounting for 31 per cent of the total, with an estimated 196.65 MSMEs engaged in this sector. Electricity-related enterprises have a relatively low share, contributing just 0.03 per cent, highlighting the minimal presence of MSMEs in the electricity sector. Trade emerges as a prominent category, representing 36 per cent of the total, with an estimated 230.35 MSMEs engaged in trade-related activities. Other services make up 33 per cent of the distribution, with approximately 206.8 MSMEs involved in diverse service-oriented activities (see Chart 2).

**Chart 2: Nature of Activity-wise Share of Estimated MSMEs in India**



\*Non-captive electricity generation and transmission

Source: Annual Report 2022-23, Ministry of MSME



## State-wise Distribution of MSMEs in India

According to a report by CBRE-CREDAI, Maharashtra, Tamil Nadu, and Uttar Pradesh collectively account for approximately 40 per cent of all registered micro, small, and medium enterprises (MSMEs) in India. As of December 2023, government data indicates that there are over 3 crore registered MSMEs in the country (see Table 1).

**Table 1: State-wise Distribution of MSMEs registered under Udyam**

S. No.	State/UT Name	Total Udyam	Micro	Small	Medium
1	ANDHRA PRADESH	715724	693174	20933	1617
2	ARUNACHAL PRADESH	10940	10630	291	19
3	ASSAM	390082	381883	7650	549
4	BIHAR	920733	904975	14953	805
5	CHHATTISGARH	313406	302831	9536	1039
6	GOA	45501	44042	1335	124
7	GUJARAT	1616081	1540720	68398	6963
8	HARYANA	745704	714765	28313	2626
9	HIMACHAL PRADESH	136481	132876	3228	377
10	JHARKHAND	380874	373144	7239	491
11	KARNATAKA	1272320	1232077	36970	3273
12	KERALA	529305	512461	15638	1206
13	MADHYA PRADESH	1060065	1034281	24092	1692
14	MAHARASHTRA	3855479	3758720	86796	9963
15	MANIPUR	59945	59380	541	24
16	MEGHALAYA	17537	17127	368	42
17	MIZORAM	19958	19759	191	8
18	NAGALAND	20137	19929	194	14
19	ODISHA	487423	474853	11747	823
20	PUNJAB	840524	815553	22934	2037
21	RAJASTHAN	1624068	1586547	34910	2611
22	SIKKIM	8915	8752	148	15
23	TAMIL NADU	2251792	2197669	49827	4296
24	TELANGANA	770956	745385	22978	2593
25	TRIPURA	47452	46564	824	64
26	UTTAR PRADESH	2129626	2076520	49302	3804
27	UTTARAKHAND	217133	211523	5202	408
28	WEST BENGAL	891629	860046	28978	2605
29	ANDAMAN AND NICOBAR ISLANDS	11380	11137	233	10
30	CHANDIGARH	35241	33392	1669	180
31	DELHI	554805	517854	33022	3929
32	JAMMU AND KASHMIR	373699	369023	4403	273
33	LADAKH	9685	9576	106	3
34	LAKSHADWEEP	778	778	0	0
35	PUDUCHERRY	33574	32670	823	81
36	THE DADRA AND NAGAR HAVELI AND DAMAN AND DIU	16817	15526	1088	203
	<b>Total</b>	<b>22415769</b>	<b>21766142</b>	<b>594860</b>	<b>54767</b>

Source: MSME Dashboard

Uttar Pradesh is significant among the top three states, accounting for 9 per cent of the national MSME landscape. This achievement is attributed to various policy initiatives, including a 50 per cent interest subsidy for micro units (capped at ₹25 lakh), an annual infrastructure interest subsidy of up to 50 per cent for approved projects with 10 acres or more (capped at ₹2 crore), 100 per cent stamp duty exemption in select regions, and other supportive measures.

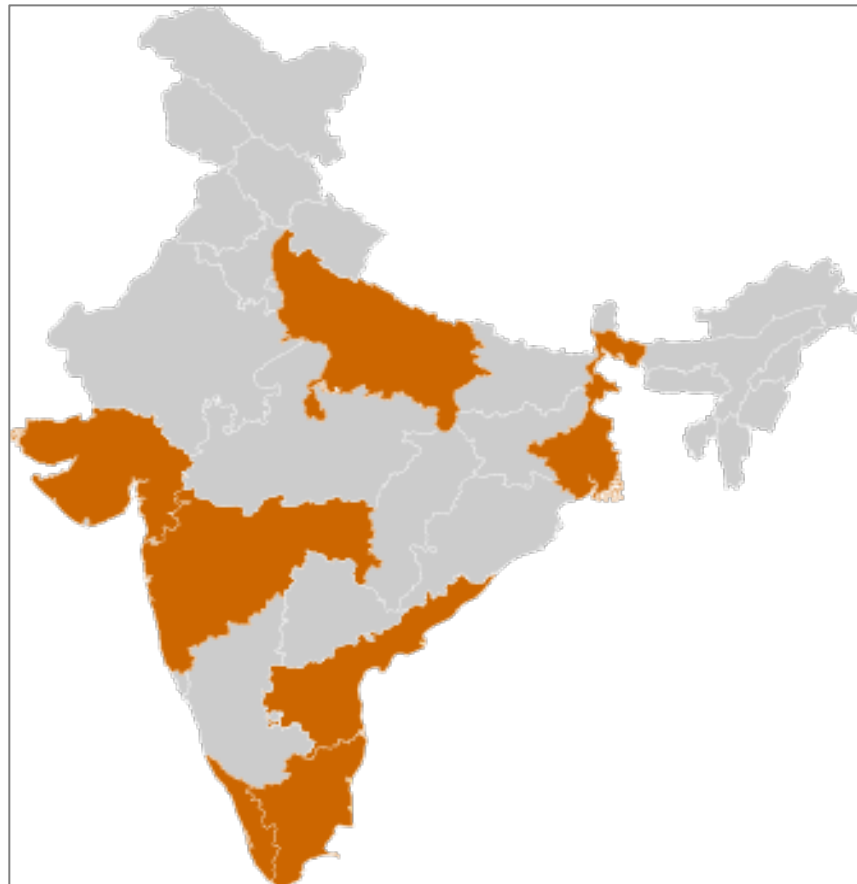
The MSME ecosystem in Uttar Pradesh has witnessed the development of key clusters in cities such as Agra, Kanpur, Varanasi, Lucknow, Meerut, and Ghaziabad, actively participating in the Udyam scheme. In an effort to further encourage MSMEs, the State government has implemented a variety of schemes.

