



Role of MSMEs in Strengthening the Indian Economy: Achievements, Challenges, and Policy Interventions

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Abstract:

Micro, Small, and Medium Enterprises (MSMEs) are a critical component of the Indian economy, driving employment, entrepreneurship, and industrial growth. Accounting for over 30% of India's GDP, employing more than two crore individuals, and contributing approximately 46% of exports, MSMEs serve as a backbone for inclusive economic development. This paper explores the role and achievements of MSMEs in strengthening the Indian economy, examines the key challenges they face—including limited access to finance, slow adoption of technology, skilled labor shortages, regulatory burdens, and market penetration difficulties—and evaluates government initiatives such as Udyam Registration, PM Vishwakarma Scheme, PMEGP, SFURTI, and RAMP aimed at supporting the sector. Further, the paper discusses potential solutions, including improved credit access, technology support, skill development, regulatory simplification, market linkages, infrastructure development, and innovation promotion, to enhance MSME growth, increase exports, and generate employment. The study concludes that with sustained policy support and strategic interventions, MSMEs can significantly contribute to India's GDP, foster inclusive development, and strengthen the country's global economic competitiveness.

Keywords: *MSMEs, Indian Economy, Employment Generation, Government Initiatives, Entrepreneurship, Finance and Credit Support, Technology Adoption, Export Contribution.*

Role of MSMEs in Strengthening the Indian Economy:

Introduction:

Micro, Small, and Medium Enterprises (MSMEs) are globally recognized as the backbone of modern economies. They serve as engines of employment generation, innovation, and inclusive growth. According to the United Nations, MSMEs account for around **90% of businesses worldwide**, generate **60–70%**

of employment, and contribute **nearly 50% to global GDP**. Emerging economies, including India, heavily rely on the MSME sector to foster entrepreneurship, reduce regional disparities, and support sustainable development.

In India, MSMEs have played a pivotal role since independence, contributing significantly to industrialization, rural employment, and poverty alleviation. These enterprises promote self-employment

opportunities at relatively low capital costs, second only to agriculture. They also empower marginalised communities, including women, youth, and socially disadvantaged groups. Recognizing their importance, the Ministry of MSME, Government of India, celebrates '**Udyami Bharat – MSME Day**', and implements a series of policies to formalize, finance, and strengthen the sector.

The sector's resilience is particularly evident during crises such as the COVID-19 pandemic, when MSMEs sustained economic activities despite operational and financial disruptions. With over **4.63 crore enterprises registered on the Udyam portal**, MSMEs now form a dynamic and globally competitive segment of India's economy.

Objectives:

1. To understand the role and achievements of MSMEs in strengthening the Indian economy.
2. To identify the key challenges faced by MSMEs and their impact on growth.
3. To study government initiatives and policies supporting MSMEs.
4. To suggest solutions and explore the future potential of MSMEs in India's economic development.

Research Methodologies:

The research is primarily based on **secondary data**, which is collected from reliable and authoritative sources. These include annual reports of the Ministry of MSME, Government of India; data from the Udyam Registration portal; publications of the Reserve Bank of India (RBI); reports

from NITI Aayog, SIDBI, and the World Bank; the Economic Survey of India; and various research papers, journals, and articles related to MSME development.

Definition and Classification of MSMEs:

The classification of MSMEs in India is governed by the **Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006**, based on investment in plant and machinery and annual turnover:

- **Micro Enterprises:** Investment up to ₹1 crore; turnover up to ₹5 crore. Examples include small-scale food processing units, local handicraft workshops, and stationery manufacturing.
- **Small Enterprises:** Investment up to ₹10 crore; turnover up to ₹50 crore. Examples include furniture manufacturing, printing units, and small textile units.
- **Medium Enterprises:** Investment up to ₹50 crore; turnover up to ₹250 crore. Examples include medium-scale engineering units, electronic component manufacturers, and automobile component suppliers.

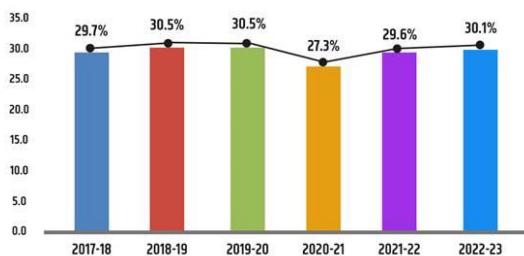
This classification facilitates targeted policies, enabling enterprises to access finance, subsidies, technology support, and government procurement opportunities. By formalizing businesses under these categories, India can track the sector's growth, evaluate employment generation, and design customized support measures.

