



The Engine of India's Growth: Status and Strategic Pathway for Indian MSMEs

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I. Executive Summary

This report offers an in-depth analysis of the Micro, Small, and Medium Enterprises (MSME) sector in India, emphasizing its vital role in economic growth, job creation, and export performance. The sector contributes around 30% to the GDP, providing over 25 crore jobs and accounting for approximately 46% of total exports. However, it faces significant challenges including limited access to formal credit, technological stagnation, and regulatory burdens. Notably, there is a growing trend towards formalization, as indicated by millions of new Udyam registrations, which is crucial for building a stronger ecosystem. Government initiatives like the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and the Pradhan Mantri MUDRA Yojana (PMMY) have made progress in improving credit access and business development, though there remains unequal participation, particularly among women. The Analysis advocates for a shift from purely financial support to a more encompassing, competency-based model. It proposes a strategic three-pillar framework focusing on enhancing digital integration, leveraging shifts in global supply chains for improved export competitiveness, and fostering sustainability to unlock new market opportunities. By tackling these challenges and implementing the proposed strategies, the MSME sector can fulfil its potential and contribute to India's pursuit of inclusive and sustainable growth.

II. Introduction: The MSME Sector as an Economic Pillar

Defining MSMEs: The Evolving Legal Framework

The specific thresholds for classification are now defined as follows

The Indian Micro, Small, and Medium Enterprises (MSME) sector, as established by the MSMED Act of 2006, is classified based on equipment investment and annual turnover. A significant reform introduced in the 2025 Budget Speech led by the Finance Minister updated the classification system from a single criterion to a dual criterion, now considering both investment and turnover. This update broadens the range of businesses classified as MSMEs, including those in service and trade sectors, and enhances the government's capacity to create tailored policies and schemes that meet the specific needs of diverse enterprises.

Enterprise Type	Investment in Plant & Machinery or Equipment	Annual Turnover
Micro	Not more than ₹2.5 crore	Not more than ₹10 crore
Small	Not more than ₹25 crore	Not more than ₹100 crore
Medium	Not more than ₹125 crore	Not more than ₹500 crore

The MSME sector is essential to the Indian economy, playing a crucial role in national development. It significantly contributes to employment generation, economic output, and the enhancement of export competitiveness.

- **Employment Generation:** The sector serves as a significant employment driver, offering jobs to over 25.18 crore individuals, making it the second-largest employer in the country after agriculture. Its importance lies in its ability to absorb labour and foster socioeconomic inclusion, especially in semi-urban and rural areas. The decentralized nature of Micro, Small, and Medium Enterprises (MSMEs) facilitates job creation and entrepreneurial opportunities throughout the nation, thereby addressing regional economic disparities.
- **Contribution to GDP:** Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in India's economy, contributing nearly one-third of the nation's GDP. In the fiscal year 2022-23, the sector accounted for 30.1% of the Gross Value Added (GVA) to India's GDP, highlighting its resilience and growing influence. This significant contribution emphasizes the strategic importance of MSMEs in supporting the Government's "Make in India" initiative and its overarching objective of achieving a USD 7 trillion economy by 2030.
- **Export Share:** The MSME sector plays a crucial role in India's exports, contributing approximately 46% of the total exports in 2023-24. This significant share indicates that MSMEs have progressed from being solely domestic entities to being vital participants in global value chains. Their capacity to deliver competitive products and services positions them as essential components of India's export strategy, highlighting their importance in driving international trade and bolstering economic resilience.

III. Status Report: The Current Landscape of Indian MSMEs

Economic Contribution: A Statistical Analysis

The MSME sector has shown significant growth in recent years, indicating a strengthening economic environment. Key statistical indicators suggest that this sector is well-positioned for ongoing expansion.