## MSME Clusters in India

Ministry of MSME is implementing Micro and Small Enterprises – Cluster Development Programme (MSE-CDP) across the country. The objective of the scheme is to enhance the productivity and competitiveness of Micro and Small Enterprises (MSEs) for their holistic development adopting cluster approach through financial assistance as Government of India (GoI) grant for establishment of Common Facility Centres (CFCs) in the existing clusters and for establishment of new / up-gradation of existing Industrial Areas / Estates / Flatted Factory Complex.

Major MSME clusters-both historical and induced- in India are located in various states across the country. These clusters have emerged as prominent hubs for MSME growth and development, offering a conducive environment for businesses to thrive (see Figure 2).

**Figure 2: MSME Clusters in India**



Source: IBEF

## Growth and Performance of MSMEs

The MSME Ministry heads five statutory bodies—KVIC, Coir Board, NSIC, NI-MSME and the MGRI. These bodies are responsible for aiding MSMEs with respect to government schemes and policies.

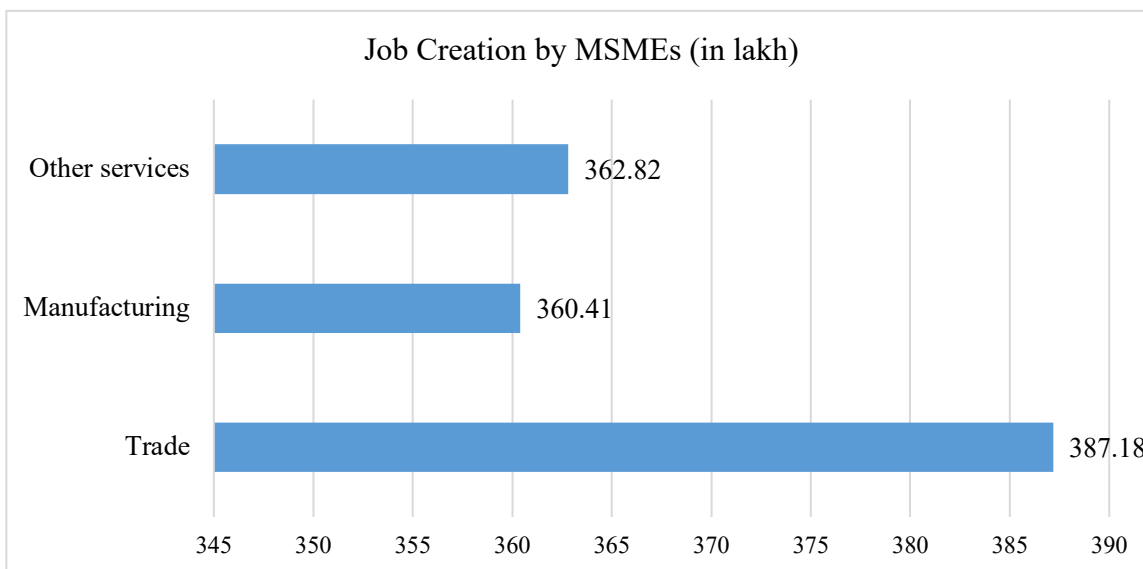
### Job Creation by MSMEs

The role of MSMEs in India is pivotal, as they contribute significantly to employment generation with lower capital costs in comparison to large industries. Also, MSMEs play a key role in the industrialization of rural and backward areas, contributing to the reduction of regional imbalances and the skew in distribution of income and wealth, and bringing about a more equitable distribution of national income and wealth. This underscores the multifaceted impact of MSMEs in fostering economic development and inclusivity across regions.

