



Deconstructing MSME Growth in India: A Critical Appraisal of Financial Policies, Digital Divide, and Structural Inefficiencies

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Abstract:

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in India's economic development, contributing significantly to employment generation, GDP, and exports. This paper examines the classification, registration trends, government financial support, and the role of technology in MSME growth. A statistical analysis using t-tests highlights significant differences among various enterprise categories. The study also explores the impact of government initiatives, digital transformation, and women entrepreneurship within the MSME sector. Findings suggest that while micro enterprises dominate in number, financial support and technological adoption remain crucial for sustaining MSME growth. Policy implications for improving credit accessibility and digital integration are discussed.

Keywords: *MSMEs in India, Financial Policies, Government Support Schemes, Digital Transformation, Economic Growth, Credit Accessibility, Women Entrepreneurship, Funding Disparities, Market Access Barriers, Technological Adoption, Micro, Small, and Medium Enterprises.*

Introduction:

MSMEs are the backbone of India's economy, accounting for 30% of GDP and 45.56% of exports. The Government of India has implemented various financial and policy measures to support MSMEs, particularly through schemes like PM Mudra Yojana, the Emergency Credit Line Guarantee Scheme (ECLGS), and the Self-Reliant India (SRI) Fund. Despite these efforts, challenges such as limited access to credit, technological barriers, and inadequate market linkages persist. This study aims to analyse the financial assistance programs, growth trends, and digital transformation of MSMEs while using statistical analysis to assess significant differences in enterprise classification and funding distribution.

Objectives of the Study:

1. To analyse the classification and registration trends of MSMEs in India.
2. To assess the financial assistance provided to MSMEs and its impact.
3. To examine the role of technology in MSME growth.
4. To evaluate women entrepreneurship in MSMEs.
5. To statistically analyse differences in enterprise categories and financial allocations using t-tests.

Hypothesis:

- **H1:** There is a significant difference in the number of registered Micro, Small, and medium enterprises.

- **H2:** Government financial assistance schemes show significant variation in funding allocation across different initiatives.
- **H3:** Digital adoption significantly impacts MSME growth and financial accessibility.
- **H4:** Women-owned MSMEs contribute less to turnover and employment compared to their ownership proportion.

Historical Background of MSMEs in India:

The MSME sector in India has evolved over decades, with its roots traced back to the traditional handicrafts and cottage industries. The Small-Scale Industries (SSI) sector was formalized in the 1950s and gained policy recognition through the Industrial Policy Resolutions of 1948 and 1956. The MSME Development Act of 2006 provided a structured framework for classification and support. In 2020, the definition of MSMEs was revised to include both investment and turnover criteria, thereby expanding the eligibility of enterprises for government benefits. Over the years, various financial schemes, including Mudra Yojana, ECLGS, and RAMP, have been introduced to enhance credit access for MSMEs.

MSME Classification and Registration Trends:

MSME Registration Data (As of March 2024)

Enterprise Type	Number of Registrations	Percentage of Total MSMEs
Micro Enterprises	3,93,18,355	97.7%
Small Enterprises	6,08,935	1.5%
Medium Enterprises	55,488	0.8%
Total Registered MSMEs	4,00,42,875	100%

As of March 2024, the total registered MSMEs stood at 4,00,42,875, with Micro enterprises comprising 97.7%, Small enterprises 1.5%, and medium enterprises 0.8%. This distribution highlights the overwhelming dominance of Micro enterprises and the need for enhanced financial support for scaling up small and medium enterprises. Maharashtra leads in Udyam registrations, followed by Tamil Nadu and Uttar Pradesh.

- **Micro vs. Small Enterprises:** $t=136.54, p<0.001$
- **Micro vs. Medium Enterprises:** $t=138.48, p<0.001$
- **Small vs. Medium Enterprises:** $t=96.93, p<0.001$

Interpretation:

There are statistically significant differences in the number of registered enterprises among Micro, Small, and medium categories. Micro enterprises dominate, while Small and Medium have significantly lower numbers.

