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Challenges Faced by MSMEs in Utilizing the EPCG Scheme for Machinery Modernization: A Thematic Analysis

Dr. G. Chandrasekaran¹ and Mrs. S. Priyanka²

¹Associate Professor & Research Department of Commerce (IB), Chikkanna Government Arts College, Tiruppur – 641602

²Ph.D Scholar, PG & Research Department of Commerce (IB), Chikkanna Government Arts College, Tiruppur – 641602

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are critical contributors to India's economy, playing a significant role in generating employment, enhancing production capacity, and boosting exports. Despite numerous government initiatives aimed at promoting their growth, MSMEs continue to face substantial challenges in accessing and effectively utilizing export promotion schemes. One such initiative is the Export Promotion Capital Goods (EPCG) scheme, which permits duty-free imports of capital goods to encourage technological advancement and competitiveness in the international market. However, many MSMEs struggle to benefit from this scheme due to a range of structural and operational barriers. This study, based on in-depth qualitative interviews with twenty MSME unit owners, explores the key obstacles that hinder their successful participation in the EPCG scheme. Through thematic analysis, the research identifies four critical challenges: complex administrative and bureaucratic procedures, limited awareness and lack of adequate technical guidance, stringent and often difficult-to-meet compliance requirements, and significant financial and operational constraints faced by MSMEs. These findings highlight the urgent need for targeted policy interventions that can simplify the application process, enhance information dissemination, and provide tailored support to MSMEs. Addressing these barriers is essential to ensure that the EPCG scheme can achieve its intended objectives of facilitating MSME growth, modernization, and expanded integration into global markets.

Keywords: EPCG scheme, MSMEs, machinery modernization, export promotion, thematic analysis

INTRODUCTION

The foundation of India's industrial sector is made by its Micro, Small, and Medium Enterprises (MSMEs). They explain around 30% of the GDP, 45% of all industrial output, and 48% of India's exports overall (Ministry of Micro, Small & Medium Enterprises, 2023). MSMEs are instrumental in employment generation, especially in rural and semi-urban areas, where they foster entrepreneurship and contribute to inclusive economic development. Given their substantial contribution to output and employment, strengthening MSMEs is a critical component of India's journey toward becoming a global manufacturing hub. In this context, technology upgradation emerges as a key factor influencing MSME productivity and global competitiveness(Argade & Chandak, 2024). However, access to modern machinery often requires significant capital investment, a barrier for many small enterprises. Recognizing this gap, the Indian government introduced the Export Promotion Capital Goods (EPCG) scheme, which allows duty-free import of capital goods, provided firms meet specified export obligations. While the scheme is well-conceived and offers strong potential for aiding MSMEs in technological modernization, its utilization among micro and small firms remains limited(Sharma & Sharma, 2025). Challenges such as complex application procedures, lack of information, bureaucratic inefficiencies, and





compliance burdens deter participation, particularly among first-time exporters and smaller units(Pachouri & Sharma, 2016). This research examines the lived experiences of MSME owners in utilizing the EPCG scheme for upgrading production infrastructure. This research reveals policy-level insights using theme analysis and qualitative approaches to capture the complex obstacles MSMEs encounter and therefore increase the inclusiveness and accessibility of the plan.

Organization of the Paper

Following the introduction, this paper is structured into several key sections to systematically explore the challenges faced by MSMEs in utilizing the EPCG scheme. The Literature Review section provides a detailed examination of prior research, highlighting the key barriers identified in earlier studies. The Research Methodology outlines the qualitative approach, data collection methods, and analytical framework adopted for this study. The Analysis and Findings section presents the thematic outcomes derived from the primary data, supported by visualizations and coding frameworks. The Discussion section interprets these findings in the context of existing literature and policy relevance. Finally, the Conclusion offers actionable recommendations for improving the accessibility and effectiveness of the EPCG scheme for MSMEs.