According to Forbes Advisor, India has witnessed the creation of 7.56 lakh jobs, with 75,000 recognized start-ups. These start-ups are distributed across various sectors, with 12 per cent in Information Technology services, 9 per cent in healthcare and life sciences, 7 per cent in education, 5 per cent in commercial and professional services, and 5 per cent in agriculture. Most importantly, there has been a significant 110 per cent yearly increase in job creation over the past six years. [4]

The MSME sector stands out as the primary contributor to employment generation in the nation, accounting for 360.41 lakh jobs among the total 11.10 crore jobs. These employment opportunities are predominantly concentrated in manufacturing, spanning both rural and urban regions, with 387.18 lakh jobs in trade and 362.82 lakh jobs in various other services nationwide. The MSMEs established in 2022 alone employed over 1 crore individuals (see Chart 3).

**Chart 3: Job Creation by MSMEs**



Source: Ministry of MSME

According to the 73<sup>rd</sup> round of the National Sample Survey (NSS) conducted between 2015 and 2016, the Government of India aims to boost employment in the MSME sector by 5 crore by the year 2025, up from the current level of 11.10 crore. As of December 2022, the most recent data from the Udyam portal indicates that around 1.28 crore registered MSME industries provided jobs for 9.31 crore individuals, including 2.18 crore women employees.

## Skilling for Green Jobs in MSMEs

India is on the path of green energy transition with a target of zero emissions by 2070. There is a need to promote sustainable and green practices in all sectors to achieve these targets. The MSME industry needs to integrate sustainability along with all its area of operations including manufacturing and services. Skilling of the workforce, can empower MSMEs to evolving business needs, and position themselves for sustainable growth and success in the marketplace.

“Skill Council for Green Jobs” (SKCJ) was set up in 2015 to develop competencies /skills in the domains of Renewable energy, Energy Storage, sustainable development and environmental issues to focus on all stages of training design and delivery including, performing skill gap analysis, occupational mapping, development of qualification based on industry requirements and implementing externally sponsored projects.

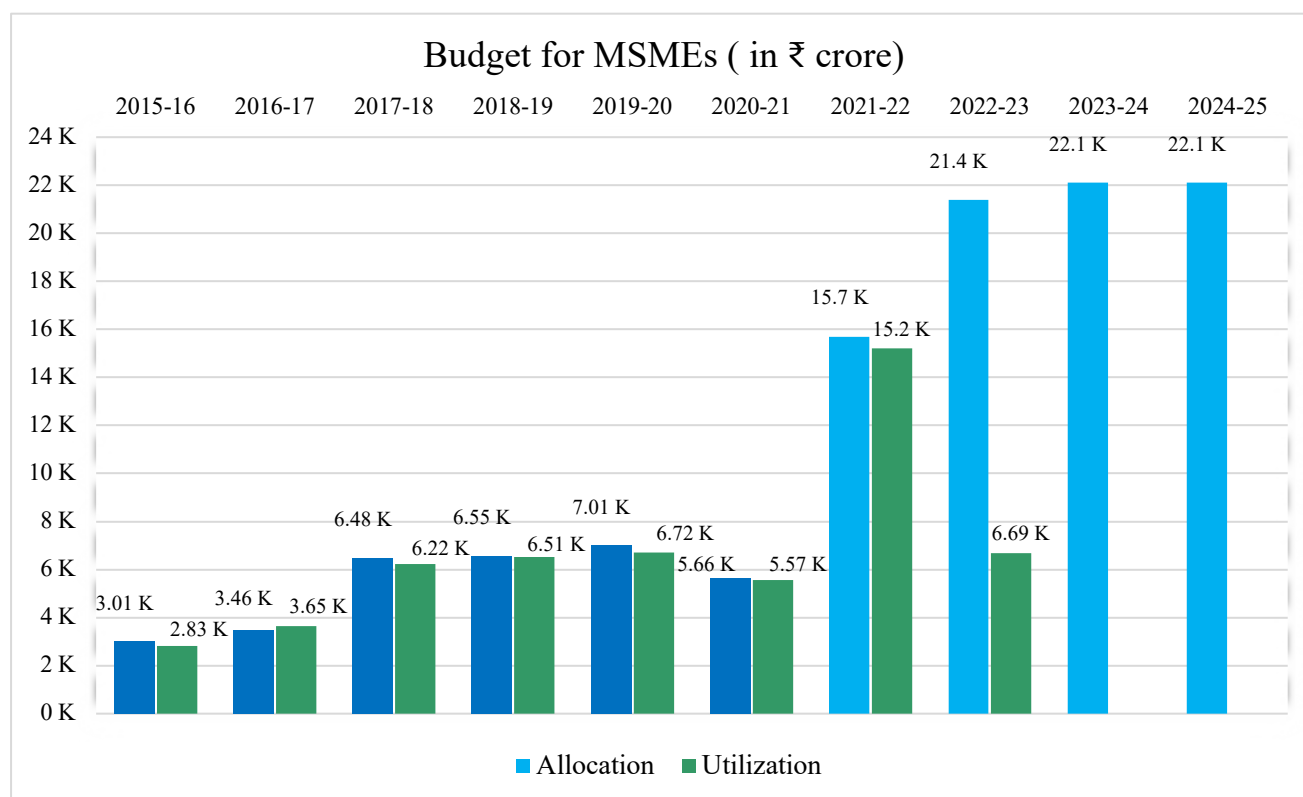
## Institutional Initiatives

The Ministry of MSME, Government of India, dedicatedly facilitates the growth and development of the Khadi, Village, and Coir industries, employing a multifaceted approach encompassing credit support, technological assistance, infrastructure development, skill enhancement, and market assistance. Key organizations operating under the Ministry's umbrella include the Office of Development Commissioner (MSME), Khadi and Village Industries Commission (KVIC), Coir Board, National Small Industries Corporation Ltd. (NSIC), National Institute for Micro, Small and Medium Enterprises (NI-MSME), and Mahatma Gandhi Institute for Rural Industrialization (MGIRI). A robust network of field formations, such as MSME Development and Facilitation Offices (MSME-DFO), Branch MSME-DFOs, MSME Testing Centres, MSME-Testing Stations, and Technology Centres, reinforces the Ministry's commitment to supporting MSMEs across the nation.

