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Role of MSMEs in India's Growth Paradigm: Opportunities and Challenges

Dr. Jutika Medhi

Assistant Professor, Dept. of Economics, Geetanagar College,Ghy-21

Abstract

The Micro, Small and Medium Enterprises (MSME) sector contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities. It contributes nearly 30% of India's GDP, 45% of India's exports, registering over 6.82 crore unit by 2025 and employing nearly 30 crore people. MSMEs form the backbone of India's productive economy, anchoring growth, employment and regional balance in the journey towards Viksit Bharat. As an engine of innovation, local entrepreneurship, and export competitiveness, MSMEs enhance India's resilience in a volatile global economy. MSMEs are business entities engaged in manufacturing, processing or providing services, classified on the basis of their investment in plant & machinery/equipment and annual turnover, as defined under India's MSME framework. These enterprises are instrumental in generating significant employment opportunities at a lower capital cost compared to large industries. Keeping in view its growing importance in India, this paper tries to make an attempt to analyse the growth of MSMEs along with its role towards the growth performance of Indian Economy. This study also tries to uncover the opportunities and challenges faced by MSMEs in performing its role as a driver of economic growth.

Introduction:

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. The Ministry of MSME runs various schemes aimed at financial assistance, technology assistance and upgradation, infrastructure development, skill development and training, enhancing competitiveness and market assistance of MSME.

Micro, Small and Medium Enterprises (MSMEs) form the backbone of India's productive economy, anchoring growth, employment, and regional balance in the journey towards *Viksit Bharat*. Contributing nearly one-third of India's GDP and about 45% of manufacturing output, MSMEs act as vital linkages between agriculture, industry, and services. They are the largest generators of non-farm employment, especially for women, youth, and informal workers, thereby deepening social and economic inclusion. As engines of innovation, local entrepreneurship, and export competitiveness, MSMEs enhance India's resilience in a volatile global economy. Strengthening this sector is thus not merely an economic

imperative but a strategic pathway to sustainable, inclusive, and self-reliant national development. Micro, Small and Medium Enterprises (MSMEs) are business entities engaged in manufacturing, processing, or providing services, classified on the basis of their investment in plant & machinery/equipment and annual turnover, as defined under India's MSME framework. They generate large scale employment, contribute 30% of GDP and accounts for nearly 46% of India's exports.

Review of Literature:

Analysing the role and contribution of MSME in Gujrat, Dr. Sarika Srivastav (September 2020) finds how Gujrat became such an industrially developed state and how the growth of MSMEs has led to the growth of Gujrat as a state. Gujarat is famous for having a thriving entrepreneurial climate, and the state's MSME sector makes a sizable economic contribution.

Highlighting the need of small-scale industrial sector in India, Prasad (1974) in his study states that these small scale industries are small only in size but big on achievements.

By studying the differences in the availability or absence of adequate enabling factors, such as labor force, economic infrastructure, regulatory framework, size of GSDP, and density of MSME clusters, etc. in different states, Nihar Ranjan Jena and Lina R Thatte (2018) discovered that Maharashtra was the state that has the best performance in the MSME sector, closely followed by Gujarat, Andhra Pradesh, Uttar Pradesh, West Bengal, Tamil Nadu, and Kerala.

Emphasizing the necessity of increasing the MSMEs' present planning system, Dr. Ashok Kumar Panigrahi (December 2012) states that proper planning of MSME is important to raise the owner managers' understanding of risk management via appropriate training and development.

By presenting a vivid picture of the practical problems of individual small business, Graham Bannock (1981)shows how they relate to the wider issues of economic policy. He believes that release of the economic dynamisms inherent in the small business sector could help to generate the social and economic change needed for the resumption of inflation-free growth.

With an effort to comprehend the role that MSMEs in employment, Vinay Kumar (2017) finds that MSME plays an important role in creating job opportunities and work towards the nation's inclusive growth. The study also discusses various issues that these MSMEs run across when carrying out their activities.

By focusing on the development and performance of MSMEs in India as well as the issues and difficulties, that women business owners in India encounter, Neha Dangi and Ritika (April 2014) emphasizes the government's programs for the benefits of female entrepreneurs.

By pointing out that gaps arise and get widened due to mismatched levels of perception between the bankers and customers, Sahila and Chaudry (2012) appreciated that customer service is not about dealing with the people of logic but with people of emotions. It would, therefore, be worthwhile for banks to educate the customers about the various banking schemes, systems, and procedures of the banks, rights and duties of the customers, which can play a vital role in evolving healthy bank-customers relationship. With the growing awareness gained by the customer, he expects convenience in dealing with the bank. Therefore, technology can be gainfully employed.