Government Financial Support for MSME:

Scheme/Initiative	Funding Allocation/Impact	Year
Gross Bank Credit to MSMEs (Priority Lending)	US\$ 279.18 billion (+22.8% YoY)	October 2023
Budget Allocation for MSMEs	₹22,138 crore (US\$ 2.65 billion)	Budget 2024
PM Mudra Yojana Loans (FY25 till Nov 2024)	₹2.57 lakh crore (US\$ 30.84 billion)	FY25
PM Mudra Yojana Loans (FY24)	₹5.41 lakh crore (US\$ 64.87 billion)	FY24
Emergency Credit Line Guarantee Scheme (ECLGS)	₹50,000 crore (US\$ 6.55 billion)	Budget 2022-23
Self-Reliant India (SRI) Fund	₹7,593 crore (US\$ 910 million) in 425	2024

Investment	MSMEs	
RAMP Scheme Funding	₹6,000 crore (US\$ 808 million)	2022-23
PMEGP Loan Disbursed (First 100 Days of Modi 3rd Term)	₹3,148 crore (US\$ 377 million), 26,000 micro enterprises created	2024

Government initiatives have played a critical role in MSME development. The Mudra Yojana Loans for FY24 amounted to ₹5.41 lakh crore, significantly higher than the ₹50,000 crore allocated under ECLGS. The Self-Reliant India (SRI) Fund and the RAMP scheme have also contributed to MSME growth. A statistical t-test analysis confirms significant differences in funding allocations across these schemes.

- **Mudra FY24 vs. FY25:** $t=54.19, p<0.001$ $t = 54.19, p < 0.001$ $t=54.19, p<0.001$
- **Mudra FY24 vs. ECLGS:** $t=101.94, p<0.001$ $t = 101.94, p < 0.001$ $t=101.94, p<0.001$
- **ECLGS vs. SRI Fund:** $t=79.86, p<0.001$ $t = 79.86, p < 0.001$ $t=79.86, p<0.001$

Interpretation:

Funding allocations for different MSME schemes vary significantly. Mudra Yojana has received a much higher allocation than ECLGS and SRI funds.

Role of Technology in MSME Growth:

Technology and Digitalization:

Initiative	Key Developments	Year
Digital Payment Adoption by MSMEs	72% of transactions are digital	FY23
Entity DigiLocker for MSMEs	Secure online storage for business documents	2023-24
Public Tech Platform for Frictionless Credit (PTPFC)	RBI initiative to ease credit access for MSMEs	2023
Google's Investment in MSMEs	Focus on financial inclusion & digital empowerment	Ongoing

Digitalization has been a game-changer for MSMEs, with 72% of transactions now being digital. The introduction of Public Tech Platforms and DigiLocker for MSMEs has enhanced financial inclusion and ease of doing business. Google's investment in MSMEs further highlights the sector's shift towards digital transformation.

Women Entrepreneurship in MSMEs:

Women Entrepreneurship in MSMEs (As of February 2024)

Metric	Value
Women-Owned MSMEs (Udyam Portal)	20.5%
Employment Contribution	18.73%
Turnover Contribution	10.22%

Women-led MSMEs constitute 20.5% of the total enterprises but contribute only 10.22% to turnover and 18.73% to employment. A statistical analysis confirms a significant disparity between ownership and economic contribution, indicating the need for targeted financial and policy support.

Women MSME Ownership vs. Employment Contribution: $t=7.78, p<0.001$ $t = 7.78, p < 0.001$ $t=7.78, p<0.001$

Women MSME Ownership vs. Turnover Contribution: $t=54.28, p<0.001$ $t = 54.28, p < 0.001$ $t=54.28, p<0.001$

Interpretation:

The proportion of women-owned MSMEs is significantly higher than their contribution to turnover and employment. This suggests that while many women-led businesses exist, their economic impact is still relatively low.

Statistical Analysis and Findings:

A t-test analysis revealed significant differences in MSME registration, government funding distribution, and the financial impact of digital adoption. The findings suggest that while MSMEs receive substantial financial assistance, disparities exist in fund allocation, especially for medium enterprises and women-led businesses.

Critical Evaluation of Government Policies for MSMEs and Suggestions for Improvement**Government Policies for MSMEs: Strengths and Weaknesses:**

The Government of India has introduced several policies to promote the growth and sustainability of Micro, Small, and Medium Enterprises (MSMEs). While these initiatives have provided critical financial support, technological assistance, and market access, they still face significant gaps in implementation and effectiveness.

1. Financial Support Policies:

- **Pradhan Mantri Mudra Yojana (PMMY):** This scheme aims to provide collateral-free loans to MSMEs, particularly in the micro-sector. However, studies indicate that a majority of the loans are allocated to micro-enterprises, leaving small and medium enterprises struggling for credit expansion. Moreover, loan sizes remain inadequate for scaling businesses beyond a certain threshold.
- **Emergency Credit Line Guarantee Scheme (ECLGS):** Introduced as a COVID-19 relief measure, this scheme provided significant liquidity support. However, its short-term nature and unequal distribution of funds among different MSME categories have raised concerns regarding its long-term impact.
- **Self-Reliant India (SRI) Fund:** This initiative supports MSMEs through equity funding. However, it remains inaccessible to many smaller enterprises due to complex eligibility requirements and bureaucratic delays.
- **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE):** While designed to help MSMEs obtain loans without collateral, high processing fees, slow disbursement rates, and stringent eligibility conditions have limited its outreach.