Background and Significance of MSMEs in India's Economy

Underlying India's economic growth plan are Micro, Small, and Medium Enterprises (MSMEs). Strongly visible in both rural and urban areas, MSMEs help to diversify the economy, support regional balance, and act as a driver of equitable development. Estimates place the MSME sector's contribution to India's GDP at about thirty percent and employ more than 110 million people (Gupta, 2018). These enterprises are known for their ability to absorb labor, foster entrepreneurship, and promote grassroots industrialization, especially in sectors such as textiles, leather, food processing, and engineering. Their role is not only limited to domestic output but extends significantly to export promotion(Pawan Kumar Gupta, 2023). With over half of India's exports coming from MSMEs, the nation gains important foreign cash and improves its trade balance. High adaptation to market changes, great flexibility, and possible innovation potential define the industry. Government schemes like the Zero Defect Zero Effect (ZED) certification and technology upgradation funds underscore the importance of enhancing quality and sustainability among these enterprises(Deshmukh & Haleem, 2020). Yet, despite their critical role, MSMEs remain vulnerable to infrastructural deficits, limited access to finance, and technology stagnation. Their growth trajectory is often hindered by the inability to adopt modern equipment or participate in global value chains. This is where policy initiatives such as the EPCG scheme are expected to play a transformative role, enabling firms to upgrade technology, reduce costs, and meet international standards (Hoda, 2020).

Overview of the Export Promotion Capital Goods (EPCG) Scheme

Under India's Foreign Trade Policy, the Export Promotion Capital Goods (EPCG) plan is a government endeavour meant to permit duty-free import of capital goods, including spares and tools, used in the manufacturing of export-oriented items. The primary goal is to enhance India's export competitiveness by facilitating access to advanced and efficient machinery, which MSMEs may not afford under regular import tariffs(Rahman Noorinasab, 2013). Under the EPCG scheme, an MSME can import capital goods at zero customs duty, provided it fulfills a specified export obligation (EO) within a stipulated period, typically six years. Usually set at six times the duty saved on capital items, the EO calls for the business to keep suitable records and paperwork proving compliance. The program encourages companies to invest in contemporary manufacturing technologies by lowering upfront capital expenditures, hence increasing productivity, quality output, and worldwide market access. The EPCG license, given by the Directorate General of Foreign Trade (DGFT), gives flexibility for many industries by covering both new and second-hand equipment (Singh & Poornima, 2016). The EPCG program theoretically acts as a big motivator for MSMEs to embrace lean manufacturing, increase capacity, and diversify export portfolios. It fits India's strategic goal of establishing itself as a rival actor in the global industrial scene. Its use by small-scale businesses has been patchy, nevertheless, which begs serious issues concerning accessibility, awareness, and simplicity of use (Balkrishna et al., 2023).





Statement of the Problem

Though it is meant to help with export competitiveness and technical upgrading, a lot of MSMEs still underuse the EPCG program. Many micro and small organizations are unaware of the advantages of the plan, eligibility requirements, or compliance policies. Further reducing their involvement is restricted access to institutional advice and advisory help. Procedural bottlenecks created by bureaucratic complexity, delayed approvals, and inadequate coordination among DGFT, customs, and banks also deter applications. Another obstacle is financial restrictions; even with duty exemption, MSMEs often find it difficult to achieve their export requirements and cover the auxiliary expenses of equipment imports. First-time exporters and companies with low operating capital or administrative ability face very difficult obstacles here. Therefore, a policy meant to empower MSMEs is often seen as unreachable or unworkable. By means of the lived experiences of MSME garment exporters, this research aims to investigate these constraints qualitatively and thereby suggest more inclusive and effective policy implementation.

LITERATURE REVIEW

Under India's Foreign Trade Policy, the EPCG plan is a main tool meant to promote technological upgrading by permitting duty-free import of capital goods needed for export manufacturing. Although the policy goal is obvious, its execution at the MSME level has exposed several issues needing thorough scholarly investigation. According to the research, there are five important areas in which MSMEs seriously struggle to properly use the EPCG system.