In the Union Budget 2023-24, government revamped credit guarantee scheme for MSMEs effective from 1st April 2023 through the infusion of ₹ 9,000 crore (US\$ 1.09 billion) in the corpus. This scheme would enable additional collateral-free guaranteed credit of ₹ 2 lakh crore (US\$ 24.41 billion) and reduce the cost of the credit by about 1 per cent.

In the Union Budget (interim) for 2024-25, no major announcements were made. This year, the Union Budget allocated an amount almost similar to the 2023 Budget for MSMEs [5], wherein the government introduced a host of policies and schemes – Credit Guarantee Trust for MSME revamp, Vivad se Vishwas scheme, and certain tax benefits (increase in threshold limits under presumptive taxation scheme as well as addressing payment issue by allowing tax deduction of expenditure to buyers only on actual payment to MSMEs) (see Chart 4).

**Chart 4: Budget Allocation and Utilisation trend**



Source: MSME Dashboard | India Budget

### ***Disbursement of loan to MSMEs***

Banks lend loans to Micro, Small and Medium Enterprises (MSMEs) across the country. As reported by the Reserve Bank of India (RBI), the credit outstanding to MSME sector by Scheduled Commercial Banks across the country at the end of December 2023 is ₹9.95 lakh crore.[6] Recently, the RBI has released an advisory stressing that banks are mandated not to accept collateral security in case of loans up to ₹10 lakh, extended to units in the MSE sector in the country, including the State of Maharashtra. Banks are also advised to strongly encourage their branch level functionaries to avail the Credit Guarantee Scheme cover.

Rural Infrastructure Development Fund (RIDF) has financed physical infrastructure and also brought about transformative changes in rural livelihoods. Measures taken by the Government for to provide easy credit facilities to MSMEs:

- Prime Minister’s Employment Generation Programme (PMEGP) which is a major credit-linked subsidy programme aimed at generating self-employment.
- Pradhan Mantri Mudra Yojna (PMMY) for providing loans up to ₹10 lakh to the non-corporate, non-farm small/micro enterprises.
- A Central Sector named PM Vishwakarma Scheme with budget outlay of ₹13,000 crore for its implementation during the period of 2023-24 to 2027-28. The scheme envisages to provide end to end holistic support to artisans and craftspeople who work with their hands, using tools, in the 18 trades covered.



- Strengthen credit delivery system and to facilitate the flow of credit to the Micro and Small Enterprise sector without the hassles of collateral and third party guarantee up to a maximum of ₹5 crore through Credit Guarantee Scheme for Micro and Small Enterprises.
- Launch of Udyam Assist Platform on January 11, 2023, to bring Informal Micro Enterprises (IMEs) under the formal ambit of MSME for availing the benefits under Priority Sector Lending.
- Inclusion of Retail and Wholesale traders as MSMEs for the purpose of availing Priority Sector Lending benefits, with effective from September 2, 2021.
- Non-tax benefits extended for 3 years in case of an upward change in status of MSMEs.
- Trade Receivable Discounting System (TReDS) to facilitate the financing of trade receivables of MSMEs from corporate and other buyers including government departments and public-sector undertakings (PSUs) through multiple financiers electronically:
  - ₹ 50,000 crore equity infusion through Self Reliant India (SRI) Fund.
  - ₹ 5 lakh crore Emergency Credit Line Guarantee Scheme (ECLGS), for businesses, including MSMEs was announced during the COVID-19 pandemic to fulfil the credit gap in MSMEs. The scheme was operational till March 31, 2023.

### ***Schemes for the Growth of MSMEs***

The "Vivad se Vishwas I-Relief to MSMEs" scheme was launched in May 2023 by the Department of Expenditure, Ministry of Finance, to provide relief to MSMEs during the COVID-19 period. The programme was announced by Union Finance Minister Ms. Nirmala Sitharaman in the Union Budget 2023-24.

In February 2023, the government announced in the Budget 2023-24 that a unified Skill India Digital Platform will be launched in order to enable demand-based formal skilling, linking with employers including MSMEs, and facilitating access to entrepreneurship schemes.

Currently, out of the total MSMEs in India, only half are registered on Udyam – a platform that creates many opportunities for GST and non-GST registered small businesses to avail of government schemes, production related incentives, and formal channels of credit. A major driver will be to bring the remaining half to register on Udyam, which will act as a catalyst for MSMEs to formalise and reap the benefits.

