1. MSME Demands Ahead Of 2026-27 Budget - Economy

A head of the Union Budget 2026–27, representatives of MSME have flagged rising industrial stress and sought targeted reforms in credit access, risk protection, and compliance norms

MSMEs- Concept and Definition

Micro, Small and Medium Enterprises (MSMEs) are business entities classified based on investment in plant & machinery / equipment and annual turnover, as per the revised criteria notified in 2020. The classification aims to

1. Remove ambiguity between manufacturing and services
2. Enable smooth graduation of enterprises without loss of benefits

MSMEs form the productive base of the Indian economy, bridging grassroots entrepreneurship with formal industrial growth.

Economic Significance of MSMEs in India

Backbone of the Economy- MSMEs contribute around 27 percent of India's GDP, underscoring their central role in economic output. They generate over 11 crore jobs, making them critical for inclusive growth and poverty reduction.

Employment Generation- India has around 6.4 crore MSMEs, of which about 1.5 crore are registered on the Udyam portal. The sector employs around 23 percent of the total Indian workforce, ranking as Second-largest employer after agriculture. MSMEs are labour-intensive, absorbing Semi-skilled and unskilled labour, Women, youth, and first-generation entrepreneurs

Contribution to Manufacturing and Exports- MSMEs account for

1. 38.4 percent of India's total manufacturing output
2. 45.03 percent of India's total exports

They are integral to

1. Global Value Chains (GVCs)
2. Export diversification, especially in textiles, leather, engineering goods, pharmaceuticals, and handicrafts

Regional and Social Impact- MSMEs promote balanced regional development by Locating in rural, semi-urban, and backward regions. They foster Local value addition, Traditional skills and indigenous industries, Entrepreneurial culture at the grassroots level

Key Challenges Faced by MSMEs in India

Access to Finance- Persistent credit gap due to

1. Lack of collateral
2. Thin credit history
3. Informality and weak balance sheets

Heavy dependence on

1. Informal lenders
2. High-interest borrowing

Delayed payments worsen working capital stress despite statutory protections.

Competitive Pressures- MSMEs face intense competition from

1. Large domestic firms with economies of scale
2. Cheap imports, especially from East Asian economies

Limited pricing power reduces profit margins.

Technological Backwardness- Low adoption of

1. Automation
2. Digital tools
3. Industry 4.0 technologies

Constrained by

1. High upfront costs

2. Skill deficits
3. Inadequate R&D support

Marketing and Market Access Constraints- Weak branding and packaging. Limited access to

1. E-commerce platforms
2. Export promotion networks
3. Institutional buyers

Poor integration with formal supply chains.

Regulatory and Compliance Burden- Multiple compliances under

1. GST
2. Labour laws
3. Environmental regulations

Compliance costs disproportionately impact micro enterprises.

Key Demands Raised by the MSME Sector

Affordable and Assured Credit- Statutory collateral-free lending up to ₹1 crore for micro enterprises. Interest rate cap of 6–7 percent to ensure affordability. Expansion of priority sector lending with simplified procedures.

Protection from External Trade Shocks- Creation of an Export Risk Equalisation Fund to Compensate micro exporters affected by sudden tariff hikes or protectionist measures. Support during geopolitical disruptions impacting exports.

Exchange Rate Risk Mitigation- Introduction of a forex fluctuation protection scheme for micro enterprises. Simplified and subsidised hedging instruments through the Reserve Bank of India, ecognising limited hedging capacity of small firms.

Simplification of GST and Compliance- Higher GST exemption thresholds for micro enterprises. Introduction of a single, simplified GST return for micro units. Reduction in penalties for procedural lapses.

Crisis-Time Support- Creation of an Emergency Working Capital Window during

1. Wars
2. Global supply chain disruptions
3. Fuel and shipping crises

Government Initiatives to Promote MSMEs

MSME Champions Scheme- Focuses on

1. Technology upgradation
2. Waste reduction
3. Process modernisation

Aims to improve

1. Competitiveness
2. National and global market integration

Udyam Registration- Fully online, paperless registration system. Enables MSMEs to-=

1. Access credit
2. Avail subsidies
3. Participate in government procurement

Enhances formalisation and data-driven policymaking.

Timely Payment Provisions- Section 15 of the MSMED Act, 2006 and Section 43B(h) of the Income-tax Act mandate Payment within 15 days, extendable to 45 days with agreement. Strengthens liquidity and discipline in buyer-supplier relationships.

Credit Guarantee Support

Credit Guarantee Fund Trust for Micro and Small Enterprises provides

1. Collateral-free loans

2. Risk coverage to banks and NBFCs

Enhances credit flow to first-time borrowers.

Cluster-Based Development

Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

1. Organises traditional artisans into clusters
2. Improves productivity, design, branding, and incomes

Supports sustainable livelihoods in heritage industries.

Way Forward- Strengthening MSMEs for India's Growth Trajectory

MSMEs are central to India's manufacturing revival, export expansion, and job creation. Policy priorities should focus on

1. Targeted and affordable credit delivery
2. Technology adoption and digital transformation
3. Simplified compliance and regulatory certainty
4. Stronger market linkages and export support

A resilient MSME ecosystem will

1. Protect employment
2. Strengthen domestic supply chains
3. Reinforce India's vision of inclusive and sustainable economic growth

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