Limited Awareness and Information Asymmetry

The foremost barrier preventing the adoption of EPCG by MSMEs is a widespread lack of awareness about the scheme itself and its procedural components. Several studies confirm that the penetration of government export schemes is uneven, with most MSMEs especially micro and first-time exporters are unaware of their eligibility or the benefits provided. Research conducted by the Indian Institute of Foreign Trade (IIFT) found that more than 65% of MSMEs surveyed in southern India were unaware of key government trade promotion initiatives, including EPCG, MEIS, and RoDTEP schemes(Mukherjee, 2018). This gap is largely due to limited institutional outreach. Government portals like the DGFT website are often not user-friendly for non-English speakers or digitally less-savvy entrepreneurs, particularly in tier-2 and tier-3 cities. Moreover, most MSMEs do not have internal departments dedicated to policy tracking or regulatory compliance. This leaves them reliant on informal sources, word-of-mouth networks, or paid consultants, often leading to misinformation or partial understanding of scheme requirements(Trivedi et al., 2025). There is also a significant gap in public-private information dissemination mechanisms. Industry bodies such as FIEO and EEPC India conduct awareness drives, but their reach is limited and participation often remains low due to time, language, or cost constraints. This leads to an environment of information asymmetry, where large firms benefit from advisory networks while small units are excluded from institutional knowledge.

Financial Constraints and Access to Credit

The second significant barrier revolves around financial limitations. Although EPCG provides duty exemptions, the overall cost of technology acquisition remains high, especially for micro and small enterprises. Studies have consistently highlighted that the capital intensity of modernization in sectors like garments, textiles, leather, and engineering is prohibitive without credit support. A majority of small garment exporters in Tirupur delayed or avoided modernization plans despite policy incentives, due to fear of debt and inability to mobilize initial funds. Moreover, banks and financial institutions are often reluctant to extend loans to small enterprises due to their perceived high-risk profile, lack of credit history, and inadequate documentation(Soundarrajan & Vivek, 2016). Several MSMEs also operate under informal financial models, which further limits their access to formal finance channels. Even where credit is available, interest rates are comparatively high, and processing times are long, making it difficult for firms to align credit cycles with EPCG license timelines(Singh & Poornima, 2016). An additional concern is the cost of post-import support such as maintenance, operator training, and spare parts for imported machinery. These indirect costs are not covered under EPCG but form a critical part of total investment, especially when machinery needs customization or after-sales services that are only available

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abroad. As a result, MSMEs can ignore or underuse imported machinery, therefore failing the policy in reaching its modernizing objectives.

Bureaucratic and Procedural Complexities

Another main issue in the literature is the procedural load involved in obtaining and following EPCG criteria. The scheme involves multiple steps: filing an application with DGFT, securing a license, coordinating with customs authorities, arranging bank guarantees, and subsequently fulfilling the export obligation within a fixed period. At each stage, the documentation requirements are extensive, and errors or delays are common(Eniola & Ektebang, 2014). The DGFT site is sometimes sluggish, lacks real-time updates, and offers little online help for troubleshooting, according many policy studies including those by the Ministry of Commerce and Industry. Processing is further slowed down by the need to turn in notarized or hard copy documentation even with digital applications. The fragmentation between departments—with DGFT, customs, and banks each operating on their own timelines—creates bottlenecks for applicants, especially for firms that lack dedicated compliance staff. Furthermore, MSMEs are often required to furnish bank guarantees or surety bonds to avail EPCG benefits, a requirement that micro firms struggle to meet(Daengs et al., 2020). A 2021 survey by the All India Manufacturers' Organisation (AIMO) found that nearly 58% of MSMEs avoided applying for EPCG licenses due to complexity and compliance fears, rather than due to lack of intent to upgrade. This reflects a perception gap, where the policy is seen as risky or inaccessible, especially by micro-enterprises.

Technological Gaps and Operational Barriers

Another less spoken about but equally important problem is the actual application of machinery modernization after the EPCG license issuance. Particularly in the micro and small sectors, MSMEs can have technical and operational restrictions when installing and combining imported machinery. These include compatibility issues with existing production lines, delays in customs clearance, and the absence of local service networks for highend foreign machinery (Jahanshahi et al., 2011). Moreover, many MSMEs lack skilled manpower capable of operating advanced machinery. Vocational training institutions are often disconnected from the needs of industry, offering generic courses with outdated syllabi. There is a growing skills-technology mismatch, where firms have access to equipment but not to trained human resources to derive value from them(Sahu, 2014). This limits the productivity gains from modernization and may even result in underutilization or damage to the machinery. In certain cases, lack of post-sale technical support or language barriers in understanding foreign manuals lead to operational errors. Firms also report difficulties in claiming warranties or spare parts due to lack of local representation by foreign vendors. As a result, imported machines either operate below capacity or are eventually abandoned undermining the long-term goals of the EPCG scheme(Argade & Chandak, 2024).