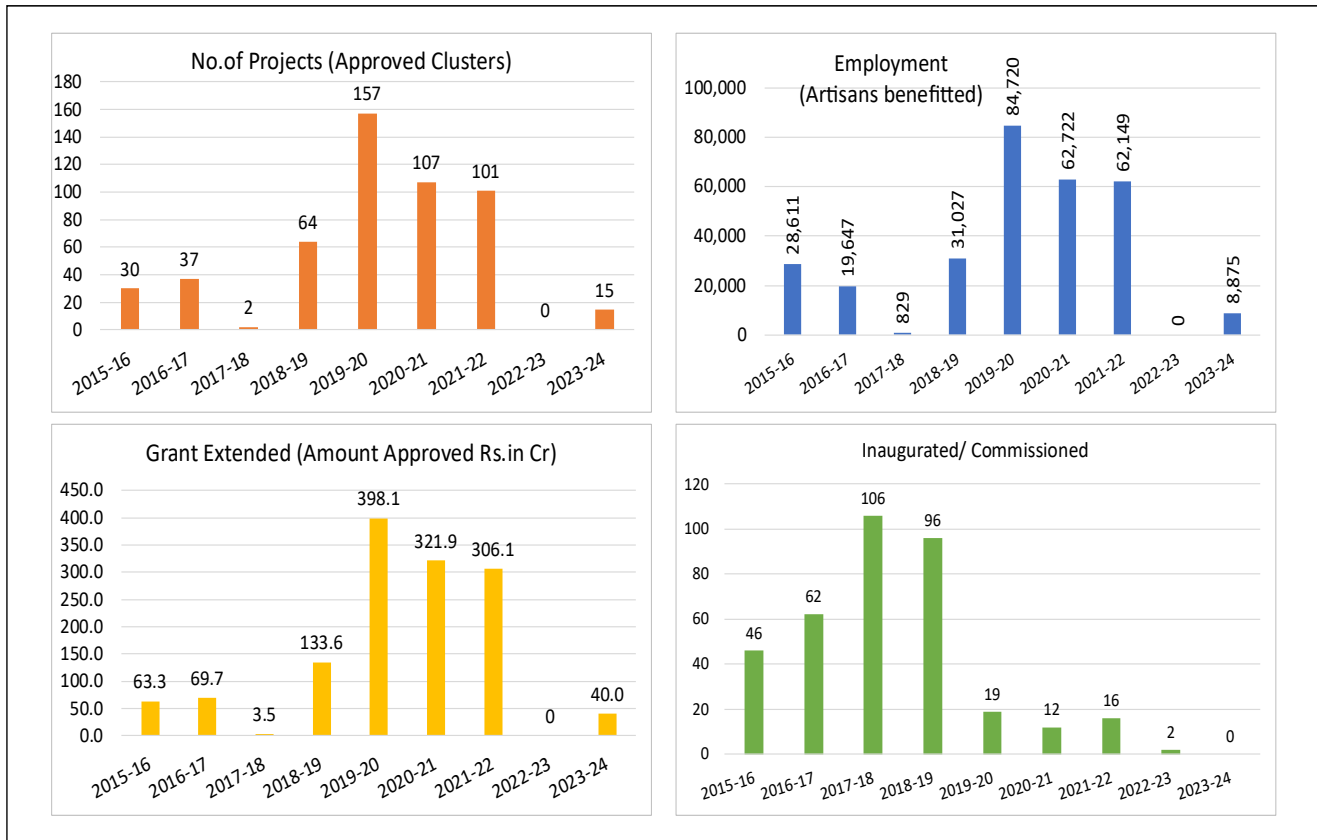
### ***Major Achievements in MSME sector (January 2023 - December 2023):***

- Udyam Registration Acceleration: Udyam registration surged from 1.31 crore (as of December 31, 2022) to an impressive 2.19 crore, reflecting an additional 88.89 lakh registrations between January and December 2023.
- Udyam Assist Platform (UAP) Launch: The MSME Ministry, in collaboration with the Small Industries Development Bank of India (SIDBI), introduced the Udyam Assist Platform (UAP) on January 11, 2023. UAP successfully brought approximately 1.11 crore Informal Micro Enterprises (IMEs) into the formal framework by December 31, 2023.
- PSL Benefits for IMEs: Government notification confirmed that certificates issued on the Udyam Assist Platform to 'Informal Micro Enterprises' are equivalent to Udyam Registration Certificates. Recognition at par with Udyam Registration enabled registered IMEs to access Priority Sector Lending (PSL) benefits, fostering financial support for their growth.

The Ministry's accomplishments during this period showcase its commitment to fostering a conducive environment for MSMEs, promoting formalization, and ensuring access to essential financial benefits. The Udyam Assist Platform, in particular, stands out as a transformative initiative, integrating a substantial number of IMEs into the formal economy and unlocking avenues for their holistic development.

Here is a snapshot of the achievements of MSMEs in delivering its objective so far (see Figure 3)

**Figure 3: Achievements of MSMEs**



Source: MSME Dashboard | Infomeric Economic Research

The Ministry's initiatives and schemes in 2023 reflect a comprehensive approach to the growth and sustainability of the MSME sector. From Udyam registration to the launch of PM Vishwakarma and various support programs, the focus on entrepreneurship, skill development, technology adoption, and sustainable practices underscores the commitment to fostering a vibrant and resilient MSME ecosystem in India. The achievements referred to in this review reveal the tangible impact of these efforts in empowering millions of enterprises and individuals associated with the MSME sector, contributing significantly to the nation's economic development.