- **Export Growth Trajectory:** MSME exports have seen a significant increase, rising from ₹3.95 lakh crore in 2020-21 to ₹12.39 lakh crore in 2024-25, marking a three-fold growth that underscores the sector's expanding global presence. The number of exporting MSMEs has also increased dramatically, from 52,849 to 173,350 in the same period, reflecting a broader participation of enterprises in international trade. This diversification enhances the resilience of India's overall export performance.
- **Financial Formalisation and Health:** The MSME sector has experienced notable financial improvement, with outstanding credit from Scheduled Commercial Banks increasing by 24.1% in FY2024,

totalling ₹28.04 lakh crore. This rise in formal credit is essential for facilitating business expansion. Additionally, the quality of MSME credit portfolios has strengthened, evidenced by a reduction in the Gross Non-Performing Assets (GNPA) ratio from 9.3% in March 2022 to 4.5% in March 2024, indicating enhanced profit performance and overall financial stability.

Growth and Formalisation Trends

The MSME sector in India is experiencing a significant trend of formalisation, primarily driven by the Government's Udyam Registration Portal, launched in 2020. By February 2025, the portal has registered over 5.93 crore MSMEs, mostly categorized as micro-enterprises, indicating a major shift in the sector. This formalization facilitates access to governmental benefits such as loans and credit guarantees, enabling businesses to invest in technology and expand operations. As MSMEs formalise, they enhance their financial standing, which fosters lender confidence and further opportunities for growth. Consequently, this transformation is contributing to tangible economic growth and resilience within the sector, with many micro and small enterprises successfully scaling up to medium enterprises, thus reflecting the maturation of this vital component of the national economy.

The following table provides a clear overview of the MSME sector's performance across key economic indicators, illustrating its consistent growth trajectory.

Table 1: MSME Contribution to Key Economic Indicators (FY2021-2025)

Year	Contribution to GDP (%)	Contribution to Exports (%)	Export Value (₹ lakh crore)	Number of Exporting MSMEs	Number of Udyam-Registered MSMEs (Cumulative)
FY2021	-	-	3.95	52,849	-
FY2022	29.6	45.03	-	-	51,35,906
FY2023	30.1	-	-	-	85,65,154
FY2024	-	45.73	-	-	2,49,12,943
FY2025	-	-	12.39 ⁹	1,73,350	63,40,557

IV. Unlocking Potential: A Critical Analysis of Challenges

The Indian MSME sector, despite its significant growth and contributions, encounters a range of complex structural and systemic challenges. These interconnected issues create a negative cycle that must be disrupted to enable sustainable and long-term growth.

Financial Disparity: Bridging the Credit Gap

Access to finance is a major obstacle to the growth of micro, small, and medium enterprises (MSMEs) in India, with an alarming 86% of these businesses lacking access to formal credit. This statistic highlights a critical systemic issue that hinders MSME development.

- **Lack of Collateral and Risk Perception:** MSMEs often struggle to secure loans from traditional lenders due to a lack of tangible assets and formal credit histories, leading to their classification as high-risk borrowers. As a result, many are compelled to seek informal financing options that impose high interest rates, which hinder their investment and growth potential.
- **Low Financial Literacy:** A considerable number of MSME entrepreneurs lack awareness of the government schemes and financial products available to assist them. Even those who are informed often face obstacles due to the perceived complexity of the application processes and the extensive documentation required. This lack of financial knowledge and difficulty navigating procedures hinders the effective utilisation of essential support mechanisms.

Technological Lag: Overcoming the Digital Divide

Beyond financial constraints, a significant technological lag hampers the sector's productivity and competitiveness.

- **Technological Obsolescence:** Many MSMEs are hindered by old machinery and outdated software, resulting in lower efficiency and competitiveness compared to larger firms. Their inability to invest in modern equipment restricts productivity and compromises their ability to meet evolving quality standards in a dynamic market.
- **Adoption Barriers:** Barriers to technology adoption extend beyond financial constraints. A study reveals that 84% of digitally hesitant MSMEs find it challenging to recognize the clear value of technology investments. Furthermore, security concerns affect 81% of firms, while 56% face a lack of technical skills, all of which hinder the adoption of modern solutions. This highlights that financial incentives alone are inadequate; comprehensive education and skill-building initiatives are essential for successful technology implementation.

The challenges faced by Micro, Small, and Medium Enterprises (MSMEs) are interconnected, leading to a harmful cycle. Limited access to formal credit, due to factors like inadequate collateral and poor financial records, restricts investment in technology, which in turn fosters technological stagnation. This results in decreased productivity and competitiveness against larger firms. The heightened risk perception among lenders further exacerbates the financial accessibility issue. Therefore, addressing only one aspect, such as financial aid, is insufficient for achieving sustainable growth; a comprehensive, multi-faceted approach is necessary to effectively break this cycle.

