ASSOCHAM
Ideate · Innovate · Impact

EGROW
Foundation for Economic Growth and Welfare

MSMEs Facing Challenges in Doing Business

November 2024

CONTENTS

TABLES

FIGURES

ANNEXURES

Annexure 1: Detailed Research based rigorous study on Viksit Bharat

Annexure 2:Existing Government Schemes for MSME

Annexure 3:MSME Approval Requirements Across Ministries and Departments

Annexure 4: MSME Registration and renewals requirement across Ministries and Departments

FOREWORD

SANJAY NAYAR
President
ASSOCHAM

As India positions itself to realize the vision of Viksit Bharat, it is essential to sustain the momentum of reforms and continue pursuing regulatory simplifications and investment-friendly policies. These steps will ensure that the country attracts both domestic and foreign capital, fostering an ecosystem of growth, competitiveness, and global leadership. The structural changes have strengthened institutions and created fiscal space for massive investments in infrastructure, turning India into a dynamic nation, with roads, ports, and industrial corridors brimming with activity.

One of the key drivers of this progress is the Micro, Small, and Medium Enterprise (MSME) sector, which has emerged as a cornerstone of India's economic framework. Representing nearly one-third of the GDP and employing over 21 crore people across approximately 8 crore MSMEs, this sector ensures that economic growth remains inclusive and sustainable. Yet, despite its immense contribution, MSMEs continue to grapple with challenges, particularly in accessing finance. Credit availability remains a pressing issue, constraining the sector's potential to grow and scale.

As India continues to add 10 million new members to its workforce annually, the role of MSMEs in generating jobs and driving productivity becomes increasingly significant. The sector's ability to promote entrepreneurship and boost exports is vital for India's ambition of becoming a $5 trillion economy and achieving Viksit Bharat by 2047. To unlock the sector's full potential, it is crucial to implement policy interventions that ease access to finance, create a supportive business environment, and reduce regulatory burdens, paving the way for sustained and inclusive growth.

The persistence of challenges faced by MSMEs in India requires a comprehensive and in-depth examination to understand the core issues and to develop effective solutions. It is with this objective in mind that ASSOCHAM, in collaboration with E-Grow Foundation undertook a study to identify and analyze the critical obstacles hindering the growth and sustainability of MSMEs in the country.

In addition to identifying existing problems, the study also proposes innovative and forward-looking recommendations. These suggestions are designed to address key areas such as financial inclusion, income inequality, and regional economic disparities. Furthermore, the study emphasizes the importance of stronger academic-industry engagement to enhance the MSME sector's growth potential. It is hoped that these recommendations will serve as a valuable resource for government departments, helping them to make informed, strategic decisions for policy formulation and implementation.

The data for this study was gathered through a nationwide survey conducted in collaboration with EGROW in August 2024, followed by a series of detailed interviews with members of various state units of ASSOCHAM. These interactions provided valuable insights into the region-specific challenges faced by MSMEs, particularly concerning their unique products and market dynamics. This combination of quantitative and qualitative research enables a thorough understanding of the multifaceted issues at hand.

We hope that this study provides a useful tool for policy makers in India while drawing up the roadmap towards a Viksit Bharat.

FOREWORD

DEEPAK SOOD
Secretary General
ASSOCHAM

As India embarks on its ambitious journey toward becoming a 'Viksit Bharat' by 2047, the role of micro, small, and medium enterprises (MSMEs) cannot be overstated. Positioned as the backbone of our economy, MSMEs are not just participants in the economic landscape—they are the catalysts that will drive us to achieve our national aspirations. With a current GDP of approximately USD 3.7-3.8 trillion, realizing the vision of a developed nation necessitates a remarkable nine to tenfold increase. This monumental task places MSMEs at the forefront of our economic strategy.

The importance of MSMEs extends far beyond their substantial contributions to Gross Value Added (GVA), manufacturing, and merchandise exports. These enterprises embody the spirit of inclusive growth, providing livelihoods and opportunities across diverse sectors and regions. With their combined share in the economy standing at around 30% of GVA and over 36% in manufacturing, MSMEs have the potential to transform not only our GDP but also the very fabric of our society.

To harness this potential, we must prioritize timely access to financing and relevant technology. Our young, skilled workforce is a tremendous asset, poised to unlock innovation and productivity within MSMEs. However, to compete on a global stage, we must address the cost of doing business, creating an environment where MSMEs can thrive and integrate seamlessly into the global value chain. In Viksit Bharat, MSMEs will have to be efficient and productive to create and sustain employment, growth and exports. This will also strengthen the start-up culture and make-in-India initiative of the government.

In this context, the comprehensive report prepared by ASSOCHAM and EGROW offers a timely and essential examination of the current landscape of MSMEs in India. It identifies key challenges and provides innovative recommendations that align with our vision for sustainable economic growth. The insights within this report will be instrumental in shaping policies that foster an ecosystem where MSMEs can flourish—encouraging employment, investment, and entrepreneurship.

As we look to the future, let us remember that the success of our mission hinges on empowering MSMEs. By nurturing this vital sector, we can pave the way for balanced regional development, financial inclusion, and a more equitable society.

I extend my heartfelt gratitude to our knowledge Partner for their invaluable contributions to this endeavor. Together, we can build a resilient and prosperous India for generations to come.

FOREWORD

CHARAN SINGH
CEO
EGROW Foundation

Micro, Small, and Medium Enterprises (MSMEs) are vital contributors to global economy, impacting employment, innovation, GDP, and exports, regardless of a country's development stage. Their resilience is evident despite fluctuating economic conditions, driven by their flexibility, low investment requirements, and accessibility for diverse entrepreneurial groups. MSMEs effectively absorb both skilled and unskilled labour, promoting equitable income distribution, which has garnered attention from policymakers worldwide.

India is at the cusp of becoming a developed economy in the next two decades. The country is in the Amrit kaal preparing to reap the benefits of its demographic dividend, with millions joining the workforce annually. Recognizing the importance of MSMEs, the government's focus on creating a supportive ecosystem is timely. Policies aimed at easing business operations, improving access to finance, and fostering innovation are crucial for success of MSMEs. Recent initiatives like Start-up India and Make in India have fostered entrepreneurship in our country. With over 1,40,000 recognized start-ups, including many unicorns, the potential for further growth is significant.

MSMEs face persistent challenges, including financing difficulties, regulatory compliance, and a lack of awareness about government schemes. To compete globally, MSMEs must enhance efficiency and productivity, necessitating coordinated support from government and financial institutions. This study identifies these issues and proposes actionable recommendations to create a supportive ecosystem. A multifaceted policy approach is necessary, recognizing the vast and varied MSME landscape in India. Strategies should include region-specific incentives and a cooperative federalism model to encourage overall growth.

In a globalized economy, reducing business costs is crucial for integrating MSMEs into global value chains. Both central and state governments, along with financial institutions, must work together to enhance MSME efficiency and productivity, aligning with India's goal of Viksit Bharat by 2047.

I would like to thank ASSOCHAM for initiating this research on MSME. Prof. Shalini Singh Sharma, the principal author, and her co-authors, Prof. M.H. Bala Subrahmanya (Indian Institute of Science, Bangalore) and Prof. Surender Kumar (Delhi School of Economics) deserve special recognition for their dedication and insights. Dr. Ashok Vishandass and Dr. Rattan Chand founding Directors, EGROW Foundation provided invaluable guidance in preparing and finalising this study. Vivek Verma, Rajnish Yadav, and Manvi Singh, contributed to data collection and analysis. Finally, I thank all stakeholders and participants in numerous ASSOCHAM meetings and interactions for their contributions and support.

This report, based on extensive research, offers insights and actionable recommendations to address key challenges to enhance MSME competitiveness. We hope this report serves as a valuable resource for policy makers, industry stakeholders, and entrepreneurs, in guiding efforts to build a robust and resilient MSME sector for Viksit Bharat.

EXECUTIVE SUMMARY

MSMEs form the backbone of the Indian economy, contributing significantly to employment, exports, and overall economic development. However, despite their importance, these enterprises encounter a range of hurdles that hinder their growth and sustainability. The primary aim of this report is to explore these challenges and offer actionable recommendations for addressing them. Through extensive surveys and interviews conducted by ASSOCHAM and EGROW, we have identified several key issues that impact MSMEs at both national and state levels.

The challenges confronting MSMEs can be broadly categorized into the following areas: operational issues, financial constraints, labour-related problems, tax compliance, and market access (both input and output). These challenges not only increase the cost of doing business but also create significant hurdles for resource-constrained MSMEs.

While many challenges are common across MSMEs nationwide, there are also state-specific issues that further complicate the business environment for these enterprises. Addressing the challenges faced by MSMEs requires the creation of a conducive ecosystem that fosters growth, innovation, and competitiveness. However, this is a herculean task given the heterogeneous nature of MSMEs in India. MSMEs range from micro-enterprises to technologically advanced small and medium businesses, each with its own set of needs and challenges. Moreover, these enterprises are scattered across the country, making it difficult to implement uniform policies that address the unique challenges of each region.

One of the major barriers to creating a conducive ecosystem is the lack of coordination between the Central Government and state governments. This disconnect leads to inconsistent implementation of schemes and programs, which ultimately hampers the effectiveness of government initiatives designed to support MSMEs. Furthermore, there is a lack of awareness among MSME owners about the various schemes available to them. As a result, many MSMEs fail to access the resources they need to grow and develop.

The Report also proposes overarching recommendations aimed at creating a conducive environment that fosters long-term sustainability and growth for MSMEs. The objective of the study is to ensure efficient, productive and cost-effective MSMEs that can compete successfully in the world and get integrated into the global value chain.

CHAPTER 1: INTRODUCTION

India is adding about ten million people in the workforce annually. To reap the benefits of demographic dividend which is expected to continue for the next two decades, the role of MSMEs is becoming very significant. In India, there are nearly 8 crore MSMEs providing employment to nearly 21 crore people. The need to engage an increasing workforce implies more opportunities for self-employment as well as an increasing number of MSMEs, to achieve higher output, and attain status of Viksit Bharat by 2047. Given that large industries, to stay competitive, would vigorously pursue automation, artificial intelligence, and machine learning, the burden of job creation and absorption of an increasing labour force can only be performed by MSMEs. Thus, the focus of the government on MSMEs at this juncture of economic growth is justified.

The bulk of the enterprises, 97.5 percent, are in the micro sector (where the annual turnover is less than Rs. 5 crore) providing opportunities to a large segment of the society across the country. Thus, the key characteristic of MSME's is that it supports sustainable balanced growth in both urban and rural areas, and predominantly offers opportunities to socially backward groups. It also encourages female entrepreneurs, especially in the micro segment. MSMEs are already a cornerstone of India's economy, contributing nearly 30 percent of GDP, 45 percent of manufacturing output and 46 percent of exports in fiscal year 2024.

In view of the significance of the sector, since 1948, successive governments have been making intense efforts to encourage MSMEs. India has a long-standing policy since independence; initially, the office of development commissioner for MSMEs was set up in 1954 and subsequently the Ministry of MSME (with the promulgation of MSMED Act 2006). The Small Industries Development Bank of India (SIDBI) was established in 1990 to serve as an apex body for promotion, financing and development of the MSMEs. Government is actively taking steps to remove bottlenecks and create new rules and structures for the growth of the sector. In recent years the government has introduced significant changes in the MSME sector. The definition of MSMEs has been revised in 2020 and the focus of the government is to ensure ease while reducing the cost of doing business.

India's central and state governments have continuously updated laws to support the MSME sector. The MSME Development Act of 2006 enhanced this support by providing financial assistance and improving access to technology. Post-2020, initiatives like the Udyam Portal, Entrepreneurship and Skill Development Programme, and PM Vishwakarma Yojana have further strengthened the sector. Every state has made significant contributions, implementing diverse programs to foster MSME growth. This collective effort stimulates regional economic development and propels India's overall progress.

The Start-up India and Make in India initiatives are two key government programs aimed at fostering entrepreneurship and economic growth in India. Launched in 2016, Start-up India seeks to create a favorable environment for start-ups by offering tax benefits, simplified compliance procedures, and access to funding. This initiative has contributed significantly to the flourishing startup ecosystem in India, propelling the country to become the third-largest start-up ecosystem globally. In parallel, the Make in India initiative, launched in 2014, focuses on promoting domestic manufacturing and attracting foreign investment. By stimulating job creation and boosting the economy, make in India has played a vital role in supporting the growth of start-ups and MSMEs.

Over the years, various laws have been enacted to support MSMEs, reflecting the sector's heterogeneity. Each state in India has its own distinct products and a diverse array of MSMEs, encompassing both manufacturing and service-based businesses. With more than 6,000 products being produced, including regional specialties like agro-processing and high-tech items, analyzing MSMEs necessitates a sector-by-sector and state-by-state approach. Recommendations for policy implementation should follow this structured pattern to ensure effectiveness and address the unique needs of each region and sector.

In India, the MSME sector is a thriving and dynamic component of the economy, promoting entrepreneurship and self-employment opportunities with a relatively low capital investment, second only to agriculture. Despite the government efforts, MSMEs face a multitude of challenges that hinder their growth potential. These hurdles include securing financing, navigating complex input and output markets, complying with labour laws and managing human resources, grappling with limited knowledge of accounting practices and tax laws, and dealing with the burden of maintaining financial records. While both the government and the RBI are making efforts to address these issues, MSMEs often struggle to overcome them.

There has been persistence in financing problem of MSMEs, especially at an early stage. There has also been a problem of lack of awareness of Government schemes. It is apparent that for India to achieve its $5 trillion economy goal in near future or Viksit Bharat in 2047, MSMEs will need to play a much larger role in production and job creation. However, to empower this crucial sector, addressing these persistent challenges remains a key priority.

The increasing challenges add cost to the vulnerable MSMEs, leading to high attrition as well as high mortality. In view of increasing competition from well-established countries like China and Germany, recent entry of more countries like Bangladesh and Vietnam, necessitate consideration by governments and financial institutions as to the type of support required for MSMEs to be competitive. In view of increasing globalisation and global value chains, MSMEs in India will need to be efficient and productive to meet global competition.

OBJECTIVES

In view of the persistency in the hallenges, there is a need for examining the issues in detail. The objectives of the study are-

1. Identify and analyze the key challenges faced by MSMEs in India.
2. Recommend actionable policy changes for a conducive environment for MSMEs.

METHODOLOGY

The data for the study has been generated through the pan India survey conducted in collabouration with ASSOCHAM in August 2024. This was followed by extensive interviews with members of different state units of ASSOCHAM, for a detailed analysis of challenges faced in their regions and for their specific products. The EGROW Team also interacted with trade associations in Jalandhar (hand tools), Ludhiana (cycle parts) and Mohali (industry).

CHAPTER SCHEME

The study is organized in six chapters. The next Chapter presents a discussion on

Viksit Bharat and the 2047 vision, followed by country experiences. Chapter 4 is focused on specific recommendations forunlocking potential within the existing MSME sector. In chapter 5, the out-of-the-box recommendations aim to create an eco-system for the medium and long-term that would be conducive for the MSMEs to face global competition and integrate with the global value chain in pursuit of Viksit Bharat. Finally, the document presents a brief conclusion and the way forward.

CHAPTER 2: VIKSIT BHARAT AND THE 2047 VISION[1]

"Viksit Bharat," or "Developed India," represents the Indian government's ambitious vision to transform the nation into a developed country by 2047, the centenary of its independence. This vision encompasses various goals, including economic prosperity, social progress, and environmental sustainability. Achieving these targets requires a multi-faceted approach, recognizing the essential contributions of diverse sectors to India's transformation. India's "Viksit Bharat" vision presents significant opportunities for businesses looking to capitalize on the country's ambitious growth plans. The structural shift in India's economy from agriculture to manufacturing and services is particularly noteworthy for businesses. By 2047, these sectors (manufacturing and services) are projected to employ 67.0 percent of the workforce and contribute over three-quarters of the GDP. This transition indicates growing opportunities in manufacturing and services, especially those focused on exports and high-technology products.

To achieve its ambitious goals, India needs to substantially increase its gross fixed capital investment. This presents considerable opportunities for both domestic and foreign investors. The government's focus on attracting foreign direct investment (FDI) suggests a likely continuation of business-friendly policies and potential incentives for foreign companies entering or expanding in the Indian market.

PROJECTIONS FOR VIKSIT BHARAT

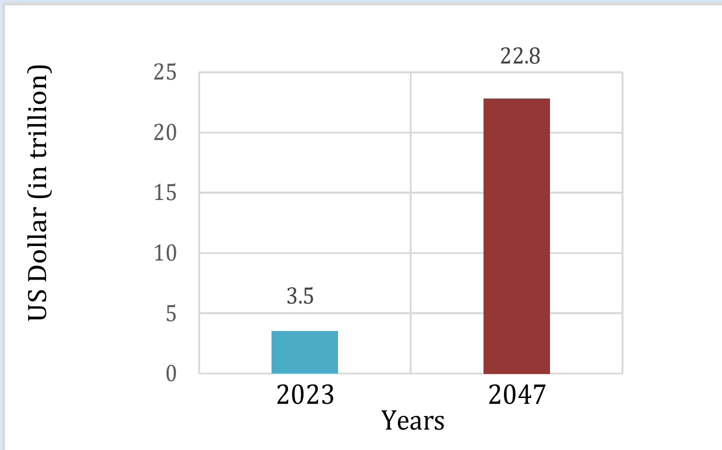
The emphasis on developing and formalizing MSMEs is another key area of interest for businesses. MSMEs currently account for 30.0 percent of GDP and 45.0 percent of exports, indicating their crucial role in the economy. The government's focus on addressing challenges related to informal sector, suffering from low productivity, could create opportunities for businesses offering solutions in areas such as technology adoption, financial services, and skill development.

India's nominal GDP is projected to grow at a steady pace of 7.5 percent, with the projection for 2047 highlighted in Figure-1. This forecast underscores the anticipated economic expansion and

[1]Detailed Research based rigorous study with assumptions on Viksit Bharat is placed in Annexure 4.

development in different sectors over the coming years, with nominal GDP expected to grow from US$3.5 trillion to US$22.8 trillion.