Objectives:

The objectives of this study are-

1. To study the growth and performance of MSME in India.

2. To study the role of MSME in India's measuring India's growth.
3. To study the challenges faced by MSME in India and also the measures to strengthen it.

Methodology:

The study is based on secondary data and descriptive and theoretical in nature. All the relevant data are collected from different secondary sources such as MSME annual report, journals, official reports of RBI, research articles etc. Statistical tables and figures are used to represent various data.

Classification and composition of MSME's:

The Micro, Small and Medium Enterprises (MSME) sector holds a vital place in India's economic landscape. Due to its vast scale, diverse reach and adaptability, the MSME sector is often described as the backbone of India's socio-economic structure, specially for promoting inclusive and decentralized growth.

MSME is classified based on two main criteria- investment in plants and machinery or equipment and annual turnover. This classification is crucial in determining eligibility for various govt. schemes, incentives and support mechanism.

Initially defined under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2026, MSME was categorized separately for manufacturing and services sector based on plant, machinery or equipment. Recognizing the need to reflect changing business dynamics, Govt. of India introduced a revised classification of MSME in the Union Budget 2025. This update increased investment thresholds 2.5 times and doubled turnover limits.

Table-1 (Current and revised MSME classification)

Enterprise category	Current investment limit	Revised investment limit	Current turnover limit	Revised turnover limit
Micro Enterprise	Rs. 1 crore	Rs. 2.5 crore	Rs. 5 crore	Rs. 10 crore
Small Enterprise	Rs. 10 crore	Rs. 25 crore	Rs. 50 crore	Rs. 100 crore
Medium Enterprises	Rs. 50 crores	Rs. 125 crore	Rs. 250 crores	Rs. 500 crore

Growth and Performance of MSME in India:

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavors through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. The MSMEs in India are playing a crucial role by providing large employment opportunities at comparatively lower capital cost than large industries as well as through industrialization of rural & backward areas, inter alia, reducing regional disparities and to ensure more equitable distribution of income and wealth.

As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme implementation during the period 2015-16, there were 633.88 lakh unincorporated non agriculture MSMEs in the country engaged in different economic activities (196.65 lakh, in Manufacturing, 0.03 lakh in Non-captive Electricity Generation and Transmission1, 230.35 lakh in Trade and 206.85 lakh in Other Services).

1) No. of MSME:

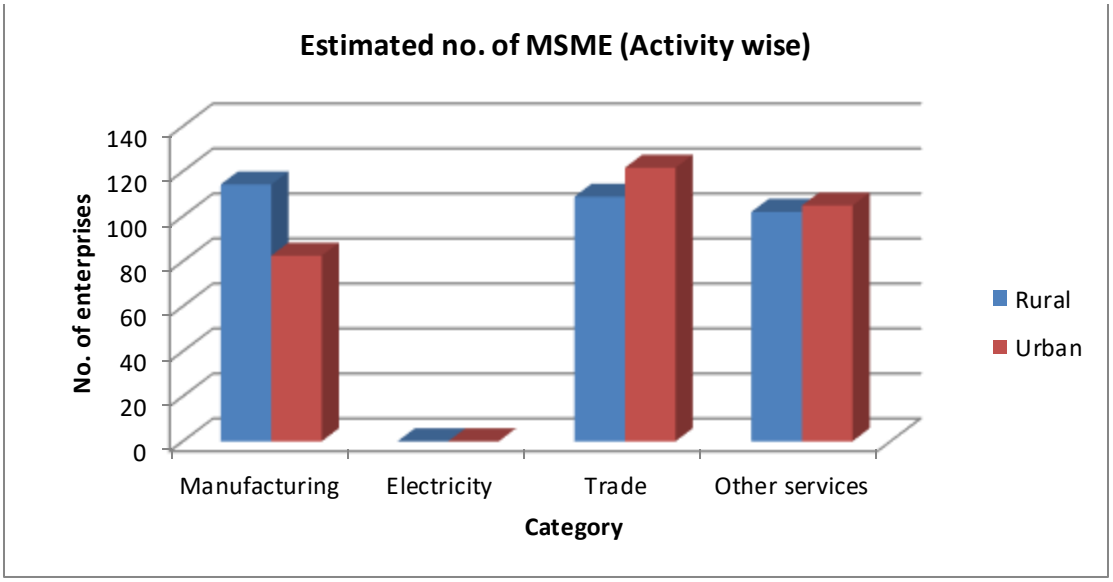
TABLE-1

Estimated no. of MSME activity wise

Activity Category	Estimated no. of enterprises (In lakh)		
	Rural	Urban	Total
Manufacturing	114.14	82.50	196.64
Electricity	0.03	0.01	0.04
Trade	108.71	121.64	230.35
Other services	102.00	104.85	206.85
Total	324.88	309.35	633.88

