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A Study on Key Challenges Confronting Micro, Small, and Medium Enterprisesin India

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ABSTRACT
Micro, Small, and Medium Enterprises (MSMEs) playing a crucial role in the upliftment of poverty in India. MSMEs contribute more than 29 percent to the Gross Domestic Product (GDP0 and are responsible for 50 percent of the country's total exports, but these days these are facing different constraints for their smooth functioning like financial, marketing, operational and technological. For this study primary as well as secondary data was collected from different MSMEs in India. Major obstacles that prevent MSMEs from taking advantage of government initiatives include difficult application processes, low awareness, and insufficient support networks. Adherence to financial reporting guidelines promotes openness and aids companies in showcasing their financial well-being to investors, lenders, and stakeholders. The impediment to enhancing productivity and competitiveness is the high expense of adopting new technologies, along with low technical understanding and limited awareness. By removing these obstacles, the government can help MSMEs operate more effectively, increase their GDP contribution, and create job opportunities.
Key words: Micro, Small, and Medium Enterprises (MSMEs), Constraints, Finance, Technology, and Marketing etc.

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) have emerged as the backbone of India's economy, contributing significantly to its growth trajectory. With their dynamism, flexibility, and innovation, MSMEs play a pivotal role in driving economic development, fostering entrepreneurship, generating employment, promoting inclusive growth, and enhancing export competitiveness. This essay explores the multifaceted contributions of MSMEs to India's economic landscape and underscores their critical importance in sustaining and accelerating the nation's growth momentum.MSMEs form the bedrock of India's industrial ecosystem, accounting for a substantial share of industrial output, manufacturing employment, and export earnings. With their diverse presence across sectors such as manufacturing, services, agro-processing, and handicrafts, MSMEs contribute around 30% to India's GDP, making them indispensable for economic progress.

One of the most significant contributions of MSMEs is their role in employment creation. These enterprises are labour-intensive, providing livelihood opportunities to millions, especially in rural and semi-urban areas where job opportunities are scarce. MSMEs account for over 40 percent of India's total workforce, absorbing surplus labour and mitigating unemployment challenges.

MSMEs serve as incubators for entrepreneurship, fostering a culture of innovation and experimentation. They provide a conducive environment for budding entrepreneurs to translate ideas into viable businesses, driving technological advancements, and fostering competitiveness. Moreover, the flexibility inherent in MSMEs enables them to swiftly adapt to changing market dynamics, fuelling innovation and productivity gains.

MSMEs play a pivotal role in enhancing India's export competitiveness, particularly in sectors like textiles, gems and jewellery, handicrafts, and engineering goods. These enterprises constitute a significant portion of India's export basket, leveraging their agility and cost-effectiveness to capture global markets. Furthermore, MSMEs contribute to import substitution by manufacturing products domestically, thereby reducing reliance on imported goods and promoting self-reliance.

Recognizing the pivotal role of MSMEs in India's economic growth, the government has implemented various policies and initiatives to promote their development and competitiveness. The government provides financial assistance and credit facilities to MSMEs through schemes such as the Prime Minister's Employment Generation Programme (PMEGP), Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE), and Stand-Up India scheme. Additionally, initiatives like the MUDRA (Micro Units Development and Refinance Agency) Bank aim to provide financial support and promote entrepreneurship among micro-enterprises.

2. Review Literature

Despite efforts to provide financial assistance and improve access to credit for MSMEs in India, several constraints persist, hindering both the growth of these enterprises and the overall economic development of the country. Even when MSMEs manage to access credit, they often face high-interest rates and processing fees, which increase the cost of borrowing. The high cost of funds reduces the profitability of MSMEs and limits their capacity to invest in technology upgrades, skill development, and market expansion. Despite government initiatives to promote MSMEs, there are gaps in institutional support systems at the grassroots level. MSMEs often face challenges in navigating complex administrative procedures, obtaining necessary licenses and approvals, and complying with regulatory requirements. The present study highlights some constraints faced by MSMEs that required to addressed for their growth journey.

