

## **21. Role and Challenges of MSMEs In the Indian Economy**

**Dr. Vanitha P.**

Assistant Professor and Research Supervisor,  
Department of Commerce  
Vels Institute of Science, Technology and Advanced Studies,  
Pallavaram, Chennai.

**Dr. Mohana Priya M. (Corresponding Author)**

Assistant Professor and Research Supervisor,  
Department of Commerce,  
Vels Institute of Science, Technology and Advanced Studies,  
Pallavaram, Chennai.

### ***Abstract:***

*Micro, Small, and Medium Enterprises (MSMEs), often regarded as the backbone of India's economy, play a crucial role in fostering innovation, ensuring balanced regional growth, and creating employment opportunities. They contribute more than 30% to the country's GDP and account for nearly 48% of total exports, making them key drivers of economic growth and inclusive development. MSMEs are spread across both urban and rural regions, helping to generate business opportunities that uplift marginalized communities and reduce regional disparities.*

*Despite their importance, MSMEs in India face several operational and structural challenges. These include limited access to markets, especially in global trade, outdated technology, poor infrastructure, regulatory compliance issues, and inadequate access to formal credit sources. The COVID-19 pandemic further exacerbated these challenges by disrupting financial flows and business activities across the sector.*

### ***Keywords:***

*MSMEs, challenges, financial support and Economic growth.*

### **21.1 Introduction:**

India's economy, one of the fastest-growing globally, heavily relies on its dynamic and diverse MSME sector. Comprising over 63 million enterprises, this sector plays a vital role in driving social and economic transformation by promoting balanced regional growth, generating employment, reducing poverty, and fostering an entrepreneurial spirit.

The Indian government has consistently emphasized the development of MSMEs through various legislative reforms and financial support programs. However, despite these efforts, MSMEs continue to face significant structural and operational challenges. To ensure sustainable growth, it is crucial to understand these challenges and address them with effective policy interventions.

### **21.2 Review of Literature:**

Extensive research has been conducted in India on various aspects of MSMEs, with scholars thoroughly exploring relevant literature on the topic. Below are some key studies:

Sipahi (2020) highlights the immense potential of MSME capital and finance to support rural development, generate employment, harness creative skills, promote regional equity, and contribute to national progress. However, the sector's size, industry diversity, limited financial management resources, and inability to cope with unexpected challenges made it particularly vulnerable during the COVID-19 pandemic.

Tripathy and Bisoyi (2021) found that about 35% of MSMEs and self-employed units in India's manufacturing industries face permanent closure, with difficulties in meeting payroll and fixed expenses such as rent and energy.

### **21.3 Research Objectives:**

The primary goals of this study are:

1. To analyze the growth, performance trends, and foundational theories related to MSMEs in the Indian economy.
2. To understand the contribution of MSMEs to India's social and economic development.
3. To identify and explore the various challenges and problems encountered by MSMEs in India.

### **21.4 Research Methodology:**

To achieve these research objectives, secondary data on various criteria were gathered and analyzed. The data were sourced from multiple reports and the official websites of relevant organizations.

### **21.5 Definition and Classification of MSMEs:**

As per the revised MSME Act guidelines (effective from 1st July 2020):

**Table 21.1: Classification of MSMEs**

<b>Enterprise Type</b>	<b>Investment Limit</b>	<b>Annual Turnover</b>
Micro	Up to ₹1 crore	Up to ₹5 crore
Small	Up to ₹10 crore	Up to ₹50 crore

Enterprise Type	Investment Limit	Annual Turnover
Medium	Up to ₹50 crore	Up to ₹250 crore
Source: Government of India, Ministry of Micro, Small and Medium Enterprises		

### Current MSMEs' Performance and Growth in India

The Micro, Small, and Medium Enterprises (MSME) sector plays a crucial role in the Indian economy by enhancing GDP, exports, and job creation. As of 2025, MSMEs continue to be the cornerstone of industrial development, fostering self-reliance and inclusive progress.

**Table 21.2: Status (2024-25)**

Indicator	Data / Status (2024-25)
Total Number of MSMEs	~6.4 crore units (Udyam Registration Portal)
Employment Generated	Over 12 crore people
Contribution to GDP	~30%
Share in Exports	~45%
Growth Rate of MSME GVA	8.4% (2024-25 est.)
Credit Disbursed under CGTMSE	₹1.15 lakh crore (FY 2024)
Digital Payments Adoption	>75% MSMEs use digital tools
Support in Budget 2025	₹22,138 crore allocated (15% increase from FY 2024)

**Table 21.3: Growth Data (2020–2025)**

Year	Estimated MSME GVA (₹Lakh Crore)	% Share in Total GVA	Employment (Crore)	Key Initiatives
2020-21	55.6	29.0%	10.5	ECLGS, Revised MSME Definition
2021-22	60.5	29.6%	11.0	Udyam Registration push
2022-23	63.9	30.3%	11.5	ONDC, PLI Scheme, PMEGP boost
2023-24	68.2 (Est.)	30.5%	12.0	Credit access, MSME Champions Portal
2024-25	73.4 (Proj.)	30.8%	12.3	₹22,138crore in Budget, CGTMSE reforms
Source: MSME Annual Report				