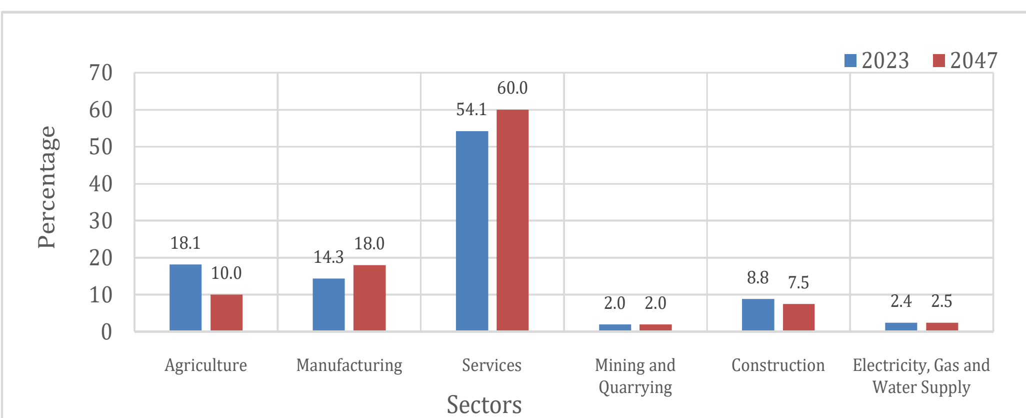
FIGURE 1: NOMINAL GDP IN 2023 AND 2047



SOURCE: EGROW's Compilation

The GDP share by different sectors plays a crucial role for the government, as it helps in understanding the economic structure and prioritizing resource allocation. Figure-2 highlights a structural shift in India's economic structure from 2023 to 2047, with the services sector increasing its GDP share from 54.2 to 60.0 percent. Agriculture's contribution drops significantly from 18.2 percent to 10.0 percent, while manufacturing experiences a modest rise to 18.0 percent. Other sectors like mining, construction, and utilities remain relatively similar over the period.

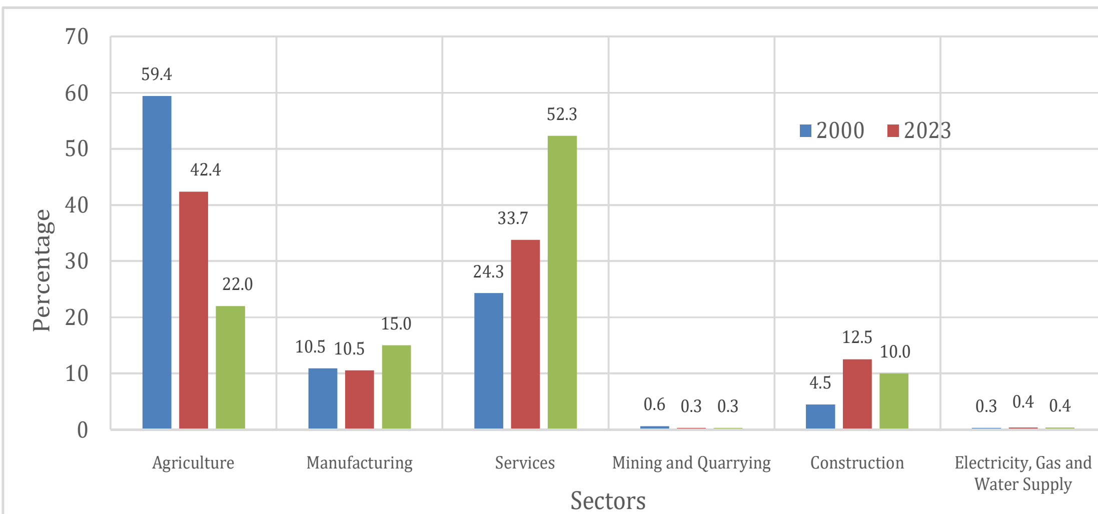
FIGURE 2: GDP SHARE OF DIFFERENT SECTORS



SOURCE: EGROW's Compilation

The employment share of different sectors is essential for analyzing labour market dynamics and understanding economic contributions. It provides insights into which sectors are driving job creation and can inform government policies aimed at enhancing employment opportunities and workforce development. Figure-3 projects the structural transformation expected in the share of employment in different sectors. In the projections, a significant shift is anticipated in employment from agriculture to services between 2000 and 2047. Agriculture's share drops from 59.4 percent to 22.0 percent, while share of services increased from 24.3 percent to 52.3 percent.

FIGURE 3: EMPLOYMENT SHARE OF DIFFERENT SECTORS



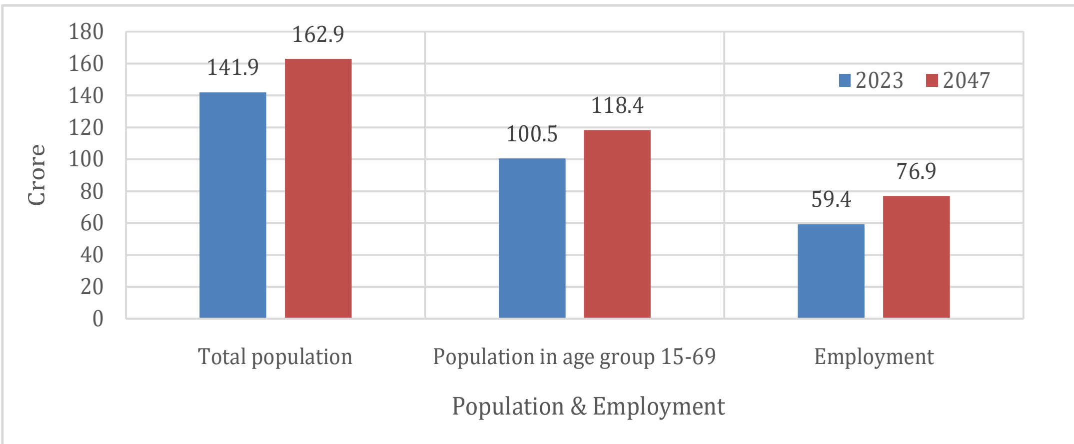
SOURCE: EGROW's Compilation

The share of manufacturing is projected to increase from 10.9 percent in 2023 to 15.0 percent by 2047, and construction records a decline in employment share in 2047 compared with 2023.

The projection of employment at 76.9 crore persons in the workforce by 2047 suggests a growing labour market. Figure-4 shows a projected population, employment and population between 15 to 69 years. For businesses, this could mean access to a large, potentially skilled workforce. However, it also underscores the importance of contributing to skill development initiatives to ensure a qualified labour pool that meets evolving industry needs.

The total population in the country is also expected to grow by 21.0 crore while employment is projected to increase by 17.5 crore. Figure 4 illustrates the projected employment levels for 2047, alongside a significant increase in India's population, which is expected to reach 162.9 crore. The working-age population (15-69 years) is expected to rise from 100.5 crore to 118.4 crore by 2047. During this time, per capita GDP (Nominal) Correspondingly, employment levels are projected to grow from 59.4 crore to 76.9 crore, reflecting a substantial expansion in the workforce.

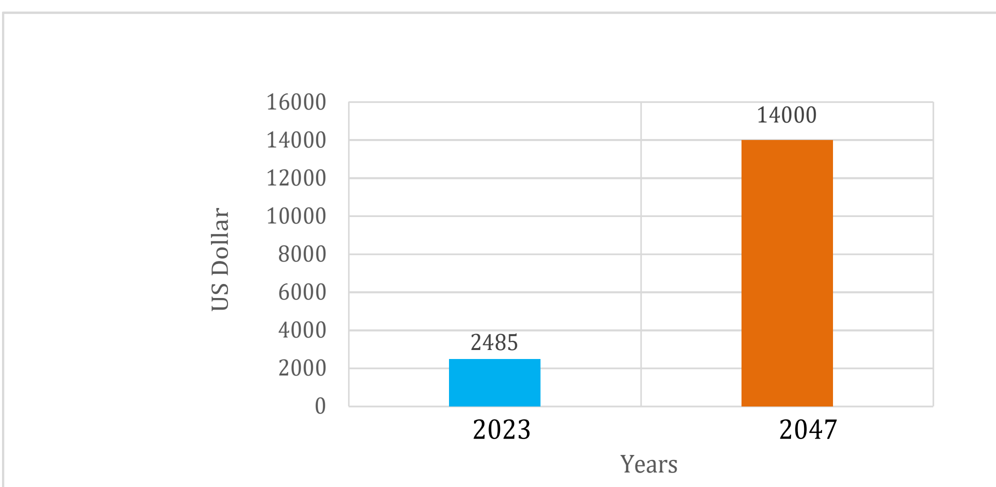
FIGURE 4: PROJECTED EMPLOYMENT IN 2047



SOURCE: EGROW's Compilation

India aims to transform into a developed nation with a per capita income of at least US$14,000 by 2047. Figure-5 presents the projected economic growth for the period from 2023 to 2047 This growth reflects substantial improvements in economic conditions and productivity.

FIGURE 5: NOMINAL PER CAPITA GDP IN 2023 AND 2047



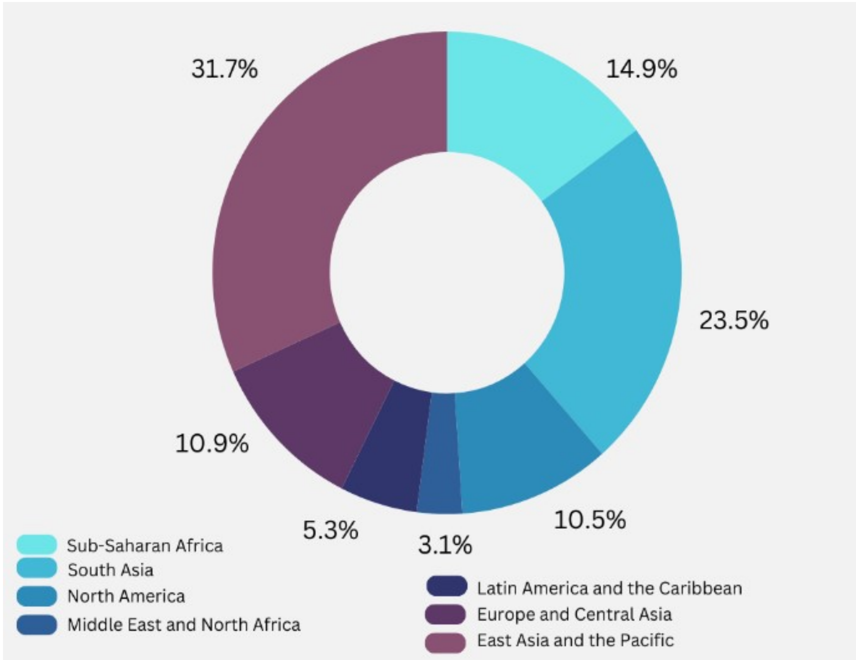
SOURCE: EGROW's Compilation

CHAPTER 3: SELECT COUNTRY EXPERIENCES

MSMEs are essential to the global economy, constituting 90 percent of businesses, generating 60-70 percent of employment, and contributing 50 percent of global GDP. These enterprises form the backbone of communities worldwide, supporting local and national economies and providing livelihoods, especially for vulnerable groups such as the working poor, women, and youth.

MSMEs significantly contribute to the economies of major developed countries. In Australia, they account for 50 percent of the overall value added in business, while the UK follows closely with 47 percent, Germany with 45 percent, and the US with 39percent. Furthermore, MSMEs play a crucial role in employment as well: they account for 66 percent of business employment in Australia, 58 percent in the US, 57 percent in Germany, and 53 percent in the UK. These statistics highlight the importance of MSMEs in driving economic growth in developed nations. MSMEs also play a crucial role worldwide, particularly in emerging and developing regions. Their global distribution, with high concentrations in East Asia, the Pacific, and Sub-Saharan Africa, highlights their importance in fostering economic growth, job creation, and development. Figure-6 reveals that East Asia and the Pacific have the highest concentration of MSMEs worldwide, followed by South Asia and Sub-Saharan Africa, reflecting their vital role in developing economies. To foster MSME growth and development, access to finance is of crucial importance. Governments around the world have responded to the high inflation environment by implementing a diverse range of strategies, intending to ensure that SMEs have access to the finance they need. Various policy instruments have been introduced to improve MSMEs' financial access, including loan guarantees, direct lending to MSMEs, subsidised interest rates, special guarantees, loans for start-ups, venture capital funds, and non-financial support.

FIGURE 6: MSMEs REGION-WISE DISTRIBUTION



SOURCE: MSME Economic Indicators 2019, SME Finance Forum

Table-1 illustrates government policy instruments across different countries, where "Y" indicates that the government provides support, and "N" indicates the absence of support.

TABLE 1: GOVERNMENT POLICY INSTRUMENTS TO FOSTER MSME ACCESS TO FINANCE

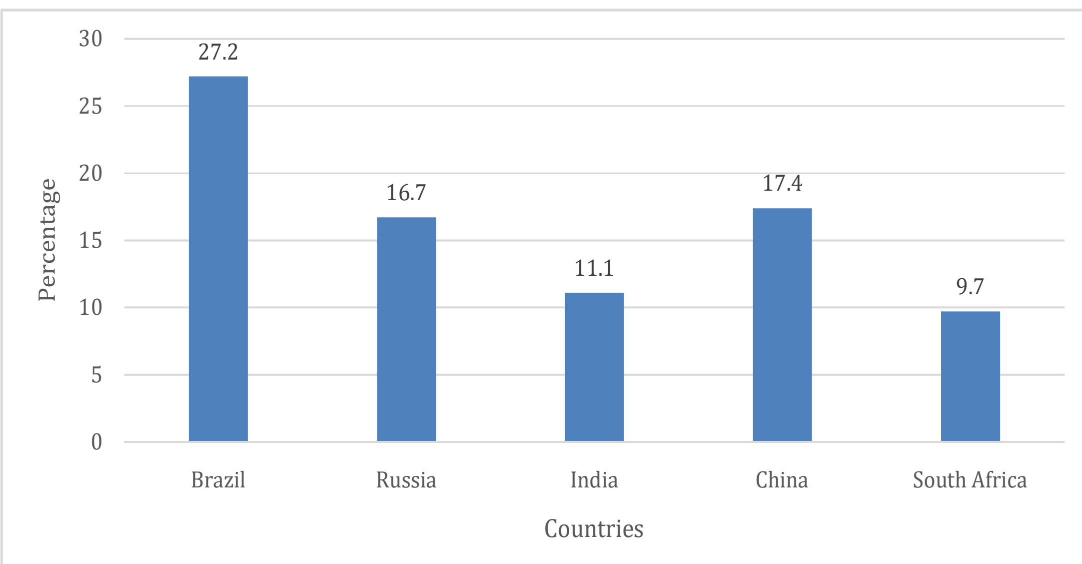
Country	Government loan guarantees	Direct lending to SME	Subsidised interest rates	Special guarantees and loans for startups	Venture Capital funds (direct)	Funds of funds	Business Angel co investments	Non-Financial support for SME
Germany	Y	Y	N	Y	Y	Y	Y	Y
United Kingdom	Y	Y	N	Y	Y	Y	Y	Y
United States	Y	Y	N	N	N	Y	N	Y
Australia	Y	N	N	N	N	N	N	Y
India*	Y	Y	Y	Y	Y	Y	Y	Y

Note: Y= Government has policy to support the issue, N= No Government policy to support the issue
Source: OECD-Financing SMEs and Entrepreneurs 2024
*India-EGROW's compilation

In the case of India, all policy instruments show "Y," highlighting the government's strong commitment to creating supportive policies for MSMEs. However, while policy formation is robust, challenges arise in the implementation and smooth execution of these policies.

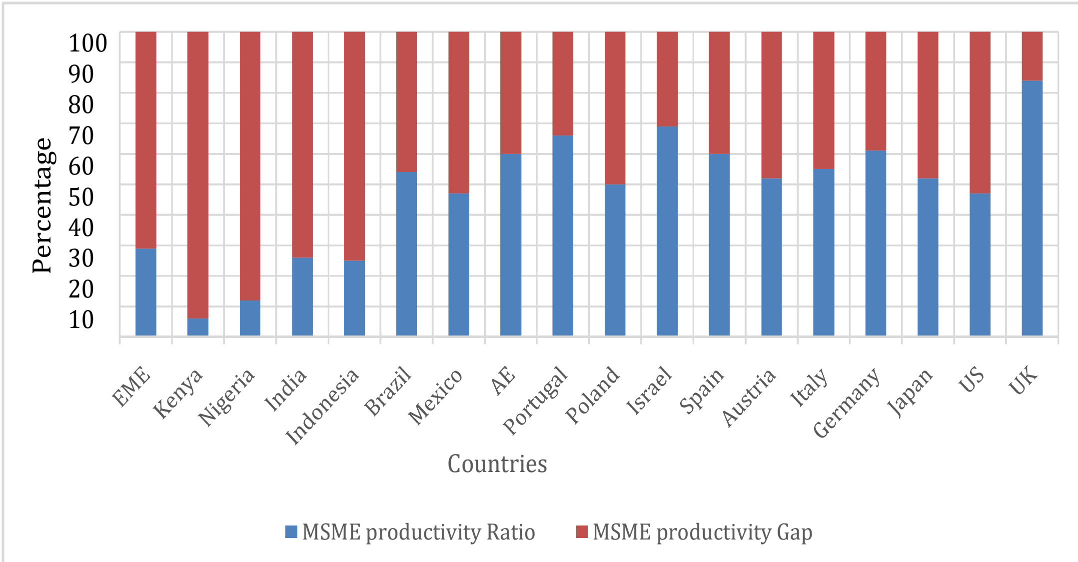
To develop targeted solutions for MSMEs, World Bank has computed *MSME finance gap*. The MSME Finance Gap, measured as a percentage of GDP, indicates the shortfall between the credit that the MSMEs need and the credit that they receive. This metric helps assess the financial sector's effectiveness in serving MSMEs and identify the extent of financial exclusion. In emerging and developing economies, this gap can be significant. Figure-7 highlights the persistent funding challenges MSMEs face across BRICS countries. Brazil has the largest gap at 27.2 percent, illustrating significant financial hurdles that small and medium enterprises encounter in accessing adequate funding. Russia and China also face considerable finance gaps, while India and South Africa have made some progress but continue to struggle with constraints in MSME financing.