Market Limitations and Policy Instability

Finally, the ability of MSMEs to fulfill the export obligation a key condition of EPCG is deeply influenced by global market dynamics and local infrastructural bottlenecks. The scheme requires firms to achieve export performance equal to six times the duty saved, typically within six years(Pandey et al., 2023). However, small exporters often face fluctuating demand, currency risks, and tariff uncertainties in their target markets. Events like the COVID-19 pandemic or changes in trade policies in significant markets (e.g., EU or USA) profoundly impact their capacity to sustain constant export quantities. Furthermore, India's logistics infrastructure particularly in non-metropolitan areas is still developing. Delays in port clearances, poor road connectivity, and high inland freight charges all erode the competitiveness of MSME exports(Mohan & Kumar Yadav, 2023). While schemes like TIES (Trade Infrastructure for Export Scheme) aim to address these gaps, results remain limited in reach and pace. Policy instability also affects MSME confidence in long-term commitments like EPCG. Frequent changes in DGFT regulations, absence of real-time information, and unclear circulars generate uncertainty. For instance, changes in the MEIS scheme's status in 2021 resulted in considerable disruptions in the planning of small exporters who had adjusted their commitments correspondingly. The absence of an MSME-specific facilitation mechanism within the EPCG framework only worsens the situation, as smaller firms are left to interpret evolving guidelines without expert support(Khatri, 2019).





Summary of Gaps in Literature

The above-mentioned literature emphasizes that while EPCG is meant to improve India's export capacity and is strategically positioned, its application still does not match MSME reality. The difficulties include informational, financial, administrative, and operational aspects, therefore forming a multi-layered barrier to acceptance. Furthermore, lacking in great numbers is qualitative study documenting MSME experiences and viewpoints of these obstacles. By use of a thematic analysis of original data gathered from MSME owners, this research seeks to close the gap.

RESEARCH METHODOLOGY

Research Design

This study uses a qualitative research methodology to look at the difficulties MSME textile companies in Tirupur have in using the EPCG system for machinery modernizing. Since the core objective is to explore perceptions, institutional gaps, and lived experiences, a qualitative approach enables in-depth understanding of the context. The research is exploratory in nature and not intended for generalization. Thematic analysis was employed to identify recurring themes, opinions, and constraints expressed by respondents.

Data Collection Method

Semi-structured interviews with twenty MSME textile unit owners in Tirupur, Tamil Nadu, gathered primary data. Since all had either applied for or considering registering for the EPCG program, participants were chosen using purposive sampling to guarantee relevance. Depending on participant request, interviews were done in Tamil or English; thereafter, they were transcribed and translated when needed. Every session run twenty to thirty minutes. For note-taking and audio recording informed permission was acquired.

Research Question

The central research question guiding this study is:

RQ: What challenges do MSME units face in utilizing the EPCG scheme for upgrading their production infrastructure?

Additional profile data collected included:

Age of respondents

Years of business experience

Export engagement (which states the respondents are Regular Exporter, Occasional Exporter or First-time Exporter)

Data Analysis

Following Braun and Clarke's six-phase model of thematic analysis, the qualitative research produced the report by means of familiarization with the data, generation of initial codes, search for themes, evaluation of themes, definition and naming of themes. The coding procedure was helped by NVivo 15, which also let the interview transcripts be methodically organized and interpreted. Four main themes emerged from this analytical method, each reinforced by pertinent sub-themes and repeating patterns reflecting the lived experiences and problems of MSME textile unit owners in Tirupur.



ANALYSIS & FINDINGS

Term Frequency Analysis

This table lists the most commonly occurring words in the dataset, along with their frequency counts and weighted percentages. It provides quantitative insight into the recurring vocabulary associated with the EPCG scheme and MSME operations.

