4. MSMEs - The Backbone of India's Inclusive Growth - Economy

India's Micro, Small and Medium Enterprises sector has become a key driver of economic growth, employment generation, exports and grassroots entrepreneurship, particularly in rural and semi-urban areas.

1.Introduction

Micro, Small and Medium Enterprises are enterprises classified on the basis of investment in plant and machinery or equipment and annual turnover, representing diverse economic activities across manufacturing, services, and trade sectors forming foundation of India's entrepreneurial ecosystem. The Union Budget 2025-26 revised the MSME classification criteria to expand coverage and encourage enterprises to scale up without losing benefits—earlier thresholds created disincentive for growth as businesses feared losing MSME status and associated advantages, but revised criteria with higher thresholds for micro enterprises from ₹1 crore investment and ₹5 crore turnover to ₹2.5 crore and ₹10 crore respectively, small enterprises from ₹10 crore and ₹50 crore to ₹25 crore and ₹100 crore, and medium enterprises from ₹50 crore and ₹250 crore to ₹125 crore and ₹500 crore enable more businesses to access MSME benefits while growing. MSMEs contribute about 31.1% to India's GDP demonstrating massive economic significance, account for 48.58% of total exports showcasing global competitiveness, and generate around 35.4% of manufacturing output making them critical for industrial production. The sector encompasses more than 7.47 crore enterprises across manufacturing producing goods and industrial products, services providing professional and business services, and trade activities including retail and wholesale distribution.

MSMEs provide livelihoods to approximately 32.8 crore people making it the second-largest source of employment after agriculture, with large share of these enterprises operating in rural and semi-urban areas supporting local value chains, promoting non-farm employment, and contributing to regional economic development. However, MSMEs face significant challenges including access to finance with micro enterprises in rural areas facing credit gaps due to collateral requirements, limited credit history, and risk aversion among lenders, increased competition from globalisation and e-commerce exposing MSMEs to large domestic players and cheap imports particularly in textiles, handicrafts and electronics, lack of technological knowledge with large proportion especially in rural areas lacking awareness and capacity to adopt digital tools, automation and modern production techniques, marketing and networking opportunities with limited market linkages and poor brand visibility restricting access to national and global markets, regulatory burden with complex compliance requirements across labour, taxation and environmental regulations disproportionately affecting small enterprises, skilled labour shortage as MSMEs struggle to attract and retain skilled workers particularly with urban migration pulling labour away, and vulnerability to external shocks as demonstrated during COVID-19 with MSMEs especially micro enterprises having limited financial buffers to absorb demand shocks, supply chain disruptions or raw material price volatility.

2.What are MSMEs

Definition and Classification

1. MSMEs are enterprises classified on the basis of investment in plant and machinery or equipment and annual turnover.
2. The Union Budget 2025-26 revised the MSME classification criteria to expand coverage and encourage enterprises to scale up without losing benefits.
3. Revised classification - Micro enterprises with investment not exceeding ₹2.5 crore and turnover not exceeding ₹10 crore, small enterprises with investment not exceeding ₹25 crore and turnover not exceeding ₹100 crore, and medium enterprises with investment not exceeding ₹125 crore and turnover not exceeding ₹500 crore.

Economic Significance

1. MSMEs contribute about 31.1% to India's GDP demonstrating massive contribution to national income and economic activity.
2. The sector accounts for 48.58% of total exports showcasing global competitiveness of Indian MSMEs.
3. MSMEs generate around 35.4% of manufacturing output making them critical for industrial production.
4. The sector encompasses more than 7.47 crore enterprises across manufacturing, services, and trade activities representing entrepreneurial vibrancy.

Employment Generation

1. MSMEs provide livelihoods to approximately 32.8 crore people, making it the second-largest source of employment after agriculture.
2. Employment includes direct jobs in production, services, and trade, as well as indirect employment in supply chains and supporting activities.
3. A large share of these enterprises operates in rural and semi-urban areas supporting local value chains, promoting non-farm employment, and contributing to regional economic development.

3.Why MSMEs Are Important

Economic Contribution

1. MSMEs form the backbone of India's industrial and service economy contributing nearly one-third of GDP.
2. The sector's export contribution of 48.58% demonstrates competitiveness in global markets including textiles, handicrafts, engineering goods, and IT services.
3. Manufacturing output of 35.4% makes MSMEs critical for industrial production and value addition.

Employment and Livelihoods

1. With 32.8 crore people employed, MSMEs serve as massive job creators addressing unemployment and underemployment.
2. The sector provides opportunities for self-employment and entrepreneurship particularly for youth, women, and marginalized communities.
3. Rural and semi-urban MSME operations reduce migration pressures and promote balanced regional development.