FIGURE 7: FINANCE GAP IN MSMEs PERCENTAGE OF GDP



SOURCE: World Bank

FIGURE 8: PRODUCTIVITY RATIO AND GAP IN MSMEs



Note: AE – Advanced Economies EME-Emerging Economies
SOURCE: World Economic Forum

Another important metric that helps to make a comparison among MSMEs of different countries is the MSME Productivity Ratio. The International Labour Organization (ILO)[2] defines the productivity ratio as a measure of the efficiency of output per unit of input, typically focusing on labour productivity, which reflects the output generated by a worker within a given time. The "productivity gap" refers to the difference in productivity levels between countries, sectors, or regions. Figure-8 reveals substantial productivity disparities between MSMEs in EMEs and AEs. Countries like Kenya, Nigeria, and India lag significantly behind nations such as the US, UK, and Japan.

These productivity gaps can be attributed to limited access to finance, outdated technology, shortage of skilled labour, and insufficient infrastructure in emerging markets. While countries like Brazil, Mexico, and Spain have made notable improvements, there is still considerable room for growth. To bridge this divide and stimulate inclusive economic progress, developing countries need to adopt targeted policies.

[2]International Labour Organisation (2022). MSME Productivity, Inclusive Growth and Decent Work Creation Report

For creating a conducive ecosystem that encourages growth and sustainability of MSMEs, it is crucial to acknowledge factors like the cost of business start-up procedures, ease of doing business ranking, and corruption perception index.Table-2 highlightsthe cost of business start-up procedures, ease of doing business ranking, and corruption perception index of selected countries. There are sharp variations in these parameters in different countries. It explains that the cost of business start-up procedures was 6.5 percent of GNI per capita in Germany, 1 percent in the US and 0.7 percent in Australia, as compared with 7.2 percent in India. Moreover, India ranked 93rd in the Corruption Perception Index in 2023 and 63rd in the Ease of Doing Business ranking in 2019 (latest available).

TABLE 2: COST OF BUSINESS START-UP PROCEDURES & EASE OF DOING BUSINESS RANKING

Country	Cost of business Start-up procedures (% of GNI per capita) [1&2]	Ease of doing business (EODB) Ranking[2] (Total number ofcountries-190)	Corruption Perception Index Rank[3] (Total number of countries-180)
Germany	6.5	22	09
United Kingdom	00	08	20
United States	1.0	06	24
Australia	0.7	14	14
India	7.2	63	93
Brazil	4.2	124	104
China	1.1	31	76
South Africa	0.2	84	83
Russia	1	28	141

Note: 1. Cost to register a business is normalized by presenting it as a percentage of gross national income (GNI) per capita.
2.Data of 2019
3.Data of 2023
SOURCE: World Bank (2019) & Transparency International (2023)

In the US, around 5 million new businesses file applications annually since 2020, making it one of the largest ecosystems for startups and MSMEs. The Small Business Innovation Research (SBIR) program offers public financing to assist early-stage research and development. Additionally, the Small

Business Administration (SBA) supports MSMEs through funding, counselling, training, disaster relief, and access to federal contracts. The Export-Import Bank (EXIM) helps expand markets along with trade-related assistance centres. In the UK, the emphasis is on transparency, accountability, access to opportunities, and creating awareness. In Australia, export finance programs are designed to build business capabilities, promoting growth in international markets, while the government encourages MSMEs to participate in procurement processes. Germany reduces tax rates for MSMEs to ease the financial burden, allowing businesses to reinvest and grow. The government has also implemented flexible labour laws, including part-time work, flexible hours, and temporary employment options to enhance workforce participation.

Countries around the world implement various program interventions to foster MSME growth. Some successful interventions include access to affordable financing, capacity-building initiatives, digital transformation support, market access programs, and public-private partnerships for infrastructure development. Table-3 highlights some of the successful MSME Program Interventions around the world.

TABLE 3: SELECT COUNTRY MSME PROGRAM INTERVENTIONS

Sl. No	Country	MSME Program Interventions
1.	Argentina	The government offers funding to allow business professionals and technicians from small and medium firms to cover the costs of overseas technical visits and training programs.
2.	Brazil	The government offers simplified taxation systems for smaller firms under two programs: · Simples Nacional · Micro Empreended or Individual (MEI)
3.	Canada	The Canadian government sponsors the Can Export program which funds up to CAD 50,000 (INR 30 millions) to small firms to assist with international market development activities.
4.	Indonesia	The government offers a simplified online licensing using a risk-based approach to reduce the paperwork burden through the "Online Single Submission" program.

Sl. No	Country	MSME Program Interventions
5.	Ireland	The Irish government has a searchable online toolkit that consolidates most of the various types of government support programs for smaller firms, from business planning to training and much more.
6.	Mexico	The Ministry of Economy created a program that provides low interest three-year loans (up to MXN 25,000) for MSMEs that maintain employment levels.
7.	Nigeria	In collaboration with the World Bank, the government created the "Development Bank of Nigeria," which offers long-term financing and partial credit guarantees to MSMES
8.	Singapore	The government offers Market Readiness Assistance grants equal up to 70 percent of the cost for small and medium enterprises to enter a new market. The Enterprise Development Grant program provides financial assistance to firms that need to build out core capabilities such as business strategy development, financial management, and more. The Productivity Solutions Grant offers up to 70 percent of the cost of adopting pre-vetted technology solutions.
9.	United Kingdom	The government helpfully consolidates various financial support programs into a single searchable database.
10.	United States	The U.S. Small Business Administration (SBA) created a "Small Business Digital Alliance" where large technology firms can offer free counselling services and free access to tools that help MSMEs expand their ecommerce presence. The SBA hosts the Small Business Innovation Research (SBIR) program which channels research grants and contracts to smaller firms. The SBA offers grants to sub national governments that work with small businesses to boost exports through the State Trade Expansion Program (STEP).

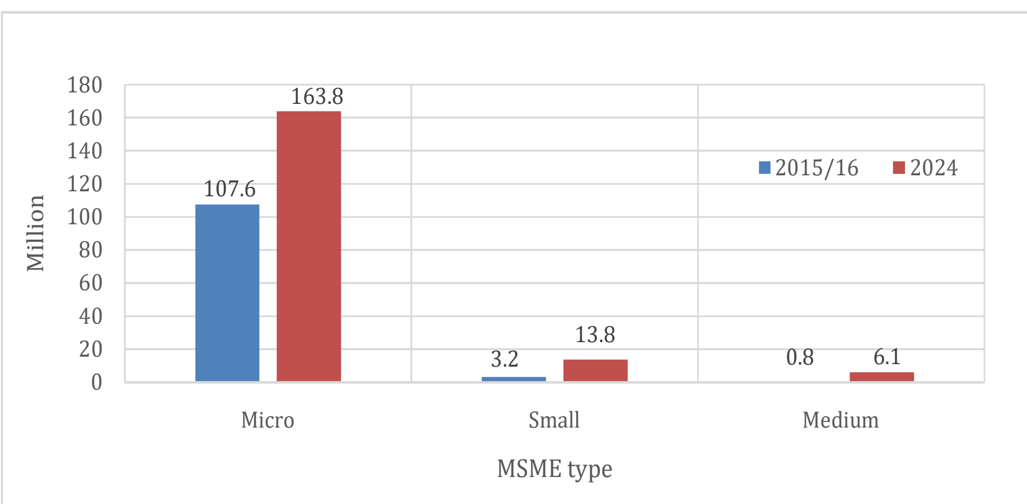
SOURCE: Rossow, R. M. (2022).

CHAPTER 4:UNLOCKING MSME POTENTIAL: SPECIFIC RECOMMENDATIONS

MSMEs are considered the job-creating engines of any healthy economy. They facilitate a dispersed growth of industry and prevent concentration of wealth and income. Therefore, countries across the global economy have formulated exclusive policies for the promotion of MSMEs. India has a long-standing policy since independence, initially, for Small Scale Industries (till 2005) and subsequently for MSMEs (with the promulgation of MSMED Act 2006).

MSMEs generate the largest number of employment opportunities, with micro enterprises contributing the most to job creation despite their small size.Figure-9, which compares the data from the NSSO 73rd round (2015-16) and Udyam Portal registrations (31 March, 2024), a significant transformation in the MSME sector is witnessed. While micro-enterprises continue to dominate, the share of small and medium enterprises has grown, suggesting a potential for increased economic contribution.

FIGURE 9: SCALE OF EMPLOYMENT IN MSMES – 2015-16 & 2024



SOURCE: Annual report 2023-24, Ministry of Micro, Small and Medium Enterprises, Pages 28 and 33

A substantial portion of micro-enterprises, particularly informal ones, may remain unregistered. This highlights the need for targeted policies and initiatives to support

the diverse needs of each MSME sub-sector and encourage greater participation in the formal economy.

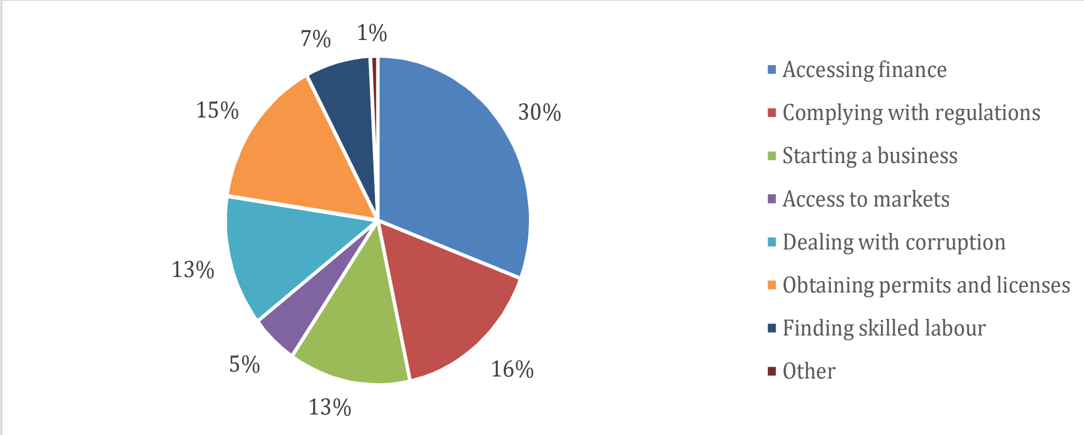
This has happened along with an increase in investment limits across MSMEs. This implies that the average scale of production has distinctly shifted upwards in all the three sub-sectors since the revision of MSME definitions in July 2020. This could be due to (i) technology upgradation and modernization of existing enterprises, and (ii) emergence of technologically advanced enterprises. However, challenges persist for the overall sector as much as for certain specific sectors and regions within the country.

The aim of this study is to identify and understand the various constraints and challenges faced by the MSME sector, particularly in specific sectors and regions. To achieve this, a survey was conducted in August 2024, along with discussions held with MSMEs and their representatives and trade associations through online interactions across different sectors and regions. In view of the insights gathered, the challenges are outlined and recommendations formulated.

KEY CHALLENGES FACED BY MSMES

MSMEs across India face key challenges related to access to finance, compliance with taxation and labour laws, obtaining business registrations, and securing clearances from various departments. For many MSMEs, particularly individual proprietorships with limited resources, ensuring compliance can be a substantial challenge. This regulatory burden directly adds to the cost of doing business, accounting for a considerable portion of their overhead expenses.Figure-10 illustrates the challenges entrepreneurs face, with regulatory compliance being the most dominant issue. This reflects how legal requirements significantly impact their time and resources, hindering business operations and growth.

FIGURE 10: CHALLENGES FACED BY ENTREPRENEURS



SOURCE: Survey, ASSOCHAM & EGROW

IDENTIFYING AND ADDRESSING KEY ISSUES FACED BY MSMES

In this section, the key challenges and specific recommendations to fix them are discussed.

1. **Streamlining Government Schemes**[3]

a. **Issue:** Lack of awareness and confusion among MSMEs regarding available schemes[4].

Recommendations: The government should implement targeted campaigns to educate MSMEs about available schemes and their benefits. Additionally, creating a centralized portal or platform would provide a convenient way for MSMEs to easily find information about relevant schemes, simplifying the process and increasing awareness. As in the case of agriculture, dedicated radio, TV programs can be considered. To increase awareness SIDBI and other financial institutions can be assigned the task to spread financial literacy, especially in MSME clusters.

b. **Issue:** Lack of coordination between Central Government and state authorities in implementing schemes as central and state governments make various polices to encourage MSMEs to generate output and create employment.

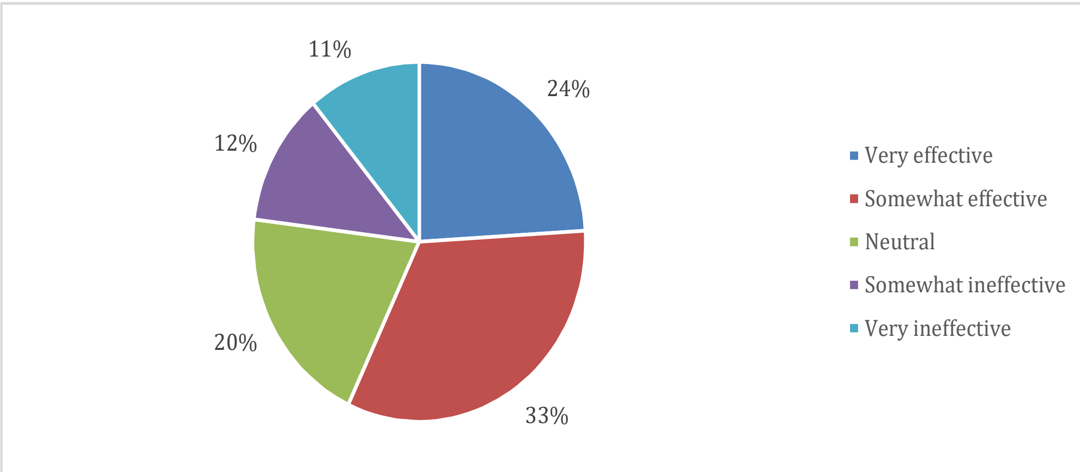
Recommendations: The government should establish a dedicated MSME Coordination Council to streamline scheme implementation, address inter-

[3]Annexure 2: Existing Government Schemes for MSME

[4]Singh and Wasdani (2016) also highlight this aspect.

state differences, and promote compliance. Additionally, developing an MSME Policy Index would provide a valuable tool to measure and improve state-level performance in MSME policy adherence and implementation.

FIGURE 11: PERCEPTION OF RESPONDENTS ABOUT COLLABORATION BETWEEN CENTER AND STATE

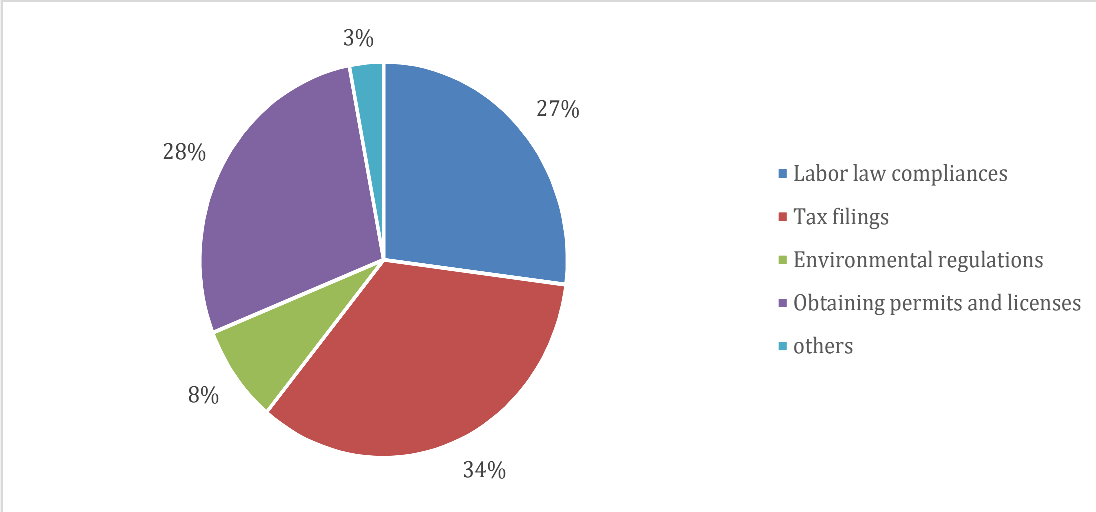


SOURCE: Survey, ASSOCHAM & EGROW

Survey respondents have emphasized the challenges they face due to poor coordination between the Central Government and state authorities. Figure 11 illustrates the survey findings, highlighting the gap between the central and state governments. In the survey, 33 percent of respondents found the collaboration between central and state governments somewhat effective and, 24 percent rated it very effective, while 20 percent remained neutral, suggesting that there is still room for improvement in intergovernmental coordination.

Time-consuming compliance burdens can overwhelm MSMEs, diverting valuable resources and attention away from core business activities and stifling their growth potential. Figure 12 illustrates the time-consuming compliance burdens faced by MSMEs. Respondents ranked filing taxes as the most time-consuming, followed by obtaining permits and licenses, and labour law compliances.

FIGURE 12: TIME-CONSUMING COMPLIANCE BURDENS FOR MSMES



SOURCE: Survey, ASSOCHAM & EGROW

2. Goods and Service Tax (GST) & Taxation related Issues

a. Issue: GST poses a significant challenge for many MSMEs in India due to the complexities of registration, regulatory compliance, and frequent amendments that drive up the cost of doing business.

Recommendations: The government can streamline the GST registration and compliance process. This includes reducing the frequency of amendments and providing clear guidelines and support to MSMEs.

b. Issue: MSMEs face strict penalties for delays in GST payments or return filings, even when delays are justifiable.