Achievements of MSMEs in India:

The MSME sector has shown consistent growth, resilience, and adaptability over the years. Its **Gross Value Added (GVA) contribution to India's**

GDP was **29.7% in 2017–18**, rising to **30.5% in 2018–19** and **2019–20**. Even amid the COVID-19 pandemic, the sector contributed **27.3% in 2020–21**, rebounding to **29.6% in 2021–22** and reaching **30.1% in 2022–23**.

Share of MSME Gross Value Added (GVA) in India's GDP

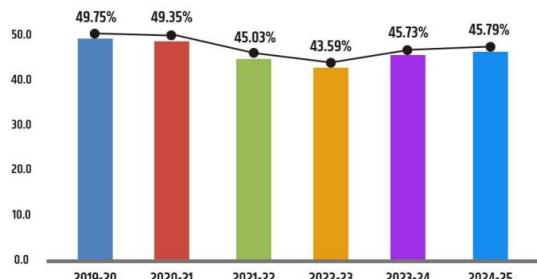


Source: <https://www.pib.gov.in>

MSMEs also serve as a major employment generator, employing **over two crore people** directly and millions indirectly. The sector is especially important in rural and semi-urban areas, where formal employment opportunities are limited. Through cluster-based development programs, such as those in textiles, handicrafts, and food processing, MSMEs enable local communities to participate in industrial activities while preserving traditional skills.

Exports from MSMEs account for **approximately 46% of India's total exports**, making the sector an important contributor to foreign exchange earnings. Additionally, MSMEs drive innovation and technological adoption. Many small-scale IT, electronics, and pharmaceutical units have developed niche capabilities that support larger industries and global supply chains.

Share of Export of MSME related products in All India Export



Source: <https://www.pib.gov.in>

Key Challenges Faced by MSMEs:

1. Limited Access to Finance:

Finance remains the most pressing issue. Many MSMEs struggle to secure loans due to lack of collateral, poor credit history, and high interest rates. Limited working capital hampers daily operations and restricts expansion, modernization, and market penetration. According to a 2023 MSME survey, **over 40% of small enterprises reported inadequate credit as the main barrier to growth**.

2. Slow Adoption of Technology:

While technology adoption improves efficiency and product quality, many MSMEs continue to use outdated production methods. High costs and limited awareness prevent implementation of digital tools, automated machinery, and cloud-based platforms. This slows competitiveness, particularly in international markets.

3. Shortage of Skilled Labour:

Though India has a large labor force, skilled professionals are often absorbed by large firms offering higher wages. Small enterprises, especially in specialized sectors like engineering components and pharmaceuticals, struggle to recruit and retain trained workers. This affects productivity, innovation, and quality standards.

4. Regulatory Burden:

MSMEs face complex compliance requirements related to labor laws, taxation, environmental regulations, and corporate governance. Smaller enterprises often lack resources to navigate these rules, increasing operational costs and discouraging new entrepreneurship. Frequent changes in regulations add to the confusion.

5. Difficulty in Market Penetration:

Accessing domestic and international markets remains challenging. Large corporations control distribution networks, while exports require compliance with certifications, logistics, and foreign trade regulations. Many MSMEs remain confined to local markets, limiting revenue and growth potential.

6. Inadequate Infrastructure:

Limited access to industrial parks, reliable electricity, logistics, and storage facilities reduces competitiveness. Rural MSMEs face additional challenges due to weak connectivity and transportation infrastructure.

7. High Cost of Inputs and Raw Materials:

MSMEs often purchase raw materials in small quantities at higher costs, reducing profit margins. Price volatility in commodities such as steel, plastics, and chemicals further strains financial sustainability.

8. Limited R&D and Innovation:

Lack of resources for research, development, and innovation hinders product diversification, process improvement, and adoption of advanced production techniques.

9. Marketing and Branding Challenges:

Small enterprises often lack adequate marketing budgets or professional expertise, reducing visibility and limiting customer reach.

10. Vulnerability to Economic Shocks:

Economic crises, such as the COVID-19 pandemic or supply chain disruptions, have a disproportionate effect on MSMEs due to low reserves and limited operational flexibility.

11. Limited Digital Adoption and Cybersecurity Concerns:

Many MSMEs lag in e-commerce, digital payments, and cloud adoption due to technical and financial constraints, limiting access to new markets.