Inclusive Growth

1. MSMEs enable participation of diverse social and economic groups including women entrepreneurs, scheduled castes and tribes, and rural populations in economic activities.
2. Low entry barriers and small capital requirements make MSMEs accessible for aspiring entrepreneurs.
3. The sector promotes decentralized industrialization reducing concentration in few urban centers.

Innovation and Flexibility

1. MSMEs demonstrate agility and flexibility in responding to market changes and customer needs.
2. The sector serves as incubator for innovation, new products, and business models.
3. MSMEs complement large industries through supply chains and ancillary relationships.

4.Key Challenges Faced by MSMEs

Access to Finance

1. MSMEs, particularly micro enterprises in rural areas, face significant credit gaps due to collateral requirements with banks demanding assets as security, limited credit history preventing formal sector loans, and risk aversion among lenders perceiving MSMEs as high-risk borrowers.
2. Interest rates for MSME loans are often higher than corporate lending increasing cost of capital.
3. Delayed payments from buyers create working capital stress affecting operations.

Increased Competition

1. Globalisation and e-commerce have exposed MSMEs to competition from large domestic players with economies of scale and brand recognition, and cheap imports particularly in textiles, handicrafts and electronics undercutting domestic producers.
2. E-commerce platforms while providing market access also intensify competition with established brands.
3. MSMEs struggle to match pricing and marketing capabilities of large competitors.

Lack of Technological Knowledge

1. A large proportion of MSMEs especially in rural areas lack awareness and capacity to adopt digital tools for marketing and operations, automation reducing production costs and improving efficiency, and modern production techniques enhancing quality and productivity.
2. Technology adoption requires capital investment and training creating barriers for small enterprises.
3. Generational gaps in technology adoption persist with traditional artisans and manufacturers slow to embrace change.

Marketing and Networking Opportunities

1. Limited market linkages and poor brand visibility restrict MSMEs from accessing national and global markets effectively.
2. Small enterprises lack resources for branding, advertising, and market research.
3. Participation in exhibitions and trade fairs requires financial resources often unavailable to micro enterprises.

Regulatory Burden

1. Complex compliance requirements across labour laws including wages, social security, and working conditions, taxation with GST filing and income tax compliance, and environmental regulations covering pollution control and waste management disproportionately affect small enterprises with limited administrative capacity.
2. Multiple inspections and certifications increase compliance costs and time.
3. Frequent regulatory changes create uncertainty and adaptation challenges.

Skilled Labour Shortage

1. MSMEs struggle to attract and retain skilled workers, particularly as urban migration pulls labour away from rural manufacturing clusters.
2. Competition from larger firms offering better salaries and benefits makes talent retention difficult.
3. Investment in training is limited given financial constraints and worker mobility.

Vulnerability to External Shocks

1. As demonstrated during COVID-19, MSMEs especially micro enterprises have limited financial buffers to absorb demand shocks from market downturns, supply chain disruptions affecting raw material availability, and raw material price volatility increasing production costs.
2. Lack of insurance and risk management tools exposes MSMEs to natural disasters and market uncertainties.
3. Limited access to working capital during crises threatens business survival.

5.Government Initiatives

PM Vishwakarma

1. Launched in 2023, it is a central sector scheme for 2023-24 to 2027-28 aimed at uplifting traditional artisans and craftspeople.
2. It aims to enhance product quality through skill training and modern techniques, and connect them to wider markets through e-commerce platforms and marketing support.
3. The scheme provides financial assistance for tools and equipment, collateral-free credit support, and brand promotion for traditional crafts.

Credit Guarantee Scheme for Micro and Small Enterprises (CGSMSE)

1. A Credit Accessibility Breakthrough, the CGSMSE provides credit guarantees for credit facilities extended by Member Lending Institutions to MSEs without collateral security or third-party guarantees.
2. This reduces lending risk for banks enabling them to extend credit to MSMEs lacking traditional collateral.
3. The scheme has facilitated billions in credit to small enterprises supporting business expansion.

Udyam Registration Portal

1. Launched in 2020, it offers a free, paperless, and self-declared registration process for MSMEs.
2. Online registration simplifies compliance and enables MSMEs to access government schemes and benefits.
3. Udyam registration provides unique identification and recognition to enterprises.

Prime Minister's Employment Generation Programme (PMEGP)

1. PMEGP is a credit-linked subsidy scheme that supports self-employment by helping set up micro-enterprises in the non-farm sector.
2. The scheme provides margin money subsidy reducing capital requirements for entrepreneurs.
3. PMEGP focuses on generating employment opportunities in rural and urban areas.

MSME Hackathon 4.0 (2024)

1. Supports 500 young entrepreneurs with funding up to ₹15 lakh each for innovation and incubation.
2. The hackathon encourages technology-based solutions addressing MSME challenges.
3. Winners receive mentorship, funding, and market access support.