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in driving economic growth, fostering innovation, and promoting employment generation globally. Financial constraints are among the most pervasive challenges faced by MSMEs. Research by Beck, Demirguc-Kunt, and Maksimovic (2005) highlights the limited access to credit, high collateral requirements, and high-interest rates as major barriers to financing for MSMEs. Similarly, Fatoki and Smit (2011) emphasize the importance of financial assistance and credit access for MSMEs in South Africa, identifying lack of collateral, bureaucratic hurdles, and risk aversion among lenders as significant constraints. MSMEs often encounter regulatory and administrative hurdles that impede their operations and growth prospects. A study by World Bank (2019) identifies cumbersome registration procedures, complex tax regulations, and regulatory compliance costs as major challenges for MSMEs in emerging economies. Similarly, Mahmood, Rahman, and Akhter (2019) highlight the regulatory burden, licensing requirements, and bureaucratic delays as key constraints faced by MSMEs in Bangladesh. nfrastructure and technology constraints pose significant challenges for MSMEs, particularly those operating in remote or underserved areas. Research by Akpan, Bassey, and Eyo (2019) underscores the importance of infrastructure development, including road networks, power supply, and internet connectivity, for enhancing the competitiveness of MSMEs in Nigeria. Similarly, Sarker and Rashid (2015) emphasize the role of technology adoption and innovation in overcoming constraints and improving productivity among MSMEs in Bangladesh.

MSMEs often struggle to access markets and compete effectively due to limited resources and stiff competition. Research by Nambisan and Tucci (2011) emphasizes the importance of market linkages, networking, and collaboration for MSMEs to overcome market constraints and achieve sustainable growth. Moreover, Moinuddin and Rahman (2017) highlight the role of market information, branding, and product differentiation in enhancing the market competitiveness of MSMEs in Bangladesh.

The literature review underscores the multifaceted nature of constraints faced by MSMEs, ranging from financial and regulatory hurdles to infrastructure and market challenges. Addressing these constraints requires a comprehensive approach involving policy reforms, institutional support, and capacity-building initiatives tailored to the specific needs of MSMEs. By addressing these challenges, policymakers, researchers, and practitioners can contribute to unlocking the full potential of MSMEs as engines of economic growth, job creation, and poverty alleviation.

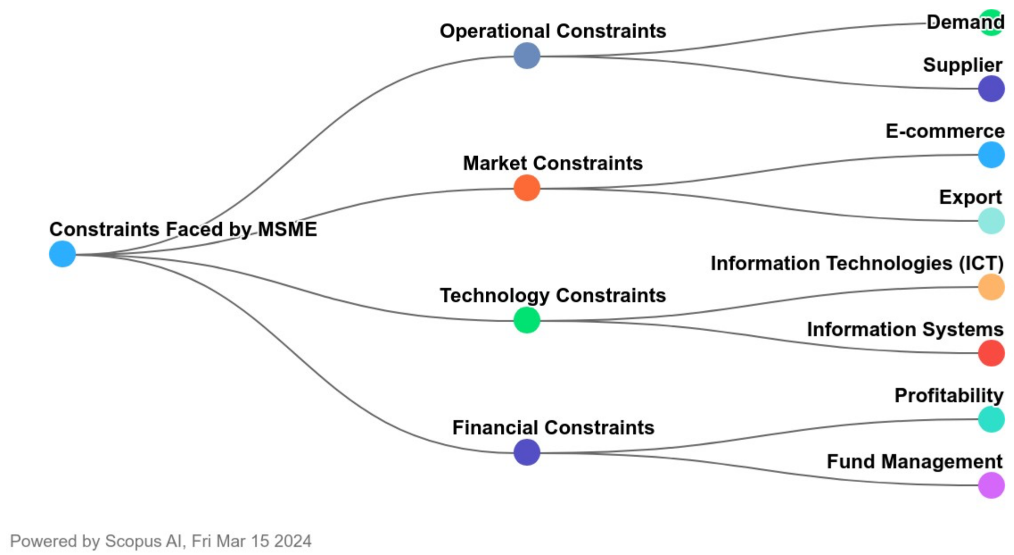

Figure1: Major constraints identified by literature review

3. Methodology

For achieving the objective of this study and to conduct the investigation, data was collected from both primary (owners of the MSMEs) and secondary sources like govt website, research papers, and news articles etc. 52% of the surgery respondents belong to the manufacturing industry and 24% of MSME respondents belong to the trading Organisations. Moreover, 9% of the respondents in the survey belong to the service industry and 15% of the MSME entrepreneurs belong to the other category.