### **Digital MSME Scheme**

The Digital MSME scheme continued to propel technological advancement in the sector, with 2.5 lakh MSMEs adopting digital technologies from January to December 2023. The scheme facilitated the integration of digital tools, enhancing operational efficiency and market access for these enterprises.

### ***Incubation and Innovation***

The Ministry, in collaboration with various incubators and innovation centres, supported 50 innovative MSMEs, fostering a culture of entrepreneurship and creativity. These initiatives are aimed at nurturing a conducive environment for innovation, thereby contributing to the overall growth of the MSME sector.

### ***Credit Support and Financial Inclusion***

*Prime Minister's Employment Generation Programme (PMEGP)*: PMEGP continued its impactful support, generating employment opportunities for over 4.5 lakh individuals through the establishment of 47,000 micro-enterprises. The total margin money subsidy disbursed under PMEGP during the year amounted to ₹1,200 crore.

*Credit Linked Capital Subsidy and Technology Upgradation Scheme (CLCS-TUS)*: The CLCS-TUS facilitated technology upgradation in MSMEs, with 2,500 units benefiting from the scheme during the year. This initiative aimed at enhancing the competitiveness of MSMEs by enabling them to adopt modern and efficient technologies.

### ***Export Promotion and Market Access***

The Ministry actively engaged in the Global Trade Exchange Program, facilitating market access for MSMEs in international markets. Bilateral agreements and collaborations were established with key trading partners to promote the export of MSME products and services.

### ***Sustainable Practices and Green Initiatives***

*Green MSME Scheme*: The Green MSME Scheme gained momentum, encouraging sustainable practices among MSMEs. A total of 1,200 MSMEs adopted green technologies and practices, contributing to environmental conservation and resource efficiency.

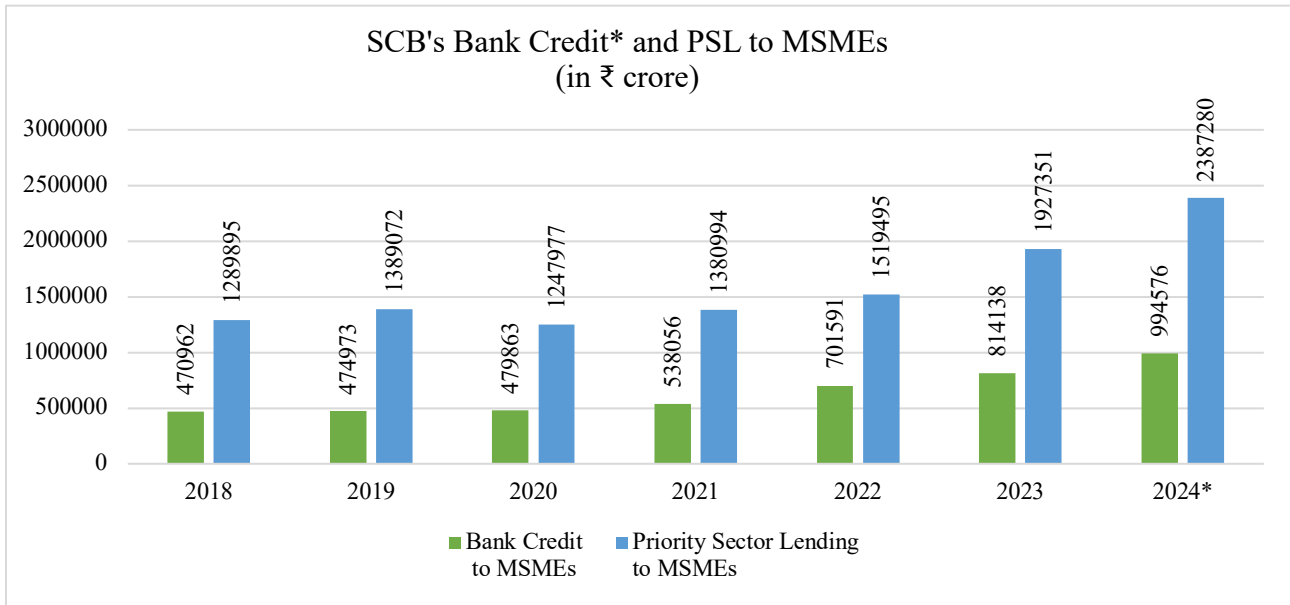
### ***Waste to Wealth Initiative***

The Waste to Wealth initiative witnessed active participation, with 500 MSMEs exploring innovative ways to convert waste into valuable products. This initiative not only promotes sustainable practices but also opens new avenues for revenue generation for MSMEs.

### **Banks' MSME Portfolio**

There is a consistent growth in both Bank Credit and Priority Sector Lending to Micro, Small, and Medium Enterprises (MSMEs) by Scheduled Commercial Banks in India [7]. In January 2018, Bank Credit to MSMEs stood at ₹470,962 crore, while Priority Sector Lending reached ₹1,289,895 crore. Over the years, there has been a steady upward trend, with 2024 showing impressive figures of ₹994,576 crore for Bank Credit and ₹2,387,280 crore for Priority Sector Lending. This reflects a remarkable increase from 2018, indicating the banking sector's heightened focus and commitment to supporting MSMEs. The growth in both categories underscores the vital role of Scheduled Commercial Banks in bolstering the financial strength of MSMEs, contributing significantly to the economic development of the country.