V. Policy and Ecosystem Interventions: An Evaluation

The Government of India has implemented various policies and programs to bolster the MSME sector, resulting in both significant achievements and ongoing challenges. This evaluation emphasizes the need for further refinement of these policies to address the identified gaps.

Enhancing Financial Inclusion: A Review of Credit Schemes

- **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE):** The CGTMSE scheme, a collaborative effort between the Ministry of MSME and the Small Industries Development Bank of

India (SIDBI), was designed to offer collateral-free credit to micro and small enterprises. It has been acknowledged as a significant advantage for the SME sector, enhancing access to credit for businesses without physical assets. The guarantee limit has recently increased to ₹5 crore, thereby expanding the credit potential for eligible enterprises. Although the scheme positively impacts business growth and job creation, there is a notable gender disparity, with only 17.26% of beneficiaries being female, highlighting the need for focused outreach initiatives to support women entrepreneurs.

- **Pradhan Mantri MUDRA Yojana (PMMY):** Launched in 2015, the PMMY scheme has facilitated collateral-free loans for non-corporate, non-farm MSMEs, effectively fostering entrepreneurship, particularly among women and in rural areas, with financial support of up to ₹10 lakh. Despite its success in helping initiate businesses and generate income, a review highlights its limited impact on overall employment generation and improvements in living standards. Consequently, while MUDRA serves as a valuable resource for establishing new businesses, there remains a need for additional support systems to ensure sustainable growth and job creation.
- **Emergency Credit Line Guarantee Scheme (ECLGS):** In response to the liquidity challenges posed by the COVID-19 pandemic, the government implemented the Emergency Credit Line Guarantee Scheme (ECLGS). This initiative provided 100% guaranteed, collateral-free loans to qualifying businesses, facilitating their ability to address operational expenses and resume business functions. The scheme played a crucial role in delivering essential liquidity during an unprecedented economic crisis, supporting over ten million businesses in maintaining their operations.

Boosting Competitiveness: Market and Quality-Focused Initiatives

The government has also implemented schemes that focus on non-financial support to improve MSME competitiveness and market access.

- **Government e-Marketplace (GeM):** The GeM portal serves as a transformative resource for MSMEs by granting them direct access to government buyers, including central and state departments and public sector units. This platform enhances transparency, removes intermediaries, and includes specific provisions for MSMEs, like exemptions from Earnest Money Deposits (EMDs) and price preferences in bidding. Furthermore, by ensuring timely payments, GeM alleviates a significant challenge for MSMEs, fostering improved cash flow and financial stability.
- **MSME-Sustainable (ZED) Certification:** The Zero Defect Zero Effect (ZED) Certification scheme promotes the enhancement of quality management systems and the adoption of environmentally sustainable practices among MSMEs. The recent amendments in ZED 2.0 have made the certification process more cost-effective by reducing expenses by 20% and incorporating new energy management parameters, reinforcing the commitment to align MSME development with India's climate objectives.
- **Scheme of Fund for Regeneration of Traditional Industries (SFURTI):** SFURTI focuses on promoting cluster development in traditional industries like khadi, coir, and pottery. The scheme provides support for skill development, design intervention, and improved packaging to make these traditional sectors more competitive and profitable.