Major Industry Funded	Manufacturing	Trade	Services	Other
Percentage	**52%**	**24%**	**9%**	**15%**

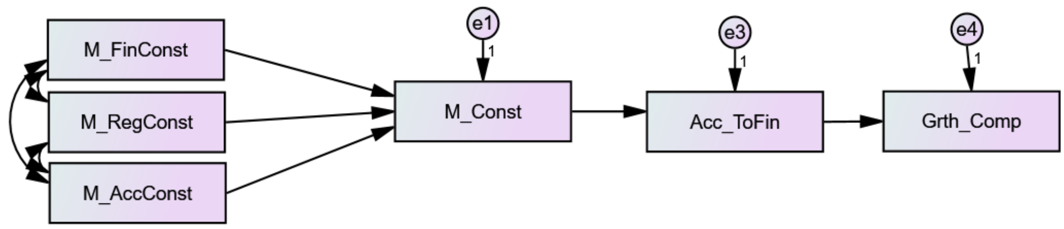

Figure1: Research Model

Hypotheses formulated

H1: Financial constraint of the MSMEs cause difficulty in providing finance for the company

H2: Regulatory constraint faced by MSMEs cause difficulty in getting support from FIs

H3: Lack of access and support from FIs create constraints for MSMEs

H4: Financial, Regulatory and Lack of support constraints of MSMEs significantly contribute to complexity in getting support from FIs

H5: Difficulty in getting access to finance for MSMEs has negative impact of growth of the business.

4. Data Analysis and Result

Financial Constraints for MSME

Many MSMEs struggle to secure loans from formal financial institutions due to factors such as limited collateral, lack of credit history, and complex loan application processes. This restricts their ability to invest in business expansion, purchase new equipment, or meet working capital requirements. MSMEs that manage to obtain loans often face high interest rates, making borrowing expensive. This can impact their profitability and ability to repay loans, especially for small enterprises with lower profit margins.

Table1: Financial Constraints for MSME

Constraint to MSME	**Code**	**Scale Items**	**Mean**	**Std. Deviation**
Financial Constraints for MSME	M_FinConst1	High rates of lending	3.5649	1.63823
	M_FinConst2	Absence of current account(activefor6 months)	2.8828	1.67623
	M_FinConst3	No formal accounting system	3.2803	1.68809
	M_FinConst4	Difficulty in collateral/guarantee	3.2218	1.58412
	M_FinConst5	High service fees for processing loan requests	3.6067	1.52435

To further test result from descriptive analysis and Hypothesis, one sample ‘t’ test is applied.The one-sample t-test is used to determine whether a sample comes from a population with a specific mean. This population mean is not always known, but is sometimes hypothesized. For the present analysis, we test the data with hypotheses mean of 3 = ‘*No Idea*’with statistical significance at the $p < .05$ level.

Table2: One sample ‘t’ test result – Financial Constraints

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
M_FinConst1	239	3.5649	1.63823	.10597
M_FinConst2	239	2.8828	1.67623	.10843
M_FinConst3	239	3.2803	1.68809	.10919
M_FinConst4	239	3.2218	1.58412	.10247
M_FinConst5	239	3.6067	1.52435	.09860

One-Sample Test						
	Test Value = 3					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
M_FinConst1	5.330	238	.000	.56485	.3561	.7736
M_FinConst2	-1.081	238	.281	-.11715	-.3308	.0964
M_FinConst3	2.567	238	.011	.28033	.0652	.4954
M_FinConst4	2.164	238	.031	.22176	.0199	.4236
M_FinConst5	6.153	238	.000	.60669	.4125	.8009

Result table presented with the observed *t*-value ("t" column), the degrees of freedom ("df"), and the statistical significance (p-value) ("Sig. (2-tailed)") of the one-sample t-test. The *p* values for majority of dimensions are $< .05$. It can be concluded from the table that respondents agreed on statements that although the Indian government has introduced various schemes and programs to support MSMEs, reaching and benefiting from these schemes can be challenging for smaller enterprises. Complicated application procedures, limited awareness, and inadequate support systems can restrict MSMEs from accessing the benefits of government initiatives.

Regulatory constraints for Micro, Small, and Medium Enterprises (MSMEs) can vary from country to country. MSMEs are typically required to register their businesses and obtain the necessary licenses and permits to operate legally.