Source: MSME annual Report, 2022-23

Fig-1



2. Enterprise composition (Category wise):

According to the Annual Report 2024-25 by the Ministry of Micro, Small and Medium Enterprises, Govt. of India, there are approximately 5.77 crore MSME operating in India. The composition of the sectors reveals heavy dominance of micro enterprises with small and medium enterprises forming a much smaller share. This distribution reflects the MSME sector's deep reach into grassroots entrepreneurship and informal economic activity across India.

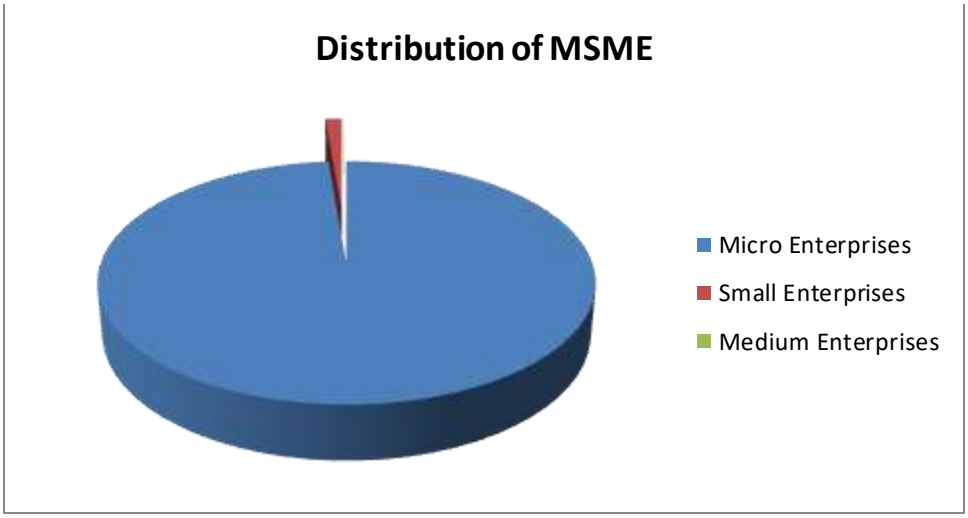
Table-2

Distribution of enterprises

Enterprises	% share
Micro Enterprises	98.6%
Small Enterprises	1.3%
Medium Enterprises	0.01%

Source: MSME annual Report, 2024-25, Ministry of MSME, GOI

Fig-2



3. **Sectoral Composition of MSME:**

The MSME sector in India is remarkably diverse, encompassing a wide range of activities across manufacturing , services and trade. This heterogeneity reflects the sector's ability to adapt to different regional, economic and technological context. With the rise of formal registration mechanism such as Udyam Registration and the integration of informal micro enterprises (IME), recent data show a continued dominance of the services and trade segments over manufacturing in terms of no. of registered MSMEs.