MSME-TEAM Scheme (2024)

1. A trade enablement initiative with an outlay of ₹277.35 crore supporting 5 lakh MSEs including 2.5 lakh women-led enterprises.
2. The scheme focuses on digital onboarding enabling e-commerce participation, cataloguing showcasing products online, logistics support for shipments, and packaging improving product presentation.
3. MSME-TEAM enhances market access particularly for rural and women entrepreneurs.

Khadi and Village Industries

1. The Government is promoting the Khadi and Village Industries sector through the Khadi and Gramodyog Vikas Yojana, a Central Sector Scheme with no state component.
2. The scheme supports traditional industries preserving cultural heritage while providing livelihoods.
3. Khadi receives special status with government promotion and marketing support.

International Cooperation Scheme

1. Supports MSMEs in entering global markets by facilitating participation in international fairs, exhibitions and knowledge-sharing events on a reimbursement basis.
2. The scheme enhances export capabilities and global networking opportunities.
3. MSMEs gain exposure to international best practices and market trends.

6.Way Forward

Enhance Access to Finance

1. Expand credit guarantee schemes reducing collateral requirements and enabling bank lending, promote fintech lending using alternative credit assessment based on digital footprints and transactions, and ensure timely payments from government and large enterprises through strict enforcement of payment deadlines, while developing specialized MSME banks or dedicated windows in existing banks understanding sector needs.

Support Technology Adoption

1. Provide subsidies for digitalization and automation reducing capital barriers for technology adoption, establish technology centers offering training and demonstration facilities, and promote industry 4.0 technologies including IoT, AI, and cloud computing through awareness programs and technical support, while facilitating partnerships between MSMEs and technology providers.

Strengthen Market Linkages

1. Develop e-commerce platforms specifically for MSME products aggregating suppliers and enabling online sales, support participation in trade fairs and exhibitions through subsidies and logistics assistance, and implement public procurement preferences mandating government purchases from MSMEs, while building brand promotion initiatives highlighting quality and uniqueness of MSME products.

Simplify Regulatory Compliance

1. Streamline GST filing through simplified returns and digital interfaces, consolidate labour laws reducing multiple compliance requirements, and implement single-window clearances for approvals and licenses, while providing compliance support through handholding and capacity building programs.

Skill Development

1. Strengthen industry-academia collaboration aligning education with industry needs, establish sector-specific training programs in manufacturing techniques, services, and technology, and promote apprenticeship programmes providing on-the-job training, while offering certification courses enhancing worker employability and productivity.

Build Resilience

1. Promote MSME insurance covering business interruption, natural disasters, and key person risks, develop working capital support mechanisms during economic downturns, and encourage cluster development enabling collective bargaining, shared facilities, and knowledge exchange, while strengthening supply chain diversification reducing dependence on single sources.

Conclusion

India's Micro, Small and Medium Enterprises sector encompassing more than 7.47 crore enterprises contributes about 31.1% to India's GDP, accounts for 48.58% of total exports, generates around 35.4% of manufacturing output, and provides livelihoods to approximately 32.8 crore people making it second-largest employment source after agriculture. Union Budget 2025-26 revised MSME classification expanding thresholds—micro enterprises to ₹2.5 crore investment and ₹10 crore turnover, small enterprises to ₹25 crore and ₹100 crore, medium enterprises to ₹125 crore and ₹500 crore—enabling growth without losing benefits. Large share of enterprises operates in rural and semi-urban areas supporting local value chains, promoting non-farm employment, and contributing to regional development. Key challenges include access to finance with credit gaps due to collateral requirements and limited credit history, increased competition from globalisation and e-commerce, lack of technological knowledge with limited awareness of digital tools and automation, marketing and networking limitations restricting market access, regulatory burden with complex compliance requirements, skilled labour shortage with talent retention difficulties, and vulnerability to external shocks demonstrated during COVID-19. Government initiatives include PM Vishwakarma uplifting traditional artisans, Credit Guarantee Scheme enabling collateral-free credit, Udyam Registration Portal simplifying registration, PMEGP supporting self-employment, MSME Hackathon 4.0 funding innovation, MSME-TEAM enabling trade with ₹277.35 crore outlay, Khadi Gramodyog Vikas Yojana, and International Cooperation Scheme facilitating global market entry. Moving toward Viksit Bharat 2047 requires enhancing access to finance through credit guarantees and fintech lending, supporting technology adoption through subsidies and training, strengthening market linkages via e-commerce platforms and public procurement, simplifying regulatory compliance through streamlined filing and single-window clearances, skill development through industry-academia collaboration, and building resilience through insurance and cluster development addressing credit, technology, competition, skilling and global competitiveness challenges.

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