Recommendations: The government should introduce a tiered penalty structure that takes into account the severity of the delay and the reasons for it. Providing clear guidelines for justifiable delays and offering leniency in such cases can help reduce the financial burden on MSMEs. Improved communication and awareness efforts can also prevent unintentional delays and ensure that MSMEs are informed about their GST compliance obligations.

c. Issue: Businesses must obtain separate GST registrations for each state in which they operate, requiring state-specific registration whenever they open new offices or establish a presence in a different state. Each state-specific registration is treated as a distinct entity for tax purposes, meaning transactions between branches or offices across states are classified as inter-state supplies and subject to GST. This adds to the compliance burden and increases operational costs, making it more difficult for MSMEs to manage their resources efficiently.

Recommendations: To ease the administrative burden on MSMEs, the government may explore introducing a single GST registration across states, allowing businesses to operate under one unified GST number while still complying with tax obligations in different states. Additionally, simplifying the process for inter-state transactions within the same business group could reduce unnecessary paperwork and improve operational efficiency. Furthermore, measures should be implemented to eliminate procedural and administrative variations between states to ensure uniformity and reduce complications for businesses.

d. Dual GST on Supply and Installation

Issue: The simultaneous provision of both supply and installation services by contractors is common in many industries, particularly among Refrigeration and Air Conditioning MSMEs and Cycle Parts MSMEs in Punjab. However, the current GST rates—28 percent for supply and 18 percent for installation—create confusion and inconsistencies, leading to compliance challenges due to the application of different rates within a single contract for works and materials. This complexity also exposes such contracts to high risks regarding valuation disputes.

Recommendations: Implementing a single consolidated rate for combined services of supply and installation would simplify compliance and reduce the risk of retrospective tax claims. The definition of a works contract is to be expanded to include movable property, allowing for a single tax rate of 18 percent on these contracts. The government should also consider notifying exceptions to apply higher or lower rates based on industry-specific scenarios.

3. **Registration and Compliance**[5]

a. **Issue:** The MSME registration process is cumbersome, taking more than a month to complete.

Recommendations:

i. Online Portal: Implement a user-friendly online portal for MSME registration, allowing businesses to submit all necessary documents and information electronically.

ii. Create a Standardized Checklist: Develop a clear and standardised checklist of requirements for registration, ensuring consistency across different regions and agencies. Streamline the registration process, potentially through online portals and reduced paperwork.

iii. Dedicated Helpline: Provide a dedicated helpline or online chat support for MSMEs to seek assistance and clarification during the registration process.

iv. Regular Reviews: Regularly review the registration process to identify bottlenecks and areas for improvement.

v. Feedback Mechanisms: Collect feedback from MSMEs to understand their experiences and address any challenges they face continuously.

b. **Issue:** The current 'single window clearance' system for MSMEs remains inefficient, with multiple agencies and processes involved in obtaining necessary clearances and certifications.

Recommendations: To streamline the process, the government should implement a comprehensive online verification system**.** This single platform would allow MSMEs to upload all necessary registration documents, with real-time updates on the status of applications. This will eliminate the current need for multiple submissions, follow-ups and physical appearances by company directors (in many cases), a burden already lifted for larger industries. This shift to a digital system would significantly enhance efficiency and reduce administrative costs for MSMEs.

c. **Issue:** Challenges faced by female entrepreneurs, especially those operating businesses on land owned by

5Annexure 3: MSME Approval Requirements Across Ministries and Departments their spouses. In some cases, documents are in the names of the father/husband, as per traditional norms, and female entrepreneurs suffer on the grounds of entitlement or lack of lease documents on their names.

Recommendations: Provide special consideration and support to female entrepreneurs to facilitate their operations and growth. The banks and financial institutions need to be sensitised to these concerns.

d. **Issue:** Difficulty in lodging complaints and seeking resolutions for MSMEs.

Recommendations: Establish a centralised grievances portal similar to the RBI's Ombudsman system. This portal would serve as a single platform for MSMEs to raise issues related to various departments and state governments. Complaints would be allocated to relevant authorities for timely resolution, enhancing transparency and addressing regional challenges efficiently.

e. **Pollution Clearance**

Issue: MSMEs, particularly those classified as 'white' or 'green' industries, encounter unnecessary burdens in obtaining pollution clearance certificates. Many of these businesses do not qualify for such certificates due to their minimal environmental impact. The current requirement for all MSMEs to obtain these certificates, regardless of their environmental impact, can be time-consuming, costly, and detrimental to their growth.

Recommendations: The Governments, state and central, need to develop a cohrent policy. Pollution clearance certificates should be mandatory only for two categories of industries: (i) Red category (Hazardous Industries) and (ii) Orange category (Semi-Hazardous Industries). Industries classified as ‘white’ and ‘green’ or not classified elsewhere should be exempted from the requirement to obtain pollution clearance certificates, facilitating their growth and reducing regulatory burdens.

f. **Factory Layout Plan Submission of MSMEs to Multiple Authorities**

Issue: MSMEs frequently encounter bureaucratic challenges when submitting their factory layout plans for approval to multiple government departments.

Recommendations: There couldbe a single window e-submission for any plan, and various departments should have access electronically. To streamline the process, MSMEs should only be required to submit an approved factory layout plan once to the Factory Act office. Subsequently, this plan could be shared with all relevant government departments, including those responsible for taxes, fire safety, pollution control, and MSME promotion, eliminating the need for multiple approvals. This would significantly reduce the administrative burden on MSMEs and foster their development.

g. 4-digit Registration Number

Issue: Before 2006, company registration numbers under the Companies Act were 4 digits. The subsequent introduction of 6-digit registration numbers has created challenges for businesses registered earlier. As re-registration is not permitted, this inconsistency can hinder access to various benefits, particularly those related to finance.

Recommendations: The government should consider implementing a system that automatically converts 4-digit registration numbers to the new 6-digit format. This would enable businesses registered before 2006 to access all available benefits without the need for re-registration. Additionally, providing clear guidance and support to affected MSMEs would be crucial.

h. Reminders for License Renewal[6]

Issue: MSMEs registered under the Indian Factories Act, 1948, often do not receive timely reminders or notices for license renewal, leading to unnecessary complications in accessing the benefits of various schemes.

Recommendations: An online system to be devised by which MSMEs are notified at least a week before their licenses expire, similar to the practices followed by LIC and Income Tax offices.

4. Labour-related Laws and Issues

a. Multiple Registrations

Issue: Firms are required to complete a multitude of registrations, which

[6]Annexure 4: MSME Registration and Renewals requirement across Ministries and Departments

overlap in terms of information and documentation, such as ESI, PF, Professional Tax, Contract Labour, Minimum Wages, Bonus Act, and Annual Returns. These registrations impose a substantial administrative burden on businesses and workers, hindering their operations.

Recommendations: To streamline compliance, the government should consider merging various social welfare legislations like ESI, PF, and representational schemes under one electronic registration. This would simplify processes, eliminate overlapping benefits, and ensure a more comprehensive social security net, fostering a supportive environment for firms and employees.

b. Workforce Management

i. **Issue:** Current labour laws hinder MSMEs' ability to effectively manage their workforce, particularly due to the lack of a well-defined trial period for new hires. This ambiguity makes it challenging to assess employee suitability and complicates termination decisions.

Recommendations: Simplifying the regulatory framework to ease compliance burdens and establishing clear probation periods for new hires in different sectors/industries will enable MSMEs to manage their workforce more effectively.

ii. **Issue:** MSMEs struggle to find enough skilled labour and often resort to training unskilled workers. However, these trained employees frequently leave for larger enterprises, despite the investments made in their skill development and on-the-job training.

Recommendations: The government should expand skill development initiatives by increasing funding for vocational training and incentivizing apprenticeships. Providing access to low-interest loans and subsidies for training costs can further alleviate financial pressures. Fostering partnerships between MSMEs and educational institutions will ensure customised training programs. Improving digital infrastructure and offering tech training will enhance workforce adaptability. These actions will create a more supportive environment for MSMEs, ultimately promoting job creation and economic growth. The skilling centers should be located in clusters, and clusters should be involved in designing the curriculum for these skilling centers.

c. Uniform Labour wages

Issue: Wage levels vary significantly across states, with regional governments continually advocating for higher wages. This creates challenges for states, particularly in maintaining competitiveness and attracting businesses.

Recommendations: Establishing universal minimum wage rates across India could foster a more equitable labour market, ensuring fair compensation for all workers, regardless of their location. This approach would help standardise wages, reduce disparities, and promote a more balanced economic environment. This would also require close coordination between center and state.

d. Gaps in ESIC Scheme

i. **Issue:** The Employees' State Insurance Corporation (ESIC) is losing favor among workers, primarily due to poor hospital conditions and the reluctance of employees to give up unemployment benefits, which reduces participation in the scheme.

Recommendations: The government should consider upgrading the infrastructure and quality of care in ESIC hospitals to restore trust and improve participation.

ii. **Issue:** There is a gap in ESIC coverage for MSME workers, where families cannot claim benefits if a worker passes away on a holiday. This creates financial strain for both businesses and the families left without compensation in such distressing circumstances.

Recommendations: Ensuring that ESIC benefits apply regardless of the day of death would provide essential support to grieving families and prevent financial stress on businesses. Introducing this amendment would create a more comprehensive safety net for workers and their dependents while also making the ESIC scheme more relevant and reliable for MSMEs.

Additionally, the government could explore expanding financial incentives for MSMEs that comply with employee insurance regulations and ensure the timely processing of claims. In this case, either ESIC is reformed or workers be covered under general insurance. These reforms would make the ESIC more effective in safeguarding workers' welfare and enhancing MSME resilience.

e. **Labour Officer-related Issues**

i. **Issue:** Labour officers often visit for inspections without prior notice or with very short notice, which can result in the absence of MSME owners from their units, making it difficult to address the officers' queries and provide the necessary documentation.

Recommendations: Labour officers should be required to notify MSMEs of site visits at least 24-48 hours in advance. This advance notice would enable MSME owners to prepare adequately.

ii. **Issue:** Under the current system, when a worker files a complaint with a labour officer alleging unfair labour practices or wrongful termination, the burden of proof regarding the worker's employment status falls solely on the MSME owner. This requirement places undue pressure on MSME owners, as they must gather and present extensive documentation to establish the employment relationship.

Recommendations: The burden of proof should be shifted from the MSME owner to the worker filing the complaint. This change would require workers to provide credible evidence of their employment before labour officers initiate inquiries with businesses. By streamlining the complaint process in this manner, the burden on MSME owners would be reduced, creating a fairer system for resolving labour disputes.

f. Issues related to ITIs and Training Institutes

i. **Issue:** ITIs and training centers often lack the necessary equipment to equip students with up-to-date skills, resulting in a mismatch with the requirements of MSMEs.

   Recommendations: To equip ITIs and training centres with latest cutting-edge equipment, the government should increase the allocated budget to it and training centres. Moreover, a combination of public-private partnerships, industry-led efforts and innovative funding models can be explored. The printed material for educative purposes also needs to be prepared in local languages.

ii. **Issue:** MSMEs are compelled to provide on-the-job training while also paying stipends, which are rarely reimbursed by the government.

   Recommendations: Stipends for ITI trainees undergoing on-the-job training should be paid directly to their bank accounts linked to their Aadhaar cards. This direct payment approach would relieve MSMEs of the financial burden of stipends, addressing the issue of unreimbursed costs and encouraging greater participation from MSMEs in training programs. This becomes increasingly important as workers tend to leave for greener pastures soon after training.

5. GeM Portal Issues

a. **Issue:** Despite MSMEs being exempt from the Earnest Money Deposit (EMD), many public sector undertakings (PSUs) still require it. The Government e-Marketplace (GeM) portal continues to show this inconsistency, creating challenges for MSMEs.

   Recommendations: The government should enforce strict compliance with the EMD exemption policy for MSMEs, including clear instructions to PSUs and implementing regular audits and penalties for violations.

b. **Issue:** The annual increase in GeM portal maintenance fees based on business turnover can be a financial burden for MSMEs, especially those with limited resources. This rising cost can significantly impact their profitability, discouraging smaller enterprises from participating in government procurement.

Recommendations: The government should consider implementing a more equitable fee structure or providing subsidies for MSMEs to help offset the financial burden.

c. **Issue:** Successful bidders on the GeM portal are subject to a 0.5 percent fee on the order amount within a month. Non-payment of this fee can lead to de-registration of the MSME from the portal, while entrepreneurs often face delays in receiving payment for their orders, making it financially burdensome to meet this requirement for the bridging period.

Recommendations: To alleviate this burden, the government could consider implementing a system that automatically deducts the 0.5 percent fee from the payment made to the MSME, preventing unnecessary financial strain and de-registration risks during the intermittent period.

d. **Issue:** MSMEs that successfully bid on the GeM portal and pay the 0.5 percent fee within 30 days often face difficulties in recovering this fee when public sector undertakings (PSUs) postpone or cancel orders.

Recommendations: There should be a system in place that automatically refunds the 0.5 percent order amount to the MSME's account within five days of a cancelled order or postponement.

6. Lack of Facilitation Council Provisions

BLOCKED ADVANCE PAYMENTS

Issue: The Facilitation Council, established to address the grievances of MSMEs, currently lacks specific provisions for cases where advance payments made by MSMEs for raw materials or machinery are blocked. This situation can create significant financial challenges for MSMEs, hindering their operations and growth.

Recommendations: The Facilitation Council should be empowered to address cases involving difficulties in recovering blocked advance payments for raw materials or machinery. By incorporating specific provisions for these situations, the Council can offer more comprehensive support to MSMEs, helping them navigate and overcome financial challenges effectively.

MSME ORDER CANCELLATIONS

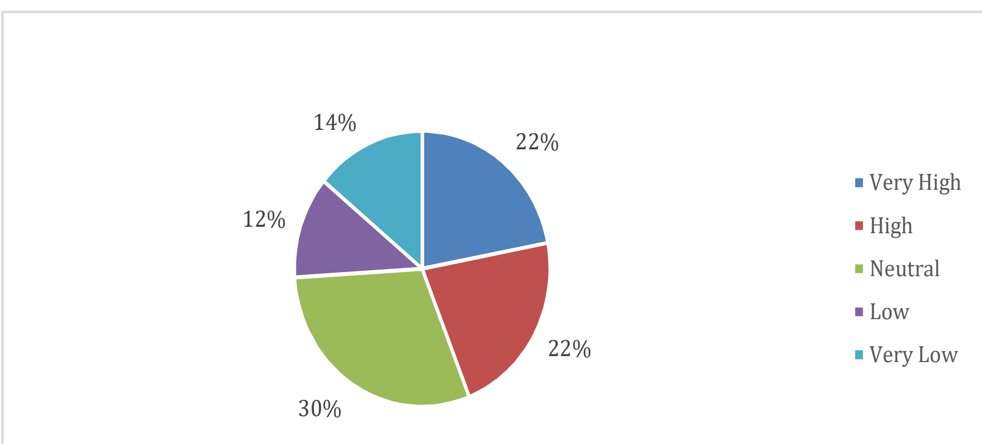
Issue: Large firms or Public Sector Undertakings (PSUs) often cancel MSME supply orders during or before the supply process, but MSMEs cannot seek redress from the Facilitation Council, as it does not cover such cases. This leaves MSMEs financially exposed, having already invested in raw materials or contracts.

Recommendations: The Facilitation Council could be empowered to handle cases involving blocked advance payments for raw materials or machinery. By including specific provisions for these issues, the Council can offer more comprehensive support and help MSMEs overcome financial challenges. There is also a need for feedback on the institutions/PSUs that cancel these contracts and plunge MSMEs into crisis. Alternative avenues could be provided to the MSMEs through data-sharing platforms across the country.

7. Finance Related Issues

The credit gap in the MSME sector limits access to essential funding, hindering their growth and innovation. Bridging this gap is vital for empowering MSMEs and driving economic development. The credit gap remains a persistent challenge for MSMEs in India. Figure 13 reveals that 22 percent of respondents believe there is a very high credit gap in the MSME sector, while another 22 percent think the gap is high. Thus, the credit gap in MSMEs is very high.

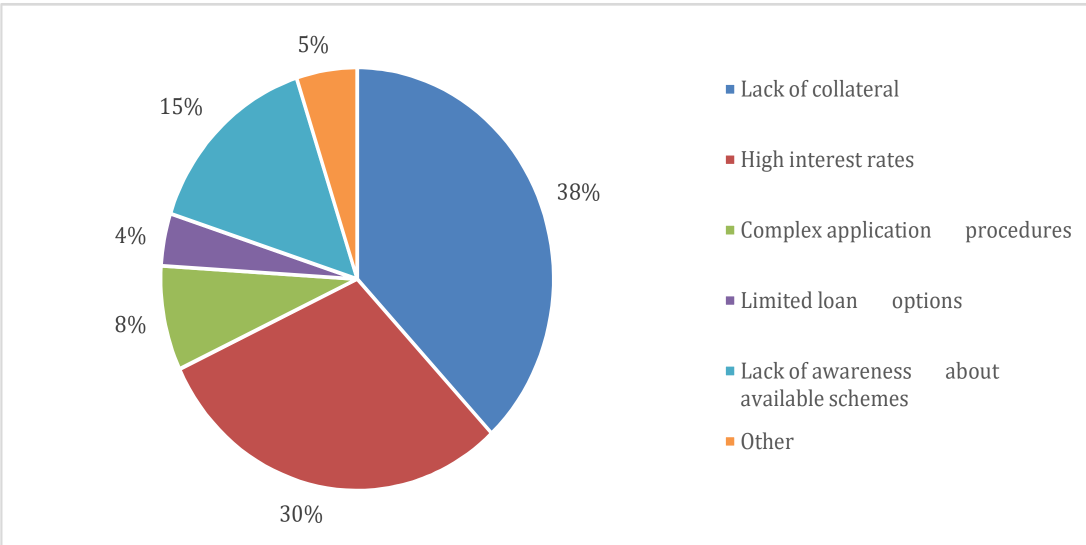
FIGURE 13: CREDIT GAP IN MSMES SECTOR



SOURCE: Survey, ASSOCHAM & EGROW

This credit/finance gap in MSMEs is primarily due to issues such as a lack of collateral and high interest rates. These barriers restrict their ability to secure the necessary funding for growth and development. Figure 14 illustrates the challenges MSMEs face in accessing finance. Notably, 38 percent of respondents cited a lack of collateral as the primary obstacle, while 30 percent encountered difficulties with high interest rates.