Table 1: Word Frequency Table Highlighting Commonly Used Terms in the Interview Transcripts

Word	Length	Count	Weighted Percentage (%)
epcg	4	47	5.83
scheme	6	47	5.83
experience	10	40	4.96
msme	4	40	4.96
machinery	9	25	3.10
export	6	23	2.85
upgrading	9	22	2.73
modernization	13	21	2.61
production	10	21	2.61
technology	10	21	2.61
units	5	21	2.61
business	8	20	2.48
exporter	8	20	2.48
facilitating	12	20	2.48
infrastructure	14	20	2.48
utilizing	9	20	2.48
regular	7	8	0.99
occasional	10	5	0.62
imported	8	4	0.50
small	5	4	0.50
customs	7	3	0.37
dgft	4	3	0.37
machines	8	3	0.37
process	7	3	0.37
support	7	3 3	0.37
application	11	2	0.25
consultants	11	2	0.25
delays	6	2	0.25
department	10	2	0.25
difficult	9	2	0.25

Source: Primary Source

Table 1 represents the word frequency analysis. It reveals that the EPCG scheme and related experiences are central to MSME discussions, with high mentions of terms like "epcg," "scheme," "experience," and "msme." The frequent occurrence of words such as "machinery," "modernization," "technology," and "upgrading" highlights a strong association between the scheme and technological advancement. Concurrent with this, words like "export," "exporter," and "utilizing" capture the focus on export duties connected to the advantages of the program. Words like "production,," "units," "business," and "infrastructure" clearly highlight operational elements as well. Though MSMEs recognize the scheme's potential, less frequent but important terms like "delays,," "application," "difficult," and "consultants" point to procedural challenges and the need of external support, so highlighting the fact that bureaucratic and compliance issues remain major obstacles to efficient use.

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Prominent Terms in Participant Narratives

The word cloud offers a visual snapshot of the most frequently used words in the interview transcripts. Larger words indicate higher frequency, drawing attention to the dominant ideas and concerns voiced by participants.

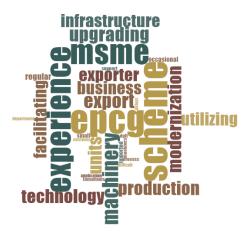


Fig 1: Word Cloud Illustrating High-Frequency Terms in MSME Owners' Discussions on EPCG Scheme

The word cloud from Fig 1 visually highlights the most frequently mentioned terms from the qualitative dataset, with "EPCG," "scheme," "experience," and "MSME" appearing most prominently, indicating the central focus of the interviews. These terms suggest that the respondents—primarily MSME owners—frequently discussed their experiences with the EPCG scheme and its role in their business operations. Supporting terms such as "export," "machinery," "technology," "modernization," and "upgrading" emphasize the scheme's perceived role in enabling production enhancement and capital equipment modernization. Words like "facilitating," "infrastructure," "support," and "utilizing" meanwhile speak to issues with policy use, accessibility, and implementation. Though narrower in scope, words like "customs," "application," "delays," and "difficult" provide subtlety, pointing out administrative or procedural bottlenecks that hamper use. The word cloud generally confirms that while the EPCG system is well-known, bureaucratic and logistical obstacles still limit its operational efficiency.

Conceptual Clustering of Core Ideas

The word cluster map shows, using text co-occurrence, how often used words are organized. This clarifies essential topics and conceptual links, therefore providing a better knowledge of MSME perspective of the EPCG program.

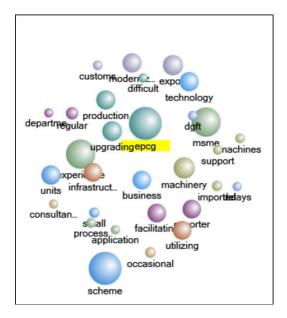


Fig 2: Word Cluster Map Showing Co-occurrence Patterns Among Frequently Used Terms

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Within the dataset, the cluster map in Fig 2 graphically shows the relationships between important words. Emphasized and encircled by phrases like "upgrading, "technology, "machinery, "modernization,," and "export," "epcg" is central to the map and shows how closely issues of technical development, export preparedness, and modernization objectives are related. Nearby "msme," "dgft," and "support" point to the requirement of institutional engagement and the need of help. Likewise, phrases like "delays,," "application,," "department," and "consultants" group together to highlight administrative and procedural obstacles often encountered by MSMEs. Emphasizing the practical implementation and possible advantages of the program, the grouping of "production,," "units," "business," and "infrastructure" represents operational viewpoints. On the other hand, the peripheral clusters including "small,," "occasional,," "regular,," "process,," and "imported" most certainly represent differences in company size, use patterns, and perceived complexity.