**Chart 5: Trend of SCB's Credit and Priority Sector Lending to MSMEs in India**



\*All data taken for the month of January expect 2024 data which is taken as of end of December 2023

Source: RBI | Infomerics Economic Research

SCBs in India have witnessed an encouraging trend in the quality of their MSME portfolios over the years. The Gross Non-Performing Assets (GNPA) ratio of MSME loans improved, declining to 4.7 per cent in September 2023 from 6.8 per cent in March 2023 and 7.7 per cent in September 2022. This positive trajectory is especially significant considering the 9.3 per cent GNPA ratio in March 2022. Conversely, there was a slight increase in Special Mention Accounts (SMA-2), rising to 1.7 per cent in September 2023 from 0.9 per cent in March 2023, reflecting accounts where borrowers struggled to repay loans for 60 to 90 days.

A sector-wise analysis of NPAs revealed that services and trade, constituting a third of the disbursements under the government's Emergency Credit Line Guarantee Scheme (ECLGS), remained stressed, accounting for nearly half of total delinquencies. Despite the ECLGS expiry, both public and private sector banks increased lending to MSMEs in H1 of FY23, indicating the sector's underlying growth momentum. In Fiscal Year 2022, SCBs' GNPA ratio in MSME loans stood at 7.6 per cent, as against 7.3 per cent in FY21 and 8.9 per cent in FY20. This marked a discernible improvement in the health of the MSME loan portfolio.

### **NSE Emerge**

NSE Emerge, which started in September 2012, is a platform for growing SMEs across India to list its equity on the stock market. NSE Emerge, which is an exclusive platform for growing SMEs to approach capital markets as a new and viable alternative of raising capital in an efficient manner, is regulated by SEBI. There is a separate segment in NSE. It has the same trading terminals as main board and same trading members and merchant bankers as main exchange. So far, 419 companies have been listed on NSE Emerge with a market cap of ₹ 123424 crore. The total capital raised has been ₹8612 crore with an average issue size of ₹ 20.55 crore in 19 sectors and 138 companies have migrated to the Main Board.

## MSMEs and Startups - The Growth Saga

There were several limitations in the legacy procurement system, which hampered the efficiency and productivity of the entire ecosystem. Such limitations related to a clear absence of the standardization of procurement processes, manifest need for manual intervention, lack of regulatory compliance and fragmented demand due to too many portals. There were also issues of huge entry barriers leading to limited supplier base, information asymmetry and unavailability, extremely difficult for the MSE to serve government tenders, and limited online integrations meant cumbersome and time-consuming transactions.

Against this overarching canvas, the government EMarketplace (GeM) was formed in 2016 as a one-stop online procurement portal for all Central and State Ministries, Departments, Bodies & PSUs. Rule 149 of the General Financial Rules (GFRs) was amended, mandating the procurement of Goods and Services from GeM for all the Central Ministries and Departments. Multiple tools, such as, direct purchase, 11, bid / reverse auction, forward auction, etc. were enabled for public procurement with a commitment to the three pillars of efficiency, transparency and inclusiveness in public procurement.

These welcome measures, which are focused on cost savings, time, efficiency reach & inclusiveness and transparency & fairness have led to sustained GMV growth over the years in Gross Merchandise Value (GMV), total orders and MSE order (by volume). For example, GMV zoomed from ₹ 22,989 crore in FY 20 to ₹ 3,12,281 crore in FY 24 (up to February end). Similarly total orders rose from ₹ 21,81,587 crore in FY 20 to ₹ 48,93,23 crore in FY 24 (up to February end) and MSE order (by volume) rose from 42 per cent in FY 20 to 62 per cent in FY 24 (up to February end).

Salient Features of Public Procurement Policy for Micro and Small Enterprises (MSEs) Order, 2018 [8]:

- MSE Procurement Policy Compliance stipulates that every Central Ministry/ Department/ PSUs shall set a minimum annual target of 25 per cent procurement from MSE Sector from 1st April 2015. Also:
- A sub-target of 4 per cent out of 25 per cent target of annual procurement earmarked for procurement from MSEs owned by SC/ST entrepreneurs.
- 3 per cent from within the 25 per cent target shall be earmarked for procurement from MSEs owned by women.
- Tender sets free of cost and exemption from payment of earnest money are available to registered MSMEs.
- MSEs quoting price within price band L-1 + 15 per cent, when L1 is from someone other than MSE, shall be allowed to supply at least 20 per cent of tendered value at L-1 subject to lowering of price by MSEs to L-1.
- 358 items are reserved for exclusive procurement from MSEs.

Norms for Startups and Micro & Small Enterprises in Public procurement on prior experience and prior turnover criteria have also been relaxed.