FIGURE 14: CHALLENGES IN ACCESSING FINANCE



SOURCE: Survey, ASSOCHAM & EGROW

a. Issue: Limited Access to Institutional Finance and access to adequate financing at reasonable interest rates remains a persistent challenge for a significant proportion of MSMEs. According to the Fourth MSME Census (2006/07), only about 11 percent of MSMEs had access to institutional finance, a situation that likely has not improved much since then. Many micro firms still struggle to secure institutional financing despite the establishment of MUDRA Bank. Consequently, a large number of MSMEs rely on informal financing sources, including money lenders, which often charge exorbitantly high interest rates and lack transparency.

This credit gap has persisted despite MSMEs being considered as part of ‘priority sector lending’ since early 1970s.

Recommendations: The government should enhance the role and reach of MUDRA Banks and other financial institutions to ensure that a higher percentage of MSMEs can access affordable financing. Additionally, introducing specific loan products designed for micro and small enterprises that do not require extensive documentation or collateral could help broaden access. SIDBI can help in undertaking studies on specific requirements of availing credit by Micro and Small enterprises.

b. **Issue:** MSMEs that manage to access institutional finance often face challenges in obtaining continuous funding and collateral-free loans. The loan application process lacks transparency, making it difficult to understand the criteria for credit approvals or rejections. Banks frequently request personal property as collateral, even for so-called "collateral-free loans," which are usually offered at higher interest rates and with longer approval times.

Recommendations: The government could establish clear guidelines and standardized processes for loan application scrutiny, ensuring that MSMEs understand the criteria for approval and rejection. Creating an online platform for tracking loan application status and receiving feedback on issues could further enhance transparency.

c. **Issue:** Micro entrepreneurs often struggle to obtain financing due to the absence of prior financial statements, which are commonly required by lenders. This lack of documentation creates barriers to securing necessary funding for business development.

Recommendations: The government could simplify documentation requirements for micro-entrepreneurs seeking loans, allowing for alternative forms of verification, such as character references or business plans. The uploading of basic documents on the e-platform and the availability of the same with different departments electronically will help serve the interest of the MSMEs.

d. **Issue:** Many MSME owners have limited educational backgrounds in entrepreneurship, which hampers their understanding of policies and regulations. This knowledge gap prevents them from fully grasping business intricacies and making informed decisions, ultimately hindering their growth.

Recommendations: The government could implement training programs focused on financial literacy and business management for MSME owners, helping them understand funding options, labour laws, accounting practices and business regulations.

e. **Issue:** The Credit Guarantee Fund Trust for Micro, Small, and Medium Enterprises (CGTMSE) faces issues such as limited awareness, complex procedures, slow disbursement, and insufficient coverage. These challenges hinder MSMEs' ability to access credit and limit the scheme's effectiveness.

Recommendations: Banks must be encouraged to utilise Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE), address pending claims, and normalise guarantee charges.

f. **High Underwriting Commission for IPOs of MSME**

Issue: The limited number of underwriters involved in MSME IPOs creates a monopoly-like environment, allowing them to charge exorbitant fees. These high commissions present significant challenges to the growth and development of MSMEs, as they struggle to justify the costs associated with going public.

Recommendations: To reduce high underwriter commissions for MSME IPOs, the government should mandate larger financial institutions to participate in a certain percentage of these offerings. This increased competition would lower commissions, making IPOs more accessible to MSMEs. Implementing regulatory limits on underwriter fees and providing support to MSMEs seeking to go public would further foster a favorable environment for their capital-raising efforts.

g. **Issue:** The current minimum threshold for eligibility under the Production Linked Incentive (PLI) **scheme**, set at Rs. 50-100 crore, creates a significant barrier for MSMEs across various sectors. This high entry requirement restricts smaller businesses from participating in and benefiting from the scheme, hindering innovation and growth within the sector.

Recommendations**:** To promote a more inclusive industry environment, the threshold should be lowered to INR 10 crore, making the scheme more accessible to a broader range of MSMEs and fostering greater participation and development in the sector.

h. **Issue:** MSMEs are largely unaware of the availability and benefits of accessing venture capital (VC) funds, and many remain uninformed about the critical role that fintech companies can play in driving their growth and expansion. This lack of awareness restricts their ability to leverage innovative financial solutions that could greatly enhance their business development.

Recommendations: Public Sector Venture Capital Funds, such as those operated by SIDBI, should allocate a specific proportion of their investments to early-stage MSMEs. Consistent participation from public sector VCs could encourage private VCs to invest in the MSME sector gradually, fostering a more robust investment environment and supporting the growth of these enterprises.

i. **Issue:** The current Non-Performing Assets (NPA) norm of 90 days for MSMEs is often too **stringent**, especially in the face of temporary financial challenges. MSMEs, being the backbone of the Indian economy, are particularly vulnerable to economic downturns, supply chain disruptions, and other unforeseen circumstances.

Recommendations: Extend the Non-Performing Assets (NPA) cycle for MSMEs to 180 days from the review date, assessed quarterly.

8. 45 days MSME Payment Rule

a. Delayed Payments Despite Section 43B Mandate

Issue: Section 43B of the Income Tax Act mandates that companies must settle dues with MSMEs within 45 days. The Finance Act 2023 further amended this by adding clause (h), which stipulates that payments unresolved within 45 days are not eligible for tax deductions. However, this has not been effectively enforced, especially among public sector undertakings and large firms. Many larger entities continue to delay payments, causing financial strain on MSMEs.

Recommendations: The government should strengthen enforcement and monitoring mechanisms to improve compliance with the 45-day payment rule mandated by Section 43B of the Income Tax Act. This can be achieved by developing automated systems that track payment timelines and identify delays, particularly among public sector undertakings. In addition to enhancing monitoring, stricter penalties for non-compliance should be introduced. Beyond the current loss of tax deductions, companies that fail to meet the 45-day deadline should face fines or interest charges on delayed payments.

These measures will incentivise timely payments, fostering a more supportive financial environment for MSMEs.

b. Business Disruptions Due to Short Credit Cycles

Issue: The 45-day payment cycle, while intended to protect MSMEs, has inadvertently led to larger firms being hesitant to place orders with registered MSMEs due to the shorter credit window. This has caused many MSMEs to de-register, as large firms prefer to work with companies not bound by the 45-day rule.

Recommendations: The government could introduce flexible payment terms that allow longer credit periods for specific industries. This would encourage larger firms to place orders with registered MSMEs while still ensuring timely payments.

Additionally, the government could facilitate partnerships between MSMEs and larger firms by promoting collaborative business models that establish mutually beneficial payment cycles, thereby building trust and improving relationships.

Offering incentives, such as tax benefits or preferential treatment in government contracts for timely payments, would further motivate larger companies to engage with registered MSMEs instead of opting for unregistered ones.

Finally, raising awareness about the advantages of working with registered MSMEs—such as access to government schemes and compliance with regulations—can enhance the appeal of these partnerships.

9. Challenges faced by Export Oriented MSMEs

a. Issue: MSMEs that are involved in the export business face inadequate infrastructure at the airport, which hampers their ability to transport goods efficiently.

Recommendations:The government should invest in dedicated infrastructure for MSMEs at major airports, ensuring smoother logistics, warehousing, and faster customs processing to support their export operations.

b. **Issue:** MSMEs struggle to secure containers, with high costs and mandatory full container bookings for small orders, which increases export costs.

Recommendations:The government could negotiate with shipping companies to provide flexible container-sharing options for MSMEs, allowing smaller shipments to share container space. Additionally, subsidies or incentives could be offered to MSMEs to lower shipping costs.

c. **Issue:** The presence of cartels in the container industry leads to price manipulation, affecting MSMEs' export competitiveness.

Recommendations:The government must strengthen regulatory oversight of the container industry to dismantle cartels and promote fair competition. MSMEs should have access to a transparent and competitive shipping market.

d. **Issue:** European markets increasingly require Environmental, Social, and Governance (ESG) reports from MSME exporters, but many Indian MSMEs lack such frameworks due to policy gaps.

Recommendations: The government should introduce a clear ESG framework tailored to MSMEs, offering guidance and support for implementing sustainable practices. This could include access to funding for energy-efficient technologies, better waste management, and improved labour conditions, aligning them with GVC requirements.

e. **Issue:** Sudden changes in Harmonized System of Nomenclature (HSN) codes have led to unforeseen tax liabilities for MSMEs, adding financial strain.

Recommendation:The government should ensure that HSN codes do not change and even if they do there should be no retroactive tax penalties.

f. **Issue:** MSMEs struggle to gain visibility at international exhibitions due to insufficient support and poor stall placement, often located in low-traffic areas with negligible footfall. This restricts their ability to showcase products and engage with potential global buyers.

Recommendations: The government should provide financial assistance, grants, and logistical support, significantly improving their international visibility and competitiveness.

Additionally, it is essential to re-evaluate stall allocations, ensuring that MSMEs are strategically positioned in high-footfall areas. This approach will maximize their exposure and engagement with visitors, ultimately making their participation more effective and impactful[7].

10. Infrastructure Issues faced by MSMEs

a. Issue: The lack of sufficient CA storage facilities, particularly in states like Jammu & Kashmir, restricts MSMEs from capitalizing on export opportunities in sectors such as horticulture and floriculture.

Recommendations: The government should invest in expanding CA storage infrastructure to boost MSMEs' ability to access export markets. This can be done through public-private partnerships and offering financial incentives to encourage private sector involvement in setting up storage facilities.

[7] Bala Subrahmanya, M H. (2017)

b. **Issue:** The absence of rail freight corridors and all-weather roads to hilly regions, particularly in Jammu & Kashmir and Ladakh, leads to inefficient transportation, increased logistics costs, and restricted market access, negatively impacting MSME growth and competitiveness.

Recommendations: The government should prioritize the development of all-weather roads and rail freight corridors to improve market connectivity for MSMEs. Additionally, offering a transport subsidy tied to GST could help reduce logistics costs for businesses operating in remote areas.

c. **Issue:** Limited air connectivity and high airfare to Ladakh hinder tourism, a key economic driver in the region, as well as the flow of goods and services, impacting its ability to grow.

Recommendations: The government can ensure affordable air connectivity to Ladakh to promote tourism and enhance economic opportunities for local businesses. Expanding the UDAAN scheme to include subsidies for air travel could lower costs and boost visitor numbers.

11. Patent Related

Issue: Government procurement policies often prioritise MSMEs with patented technologies and 'Make in India' products. However, the requirement for international patents in tenders can hinder domestic MSMEs with innovative technologies.

Recommendations: To effectively support these businesses, government procurement policies should prioritise Indian patents. This would foster a stronger ecosystem for innovation and growth, empowering local businesses and enhancing the overall economic landscape.

12. Change of Land Use not permissible

Issue: MSMEs frequently encounter challenges when expanding their operations by acquiring adjacent land. Current regulations often impose complex and time-consuming approval processes for changes in land use, such as converting commercial land to factory production or vice versa. For instance, despite purchasing adjacent land for industrial purposes, obtaining a change in land use through the Uttar Pradesh State Industrial Development Authority (UPSIDA) can be cumbersome. Even in areas like Ispat Nagar, where numerous manufacturing units operate, the Kanpur Development Authority (KDA) has been reluctant to rezone the area from commercial to industrial.

Recommendations: The government must relax land use regulations for MSMEs to facilitate their growth and development. Allowing businesses to convert land between commercial, factory production, or warehouse operations without requiring significant additional approvals would minimize bureaucratic hurdles and lead to increased productivity. Furthermore, land authorities should proactively identify and declare certain areas adjoining MSME clusters as requiring no permission for land use changes.

13. Climate Change and Sustainability

Issue: Indian MSMEs generate significant carbon emissions, with 110 million tonnes of CO2 equivalent in 2015/16, mainly due to their reliance on coal, petroleum, and natural gas. Despite India's commitment to net zero by 2070, MSMEs face challenges in adopting clean energy due to limited financial resources, low awareness, and the absence of specific guidelines.

Recommendations: The government should encourage MSMEs to adopt sustainable practices by offering initiatives and providing them with a clear framework and guidance. It should offer climate finance initiatives, such as targeted grants and low-interest loans while leveraging international climate funds.

The government can incorporate energy audits into the ZED certification process which would enhance the sustainability framework by ensuring that MSMEs not only focus on product quality but also on energy efficiency.

Collaboration with financial institutions and large enterprises can also help MSMEs implement sustainable practices and transition to a low-carbon economy.

14. High Cost and Difficulty in Obtaining GI Tags

Issue: Many MSMEs face challenges in acquiring Geographical Indication (GI) tags, either due to the high cost or complex application process.

Recommendations: To address this issue, the government should consider providing free or subsidized GI certification to MSMEs, particularly in sectors like textiles, metals, and traditional arts. This would enhance the visibility and marketability of their products, protecting them from imitation and unfair competition. By lowering the cost barrier, MSMEs, especially those in rural or economically disadvantaged areas, can improve brand recognition, access larger markets, and command higher prices. This initiative would not only preserve traditional knowledge and cultural heritage but also foster inclusive economic growth.

15. Digital Divide in Industry 4.0 for MSMEs

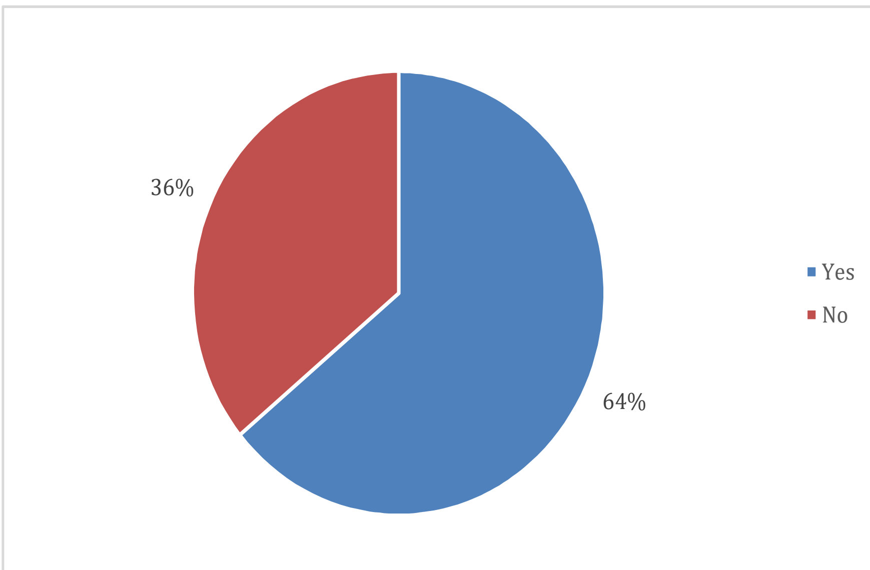
Issue: Many MSMEs in India face challenges in adopting Industry 4.0 technologies due to limited resources, expertise, and awareness. This digital divide hinders their growth and competitiveness.

Recommendations: To bridge the digital divide in Industry 4.0 adoption among MSMEs, policymakers and industry leaders should prioritize targeted support, awareness campaigns, and affordable technology solutions. This includes providing financial assistance, technical training, and mentorship programs to help MSMEs overcome the barriers of limited resources and expertise. Additionally, fostering partnerships between larger enterprises and MSMEs can facilitate knowledge sharing and technology transfer. By creating a more inclusive and supportive environment, MSMEs can benefit from Industry 4.0 technologies, enhancing their competitiveness and contributing to overall economic growth.

16. Judicial

Issues: Slow and lengthy judicial procedures present significant challenges for MSMEs, often delaying the resolution of disputes and hindering their operational efficiency. Figure 15 showsthat 64 percent of respondents agree that the judicial system presents challenges for them, while 36 percent of respondents selected "no," indicating they do not face such issues.

FIGURE 15: CHALLENGES POSED BY JUDICIAL SYSTEM



SOURCE: Survey, ASSOCHAM & EGROW

a. **Issue:** Contracts involving MSMEs often lead to legal disputes, which can be time-consuming and costly to resolve through the judicial system. MSMEs often have limited negotiating power with larger customers, making it difficult to secure legal restitution.

Recommendations: The government could establish fast-track courts specifically for MSMEs. These courts would provide efficient and timely resolution of disputes, reducing the burden on MSMEs and promoting a fairer business environment. The courts could also consider providing legal support for MSMEs.

b. **Issue:** MSMEs often face difficulties when large firms they work with undergo liquidation proceedings in the National Company Law Tribunal (NCLT). This can result in blocked payments and challenges in recovering outstanding dues.

Recommendations: It is essential that the NCLT prioritize MSME payments in its proceedings. Additionally, the government could strengthen debt recovery processes, promote transparency in liquidation proceedings, and explore the use of debt factoring to help MSMEs recover outstanding dues efficiently.

17. Insufficient Support Systems for MSMEs

Issue: MSMEs face challenges due to insufficient support systems, limiting their access to funding information, market trends, and regulatory requirements. This hinders their growth, partnerships, and participation in mentorship or skill development programs.

Recommendations: The government should establish MSME support hubs to provide centralized access to funding, market intelligence, and regulatory assistance. These hubs could also facilitate networking opportunities and mentorship programs, improving MSMEs' ability to innovate and grow.

18. Challenges faced by Regional/Sector Specific MSMEs

a. **Issue:** Cashew Traders in West Bengal face an additional 1 percent tax burden, which, combined with existing duties and GST, inflates operational costs and affects competitiveness.

Recommendation: Reduce the additional 1 percent tax burden on cashew traders to improve their competitiveness.

c. **Issue:** The higher GST on ACs in India compared to China reduces consumer purchasing power, impacting demand. Classifying ACs as luxury items rather than essential goods is a contributing factor.