12. Difficulty in Quality Standards Compliance:

International certifications such as ISO and FDA are costly, making it difficult for MSMEs to export high-value products.

13. Limited Access to Professional Management Services:

MSMEs often lack formal management structures and advisory support in finance, legal, and marketing, which limits strategic growth and scalability.

Government Initiatives Supporting MSMEs:

1. Udyam Registration Portal:

Launched on **1st July 2020**, the Udyam Registration Portal provides a **paperless, digital registration system** for MSMEs. As of June 2024, **4,63,36,385 enterprises are registered**, with the majority being micro-enterprises. Registration enables access to credit support, government schemes, and preferential procurement policies.

2. PM Vishwakarma Scheme:

This scheme, launched in 2023–24 with an allocation of **₹13,000 crore**, supports artisans and craftspeople with training, credit support, and integration into domestic and global value chains. It empowers over **2.2 crore applicants** to formalize businesses and enhance livelihoods.

3. Prime Minister's Employment Generation Programme (PMEGP):

PMEGP provides credit-linked subsidies for establishing micro-enterprises. In 2023–24, it facilitated **22,050 new projects**, extending **₹900.23 crore in subsidies** and generating **1,76,400 jobs**.

4. Scheme of Fund for Regeneration of Traditional Industries (SFURTI):

SFURTI organizes artisans into clusters for better productivity, skill development, and market access. Since 2014–15, **513 clusters have been approved**, benefiting **2,98,580 artisans**.

5. Public Procurement Policy for MSEs:

The policy mandates **25% procurement from MSEs**, including allocations for women and SC/ST entrepreneurs. In 2023–24, **₹82,431 crore** worth of goods were procured from MSEs.

5.6 Other Initiatives

- **MSME Samadhaan Portal:** Addresses delayed payments.
- **Credit Linked Capital Subsidy Scheme (CLCSS):** Supports technology upgradation.
- **RAMP Programme:** Enhances MSME competitiveness with a budgeted outlay of **₹6,000 crore over 5 years**.

Possible Solutions to MSME Challenges:

1. Improved Access to Credit:

Financial institutions should reduce collateral requirements, simplify loan processes, and lower interest rates. Fintech platforms can provide micro-loans and flexible credit options. Improved financing enables enterprises to modernize, expand production, and create more jobs, increasing GDP contribution.

2. Technology Support:

Affordable technology solutions, digital literacy programs, and access to automation tools will enhance productivity, quality, and competitiveness. Adoption of e-commerce and supply chain management software will boost domestic sales and exports.

3. Skill Development:

Vocational training, industry-aligned courses, and apprenticeships will develop a skilled workforce, supporting innovation, efficiency, and employment growth.

4. Simplified Regulations:

Clear guidelines, streamlined compliance, and facilitation centers reduce administrative burdens, allowing enterprises to focus on growth and market expansion.

5. Market Linkages and Export Promotion:

Support through trade fairs, B2B platforms, export promotion councils, and digital marketplaces improves domestic and international market access, increasing revenue, exports, and GDP contribution.

6. Infrastructure Development:

Development of industrial clusters, logistics hubs, and reliable utilities reduces costs, fosters collaboration, and enhances competitiveness.

7. Research, Innovation, and Quality Enhancement:

Promoting R&D, product diversification, and international certifications will improve global market access, boosting exports and economic growth.

8. Entrepreneurship Promotion:

Startup support, mentorship, and incubation programs encourage new enterprises, driving innovation, employment, and sectoral GDP growth.

Role in GDP, Employment, and Exports:

MSMEs contribute over **30% of India's GDP**, employ more than **two crore individuals**, and account for **46% of exports**. With enhanced support, the sector can expand production, integrate into global value chains, increase foreign exchange earnings, and create millions of additional jobs across manufacturing, services, and allied industries. This growth not only strengthens India's economy but also promotes inclusive development and reduces regional disparities.

Conclusion:

MSMEs are indispensable to India's economic growth, providing employment, promoting entrepreneurship, and contributing significantly to exports and GDP. Despite challenges such as limited finance, outdated technology, and regulatory burdens, government initiatives such as Udyam Registration, PMEGP, SFURTI, and RAMP have strengthened the sector. By addressing infrastructure gaps, promoting digital adoption, facilitating market access, and enhancing skill development, MSMEs can further scale, increase exports, and

create employment, thereby reinforcing India's position as a global economic powerhouse.

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