### **Analytical Perspectives:**

1. **Post-Pandemic Recovery:** MSMEs showed strong resilience after 2020, supported by financial aid and greater digital integration.
2. **Growth in Formalization:** Over 30 million MSMEs registered on the Udyam portal between 2020 and 2024.
3. **Job Creation:** Around 18 million new jobs were created in the MSME sector from 2020 to 2025.
4. **Credit and Financing:** Lending through schemes like MUDRA and CGTMSE reached record levels.
5. **Digital Adoption:** More than three-quarters of MSMEs now leverage digital tools for marketing, inventory control, and payment processes.

### **21.6 MSMEs' Importance to The Indian Economy:**

#### **1. Contribution to GDP:**

MSMEs form a vital part of India's economy, contributing nearly 30% to the national GDP. Known for their resilience, adaptability, and quick response to market changes, MSMEs significantly impact both manufacturing and service sectors.

#### **Highlights:**

- MSMEs are the second-largest GDP contributors after agriculture.
- They foster economic decentralization, especially in Tier-2 and Tier-3 cities.
- Due to their low capital requirements, they are highly scalable and inclusive.

#### **Support initiatives include:**

- **One District One Product (ODOP):** Encourages regional specialty products.
- **SFURTI:** Focuses on rejuvenating traditional industries.
- **Cluster Development Program:** Aims to build industrial ecosystems in underdeveloped regions.

#### **2. Employment Generation:**

MSMEs are the second-largest source of employment in India, providing jobs to around 111 million people. They play a crucial role in reducing dependence on agriculture and tackling unemployment, particularly in rural and semi-urban locations.

#### **Key impacts:**

- Offer opportunities for semi-skilled, unskilled, and migrant workers.
- Act as centers for micro-enterprises and self-employment.
- Help in poverty reduction and promote inclusive growth.

### **3. Export Promotion:**

MSMEs contribute approximately 48% of India's total exports, especially in traditional and labor-intensive sectors such as textiles, handicrafts, leather, food processing, and jewelry.

#### **Significance:**

- Facilitates India's integration into the global value chain.
- Supports government initiatives like "Vocal for Local" and "Make in India."
- Helps improve the country's trade balance and foreign exchange earnings.

### **4. Regional and Inclusive Growth:**

MSMEs play a crucial role in promoting balanced regional development by encouraging industrial growth in underdeveloped, rural, and tribal areas. This helps reduce regional inequalities and curbs urban migration.

### **5. Innovation and Entrepreneurship:**

Typically managed by families, first-time entrepreneurs, or small groups, MSMEs foster innovation and entrepreneurial spirit. Their agile structures enable rapid innovation and targeted market approaches.

#### **Benefits:**

- Promote affordable solutions and grassroots innovations.
- Inspire young people and women to embrace entrepreneurship.
- Enhance economic diversity and dynamism.

### **6. Sectoral Diversity:**

India's MSME sector is highly varied, spanning manufacturing, services, and agro-based industries. This diversity is key to the country's equitable and resilient economic growth, reflecting the sector's ability to engage a broad spectrum of skills and capital.

#### **1. Manufacturing Sector:**

A large portion of MSMEs operate in the manufacturing industry, producing goods for both domestic consumption and export. Key segments include:

- **Textiles and Garments:** This sector provides substantial employment, especially in states like West Bengal, Gujarat, and Tamil Nadu, covering processes such as spinning, weaving, dyeing, and stitching.
- **Food and Beverage Processing:** This area ranges from packaged snacks to grain milling, adding value to agricultural products and supporting food security.

- **Leather and Footwear:** Prominent in cities like Vellore, Agra, and Kanpur, this industry supplies products to both local and global markets.

## 2. Services Sector:

Driven by the digital revolution and rising demand for personalized services, the MSME involvement in the services sector has grown significantly. Key areas include:

- **Hospitality and Tourism:** This sector contributes to employment and foreign exchange earnings through hotels, restaurants, travel agencies, and homestays.
- **Education and Training:** Private coaching centers, online learning platforms, and vocational training institutes address the increasing need for skill development.
- **Financial and Business Services:** This category encompasses accounting firms, microfinance institutions, fintech startups, and consulting services that support businesses of all sizes.

## 3. Agro-Based Industries:

Agro-based MSMEs add value to raw agricultural products and play a crucial role in connecting agriculture with industry. Mostly located in rural and semi-urban areas, these enterprises foster rural entrepreneurship. Major segments include:

- **Dairy and Animal Husbandry:** Supporting women entrepreneurs and small farmers, this sector is involved in the production, packaging, and distribution of milk.
- **Food Processing:** Converts raw agricultural produce into finished goods such as pickles, jams, frozen foods, and spices.
- **Traditional Crafts:** Handloom, bamboo, ceramics, jute, and coir crafts preserve cultural heritage while providing employment to artisans in rural areas.