Recommendations: Reclassify air conditioners as essential goods to reduce the GST rate and increase

c. Challenges Faced by Punjab MSMEs:

Issue:

i. **Declining Ease of Doing Business:** Punjab's EODB ranking is lower than neighboring states offering better incentives.

ii. **Rising Land Costs:** The high cost of land in Punjab makes business establishment expensive.

iii. **Labour Shortage:** Punjab's reliance on migrant labour is threatened by other states attracting entrepreneurs. The shortage of skilled manpower, exacerbated by the migration of Punjabis abroad, further limits the availability of a skilled workforce.

iv. **Limited Incentives:** Despite power subsidies, the industry receives minimal incentives, and the underutilized budget for capital expenditure hampers growth

Recommendations: To address these challenges, the government should:

v. **Improve Ease of Doing Business:** Streamline processes and offer better incentives to attract businesses.

vi. **Address Land Costs:** Provide affordable land allotment or subsidies to reduce the cost of business establishment.

vii. **Address Labour Shortage:** Promote skill development programs and vocational training to increase the availability of skilled manpower.

viii. **Increase Incentives:** Provide more incentives for MSMEs in Punjab, including larger allocations for capital expenditure. The Punjab government should prioritise actual purchases from Punjab MSMEs.

CHAPTER 5: CREATING AN ECO-SYSTEM FOR MSMEs TO FLOURISH: SELECT RECOMMENDATIONS

The growing capital intensity of large enterprises and given the challenges of Industry 4.0, the growth of MSMEs is imperative for an inclusive developed India by 2047. MSMEs accounted for about 30 percent of the GDP and 45 percent of exports. In the year 2023 the sector provided employment for more than 21 crore persons (22.07.2024, Udyam Portal). Moreover, a substantial fraction of MSMEs are headed by women and serve equalizers and enablers in several ways. However, most of the MSMEs operate in the informal sector and are characterized by low productivity.

In view of the increasing population, especially in the age group of 15-69 years, the burden of providing employment is anticipated to be MSMEs. The pattern of MSMEs that will emerge over the next two decades also need to be examined. The traditional projections of sectoral share of GDP will change with the application of AI/ML. Further, India has already made significant progress in pharma ceuticals including ayurvedic medicines, tourism, chip manufacturing, solar cells, electric vehicles and other high-tech industries. These sunrise industries can contribute in changing pattern of growth and bring about structural changes in the MSME sector. Hence, the growth and development of the MSMEs and their formalization will not only employ millions of persons but also empower those at the bottom of the income pyramid. This also has implications for tax receipts for the government.

In view of the challenges faced by MSMEs, following are the out-of-the-box recommendations aimed at creating a sustainable ecosystem in the medium and long term:

- Recommendations for the Government
- Recommendations for financial institutions

- Recommendations for the MSME sector

(I) RECOMMENDATIONS FOR THE GOVERNMENT

1. Availability of data for periodic policy interventions is imperative

The current lack of recent data on MSMEs (last census in 2005/06, NSSO data from 2015/16) is a major obstacle to effective policy making. To address this, an Annual Survey of MSMEs is needed. This survey could cover manufacturing enterprises comprehensively, while using a sample for service enterprises. District and Taluk Industries Centres could be utilized for nationwide data collection.

Beyond basic economic data (employment, investment, production, exports), information on technology adoption, innovation, and linkages (government, academia, large industries) is crucial. Regular data will allow for informed policy revisions that support the growth and transformation of the MSME sector.

Additionally, communication of government schemes and incentives to micro-enterprises needs improvement. This includes clear information on eligibility, procedures, and any changes. Better communication and support can significantly increase MSME utilization of these valuable programs.

2. GST and Corporate Income Tax for MSMEs

a. Currently, the GST Council has no representation from the MSME sector. It is imperative that the GST Council include at least one MSME representative to ensure that the concerns of the MSME sector are adequately addressed.

b. GST is a centralized tax framework with standardized rates and rules. However, state-level variations in procedures and administration may occur. It is imperative to eliminate these variations to ensure uniformity and reduce complications for businesses, especially inter-state transactions.

c. Reducing the Corporate Income Tax for MSMEs from 25 percent to 15 percent would provide significant financial relief, enabling them to allocate resources for sustainable growth, including compliance with Environmental, Social, and Governance (ESG) standards. Alternatively, offering accelerated depreciation for the initial five years could provide similar benefits.

d. Implementing a consolidated, calibrated GST and income tax system as a percentage of turnover for single-product MSMEs would simplify compliance and reduce the tax burden on these businesses. This approach would provide a clear and manageable tax structure, encouraging growth and ensuring that tax obligations are proportionate to revenue, thereby promoting a more favorable business environment for MSMEs.

e. Reduce the TDS burden on MSMEs by limiting tax deduction requirements to only salary payments and payments to non-residents. This change would ease the financial and administrative load on MSMEs, allowing them to allocate resources more effectively.

f. Establish a combined taxpayer unit to address both direct and indirect tax needs for MSMEs. This unit would streamline interactions, simplify tax compliance, and provide a single point of contact for all tax-related inquiries, enhancing support for MSMEs in navigating their tax obligations.

g. The government can implement a cloud-based accounting system for MSMEs that automatically converts invoices and bank statements into financial statements, this would streamline financial management. This solution would reduce manual entry errors, save time, and enhance accuracy, allowing MSMEs to focus on growth while maintaining clear financial oversight.

3. Promoting LSE-MSME Linkages[8]

Apex chambers and MSME associations should encourage partnerships between Large Scale Enterprises (LSEs) and MSMEs. This collaboration can benefit MSMEs through industrial sub-contracting, technological assistance, information sharing, and employee training. LSEs can also guide MSMEs in adopting green technologies to reduce carbon footprints and achieve sustainability. Additionally, such linkages can help MSMEs enter global value chains

[8] Bala Subrahmanya, M H. (2017)

and expand internationally, following the example of Japan's strong subcontracting relationships.

4. Promoting LSE-ITI Linkages

The Skill India Mission should be expanded to include linkages between LSEs and ITIs in each state. This would ensure a steady supply of skilled workforce for LSEs and contribute to the overall industrial ecosystem.

Case Study: Toyota Kirloskar Motor (TKM)

Toyota Kirloskar Motor (TKM) in Bangalore has signed an MoU with the Karnataka government to provide industry-specific skill training to ITI students. This aligns with the government's focus on "Make in India" and "Atmanirbhar Bharat." The TKM model can be replicated in other regions.

5. Promote linkages between Higher Education Institutions (HEIs) and MSMEs

Graduate and post-graduate degree students of engineering institutions must be encouraged to take up live problems from manufacturing MSMEs located in their vicinity for their project works. As project work is mandatory in engineering colleges, this will promote HEI-MSME relationships considerably for mutual benefit and may prompt many MSMEs to resort to technological innovations, with or without HEI support. Institutions like Indian Institute of Science, Bangalore have made it mandatory for post-graduate students (in some of the engineering departments) to take up live problems for their project work. This provides cost-free solutions to the technology/production related problems of MSMEs. This can play a role in inducing many of the MSMEs to adopt technologies compliant with Industry 4.0 and the goals of sustainability.

6. Sponsor Training Programs at HEIs for training MSME Employees

Financial institutions like SIDBI, NABARD, Export Credit and Guarantee Corporation of India (ECGCI), and Export-Import Bank of India (EXIM Bank) can periodically sponsor training programs for MSME employees at HEIs, particularly management institutes for the benefit of MSMEs. This would benefit existing MSMEs to overcome the problem of lack of skilled manpower for managerial work relating to obtaining approvals, exploring international markets, apart from day-to-day management. Engineering institutions may train MSME labour in the AI and automation sector, and in green manufacturing practices.

7. Introduce exclusive Management Programs for MSMEs

The management challenges faced by MSMEs are distinct and cannot be effectively addressed within the existing frameworks typically used in larger businesses. To tackle these unique issues, there is a pressing need to introduce an exclusive "Small Business Management" program in our business schools and universities. By offering a specialized curriculum tailored to the specific needs of MSMEs, educational institutions can better prepare graduates to support the growth and success of these enterprises. This targeted program would equip students with the necessary skills and knowledge to navigate the complexities of small business management, ultimately contributing to the overall vitality of the MSME sector.

8. Unorganized MSMEs call for a Differential Treatment

The MSME sector is diverse, with organized and unorganized segments. Unorganized enterprises often start as a means of survival rather than growth. These businesses primarily need access to finance and market identification. To support unorganized enterprises, a steady flow of credit through Small Finance Banks (SFBs) and fintech companies is crucial. Their focus remains on survival rather than expansion, with easy entry and exit from the market.

9. Exclusive policy for returnee entrepreneurs

China and India have attracted a growing number of entrepreneurs returning from developed countries. These returnees bring valuable knowledge, experience, and financial resources. They often focus on innovative products and services with a global market in mind, leading to the creation of deep-tech startups.

China has implemented policies and support systems, like science research parks, to attract returning Chinese entrepreneurs. India should explore similar strategies to encourage the return of Indian entrepreneurs and foster entrepreneurship and innovation, particularly in deep-tech startups.

10. Dedicated Media Channel for Information and Support

Small businesses come in all shapes and sizes, facing unique challenges depending on their location, industry, and financial needs. To address this diversity, the government should consider a multi-pronged approach to information dissemination:

a. **Dedicated MSME Channel:** Creating a dedicated radio or TV channel catering specifically to MSME concerns would provide a centralized platform for addressing common challenges, sharing success stories, and disseminating information on government schemes.

b. **Targeted Information ampaigns:** Regular advertisements in newspapers, magazines, and on television can actively reach MSMEs and keep them updated on relevant schemes and resources. This can be tailored based on state-specific issues or financial institution requirements.

c. **Leveraging Existing Platforms:** Utilizing established channels like All India Radio and existing agricultural TV programs can offer a wider reach for MSME-related information, drawing inspiration from the agricultural education model. This can be especially useful for agro-processing units.

By investing in these informational resources, the government can empower MSMEs with the knowledge they need to flourish. This will help in expanding financial literacy.

11. Integrated Infrastructure Townships (IITs) for MSMEs

a. Develop Integrated Infrastructure Townships for MSMEs (a revised version of the old Industrial Estate Development Program) across the country. District Industries Centres (DICs) must have an office in these IITs. It may include the following:

(a) Common Testing & R&D facilitating Centres,

(b) Financial institutions,

(c) Common Service Providers,

(d) housing for labour,

(e) Schools,

(f) hospitals,

(g) training centers for labour,

(h) export assistance centers, among others.

b. The government must designate a Small Industries Development Bank of India (SIDBI) officer in IITs.

c. IITs to include developed sheds (with IT infrastructure) with a higher proportion of allotment for micro-enterprises, followed by small enterprises, and then medium enterprises.

d. The growth-oriented MSMEs must be allowed to construct buildings vertically as they grow.

e. Export oriented MSMEs may be given a priority for the allotment of sheds, followed by those which generate employment, and then those which utilize local resources in a sustainable manner.

f. IITs must exploit solar energy in the best possible manner. Units within these IITs must adopt ESG practices, including cleaner technologies and waste management, at the outset.

g. All legal compliance-related agencies must have one single office (within DICs) in each of the IITs.

h. Even MNCs or domestic large enterprises may be allowed to develop IITs, for their own subcontractors.

i. State governments must allocate land for the development of IITs, on a priority basis.

j. Such IITs must establish interactions with HEIs in the field of technology, management, and exports.

k. Create a green channel clearance for e-commerce exports.

12. Entrepreneurial and MSME University (EMU)

To enhance employment generation through MSMEs, skill development should focus on both labour and entrepreneurship. While many skilling centers already exist, fostering entrepreneurship remains a significant challenge. Research and Development (R&D) for the approximately 6,000 goods produced by MSMEs is crucial, as each Indian state has unique products, such as Rajasthani razai and Punjabi jutti. Targeted research can improve production, supply chains, innovation, and quality, necessitating the establishment of a network of dedicated institutions similar to agricultural universities in every state.

A dedicated Entrepreneurship and MSME University (EMU) could combine academic instruction with practical experience to nurture self-confident entrepreneurs. This university would emphasize entrepreneurship, psychology, and leadership while also covering essential subjects such as accounting, HR, marketing, and business finance. Unlike traditional management programs, the EMU model would include hands-on training in existing MSMEs.

R&D is vital for product development, yet many MSMEs lack the necessary resources. Without it, traditional products struggle to compete with larger firms that continuously innovate. EMUs can play a crucial role in fostering innovation and entrepreneurship, acting as incubators for deep-tech start-ups while promoting collaboration among academia, industry, and government.

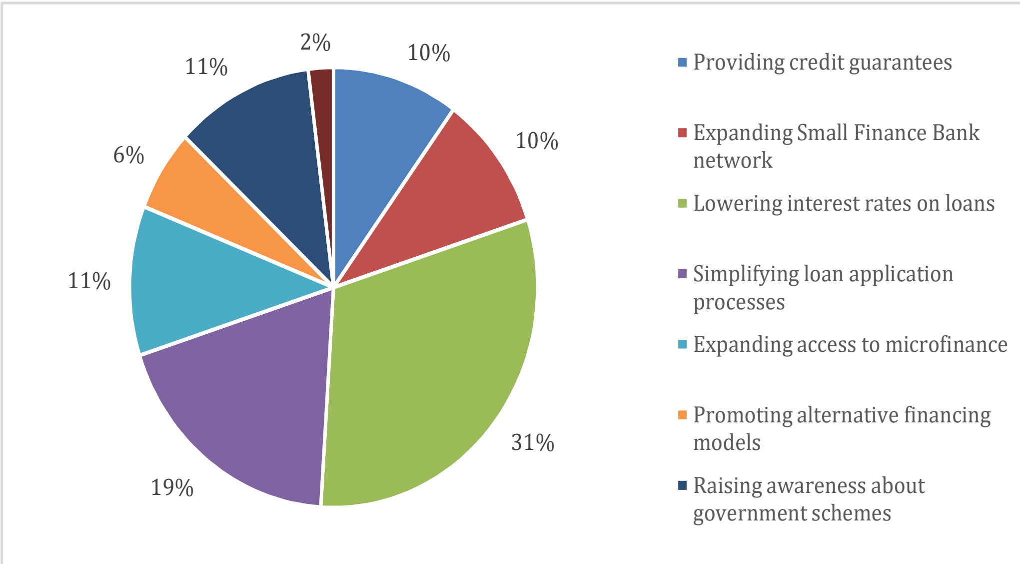
The government can implement various initiatives through state-specific EMUs, such as offering tailored advice to struggling MSMEs and creating financial schemes in collaboration with banks. EMUs can also promote local products, like Punjab's Phulkari and Tamil Nadu's cotton weaving, through exhibitions. By engaging with entrepreneurs in industrial clusters via MSME clinics, EMUs can provide expert advice in local languages, similar to how state agricultural universities contributed to food self-reliance in India.

To cultivate a vibrant entrepreneurial ecosystem, the government should consider Public-Private Partnership (PPP) models to establish EMUs connected to MSME clinics, creating a hub-and-spoke model in each state. The success of IIT Madras, with its Research Park and innovation initiatives, demonstrates the potential for EMUs to promote entrepreneurship and has resulted in over 350 start-ups, seven of which have reached unicorn status. Leveraging this model can facilitate the establishment of EMUs across India, fostering innovation and economic growth.

(II) RECOMMENDATIONS FOR FINANCIAL INSTITUTIONS

Governments aim to develop favourable policies for MSMEs, with their initiatives playing a vital role in the growth and development of these enterprises within the country. Figure 16 illustrates key expectations that MSMEs have from the government in the financial sector. The survey shows that 31 percent of respondents expect the government to emphasize that a lack of awareness about government schemes hinders their ability to fully benefit from the support provided.[9]

FIGURE 16: MSME EXPECTATIONS FROM GOVERNMENT



SOURCE: Survey, ASSOCHAM & EGROW

1. CREDIT APPLICATION PROCESS AND COLLATERAL FREE LOANS

Currently, credit approval and rejection processes are not made clear to the applicants. Although collateral-free loans are available, banks often ask for collateral in the form of personal properties of MSME owners. In addition, banks charge a higher rate of interest for collateral-free loans. To improve transparency and fairness, it is essential that banks disclose the number and amount of collateral-free loans granted, periodically.

In addition, the following issues must be considered:

a. Eliminate Unused Credit Charges: Abolish commitment charges for unused credit facilities, reducing unnecessary financial burdens on MSMEs.

b. Waive Annual Processing Fees: Eliminate annual processing charges specifically for MSMEs, simplifying the lending process.

c. Enable Easy Loan Portability: Allow MSMEs to easily transfer their loans to other banks without facing penalty fees for exiting or foreclosure.

9 Singh and Wasdani (2016)

d. Automatic Bank Guarantee Release: Automate the release of bank guarantees when no claims are made within the validity period. This eliminates the need for returning original bonds or obtaining written permission from borrowers.

e. Transparent OTS Schemes: Make One Time Settlement (OTS) schemes readily accessible and transparent on bank websites.

f. Granular Priority Sector Lending Data: Require banks to categorize and publish their priority sector lending data by micro, small, and medium enterprises. This data should be further broken down by sector, region, number of units financed, and loan amounts, providing greater transparency and Snsights into lending patterns.