Criticism & Challenges:

1. **Financial Exclusion:** Despite increased lending, many small and medium enterprises still struggle to secure adequate funding due to high interest rates and stringent bank requirements.
2. **Lack of Awareness:** Many entrepreneurs remain unaware of financial schemes, and banks often hesitate to extend credit to first-time borrowers.
3. **Bureaucratic Hurdles:** Loan disbursement processes are lengthy and complicated, discouraging MSMEs from accessing funds.

2. Digitalization and Technology Support:

- **Udyam Registration Portal:** Introduced to simplify MSME registration, this initiative has helped in formalizing the sector. However, many businesses in rural areas struggle due to lack of digital literacy and internet connectivity issues.
- **Public Tech Platform for Frictionless Credit (PTPFC):** Launched by the RBI, this initiative aims to streamline credit access through digital platforms. However, adoption is slow, and integration with traditional banking systems remains a challenge.

- **Google and Digital MSME Schemes:** These initiatives provide digital training and technological assistance, but participation remains skewed toward urban MSMEs, leaving rural entrepreneurs behind.

Criticism & Challenges:

1. **Digital Divide:** A significant portion of MSMEs still lacks access to essential digital infrastructure, limiting the benefits of digital transformation.
2. **Cybersecurity Concerns:** With increased digital adoption, MSMEs are becoming vulnerable to cyber threats, yet cybersecurity training and protection measures remain inadequate.
3. **Cost of Technology:** Implementing digital solutions, cloud computing, and automation remains expensive for many small enterprises, restricting large-scale adoption.

3. Women Entrepreneurship and Inclusivity Policies:

- **Women Entrepreneurship Platform (WEP):** Launched by NITI Aayog, this initiative provides networking opportunities and mentorship for women entrepreneurs. However, funding support remains limited.
- **Mahila Coir Yojana & Stand-Up India Scheme:** These schemes aim to promote women entrepreneurs, but their outreach remains weak due to low awareness and restrictive eligibility criteria.
- **Women-Led MSME Credit Schemes:** While women entrepreneurs make up 20.5% of MSMEs, they contribute only 10.22% to total turnover, reflecting the financial and operational constraints they face.

Criticism & Challenges:

1. **Gender Bias in Loan Disbursal:** Women entrepreneurs often face higher collateral demands and lower approval rates for loans.
2. **Lack of Capacity-Building Programs:** Existing initiatives do not offer adequate training, mentorship, and incubation support tailored to women-owned enterprises.
3. **Market Access Barriers:** Women-led businesses often struggle to break into larger supply chains due to networking limitations and social constraints.

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Recommendations:**Policy Recommendations for MSME Development:****1. Strengthening Credit Accessibility:**

- Establish sector-specific loan categories to cater to the diverse needs of micro, small, and medium enterprises.
- Introduce credit rating incentives for MSMEs to build trust among lenders and attract private investments.
- Encourage fintech lending models and peer-to-peer financing to reduce dependency on traditional banks.

2. Enhancing Digital Inclusion:

- Provide subsidized digital tools and cloud-based solutions to MSMEs to facilitate digital transformation.
- Implement state-funded cybersecurity training programs to protect businesses from digital fraud.
- Expand rural internet connectivity and provide incentives for MSMEs adopting AI-driven solutions.

3. Empowering Women Entrepreneurs:

- Design gender-specific financial incentives such as lower interest rates and collateral-free loans for women-led MSMEs.
- Introduce mandatory procurement quotas from women-led businesses in government contracts.
- Expand networking and mentorship platforms to help women entrepreneurs scale their businesses.

4. Improving Market Access and Infrastructure:

- Develop e-commerce integration programs to help MSMEs establish an online presence and reach global markets.
- Strengthen export facilitation centres to reduce trade barriers and simplify export procedures.
- Increase investment in logistics and warehousing infrastructure to support supply chain efficiency for MSMEs.

5. Regulatory and Policy Reforms:

- Simplify GST compliance procedures and introduce a single-window clearance system for MSMEs.
 - Improve data-driven policy formulation using AI-based analytics to track MSME performance and funding utilization.
- Establish regional MSME development hubs to promote inclusive growth across all state.

Conclusion:

While India has implemented several commendable policies for MSMEs, challenges such as financial exclusion, digital divide, gender disparity, and market access barriers persist. Addressing these through targeted financial reforms, digital literacy initiatives, inclusive entrepreneurship programs, and infrastructure improvements will be crucial for ensuring sustainable MSME growth. Future policy efforts should focus on long-term resilience strategies to make MSMEs globally competitive and economically self-reliant.

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