

Innovation & Incubation: Creating a Thriving Entrepreneurial Environment by MSMEs in India: An Overview of Challenges, Opportunities, and Strategic Roadmap for MSMEs

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SUMMARY

Micro, Small, and Medium Enterprises (MSMEs) in India are vital for the country's economic growth, contributing significantly to GDP, employment generation, and export activities. However, MSMEs face several challenges, including limited access to finance, technological adaptation issues, regulatory complexities, and inadequate infrastructure. Innovation and incubation play a crucial role in overcoming these barriers by facilitating technological advancements, market access, and skills development. This article explores the importance of innovation and incubation in creating a thriving entrepreneurial environment for MSMEs, discusses key challenges and opportunities, and provides a strategic roadmap for the future. Additionally, the 2025 Union Budget initiatives for MSMEs and cooperatives are reviewed to assess their potential impact on fostering innovation, improving financial access, and encouraging inclusive growth.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of India's economy, playing a pivotal role in contributing to GDP, creating employment, and driving exports. In 2021, MSMEs contributed 30% to India's GDP and 48% to total exports, providing employment to over 11 crore individuals. However, to realize their full potential, MSMEs need to adopt innovative practices and utilize incubation support mechanisms. Innovation, driven by technological advancements and new business models, is essential for MSMEs to remain competitive in both national and international markets. Despite their importance, MSMEs face several barriers, such as inadequate access to finance, regulatory hurdles, lack of skilled labor, and limited technological capabilities. This article explores the current state of MSMEs in India, discusses the need for innovation and incubation, highlights the opportunities and challenges they face, and provides a strategic roadmap to foster a more conducive environment for MSMEs' growth. Additionally, it examines the initiatives introduced in the 2025 Union Budget for MSMEs and cooperatives.

1. Importance of Innovation and Incubation for MSMEs

Innovation is the key to addressing the challenges faced by MSMEs, including global competition, technological obsolescence, and financial constraints. In today's fast-paced, technology-driven world, MSMEs must continuously innovate to improve product quality, reduce costs, and enhance customer experiences. By doing so, they can remain relevant in an increasingly competitive marketplace. Incubation plays a critical role in nurturing innovative ideas by providing MSMEs with resources such as mentorship, financial support, and access to technology. Government schemes like the Startup India initiative and the Atal Innovation Mission (AIM) encourage MSMEs to adopt new technologies and business models. Moreover, incubators provide MSMEs with the necessary infrastructure and networking opportunities to scale their innovations.

2. Challenges Facing MSMEs in India

Despite the potential of MSMEs, various challenges hinder their growth:

Limited Access to Finance: Financial constraints are one of the biggest barriers for MSMEs. Many MSMEs struggle to access affordable credit due to stringent lending conditions, lack of collateral, and inadequate credit histories.

Technological Barriers: MSMEs often lack the technological infrastructure and skilled workforce required to adopt modern technologies such as automation, artificial intelligence (AI), and the Internet of Things (IoT).

Regulatory Issues: Complex regulatory frameworks and bureaucratic delays prevent MSMEs from scaling up. The existing regulations are often difficult to navigate, especially for new entrepreneurs.

Market Access: MSMEs often face challenges in accessing global markets due to limited international exposure and a lack of knowledge about export procedures.

3. Opportunities for Innovation and Incubation

The rise of digital platforms, access to venture capital, and the growing focus on sustainability present ample opportunities for MSMEs. For instance:

Technology Adoption: MSMEs can tap into emerging technologies such as AI, blockchain, and automation to enhance productivity and create new products.

Export Growth: Programs like the Export Promotion Councils offer MSMEs support in expanding their reach to international markets.

Sustainability: Green technologies and eco-friendly practices can help MSMEs create value while contributing to the Sustainable Development Goals (SDGs).

4. Financial Initiatives in the 2025 Union Budget

The Union Budget of 2025 introduces several measures aimed at supporting MSMEs and cooperatives. These include:

Key Measures for MSMEs in Union Budget 2025-26

The Union Budget 2025-26 introduces a series of measures aimed at strengthening the MSME sector by enhancing credit access, supporting first-time entrepreneurs, and promoting labour-intensive industries.

Revised Classification Criteria

To help MSMEs scale operations and access better resources, the investment and turnover limits for classification have been increased by **2.5 times and 2 times**, respectively. This is expected to improve efficiency, technological adoption, and employment generation.

Credit Guarantees:

- The credit guarantee limit for micro and small enterprises (MSEs) has been doubled from ₹5 crore to ₹10 crore.
- The credit guarantee limit for well-performing exporter MSMEs has been raised to ₹20 crore.
- A reduction in the guarantee fee for startups to 1% for loans in 27 priority sectors.

NCDC Support:

The National Cooperative Development Corporation (NCDC) will expand its support for MSMEs, dairy cooperatives, and food processing businesses, fostering a more robust ecosystem for cooperative-led innovation.

Innovative Schemes:

- A ₹10,000 crore Fund of Funds will support startups, enabling them to scale up operations and drive innovation.
- A new scheme will offer term loans up to ₹2 crore over five years for 5 lakh first-time women, Scheduled Caste, and Scheduled Tribe entrepreneurs.
- Micro-enterprises on the Udyam portal will receive credit cards with a ₹5 lakh limit.
- The 'PM Vishwakarma' scheme, launched by the Government of India, aims to enhance the quality and reach of products and services by artisans and craftspeople, integrating them into domestic and global value chains.

5. Strategic Roadmap for MSME Innovation and Incubation

To create a thriving MSME ecosystem, a strategic roadmap is essential:

Enhancing Access to Funding: Initiatives such as venture capital funds, crowdfunding platforms, and SIDBI's Fund of Funds can provide MSMEs with the financial resources they need to innovate.

Building a Supportive Ecosystem: Encouraging collaboration between academic institutions, research centers, and MSMEs can help foster innovation. MSMEs should be encouraged to adopt new technologies and modern business practices.

Improving Skill Development: Expanding training programs such as PMKVY and providing incubation support can help MSMEs develop a skilled workforce capable of driving innovation.

Strengthening Market Linkages: MSMEs should be supported in accessing international markets through export promotion programs and digital marketing platforms.

CONCLUSION

MSMEs are critical to India's economic growth, but they face several challenges that hinder their potential. Innovation and incubation are essential for overcoming these barriers, as they provide MSMEs with the

tools, financial support, and networking opportunities needed to thrive. The 2025 Union Budget's financial initiatives, such as increased credit guarantees and new funding schemes, are steps in the right direction to support MSMEs' growth. Moving forward, it is essential to foster a culture of innovation, encourage collaboration, and focus on inclusive and sustainable growth to create a thriving entrepreneurial ecosystem in India. This research aims to provide a comprehensive understanding of how MSMEs can create a thriving entrepreneurial ecosystem through innovation, incubation, and strategic policy interventions

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