2.DIVERTING PRIVATE SAVINGS TO CAPITAL MARKETS AS WELL AS MSMEs

To cope with the ever-increasing demand for credit from the MSME sector, it is imperative to attract private savings towards the capital market for MSMEs and introduce innovative financial models. In this regard, the following steps are suggested:

a. With the backing of SIDBI, MSME Associations may be permitted to float "MSME Bonds" periodically, with an interest rate equivalent to that is generally offered to senior citizens of the country. This would prompt more private savings to flow towards these alternative investments for the benefit of the MSME Sector. Such bonds should have a maturity period of five and 10 years, respectively, to enable long-term investments. This should eventually lead to the emergence of an exclusive MSME Debt Platform in the country.

b. Each State may be allowed to have MSME Cooperative Credit Societies floated jointly by Small Scale Industries Development Corporation (SSIDC), Micro, Small and Medium Enterprises Development Institute (MSMEDI) and MSME Associations, with MSMEs as members. These societies should be designed primarily to meet the working capital needs of MSMEs in each state.

c. Public Sector Banks may float exclusive MSME mutual funds to invest in MSMEs listed on SME Platforms of Bombay and National stock exchanges. MSMEs having a track-record of double-digit compound average rate of growth (CARG) for a period beyond three to five years, may be encouraged to get listed on SME platforms. In addition, 'born globals' (MSMEs which have entered the export market from the very first year of their inception) may be encouraged to get listed on SME platforms, for their long-term rapid growth.
d. To encourage R&D and innovations in MSMEs, an exclusive R&D Credit Guarantee Scheme may be launched by SIDBI and NABARD jointly. The R&D and Innovation project proposals must be vetted by a body of experts (constituted by the Department of Science and Technology) drawn from top NIRF ranking institutions in science, engineering and management.
e. Encourage Platforms that allow non-banks to lend directly to corporates and individuals. Such venues are suitable for MSMEs in their early development stage and must support the smaller SMEs: i.e. companies with fewer than 100 Full Time Employees (FTEs). These loan matching platforms facilitate the lending process between borrowers and investors through peer to peer (P2P), peer to business (P2B), investor to peer (B2P) or investor to business (B2B) transactions. They provide borrowers with access to a broader base of lenders, while providing lenders with opportunities for higher yield and diversification. One such model is Pure Match Model where the platform enables direct contact between borrowers and lenders (Peterhoff, Romeo, and Calvey, 2014).

3. MOBILE BANKS OR STREET BANKS FOR INFORMAL MICRO ENTERPRISES (IMES)

Most of the Informal Micro Enterprises (IMEs) need credit on a weekly and/or even daily basis, and not on an annual basis. They hardly have time to visit banks to do the requisite operations. As they borrow and do their business, they will be able to repay the loan, maybe, at the end of the day or at weekends. To facilitate the borrowings and repayments of such IMEs, it is essential to start 'mobile banking' or street-corner banks. If mobile banking is done, such mobile banks can visit the market centres and disburse loans at the beginning of the day and visit again to receive repayments at the end of the day/weekends. This would largely facilitate the business operations of IMEs, leading to higher labour productivity, and higher incomes. Since the frequency of borrowing and repayments is more, the rate of interest can be lower, and this can bring much more 'financial discipline' among the borrowers as well. Mobile banks or street corner banks can be a 'revolutionary helping hand' to IMEs leading to a considerable improvement in their financial health, thereby enabling many to grow beyond the informal sector.

4. SMALL FINANCE BANKS (SFBS) AND OVERALL CREDIT FLOW TO MSMES

SFBs were established to improve credit access for MSMEs, especially micro and small enterprises. The RBI released guidelines for licensing of SFBs in 2014/15, leading to the emergence of 12 SFBs. As of March 2020, 57 percent of SFB branches were located in rural and semi-urban regions, demonstrating their focus on financial inclusion. SFBs have a higher share in priority sector advances compared to traditional banking groups, indicating their effectiveness in supporting MSMEs. Most SFBs have shown healthy performance, contributing to the growth of micro and small enterprises. To further benefit MSMEs, it is imperative to expand the network of SFBs across the country.

(III) RECOMMENDATIONS FOR MSMES

The MSMEs must stay updated on changes that the government is making and it is their responsibility to adhere to rules and regulations related to regulatory compliance, GST returns filing, Income Tax payment and labour laws. Adopting ESG practices is crucial for the survival and sustainability of the MSME sector and the planet.Industry-institute interaction is vital for MSMEs to learn about technology upgradation, labour upskilling, managerial training, and international market trends.

Entrepreneurs in MSMEs need to ensure certain standards and maintain accurate and comprehensive accounting records to improve financial transparency and increase access to credit. Entrepreneurs should register their enterprises and renew all necessary licenses and registrations regularly. They need to develop prototypes and consider patenting their products before seeking external funding. Entrepreneurs also need to actively participate in trade fairs and industry

events to showcase products, enhance financial awareness, and build	relationships with potential investors and partners

CHAPTER 6: CONCLUSIONS AND WAY FORWARD

Micro, Small and Medium Enterprises (MSMEs) account for a considerable proportion of enterprises, employment, innovations, Gross Domestic Product (GDP), and exports in nations across the global economy, irrespective of their stage of development and prosperity. This has been so, irrespective of the varying rates of fertility and mortality of MSMEs, and despite the changing economic times characterised by intermittent economic crises, economic reforms, and industrial revolutions induced by technological advancements. Their persistent economic contributions are largely attributed to their flexibility, dynamism, need for limited investments, multiple options for entrepreneurial eruptions from diverse income groups, and relatively easy entry and easy exit feasibilities, among others.

It is their potential and actual economic contributions (in terms of employment and income, among others) which can absorb unskilled, skilled and academically (Science & Technology, and Management) qualified labour force, and thereby ensure a more equitable distribution of income and wealth (within an economy) which has consistently attracted the attention of policy makers and empirical researchers world over. Though varying forms of policy interventions have been introduced in different countries over a period of time, the challenges/constraints of MSMEs with respect to their access to finance, technology, labour, and markets persist.

In this study, key challenges have been identified, closely examined and specific recommendations made. In view of the young demographics that India has, the need is to create an ecosystem so that MSMEs become focus for employment, investment and growth. The study also makes important, out-of-box recommendations that are futuristic in nature and could foster financial inclusion, reduce income inequalities, lead to balanced regional growth and extensive academic – industry engagement.

The vastness of the country and heterogeneity in products that MSMEs produce would imply that the policy initiatives have to follow cafeteria approach, with a wide-spectrum approach. There is need for cluster approach as also incentives for state specific products. In some cases, the need would be to have a region based focussed approach combining the agro processing industry with manufacturing, especially in North India and North East, The competitive spiral of incentives only in one state can lead to supply side bottlenecks in neighbouring states. Therefore, the need is to have a close coordination between the Central Government and state governments. A national level institution like the GST Council, in spirit of cooperative federalism, for the MSMEs could be helpful in addressing many issues that lead to harmful competition between the states.

In the globally integrated world, 'cost' is an important parameter in measuring competitiveness. To integrate MSMEs into the global value chain, efforts have to be made to reduce the cost of doing business in India. In this context, governments, central and states, and financial institutions have a significant role to play. In Viksit Bharat, MSMEs will have to be efficient and productive to create and sustain employment, growth and exports. This will also strengthen the start-up culture and make-in-India initiative of the government. India has over 1,40,000 recognised start-ups of which more than a 100 unicorns operate successfully. The eco-system has been created and is benefitting the fintech immensely. The extension of technology is expected to reduce the cost of finances substantially over the next few years. The government is already considering RTGS in other currencies which will facilitate integration of domestic MSMEs with global value chains.

The country is marching towards the goal of Viksit Bharat which implies that many large industries would be set up across the country. Many of these industries, from India and abroad, are expected in sunrise sectors. This would be providing vast opportunities for MSMEs in manufacturing, trading and other services. Thus, the government and financial institutions need to prepare a road map integrating the MSME sector with the goals of Viksit Bharat, The MSME sector will have a pivotal role to play in Viksit Bharat and therefore needs to strengthen itself in the Amrit Kaal.

REFERENCES

- Bala Subrahmanya, M H. (2017). Internationalization of Bangalore SMEs: What determines their mode of entry and speed of entry?, Journal of International Business and Entrepreneurship Development, 10(4), 379-405.
- International Labour Organization (2022). MSME Productivity, Inclusive Growth and Decent Work Creation Report, https://www.ilo.org/media/373786/download#:~:text=economies%2C%202019&text=Labour%20productivity%20gap%20=%20100%20%E2%80%93%20(,inclusive%20growth%20and%20decent%20work.
- OECD (2024). Financing SMEs and Entrepreneurs AN OECD SCOREBOARD, https://www.oecd.org/en/publications/2024/03/financing-smes-and-entrepreneurs-2024_015c0c26.html.
- Peterhoff, D., Romeo, J., & Calvey, P. (2014). Towards better capital market solutions for SME financing, Oliver Wymann.
- Rossow, R. M. (2022).A MODEL COMPREHENSIVE MSME POLICY FOR INDIAN STATES, Center for Strategic and International Studies, https://www.csis.org/analysis/model-comprehensive-msme-policy-indian-states.
- Singh, C., & Wasdani, P. (2016). Finance for micro, small, and medium-sized enterprises in India: Sources and challenges.
- SME Finance Forum (2019). MSME Economic Indicators, https://www.smefinanceforum.org/data-sites/msme-country-indicators.
- Transparency International (2023). Corruption Perceptions Index (2023), https://www.transparency.org/en/cpi/2021.
- World Economic Forum (2024). Closing the small business productivity gap, World Economic Forum, https://www.weforum.org/agenda/2024/06/msme-productivity-gap-global-economy/.
- World Bank (2018). Small and Medium Enterprises (SMEs) Finance Report, https://www.worldbank.org/en/topic/smefinance.
- World Bank (2019). Ease of Doing Business rankings Archives, https://archive.doingbusiness.org/en/rankings.

ANNEXURES

ANNEXURE 1: DETAILED RESEARCH BASED RIGOROUS STUDY ON VIKSIT BHARAT

1. Defining Viksit Bharat and the 2047 Vision

“Viksit Bharat” or "Developed India" encapsulates the Indian government's ambitious vision to transform the nation into a developed country by its 100th year of independence in 2047. This comprehensive blueprint encompasses a wide range of goals, including economic prosperity, social progress, and environmental sustainability. To achieve this ambitious target, Viksit Bharat recognizes the pivotal role of diverse sectors in driving India's transformation.

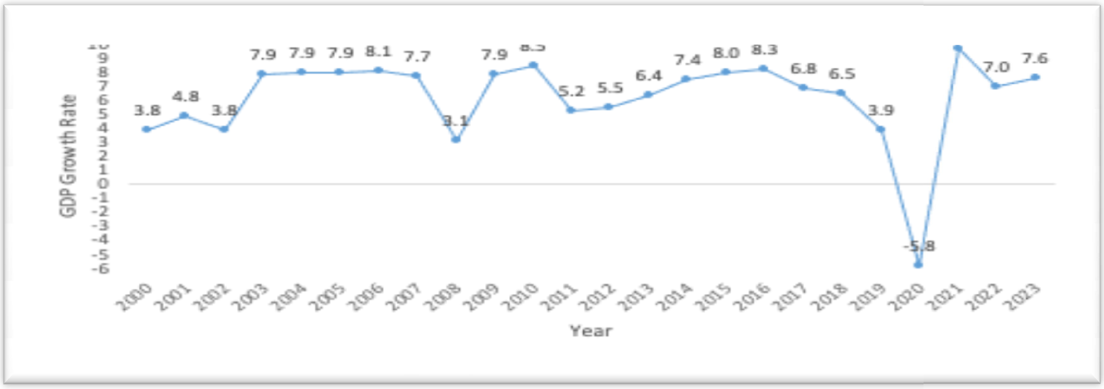
India aspires to become a developed nation by its centenary independence, characterized by a per capita income of US$14,000 (Source: World Bank), world-class infrastructure, and robust democratic governance. However, the country's diversity and size demand a more nuanced definition of development. Beyond economic growth, India must prioritize skill development, employment, and inclusive growth. Fostering Small and Medium Enterprises (SMEs), enhancing capital markets, and effective public-private partnerships are crucial for achieving these goals (Chengappa, 2024).

2. Background

India has emerged as the world's fifth-largest economy, poised to become the third-largest in the near future. This remarkable transformation over three-quarters of a century is a testament to the country's resilience and progress. From a poverty-stricken nation at independence, India has evolved into a burgeoning economic power. Its rich historical and cultural heritage underscores its potential for even greater achievements.

The year 1991 marked a turning point for the Indian economy, ushering in a period of liberalization, privatization, and globalization to replace the restrictive license-permit raj. Economic reforms were implemented to boost productivity and competitiveness. During this liberalization phase, the economy experienced robust growth, averaging a compound annual growth rate (CAGR) of 6.4 percent during 2003-2023. This consistent upward trajectory shows the potential of the Indian economy and suggests a promising outlook for sustained growth in the future.

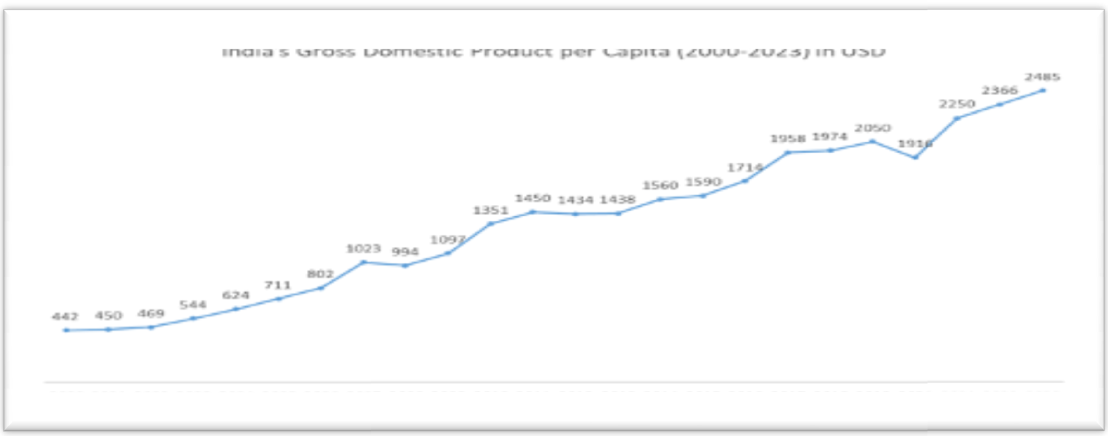
ANNEXURE FIGURE 1: GROSS DOMESTIC PRODUCT (GDP) GROWTH RATE



SOURCE: World Bank

Figure-1 of the annexure shows India's GDP growth rate since 2000, reflecting an overall upward trend with some downturns. In 2021, the GDP growth rate was 9.7%, and over the years, it has consistently stayed above 7%, indicating steady economic growth.

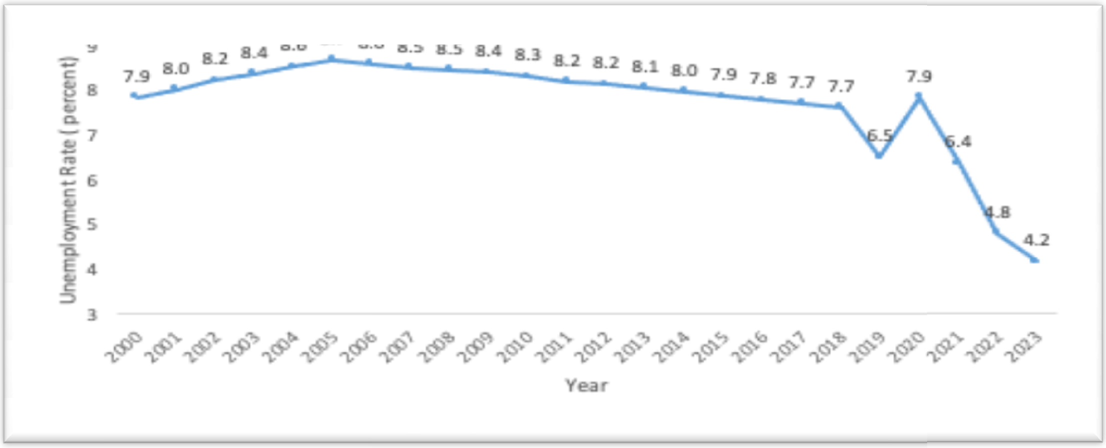
ANNEXURE FIGURE 2: INDIA'S PER CAPITA GDP



SOURCE: World Bank

Figure-2 of annexure illustrates the trajectory of per capita GDP growth over the past quarter-century. India's per capita GDP has exhibited substantial growth, rising from US$450 in 2001 to US$2485 in 2023, a 5.5-fold increase. This upward trend has propelled India from a low-income to a lower-middle-income country. However, to achieve the status of a developed nation by 2047, continued and accelerated growth is imperative.

ANNEXURE FIGURE 3: UNEMPLOYMENT RATE



SOURCE: World Bank

Figure-3 of annexure indicates a declining unemployment rate since 2005. However, in a developing economy like India, open unemployment, where individuals are able and willing to work at prevailing wages but cannot find decent jobs, is relatively low. The more significant challenge is underemployment, characterized by people working below their potential or earning inadequate wages. Therefore, it is imperative to increase not only per capita GDP but also productive employment within the economy over the next quarter century.

India has witnessed significant structural transformation in the last two decades; economic activities have shifted from predominantly agriculture to manufacturing, services, construction, and other sectors. This structural transformation towards more dynamic sectors accelerates economic growth by transferring resources from less productive to more productive sectors.

Table-1 of annexure presents the sector-wise distribution of value added and employment across six key sectors: Agriculture, Services, Manufacturing, Mining and Quarrying, and Electricity, Gas, and Water Supply. It shows that the value-added share in the agriculture sector declined from 26.1 percent in 2000-01, and to 15.3 percent in 2022-23. The value-added share in services increased from 44.5 percent in 2000-01, and 54.4 percent in 2022-23, which is more than half of the total value-added. However, the employment share in the agriculture sector declined from 59.3 percent in 2000-01 and further to 42.4 percent in 2022-23.

ANNEXURE TABLE 1: STRUCTURAL TRANSFORMATION IN INDIA

	Share in Value Added (%)		Share in Employment (%)	
Sectors	**2000-01**	**2022-23**	**2000-01**	**2022-23**
Agriculture	26.1	15.3	59.3	42.4
Manufacturing	15.5	16.9	10.9	10.6
Services	44.5	54.4	24.3	33.8
Mining and Quarrying	4.7	2.1	0.6	0.3
Construction	6.9	8.8	4.5	12.5
Electricity, Gas and Water Supply	2.4	2.4	0.3	0.4

SOURCE: EGROW's compilation

3. Projections for Viksit Bharat

For India to be a developed economy by 2047, it requires that the per capita income should cross the threshold of US$ 14,000, given the current level of per capita income of US$ 2,485 in 2023 (WDI). The per capita GDP needs to grow at a steady rate of about 7.5 percent per annum for the coming quarter century to reach the level of US$ 14000. If it is assumed that the cut-off per capita GDP increases to US$ 22518 by 2047, then the required growth rate for the per capita GDP for India should be 9.62 percent per annum till 2047 in nominal terms. The projected GDP figures in Indian Rupees for the year 2047 and the required rates to achieve it are given in Annexure table-2 and 3.