## 21.7 Challenges Faced by MSMEs:

Despite their significant contribution to India's economy, MSMEs continue to face numerous operational and structural challenges that hinder their growth, reduce competitiveness, and threaten long-term sustainability. Below is a detailed analysis:

1. **Limited Access to Affordable Finance:** Accessing finance remains a major hurdle for MSMEs.
  - Many MSMEs struggle to secure loans from formal banking channels due to insufficient collateral or poor credit history.
  - This drives a reliance on informal lenders who charge exorbitant interest rates.
  - An estimated credit gap of ₹25 trillion highlights the severity of funding shortages, further complicated by complex paperwork, lengthy loan approvals, and delayed disbursements.
2. **Inadequate R&D and Technological Outdating:** MSMEs often lag in adopting modern technology due to a lack of awareness and resources.
  - Many small businesses still depend on outdated machinery and manual processes.

- Funding for research and innovation is minimal.
  - Limited exposure to advanced Industry 4.0 tools like IoT, automation, AI, and data analytics hampers productivity and quality improvements.
3. **Insufficient Infrastructure:** Basic infrastructure deficits pose significant challenges, especially in rural and semi-urban regions.
- Operations are disrupted by unreliable power supply, poor transportation networks, and inconsistent internet connectivity.
  - Warehousing and storage facilities are either inadequate or prohibitively expensive.
  - The absence of common facility centers (CFCs) restricts economies of scale in industrial clusters.
4. **Complex Regulatory and Compliance Burdens:** MSMEs often grapple with a fragmented and complicated regulatory environment.
- Entrepreneurs must navigate multiple permits, registrations, and tax filings across different government levels.
  - Frequent changes in tax laws, such as GST amendments, create confusion and compliance risks.
  - Without dedicated legal teams, MSMEs are vulnerable to penalties for non-compliance.
5. **Challenges in Branding and Market Access:** Building a strong brand presence and entering larger markets remain difficult for many MSMEs.
- Limited knowledge of consumer engagement, digital marketing, and outreach hampers growth.
  - Participation in global value chains, trade fairs, and expos is minimal, reducing visibility.
  - Support for standardization and product certification essential for exports is inadequate.
6. **Shortage of Skilled Workforce:** There is a significant mismatch between the skills MSMEs require and those available in the labor market.
- Many employees lack the necessary practical training and sector-specific expertise.
  - MSMEs often lack funds to invest in upskilling their workforce.
  - High employee turnover, especially in urban areas, affects continuity and productivity.
7. **Delayed Payments from Buyers:** Late payments, particularly from large buyers and government bodies, remain a critical issue.
- These delays strain working capital, disrupt cash flows, and increase the risk of loan defaults.
  - MSMEs often hesitate to raise concerns for fear of losing future contracts.
  - Despite platforms like the MSME Samadhan Portal, complaint resolution is often slow.

### **21.8 Suggestions:**

- **Finance:** Encourage alternative lending options, simplify loan approval processes, and strengthen credit guarantee schemes.
- **Technology:** Promote digital skills training, foster research and development partnerships, and provide incentives for adopting eco-friendly technologies.

- **Infrastructure:** Develop industrial clusters for MSMEs and improve transportation and connectivity networks.
- **Skill Development:** Design training programs suited to rural communities, partner with ITIs and NSDC, and support women entrepreneurs.
- **Regulation:** Speed up legal processes, implement a streamlined compliance framework, and offer rewards for regular filers.
- **Market Access:** Support branding efforts, organize trade fairs, and integrate MSMEs into global supply chains.

## **21.9 Conclusion:**

Micro, small, and medium enterprises (MSMEs) play a vital role in India's economic development, employment generation, and inclusive growth. Their substantial contributions to GDP and exports highlight their importance in the national economy. Despite this potential, MSMEs face several challenges such as limited access to finance, outdated technology, inadequate infrastructure, and complex regulatory hurdles. These obstacles restrict their growth, innovation, and ability to compete in both domestic and international markets.

The government has made notable progress in addressing some of these challenges through initiatives like the MSME Amendment Act and the measures introduced in the 2025 Budget. Programs focusing on digital empowerment, credit guarantees, and infrastructure development are positive steps forward. However, to unlock the full potential of MSMEs, a more cohesive and well-coordinated policy framework is essential.

Future success for MSMEs depends on enhanced financial inclusion, increased digitization, innovation, skill development, and improved ease of doing business. Strengthening export capabilities, fostering partnerships with larger enterprises, and simplifying regulatory processes will help build a robust and resilient MSME ecosystem. Empowering this sector will enable India to achieve its goals of employment generation, sustainable economic growth, and global competitiveness, bringing it closer to the vision of Atmanirbhar Bharat.

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