

MSMEs' Need Deeper Structural Support, Reforms to Survive

*AIE Seeks FM Nirmala's Urgent Intervention
Ahead of 2026-27 Budget*



Union Finance Minister Nirmala Sitharaman introduces Supplementary Demands for Grants 2025-26 in Lok Sabha (Pic Courtesy: Sansad TV)

➲ M.R. Venkatesh

India's Micro, Small and Medium Enterprises (MSME) are in the doldrums.

The often-invoked nation-wide narrative on the MSME's inherent strength and resilience – that they contribute to about 30 per cent of India's GDP (Gross Domestic Product), 36 per cent of manufacturing output (both 2022-23 estimates) and 45 per cent of India's total exports (2023-24 estimates) – may no longer be a buffer of comfort as a solid presence.

Except in the brief aftermath of the Covid-19 pandemic recovery, when MSMEs' got a meaningful push by the Union government and also at the state level during 2021-22, the sector as a whole is tottering if one studies the deeper issues behind the comforting macro-economic numbers on their overall contributions to the Indian economy in recent years.

True, some key policy reforms have been

rolled out; but they seem more like bits and pieces, often conceptual and not addressing the ground-level crisis, accentuated by both domestic and global headwinds of uncertainty and a sense of drift is the net result even granting the contingent, headline interventions by the Centre.

Perhaps the most striking, as gleaned from the Union MSME Ministry's revised clarification, with effect from April 1, 2025, on the 'composite criterion' of investment in plant and machinery and annual turnover of an enterprise to be classified as 'micro', 'small' or 'medium'. As seen in the Ministry's website, enterprises with investment in plant and machinery/equipment not more than Rs.2.50 crore and an annual turnover of not more than Rs.10 crore would now be classified as 'Micro'. For 'Small' and 'Medium' units, the corresponding classification criteria are Rs.25 crore and Rs.100 crore, and Rs.125 crore

and Rs.500 crore respectively. Individual units which cross these thresholds will seamlessly be upgraded from 'Micro' to 'Small' or 'Medium' as the case may be depending on their individual unit's performance. That is the advantage of the 'composite criterion' now.

Further, as per the MSME Ministry's latest annual report (2024-25), the total number of MSME's, as registered on the 'Udayan' platform, is about 5.77 crore across the country, of which 98.60 per cent are in the 'Micro' category. The MSMEs' as a basket are the second largest employer after agriculture, providing employment to 24.40 crore persons, according to the report. In Tamil Nadu, the total MSMEs, as per the Ministry's annual report, has crossed 47.19 lakh (47,19,261), next only to Uttar Pradesh, of which 'Micro' enterprises account for a whopping 46,54,101, 'Small' units number 59,838 and 'Medium' category units make up 5,322 units, making Tamil Nadu a state to reckon with in this segment too.

Deeper Structural Issues Need Attention

Despite these very impressive macro-level figures, the MSME sector has undergone a sea change in recent decades, with their once, largely small engineering units profile a thing of the past. This is related to the overall decline of the public sector undertakings (PSU) across India post-liberalization of the early 1990s'. Now, the MSMEs' have become a truly omnibus mixed bag, with agro-based units and the Khadi and Village Industries Commission (KVIC) units taking a big chunk. The Union budget allocations in recent years also indicate it. This is not to deny their importance, but to underscore the changing landscape of the field now occupied by MSMEs'.

At the other end are highly specialized engineering units catering to smaller niche markets, tailored to meeting the sub-assembly needs of ambitiously pitched sectors like space technology, premium-end railways, defence and aeronautics. Thus, one notices that while horizontal spread of the MSMEs' has got wider, its labour intensive, core competences and advantages get disaggregated and keep rapidly changing. Thirdly, today top MNCs' bring in their own vendors and help to set up their own brand-affiliated ancillary units in their new sprawling neighbourhoods. This was not the case when small industries promotion helmed by leaders like K. Kamaraj, R. Venkatraman and later M. Karunanidhi had set the tone in the 1950s-early 1970s'.



A MSME Unit in Tamil Nadu (For Representation Purpose only)

Have recent policy changes in the MSME sector adequately addressed some of these underlying deeply structural issues? In articulating a detailed pre-Budget memorandum, urging the Union Finance Minister, Ms. Nirmala Sitharaman's urgent policy interventions, K.E. Ragunathan, the Founder-Chairman of the Association of Indian Entrepreneurs (AIE), representing thousands of micro entrepreneurs across India, and former President of the All India Manufacturers Organization (AIMO), while appreciating the Minister's efforts to empower the Micro enterprises, however, emphasized that the policy emphasis in the 2026-27 Union Budget needs revisit.