Table3: Regulatory Constraints for MSME

Constraint to MSME	**SPSS Code**	**Scale Items**	**Mean**	**Std. Deviation**
Regulatory Constraints for MSME	M_RegConst1	Tax compliance issues	3.4435	1.38265
	M_RegConst2	Procedural complications	3.9749	1.35015
	M_RegConst3	Lengthy processing time for the loan application	3.6485	1.33233
	M_RegConst4	Registration of enterprise	3.2343	1.37639

	M_RegConst5	Difficulty in procuring/completing the required documentation	3.9121	1.21813

To further test result from descriptive analysis and Hypothesis, one sample't' test is applied.The one-sample t-test is used to determine whether a sample comes from a population with a specific mean. This population mean is not always known, but is sometimes hypothesized. For the present analysis, we test the data with hypotheses mean of 3 = '*No Idea*'with statistical significance at the $p< .05$ level.

Table4: One sample 't' test result –Regulatory Constraints

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
M_RegConst1	239	3.4435	1.38265	.08944
M_RegConst2	239	3.9749	1.35015	.08733
M_RegConst3	239	3.6485	1.33233	.08618
M_RegConst4	239	3.2343	1.37639	.08903
M_RegConst5	239	3.9121	1.21813	.07879

One-Sample Test						
	Test Value = 3					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
M_RegConst1	4.959	238	.000	.44351	.2673	.6197
M_RegConst2	11.163	238	.000	.97490	.8028	1.1469
M_RegConst3	7.525	238	.000	.64854	.4788	.8183
M_RegConst4	2.632	238	.009	.23431	.0589	.4097
M_RegConst5	11.576	238	.000	.91213	.7569	1.0674

Result table presented that the p values for majority of dimensions are < .05. It can be concluded from the table that respondents agreed on statements that MSMEs are often required to maintain accurate financial records and prepare financial statements in accordance with applicable accounting standards. Compliance with financial reporting regulations enables transparency and helps businesses demonstrate their financial health to stakeholders, lenders, and investors.

Access and Support Constraints for MSME

Many MSMEs in India face challenges in adopting and accessing advanced technologies. Limited awareness, lack of technical knowledge, and the high cost of technology adoption hinder their ability to improve productivity and competitiveness. Following scale items are used to measure the perception on Managers/owner of MSMEs regarding 'Access and Support Constraints'.

Table5: Access and Support Constraints for MSME

Constraint to MSME	**SPSS Code**	**Scale Items**
Access and Support Constraints	M_AccConst1	Hostile attitude of government agencies
	M_AccConst2	Inadequate assistance from financial institutions
	M_AccConst3	Inadequate assistance from commercial banks
	M_AccConst4	Access to bank finance
	M_AccConst5	Lack of knowledge about available Schemes

Table 6: SEM Model-Fit Indices Values

Chi-square to degrees of freedom Ratio (CMIN/DF)	2.080
CFI	0.952
NFI	0.812
RFI	0.804

TLI	0.847
RMSEA	0.043

Table 7: Hypothesis testing Result

Hypotheses	Relation	Estimate	Sig.	Result
H1: Financial constraint of the MSMEs cause difficulty in providing finance for the company	M_Const<--- M_FinConst	0.265	***	Accepted
H2: Regulatory constraint faced by MSMEs cause difficulty in getting support from FIs	M_Const<---M_RegConst	0.253	***	Accepted
H3: Lack of access and support from FIs create constraints for MSMEs	M_Const<---M_AccConst	0.013	0.860	Rejected
H4: Financial, Regulatory and Lack of support constraints of MSMEs significantly contribute to complexity in getting support from FIs	Acc_ToFin<---M_Const	0.207	***	Accepted
H5: Difficulty in getting access to finance for MSMEs has negative impact of growth of the business.	Grth_Comp<---Acc_ToFin	0.244	***	Accepted

Conclusion

Respondents agreed on statements that Although the Indian government has introduced various schemes and programs to support MSMEs, reaching and benefiting from these schemes can be challenging for smaller enterprises. Complicated application procedures, limited awareness, and inadequate support systems can restrict MSMEs from accessing the benefits of government initiatives. Addressing these financial constraints requires a multi-faceted approach involving policy reforms, improved access to formal credit, financial literacy programs, streamlined government schemes, and support for technology adoption.