Visualization of Theme Density

The tree map visually represents the relative weight of each theme based on the number of references across the dataset. It helps in understanding which issues were most frequently emphasized by MSME respondents regarding the EPCG scheme.

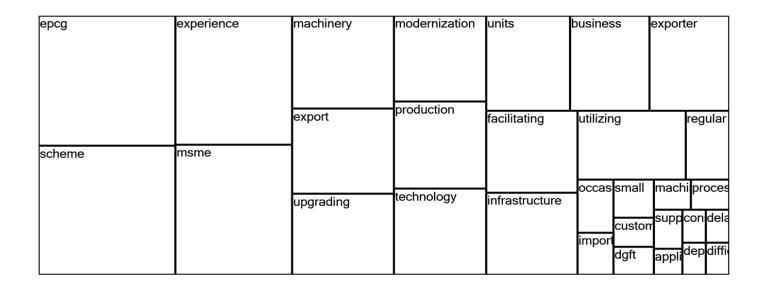


Fig 3: Tree Map Displaying the Relative Weight of Key Themes Based on Frequency of References

Fig 3 presents a hierarchical visualization of the key concepts discussed by respondents, with the size of each box representing the frequency and emphasis placed on each term. The most dominant themes—"epcg," "scheme," "experience," and "msme"—clearly point to a core narrative centered on MSME exporters' engagement with the EPCG scheme. Moderately stressed words such "machinery," "modernization," "technology," "production," and "export" show that respondents saw the program as a means of improving infrastructure, increasing output, and therefore strengthening competitiveness in foreign markets. Simultaneously, the existence of smaller boxes labeled "customs, "dgft, "delays," and "application" points to underlying operational problems and bureaucratic obstacles. These less well-known but equally important observations show that while the plan is theoretically in line with modernizing objectives, procedural inefficiencies usually compromise its actual value. Therefore, the tree map emphasizes the structural constraints limiting the complete influence of the scheme as well as its transforming power.

Thematic Coding Framework

The data gathered from twenty MSME respondents in Tirupur led to a codebook created using theme analysis. Four prominent themes were identified that capture the range of challenges encountered while attempting to utilize the EPCG scheme. These themes were consistent across micro, small, and medium enterprises, although the intensity of impact varied.





Table 2: Codebook Showing Key Themes and Descriptions from Thematic Analysis of MSME Interviews

Name	Description		References
Administrative Hurdles	This theme captures the procedural and institutional obstacles		6
	faced by MSME units in accessing and utilizing the EPCG		
	scheme.		
Export Obligation Stress	Under this theme, respondents expressed concerns about		4
	fulfiling the post-import export obligation requirements		
	imposed by the EPCG scheme.		
Lack of Awareness and	This theme reflects the widespread lack of awareness among	5	5
Guidance	MSME owners about the procedural steps, eligibility		
	conditions and documentation requirements of the EPCG		
	scheme.		
Operational and	This theme pertains to internal business-level challenges	5	5
Financial Constraints	MSME face even after accessing the EPCG Scheme.		

Source: Primary Source

Theme 1: Administrative and Bureaucratic Barriers

Participants consistently described procedural delays, excessive paperwork, and poor interdepartmental coordination as major hurdles. The involvement of multiple agencies—DGFT, customs, banks—resulted in delays and inefficiencies that discouraged many from pursuing the scheme further. Respondents pointed out that unclear EPCG rules among customs personnel resulted in pointless searches and delayed shipments. Particularly when export responsibilities were to be expanded, several applicants also encountered problems with license renewing and revision.