## Bridging the Divide: Transforming Rural India with Digital Public Infrastructure

Historically, the rural and urban areas in India were characterised by the digital divide. But with concerted efforts made by the government, rural areas are witnessing a transformation driven by technological advancements. This process is being spearheaded by the ambitious BharatNet project, which aims to connect over 250,000-gram panchayats. Farmers can directly sell their produce to buyers across the country through e-NAM, eliminating intermediaries and securing fair prices for their crops. Digital public infrastructure is revolutionizing education and healthcare delivery in rural India. Expansion of banking services through the PMJDY and the adoption of UPI, rural residents now have access to formal financial services. Last-mile connectivity, digital literacy, and affordability need to be addressed to ensure that no one is left behind in the digital revolution [9][10].

### Industry Risks and Challenges

In the MSME industry, the small traditional enterprises encounter significant bottlenecks due to a poor support system and limited exposure, especially in accessing technology and sustaining competitiveness. The foremost obstacle faced by MSMEs is the non-availability of institutional finance on affordable and convenient terms. Also, the MSMEs have to grapple with limitations, such as, the absence of formalized contractual relations and dependence on cash payments. Another crucial drawback is the lack of access to well-researched databases for market intelligence or technology, exacerbating the difficulties for most small-scale enterprises. Addressing this issue requires proactive steps and regular dissemination of such vital information.

*Issue of Financial Assistance:* One of the most pervasive challenges faced by small-scale businesses is the difficulty in obtaining financial assistance, a struggle attributed to factors such as the absence of collateral, cumbersome paperwork, and scepticism regarding loan repayment capabilities. Despite the government's efforts to facilitate easy credit for MSMEs, these hurdles persist.

India's credit market faces a critical challenge with a persistent gap between the demand and supply of credit to Micro, Small, and Medium Enterprises (MSMEs). Given the urgent need to bridge this gap, there is a substantial opportunity for banks and financial institutions to contribute to the financial inclusion movement in the country. Avendus Capital's recent thought paper on MSME lending revealed a staggering credit gap of \$530 billion in the sector. Despite over 64 million MSMEs in India, only 14 per cent currently have access to credit. The overall finance demand by MSMEs is approximately US\$1,955 billion, with a 3.8x debt-to-equity ratio, and the demand for debt-based finance is about US\$1,544 billion. It is estimated that 47 per cent of this debt demand is deemed un-addressable, leaving a remaining debt demand of US\$819 million, of which only US\$289 billion is currently fulfilled by formal credit lenders like private banks, public banks, and non-banking financial companies (NBFCs) [11][12][13].

*Limited Access to Technology:* In India, a significant portion of MSMEs operates using outdated technology, hindering their ability to be abreast of the modern world, despite the country possessing the third-largest pool of technologically trained manpower. Adopting new technology and training employees in technological advancements prove challenging and costly, particularly for manufacturing businesses dealing not only with software but also production units. The technological gap is partly attributed to limited access to IT education, but the primary factor is a lack of awareness, diminishing the willingness to invest in advanced tech solutions.

*Lack of Innovation:* The business landscape is evolving rapidly, emphasizing the increasing role of creativity and innovation for survival. As businesses transition to knowledge-based entities, success and survival are directly linked to creativity, innovation, discovery, and inventiveness. MSMEs must integrate innovation into their daily operations to remain competitive in this dynamic environment.

**Low Participation in Export via E-commerce:** In India, the participation of MSMEs in exports is limited, with less than 1 percent engaging in this activity. This is primarily due to the fact that Micro enterprises make up 99 per cent of the MSMEs registered on the Udyam portal. These small-scale enterprises encounter significant challenges in exporting their products through traditional channels, making the process both burdensome and impractical. But the emergence of the E-commerce route offers a promising opportunity for millions of these enterprises to participate in and benefit from the global market.s

## Conclusion

The MSME sector in India is a dynamic force driving economic growth and fostering entrepreneurship, contributing almost a third of the country's GDP and half of its exports. With a staggering 633.9 lakh MSMEs, evenly distributed between rural and urban areas, the sector plays a pivotal role in job creation, employing 12.36 crore individuals as of August 2023. The revised MSME definition, effective from May 13, 2020, is aimed at a more realistic classification, aligning with the Aatmanirbhar Bharat package's objective of ease of doing business. State-wise, Maharashtra, Tamil Nadu, and Uttar Pradesh collectively account for 40 per cent of registered MSMEs.

The MSME sector possesses the talent and willingness for risk-taking, potentially contributing significantly to enhancing India's capabilities in critical sectors such as semiconductors, space technology, defence, and medical equipment. It was initially anticipated that the Government, in its February 2024 interim Union Budget, would expedite expenditures directed towards creating and enhancing digital public goods, with a specific focus on domains such as healthcare, education, agriculture, and MSMEs. It is now anticipated that the full budget, slated to be presented in July after the general election, will address these issues.

Despite the sector's robust growth and resilience, challenges such as the credit gap, limited access to technology, and low innovation persist. The government's initiatives, including credit schemes, Udyam registration, and skill development, are commendable, but addressing these challenges will be crucial for the sustained qualitative growth of the MSME sector in India in both quantitative and qualitative terms.

Given the ubiquitous technological modernisation, automation and digital transformation, MSMEs increasingly need to adopt technologies like artificial intelligence, blockchain, and the Internet of Things (IoT) to enhance efficiency, become more competitive and go to scale in this world of intensified competition and increased business complexities [14][15][16]. Towards this end, there has to be an accent on e-commerce and more sustainable practices, greater market access, quality management [17], building strong networks and partnerships with established players.

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