Majority of respondent agreed that SMEs should maintain proper accounting records, file tax returns, and comply with tax payment deadlines. Respondents agreed on statements that MSMEs are often required to maintain accurate financial records and prepare financial statements in accordance with applicable accounting standards. Compliance with financial reporting regulations enables transparency and helps businesses demonstrate their financial health to stakeholders, lenders, and investors.

It can be concluded from the analysis that respondents agreed that Efforts are being made by the government, financial institutions, industry associations, and other stakeholders to address these constraints and create an enabling environment for the growth of MSMEs in India. Various policy initiatives, financial schemes, and capacity-building programs are being implemented to support MSMEs and enhance their competitiveness.

Respondent agreed that MSMEs in India must comply with a complex and evolving regulatory framework. Meeting requirements related to taxation, labour laws, environmental regulations, and licensing can be time-consuming and resource-intensive, particularly for small businesses with limited administrative capacity. MSMEs often face difficulties in accessing larger markets and establishing strong market linkages. Limited marketing knowledge, insufficient market information, and lack of access to distribution networks can restrict their ability to reach potential customers, expand their customer base, and explore new business opportunities.

Discussion

In conclusion, MSMEs are integral to India's economic growth story, serving as engines of innovation, employment generation, and inclusive development. Their resilience, adaptability, and entrepreneurial spirit are vital for fostering a vibrant and sustainable economy. By providing policy support, facilitating access to finance and fostering a conducive business environment, the government can further empower MSMEs to unleash their full potential, thereby driving India's journey towards prosperity and resilience in the global arena.

Addressing financial constraints requires a multi-faceted approach involving policy reforms, improved access to formal credit, financial literacy programs, streamlined government schemes, and support for technology adoption. It's important to note that the Government of India has introduced various initiatives and programs to address these constraints and promote the growth of MSMEs. These include financial schemes, skill development programs, infrastructure development projects, regulatory reforms, and support for technology adoption. Despite the constraints, MSMEs play a crucial role in India's economy, and efforts are underway to create a more conducive environment for their development and success.Depending on the nature of their operations, MSMEs may be subject to environmental regulations aimed at protecting the environment and minimizing negative impacts. These regulations may include waste management, pollution control, and adherence to specific standards or permits for certain industries.

Intellectual Property Protection: MSMEs may need to navigate intellectual property regulations to protect their innovations, trademarks, copyrights, or patents. Understanding and complying with intellectual property laws can help safeguard their intangible assets and prevent unauthorized use or infringement. MSMEs face challenges in complying with a complex regulatory framework encompassing labour laws, taxation, environmental regulations, and business registrations. The compliance burden is often disproportionately high for small businesses, leading to additional costs and administrative challenges. The government has undertaken several measures to simplify regulatory processes, including the implementation of the Goods and Services Tax (GST) regime and initiatives to promote ease of doing business.MSMEs engaged in international trade may face regulatory constraints related to import/export controls, customs procedures, tariffs, trade agreements, and compliance with international trade laws. These regulations aim to regulate the flow of goods and services across borders and ensure fair trade practices.

It is important to note that the specific regulatory constraints for MSMEs can vary significantly depending on the country, industry sector, and business size. Local laws and regulations should be consulted for accurate and up-to-date information.The state government offers a variety of fiscal incentives to MSMEs, such as reimbursement of SGST, interest subsidy on term loans, and capital subsidy for setting up effluent treatment plants and air pollution control devices. The state government also offers a number of non-fiscal incentives to MSMEs, such as reimbursement of expenses incurred for patent registration, quality certifications, and participation in trade fairs. The state government has partnered with financial institutions to provide MSMEs with access to finance at affordable interest rates. This includes schemes such as the Credit Linked Capital Subsidy Scheme (CLCSS) and the Prime Minister's Employment Generation Programme (PMEGP).

Future Investigation can focus on analysing impact of regulatory changes on MSME lending practices by financial institutions. Assess how compliance costs, capital adequacy requirements, and lending regulations shape lending decisions and Examining the role of environmental and social impact metrics in MSME lending. Assess whether financial institutions are increasingly considering environmental, social, and governance (ESG) factors in their lending decisions.

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