Theme 2: Lack of Awareness and Technical Guidance

A major concern raised by participants was the lack of knowledge about the scheme and its procedures, particularly among micro and first-time exporters. While medium-sized units could afford external consultants, micro units were either unaware or found the process too intimidating to pursue. This knowledge gap was further compounded by limited outreach by DGFT and non-availability of vernacular-language support on online portals. MSMEs also expressed a strong need for local facilitation centers or cluster-level awareness workshops.

Theme 3: Compliance and Export Obligation Stress

Several MSMEs highlighted the stress of meeting the export obligation (EO) as a deterrent to applying for or continuing under the EPCG scheme. Smaller firms, especially in volatile markets, found it difficult to forecast future exports over a six-year horizon. Respondents reported that the EO condition was inflexible and did not consider market disruptions, such as COVID-19 or foreign buyer cancellations. Some firms struggled with the paperwork needed to track and prove export performance over years.

Theme 4: Operational and Financial Constraints

While the EPCG scheme removes customs duty on machinery, the overall cost of modernization remains high due to costs related to shipping, installation, technician training, and maintenance. Respondents from micro units said that the cost of integrating imported machinery exceeded their budget capacity, even with duty exemption. Companies also pointed out the dearth of qualified professional workers ready to operate modern technology. Many had post-import problems with equipment compatibility, lack of service centers, and delayed replacement component shipments—all of which raised operating risk.

DISCUSSION

The findings of this study reaffirm several key issues identified in existing literature while also surfacing fresh, ground-level insights into the real-world barriers faced by MSMEs in accessing and utilizing the EPCG scheme.





First, the administrative and procedural burdens remain a significant deterrent for MSMEs, particularly smaller units with limited staff. This topic is reminiscent of the study of Pachori and Sharma (2016), who found that micro-enterprises' main cause of scheme underutilization was compliance difficulty. Study participants reported protracted delays, poor departmental cooperation, and trouble fulfilling paperwork requirements. These difficulties lower the scheme's attractiveness, especially for companies without past knowledge of export paperwork and legal processes. Second, notably in tier-2 and tier-3 industrial clusters, the lack of knowledge and technological direction still remains a structural challenge. This aligns with the findings of Mukherjee (2018), who observed that 60% of MSME respondents in his study had never been approached by any government or trade body to explain available schemes. In this study, micro-unit owners expressed feeling left out of policy communication channels and dependent on informal networks for information. This creates a knowledge divide, where medium-sized firms benefit from dedicated legal and compliance teams, while smaller enterprises rely on hearsay or expensive consultants. The study also highlights the disproportionate stress caused by export obligation conditions, especially in unpredictable market environments. The EO clause of the EPCG system is crucial for maintaining responsibility for tariff exemptions; yet, it imposes additional pressure on MSMEs that struggle to predict their long-term export performance properly. These results align with the assertions of Khatri (2019), who advocate for more adaptable entrepreneurial orientation policies in schemes aimed at micro, small, and medium enterprises. Participants in this study reported that EO tracking and reporting were too complex, and the risk of non-compliance discouraged further participation. Finally, the operational challenges surrounding machinery modernization are underreported in existing literature but emerged prominently in this study. From technical incompatibility to lack of trained operators and absence of service infrastructure, MSMEs often fail to realize the benefits of modernization even after successfully importing machinery. This extends the problem beyond policy design to the ecosystem of post-import implementation, which must include training, integration

Collectively, these themes underscore that while the EPCG program has significant macroeconomic objectives, its design and implementation must be tailored and streamlined to address the unique circumstances of MSMEs.

CONCLUSION

support, and access to maintenance services.

In conclusion, while the EPCG plan has considerable potential for advancing the technical capacities of India's MSMEs, its effectiveness is limited by several practical constraints. The outcomes of this research indicate that administrative complexity, insufficient awareness, severe export requirements, and operational constraints all impede the adoption of MSMEs in Tamil Nadu. To realize its transformative potential, the scheme urgently requires targeted policy reforms, including streamlined procedures, localized awareness campaigns, dedicated technical support, and adaptable compliance structures to connect policy design with on-the-ground implementation.

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