"Micro enterprises today are operating under extraordinary stress, - not due to inefficiency, but due to policy asymmetry, external shocks, and structural neglect. While India aspires to become a global manufacturing and export hub, the smallest units that feed the supply chain are being systematically weakened," Ragunathan said in his communication to the Union Finance Minister.

"Unless decisive, budget-backed interventions are announced in the Union Budget 2026-27, a large section of Micro enterprises will silently exit, causing irreversible damage to employment and domestic manufacturing capacity," he said.

Steps Strongly Needed to Save MSMEs'

At the overall policy level, Ragunathan has outlined five 'must do'. They include statutory collateral-free lending up to Rs.100 lakhs for Micro Enterprises, with interest capped at 6-7 per cent, mandatory renewal of working capital limits for GST-compliant micro units without fresh appraisal, exclusive micro-enterprise lending targets for SIDBI and PSU Banks (not clubbed with MSMEs), interest subvention during stress periods, not as ad-hoc schemes but as a built-in counter-cyclical tool, and interest free loan assistance to be extended for import substitution

development costs to Micro Enterprises.

Taxation and Compliance

On matters related to Taxation and Compliance, Ragunathan said that Micro Enterprises “are over-regulated and under-trusted”. So much so, Micro Enterprises today spend disproportionate time and money on compliance rather than production.

Hence, the Union government, should among others, provide Higher GST exemption thresholds and a single simplified GST return for Micro units, ensure Time-bound GST refunds (within 15 days) with statutory interest for government delays, complete decriminalisation of procedural lapses with no prosecution for minor errors, and provide for a ‘Unified Annual Compliance Return’ replacing multiple filings under GST, Labour and Local laws.

Cost Disadvantage – Power, Land, Logistics

Explaining that Micro units were uncompetitive, not because of inefficiency but due to structural cost loading, Ragunathan in his memorandum urged Ms. Sitharaman said though this was not directly under the purview of the Union government, the latter could provide a relief of compensation to the State governments on these areas.

The measures needed for MSMEs’ relief in this regard include reduction of Electricity fixed charges and peak-hour penalties for Micro units, District-level plug-and-play micro industrial parks, common testing labs, warehouses and cold storages. Further, Property tax, water tax and local levy rationalization for registered micro enterprises could be considered, he said.

Market Access and Payment Security- A Matter of Survival

As Micro Enterprises are forced to finance the system through delayed payments, the AIE urged that there should be mandatory minimum 30 per cent Government procurement from Micro enterprises, automatic interest payment for delayed dues beyond 30 days without litigation, and budgeted support for e-commerce onboarding, logistics and export documentation.

Stating that Micro Enterprises “are the first to be hit and the last to be supported” during global disruptions, Ragunathan, referring to the US Tariffs and Trade Barriers, urged setting up of an ‘Export Risk Equalisation Fund’ to compensate Micro exporters impacted by sudden tariff hikes, and temporary duty drawback enhancement and interest reliefs during tariff shocks.

The AIE further pressed for ‘Emergency Working



KE Ragunathan, Founder-Chairman of the Association of Indian Entrepreneurs

Capital Window’ when wars disrupt raw materials, fuel, and shipping routes, besides Government-backed price stabilisation mechanism for critical imported inputs. The memorandum also urged freight equalisation subsidy for Micro exporters during abnormal container shortages, and priority access to containers for Micro exporters through PSU shipping and ports.

Ragunathan urged instituting a ‘Forex Fluctuation Protection Scheme’ for Micro enterprises with limited hedging capacity, and RBI-supported simplified hedging instruments at subsidised cost for Micro units.

Other Governance Reforms Needed

Among the other Governance reforms needed for the Micro enterprises, the memorandum highlighted the need for Government contribution to EPF and ESI for first three years for new micro-enterprises employment, full reimbursement of apprenticeship costs borne by Micro units, introduction of Pension, Health Insurance, and accident-cover for self-employed entrepreneurs.

Ragunathan further called for formation of a ‘Micro Enterprises Council’ under the Union Ministry of MSME, and mandatory micro-impact assessment before rollout of major fiscal, trade, or regulatory policies.

Overall, the AIE stressed “fair access to credit, predictable policy, reasonable compliance and protection from shocks we cannot control,” in the pre-Budget memorandum addressed to the Union Finance Minister, Ms. Nirmala Sitharaman. •