Table 2: Key Government Schemes for MSMEs: Objectives and Reported Outcomes

Scheme Name	Core Objective	Key Features	Reported Outcomes/Impact	Identified Challenges/Gaps
Pradhan Mantri MUDRA Yojana (PMMY)	Provide collateral-free credit for non-farm, non-corporate micro-enterprises	Loans up to ₹10 lakh (increased to ₹20 lakh in PMMY Plus) across three categories: Shishu, Kishore, and Tarun.	Successfully spurred entrepreneurship, particularly among women and in rural areas.	Limited impact on employment generation and quality of life.
Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)	Facilitate credit access for MSEs by providing guarantees to lending institutions	Provides collateral-free loans with a credit guarantee of up to ₹5 crore.	Enhanced credit availability, contributing positively to business growth and job creation.	Significant gender disparity; low representation of female borrowers.
Emergency Credit Line Guarantee Scheme (ECLGS)	Provide guaranteed credit to mitigate economic distress caused by the COVID-19 pandemic	100% guarantee cover on additional credit provided by lending institutions; no guarantee or processing fees.	Helped over 12 million businesses meet operational liabilities and survive the crisis.	Scheme is now closed for new guarantees; focused on a specific, temporary crisis period.
Government e-Marketplace (G e-M)	Promote transparency and efficiency in government procurement	Online platform providing direct access to government buyers; relaxes eligibility criteria and offers price preferences for MSMEs.	A “game-changer” that increases revenue, promotes digital transformation, and ensures prompt payments.	Some MSMEs face challenges with digital literacy and compliance requirements.

VI. The Pathway Forward: A Strategic Blueprint for Realisation: To fully harness the potential of the MSME sector and enhance its global competitiveness, a strategic framework founded on three key pillars is proposed.

Strategic Pillar I: Deepening Digital Integration

Embracing technology is essential for MSMEs to streamline operations, reduce costs, and remain agile in a fluctuating market. This includes moving towards a digital-first mindset, leveraging digital tools and e-commerce platforms for improved market access. Advanced technologies, such as AI and data analytics, are

crucial for optimizing supply chains and enhancing business insights. However, challenges like the perceived value of technology and technical skill gaps remain. Addressing these issues involves implementing user-friendly 'no-code' solutions and providing targeted training and mentorship programs, which collectively promote the effective adoption of technology and demonstrate significant returns on investment.

Strategic Pillar II: Globalizing the Indian MSME

Enhanced Logistics and Infrastructure: Recent geopolitical shifts have underscored the necessity for nations to diversify their supply chains, presenting a unique opportunity for Indian Micro, Small, and Medium Enterprises (MSMEs) to enhance their export capabilities. To harness this potential, it is essential to integrate MSMEs into global value chains. Key initiatives such as the PM Gati Shakti National Master Plan and the National Logistics Policy aim to establish an efficient multimodal logistics ecosystem, reducing costs and improving reliability for international exports.

Leveraging Private-Public Partnerships: Fostering private-public partnerships are a crucial, large Indian corporation can play a significant role by aiding MSMEs in navigating logistics and financing challenges. By functioning as trading houses and leveraging their networks, these corporations can facilitate access to new markets, thus promoting a sustainable model for globalisation that bridges existing resource gaps.

Strategic Pillar III: Embracing Sustainability

The transition to sustainable practices is crucial for Indian MSMEs, serving both national climate objectives and global market access.

The Economic Imperative: Economically, this sector contributes about 3-4% of India's carbon emissions. Adopting green initiatives, such as solar energy and energy-efficient machinery, can lead to substantial long-term savings; for instance, rooftop solar can reduce electricity expenses by around 30% with a payback period of three to five years.

Global Market Access: Additionally, sustainability is becoming essential for integration into global supply chains, particularly in developed markets. Indian MSMEs can unlock new export opportunities by adopting eco-friendly practices, as demonstrated by textile firms in Tirupur, which regained access to European markets through Zero Liquid Discharge systems. However, addressing challenges like high initial costs and limited awareness is vital. This can be achieved through practical solutions such as simplified ESG tools, sector-specific technical support, and improved green finance access. Such measures position sustainability as a competitive advantage, promoting growth and enhancing market presence.

VII. Conclusion: A New Era for Indian MSMEs

The Indian MSME sector is crucial to the economy, significantly impacting employment, GDP, and exports. It is currently evolving to become more organized and globally integrated, shifting from a traditional informal framework. Nevertheless, the sector faces challenges such as limited access to formal credit, technological stagnation, and complex market entry. Government initiatives, including CGTMSE and PMMY, offer some support but have yielded inconsistent outcomes, highlighting that financial strategies alone are insufficient. To unlock the sector's potential, emphasis must be placed on digital integration, globalisation, and sustainability. By adopting innovative technologies, establishing public-private partnerships, and implementing

environmentally sustainable practices, MSMEs can address historical constraints. This strategic focus is essential for India's ambition of achieving a USD 5 trillion economy and fostering inclusive, sustainable growth.

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