ANNEXURE TABLE 2: PROJECTED GROWTH RATE OF GDP FOR 2047-SCENARIO I

Variables	**2023**	**2047**
Scenario I		
Per Capita GDP (US$)	2485	14000
Population (Crore)	141.97	162.91
Nominal GDP (INR trillion)	294.12	2996.2
Nominal GDP (US$ trillion)	3.53	22.81
Assumption 1- Exchange Rate depreciates at the rate of INR 2 per year (INR)		
Exchange Rate depreciate at the rate of INR 2 per year (INR)	83.37	131.37
Nominal GDP Growth Rate (%)		10.15
Real GDP Growth Rate (%), inflation rate 4 percent		6.15
Assumption 2- Exchange Rate depreciates at the rate of INR 3 per year (INR)		
Exchange Rate depreciate at the rate of INR 3 per year (INR)	83.37	155.37
Real GDP Growth Rate (%)		7

SOURCE: EGROW's compilation

ANNEXURE TABLE 3: PROJECTED GROWTH RATE OF GDP FOR 2047-SCENARIO II

Variables	2023	2047
Scenario II		
Per Capita GDP (US$) of developed countries increases by 2 percent per year	2485	22518
Population (Crore)	141.97	162.91
Nominal GDP (INR trillion)	294.12	4819.2
Nominal GDP (US$ trillion)	3.53	36.68
Assumption 1- Exchange Rate depreciates at the rate of INR 2 per year (INR)		
Exchange Rate depreciate at the rate of INR 2 per year (INR)	83.37	131.37
Nominal Growth Rate (%)		12.36
Real Growth Rate (%); inflation rate 4 percent		8.36
Assumption 2- Exchange Rate depreciates at the rate of INR 3 per year (INR)		
Exchange Rate depreciate at the rate of INR 3 per year (INR)	83.37	155.37
Real GDP Growth Rate (%)		9

SOURCE: EGROW's compilation

In Scenario I (annexure table-2), under Assumption 1, it is projected that India will need a nominal GDP growth rate of 10.15 percent annually over the next 24 years to achieve developed country status by reaching a per capita GDP of US$14,000, as defined by the World Bank (2024). With an assumed inflation rate of 4 percent, the necessary real GDP growth rate for India to become a developed economy would be 6.15 percent annually. This trajectory would position India's GDP at approximately US$23 trillion in 2047. However, if the INR depreciates at a rate of INR 3 per year, a real GDP growth rate of approximately 7 percent would be required to achieve the projected per capita income levels over the entire 24 years.

Scenario II (annexure table-3) assumes a more dynamic definition of a developed economy, with the per capita GDP threshold rising by 2 percent annually to US$22,518 by 2047 to achieve developed country status. To attain this status by 2047, with the INR depreciating at INR 2 per year, India would require a nominal GDP growth rate of 12.36 percent and a real GDP growth rate of 8.36 percent, assuming an inflation rate of 4 percent. Under this scenario, India's GDP is projected to reach approximately US$37 trillion in 2047. For the second assumption, where the INR depreciates at

INR 3 per year, the real GDP growth rate would need to be approximately 9 percent to achieve the projected per capita income of US$22,518 by 2047.

To project sectoral employment growth scenarios, accurate estimates of the total labour force in 2047 are required. While the UN provides relatively precise population projections by age group to 2100, forecasting the labour force is more complex due to uncertainties surrounding labour force participation and unemployment rates. These factors are significantly influenced by policy and cultural dynamics.

Projected population growth indicates an increasing working-age population over the coming decades, albeit at a decelerating pace. Crucially, labour force growth is anticipated to outpace overall population growth.

In 2022-23, according to the RBI's KLEMS dataset, approximately 59.67 crore individuals were employed across various economic sectors. The UN reported a population of 100.53 crore within the 15-69 age group, indicating an employment rate of 59.36%. UN projections estimate India's population in 2047 to be 162.91 crore, with 118.38 crore falling within the 15-69 age bracket. Assuming a 65% employment rate in this age group, the working population in 2047 would be 76.94 crore. This implies a necessary creation of 17.28 crore new jobs, translating to an annual employment growth rate of 1.07% compared to the population growth rate of 0.68% within the 15-69 age group (annexure table-4).

ANNEXURE TABLE 4: PROJECTED EMPLOYMENT @ 2047

Variable	2023	2047
Total population	141.97 crore	162.91 crore
Population in age group 15-69	100.53 crore	118.38 crore
Employment	59.36 crore	76.94 crore*
Annual population growth in the age group 15-69	0.68 percent	
Annual required employment growth rate	1.07 percent	

* Computed with the assumption that 65 percent of the population aged 15-69 will be employed.

SOURCE: EGROW's compilation

Given projected GDP growth rates and sectoral GDP composition, annexure table-5 presents anticipated annual sectoral growth rates under Scenarios I and II. The table also shows the projected sectoral employment composition in 2047. It is expected that the manufacturing and service sectors will absorb about 67 percent of the working labour force and contribute more than three-fourth of GDP. In these sectors, the growth rate of annual employment should be more than 2.5 percent and the nominal growth rate of value added in the sectors should be about 11 percent and 13 percent under scenarios I and II, respectively. The growth rate of nominal GDP in the agriculture sector will vary between 7.5 to 9.5 percent under the two scenarios. To achieve such a high sectoral growth rate, a strong growth in exports of both manufacturing and service output is required since the domestic market may not be able to absorb the whole production.

A further analysis reveals a rising share of high-technology exports within the manufactured goods category. The export composition is thus evolving, with services and high-technology products gaining prominence. To optimize export performance, a balanced approach is essential. While increasing overall exports to stimulate manufacturing and service production is crucial, policymakers should also prioritize the growth of high-value-added sectors like services and high-technology products. Simultaneously, maintaining a competitive edge in labour-intensive goods, which support employment generation, is equally important.

The incremental capital-output ratio (ICOR) has averaged approximately 4.5 over the past decade, excluding the anomalous 2020. To maintain this level for the next 25 years and achieve a 7% annual growth rate (Scenario I, with an INR 3 annual rupee depreciation), gross fixed capital formation would need to be about 32% of GDP. This target is feasible, given that this metric has fluctuated between 28% and 31% of GDP in the past decade.

However, to accelerate growth to 9% (Scenario II, with an INR 3 annual rupee depreciation), while maintaining an ICOR of 4.5, a substantial increase in fixed capital formation to 40.5% of GDP would be required. Stimulating private investment is crucial for this. Domestic savings may prove insufficient, necessitating a sustained focus on attracting foreign direct investment (FDI). Between 2005 and 2013, the average savings-to-GDP ratio was 33.11%, peaking at 34.38% in 2007, while FDI constituted about 2% of GDP, reaching a high of 3.65% in 2008.

ANNEXURE TABLE 5: STRUCTURAL TRANSFORMATION @2047

	Employment Share (%)			GDP Share (%)			
Sectors	**2023**	**2047**	**Projected Annual Growth Rate**	2023	**2047**	Projected Annual Growth Rate Scenario I	Projected Annual Growth Rate Scenario II
Agriculture	42.41	22	-1.661	18.19	10	7.44	9.59
Manufacturing	10.58	15	2.546	14.34	18	11.2	13.43
Services	33.77	52.3	2.924	54.18	60	10.62	12.84
Mining and Quarrying	0.32	0.3	0.813	2.01	2	10.14	12.34
Construction	12.52	10	0.123	8.84	7.5	9.41	11.59
Electricity, Gas and Water Supply	0.4	0.4	1.016	2.45	2.5	10.25	12.45
Total/Overall	100	100	1.065	100	100	10.15	12.36

SOURCE: EGROW's compilation

4. Viksit Bharat and MSMEs

Given the growing capital intensity of large enterprises and the challenges of Industry 4.0, the growth of MSMEs is imperative for an inclusive developed India by 2047. MSMEs account for about 30% of the GDP and 45% of the exports. The sector provides employment for more than 21 crore persons. Moreover, a substantial fraction of MSMEs are headed by women and serve equalizers and enablers in several ways. However, there is a high degree of informalization in the sector and it is characterized by low productivity. Therefore, the growth and development of the MSMEs and their formalization will not only provide employment to millions of persons but also empower those at the bottom of the income pyramid. Thus, the following chapter discusses and analyses the MSMEs situation in the country and makes policy recommendations that facilitate the development of the sector.

ANNEXURE 2: EXISTING GOVERNMENT SCHEMES FOR MSME

Sl. No	Scheme Name
1	Prime Minister Employment Generation Programme(PMEGP)
2	Performance and Credit Rating Scheme
3	Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)
4	Interest Subsidy Eligibility Certificate (ISEC)
5	Market Promotion & Development Scheme (MPDA)
6	Revamped Scheme Of Fund for Regeneration Of Traditional Industries (SFURTI)
7	Coir Udyami Yojana (CUY)
8	Coir Vikas Yojana (CVY)
9	Development Of Production Infrastructure (DPI)
10	Domestic Market Promotion Scheme
11	Export Market Promotion
12	Trade and Industry Related Functional Support Services (TIRFSS)
13	Financial Support to MSMEs in ZED Certification Scheme
14	A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)
15	Credit Linked Capital Subsidy for Technology Upgradation
16	ISO 9000/ISO 14001 Certification Reimbursement
17	Lean Manufacturing Competitiveness for MSMEs
18	Design Clinic for Design Expertise to MSMEs
19	Entrepreneurial and Managerial Development of SMEs through Incubators
20	Enabling Manufacturing Sector to be Competitive through QMS&QTT
21	Building Awareness on Intellectual Property Rights (IPR)
22	International Cooperation
23	Marketing Assistance Scheme
24	Marketing Assistance & Technology Upgradation (MATU)
25	MSME Market Development Assistance (MDA)
26	Assistance to Training Institutions (ATI)
27	Micro & Small Enterprises Cluster Development (MSE-CDP)
28	EDP/MDP schemes
29	NER Schames
30	TCSP Schemes

SOURCE: Ministry of MSMEs

ANNEXURE 3: MSME APPROVAL REQUIREMENTS ACROSS MINISTRIES AND DEPARTMENTS

Sl. No.	Ministry & Departments	Approval
1	Ministry of Corporate Affairs:	Company registration Annual compliance filings
2	Central Board of Indirect Taxes and Customs (CBIC)	GST registration GST returns filing Customs clearance (if importing/exporting goods)
3	Ministry of Labour and Employment	Factory registration under Factories Act, 1948 Employee Provident Fund (EPF) registration Employee State Insurance (ESI) registration
4	Ministry of Environment, Forest and Climate Change	Environmental clearance (EC) Consent to operate (CTO) under Water and Air Acts
5	Ministry of Commerce and Industry:	Import-Export Code (IEC) registration Industrial Entrepreneur Memorandum (IEM) filing
6	Reserve Bank of India (RBI):	Foreign Exchange Management Act (FEMA) compliance Foreign investment approvals (if applicable)
7	National Small Industries Corporation (NSIC)	MSME registration NSIC certification (if applicable)
8	India Customs	Customs clearance (if importing/exporting goods) Customs duty payment (if applicable)
9	Central Pollution Control Board (CPCB)	Consent to operate (CTO) underWater and Air Acts Hazardous waste management authorization

ANNEXURE 4: MSMES REGISTRATION AND RENEWALS REQUIREMENT ACROSS MINISTRIES AND DEPARTMENTS

SL No	Area	Registration Required	Renewals
1	Registrations	• Udyog Aadhaar (MSME) Registration: Optional registration for micro, small, and medium enterprises. • Entrepreneur Memorandum (IEM) Filing: Required for new industrial projects or expansion of existing projects. • Industrial License: Required for industries producing scheduled products (e.g., defense, tobacco). • Consent to Establish (CTE) and Consent to Operate (CTO): Required for industries generating pollution. • Hazardous Waste Authorization: Required for industries generating hazardous waste. • Electrical Inspectorate Approval: Required for industries using electrical installations. • Boiler Inspectorate Approval: Required for industries using boilers. • Weight and Measures Registration: Required for industries dealing with weights and measures. • Industrial Development and Regulation (IDR) Act Registration: Required for industries producing scheduled products.	• Udyog Aadhaar (MSME) Registration Renewal: Optional renewal • Industrial License Renewal: Periodic renewal required. • Consent to Operate (CTO) Renewal: Annual renewal required. • Hazardous Waste Authorization Renewal:
2	Labour	• Registration under the Factories Act, 1948: Required for industries employing more than 10 workers.	• Factory License Renewal: Annual renewal required. • ESI Registration

		• Shop and Establishment Registration: Required for all industries, including manufacturing units. • Employee State Insurance (ESI) Registration: Required for industries employing more than 10 workers. • Employee Provident Fund (EPF) Registration: Required for industries employing more than 20 workers. • Professional Tax Registration: Required for industries employing more than 20 workers. • Contract Labour Registration: Required for industries employing contract labour. • Labour License: Required for industries employing more than 20 workers. • Minimum Wages Notification: Compliance with minimum wage rates is mandatory. • Payment of Bonus Act, 1965: Compliance with bonus payment rules is mandatory. • Annual Returns and Registers: Maintenance of annual returns and registers is mandatory under various labour laws.	Renewal: Annual renewal required. • EPF Registration Renewal: Annual renewal required. • Professional Tax Registration Renewal: Annual renewal required. • Labour License Renewal: Annual renewal required.
3	National Green Tribunal) and State Pollution Control Board registrations	• Environmental Clearance (EC): Required for industries with a high environmental impact. • Environmental Audit: Periodic environmental audit required. State Pollution Control Board: • Consent to Establish (CTE): Required for industries generating pollution. • Consent to Operate (CTO): Required for industries generating pollution. • Hazardous Waste Authorization: Required for industries generating hazardous waste.	• CTE Renewal: Periodic renewal required. • CTO Renewal: Annual renewal required. • Hazardous Waste Authorization Renewal: Periodic renewal required. • Air and Water Consent Renewal: Periodic renewal required. • Environmental

		• Air and Water Consent: Required for industries emitting pollutants into air and water. • Environmental Statement: Annual environmental statement required. • Waste Management Authorization: Required for industries generating waste.	Statement Renewal: Annual renewal required. • Waste Management Authorization Renewal: Periodic renewal required.

ABOUT ASSOCHAM

The Associated Chambers of Commerce & Industry of India (ASSOCHAM) is the country's oldest apex chamber. It brings in actionable insights to strengthen the Indian ecosystem, leveraging its network of more than 4,50,000 members, of which MSMEs represent a large segment. With a strong presence in states, and key cities globally, ASSOCHAM also has more than 400 associations, federations and regional chambers in its fold.

Aligned with the vision of creating a New India, ASSOCHAM works as a conduit between the industry and the Government. The Chamber is an agile and forward-looking institution, leading various initiatives to enhance the global competitiveness of the Indian industry, while strengthening the domestic ecosystem.

With more than 100 national and regional sector councils, ASSOCHAM is an impactful representative of the Indian industry. These Councils are led by well-known industry leaders, academicians, economists and independent professionals. The Chamber focuses on aligning critical needs and interests of the industry with the growth aspirations of the nation.

ASSOCHAM is driving four strategic priorities - Sustainability, Empowerment, Entrepreneurship and Digitisation. The Chamber believes that affirmative action in these areas would help drive an inclusive and sustainable socio-economic growth for the country.

ASSOCHAM is working hand in hand with the government, regulators and national and international think tanks to contribute to the policy making process and share vital feedback on implementation of decisions of far-reaching consequences. In line with its focus on being future-ready, the Chamber is building a strong network of knowledge architects. Thus, ASSOCHAM is all set to redefine the dynamics of growth and development in the technology-driven 'Knowledge-Based Economy. The Chamber aims to empower stakeholders in the Indian economy by inculcating knowledge that will be the catalyst of growth in the dynamic global environment.

The Chamber also supports civil society through citizenship programmes, to drive inclusive development. ASSOCHAM's member network leads initiatives in various segments such as empowerment, healthcare, education and skilling, hygiene, affirmative action, road safety, livelihood, life skills, sustainability, to name a few.

ABOUT EGROW FOUNDATION

The Foundation for Economic growth and Welfare (EGROW Foundation) is a non-profit, multi-disciplinary public policy organisation engaged in independent, high quality research in the areas of macroeconomic policy, public welfare, national security and diplomacy.

Established with the vision to position the Foundation as a premier think tank globally, contributing to formation of sound public policies, especially in India and in the region, the EGROW Foundation aims to provide research based support to policy making. Its objectives include providing a platform for socio-economic policy analysis to foster steady and sustainable growth, generating debate on existing and emerging issues with academia, area specialists and policy makers, and supporting India's leadership, impact and contribution to global development.

The EGROW Foundation engages in research areas such as economic growth and the role of public sector; agriculture and rural development; banking, financial, fiscal and monetary issues; population, health and nutrition; national security and geopolitics; and skills and entrepreneurship.

Among its many activities, the main ones include Research Studies and Working Papers, Research on Policy Issues, Webinars, Seminars and Expert Talks, Education, Trainings and Workshops, and Consultancy in India and abroad.

For more details please visit https://egrowfoundation.org

ASSOCHAM™
· Ideate · Innovate · Impact ·

The Associated Chambers of Commerce and Industry of India
4th Floor, YMCA Cultural Centre and Library Building 01,
Jai Singh Road, New Delhi - 110001
Tel: 011-46550500 (Hunting Line) -
Fax: 011-23347008/9
www.assocham.org

EGROW
Foundation for Economic Growth and Welfare

EGROW Foundation
Foundation for Economic Growth & Welfare,
998, Sector 29, Noida,
Uttar Pradesh 201301
E: admin@egrowfoundation.org
T: +91-120-3693-886
M: **08527341080**
www.egrowfoundation.org