

3. Digitalization Reforms Boost MSME Productivity in India - Economy

1. Why in News

1. International Monetary Fund (IMF) working paper highlighted India's public administration digitalization reforms
2. Reforms significantly improved productivity in micro, small, and medium enterprises (MSMEs)
3. Study covered business environment reforms between 2010-11 and 2014-15
4. Digital tools reduced administrative burdens especially for small firms
5. States implementing more reforms recorded higher total factor productivity

2. Major Highlights of IMF Working Paper

Reform Areas Identified

1. Six key areas - Tax systems, construction permits, environment and labour compliance, inspections, commercial disputes, single-window clearances
2. Reforms primarily through digitalization of business-related public administration
3. Digital tools streamlined processes reducing time and cost for MSMEs
4. States with comprehensive digital reforms showed measurable productivity gains

Impact on Productivity

1. Higher total factor productivity in reform-implementing states
2. Administrative burden reduction particularly beneficial for small firms
3. Faster clearances and reduced compliance costs
4. Improved ease of doing business rankings

3. MSMEs in India - Significance

Definition - Businesses defined by investment and turnover levels; important for job creation, income generation, and entrepreneurship

Global Context - MSMEs represent ~90% of enterprises globally, accounting for over 50% of total employment

Indian Economy Contribution

Manufacturing - ~35.4% of total manufacturing output

Exports - ~48.58% of India's exports

GDP - 31.1% contribution

Enterprises - 7.47 crore+ registered enterprises

Employment - 32.82 crore+ persons employed

Second-largest employer after agriculture sector

4. Challenges Faced by MSMEs

Financial Constraints

1. Limited access to capital due to lack of collateral
2. Inadequate credit history preventing formal financing
3. High interest rates and complex loan procedures

Market and Competition

1. Stiff competition from larger established companies
2. Limited resources and market influence
3. Difficulty in scaling operations

Technological Gaps

1. Lack of technical expertise for modernization
2. Inability to adopt new technologies
3. Digital divide affecting competitiveness

Operational Issues

1. Limited marketing resources and networking opportunities

2. Complex regulatory compliance (tax, labour, licenses)
3. Skilled labour shortage affecting productivity
4. Vulnerability to external shocks (COVID-19, inflation, global slowdown)

5. Key Government Initiatives

Union Budget 2026-27 Approach

1. Three-pronged strategy - Equity, Liquidity, Professional Support
2. Aims to develop MSMEs as "Champions"

Major Schemes

PM Vishwakarma (2023) - Central sector scheme (2023-28) uplifting traditional artisans and craftspeople; enhances product quality and market connectivity

Credit Guarantee Scheme (CGSMSE) - Provides credit guarantees without collateral or third-party guarantees; breakthrough in credit accessibility

Udyam Registration Portal (2020) - Free, paperless, self-declared registration process simplifying MSME registration

PM Employment Generation Programme (PMEGP) - Credit-linked subsidy supporting self-employment in non-farm micro-enterprises

MSME Hackathon 4.0 (2024) - Supports 500 young entrepreneurs with funding up to ₹15 lakh each for innovation and incubation

MSME-TEAM Scheme (2024) - Trade enablement initiative with ₹277.35 crore outlay; supports 5 lakh MSEs (including 2.5 lakh women-led) in digital onboarding, cataloguing, logistics, packaging

Khadi and Village Industries - Promoted through Khadi and Gramado Vikas Yojana (KGVY) Central Sector Scheme

International Cooperation Scheme - Facilitates global market entry through international fairs, exhibitions, knowledge-sharing on reimbursement basis

6. Conclusion

MSMEs revolutionize India's growth driving innovation, employment, and community empowerment. Strong policy support, digital tools, and market access are transforming these enterprises into engines of sustainable and inclusive development, crucial for achieving economic goals.

Source - <https://www.imf.org/-/media/files/publications/wp/2026/english/wpica2026086-source-pdf.pdf>