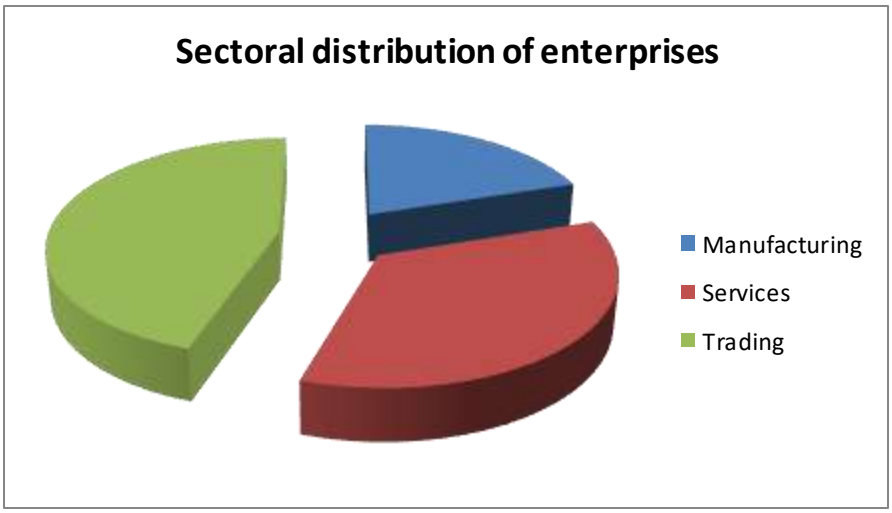
Table-4

Sectoral distribution of enterprises

Sectors	Sectoral distribution
Manufacturing	1,17,53,385 enterprises (20%)
Services	2,01,23,279 enterprises (35%)
Trading	2,58,26,886 enterprises (45%)

Source: Ministry of MSME, Udyam portal, 2024

Fig-3



4. **Employment pattern in MSME:**

Employment within MSME sector is uneven across different sectors and regions with a strong concentration in informal, agriculture linked units and small scale service enterprises. In terms of employer size and distribution, urban registered MSME tend to be involved in manufacturing and high value services such as IT, consulting and finance. In contrast rural MSMEs are primarily engaged in agro –based manufacturing, textiles, handicrafts and local trading activities.

Table-4

Estimated employment in the MSME (Activity wise)

Activity Category	**Employment (In lakh)**			**% share**
	Rural	**Urban**	**Total**	
Manufacturing	186.56	173.86	360.41	32
Electricity	0.06	0.02	0.07	0
Trade	160.60	226.54	387.18	35
Other services	150.53	211.69	362.22	33

Source: MSME annual Report,2022-23

Fig- 4

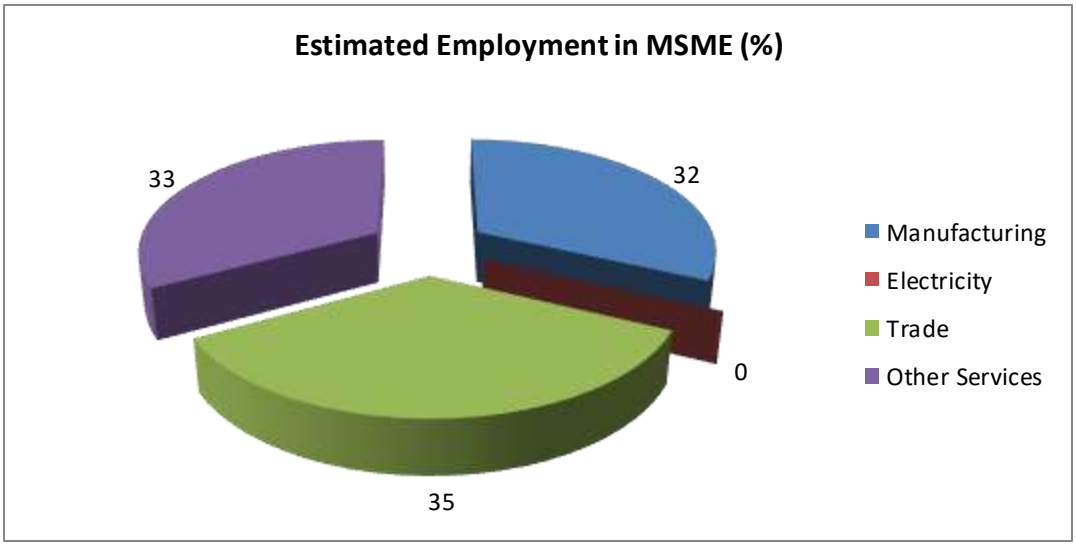


Table-5

Distribution of employment by type of enterprises

Sector	Micro	Small	Medium	Total	% share
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
Total	1076.19	31.95	1.75	1109.89	100

Source: MSME annual Report, 2022-23

Role of MSME in India:

The presence of MSMEs in India is of great significance as they provide abundant employment opportunities with minimal capital investment compared to larger industries. Additionally, they

contribute to the development of rural and underdeveloped regions, thereby addressing regional disparities and promoting a more equitable distribution of the country's income and wealth. Various role of MSME can be summarized below-

1. Enhancing Economic Output and Strengthening Industrial Clusters :

MSMEs contribute around 30.1% of India's GDP and accounts for 35.4% of manufacturing in the country. They act as suppliers of raw materials, components and intermediate goods to large industries, strengthening industrial clusters such as auto, textiles, and pharmaceuticals. Rapid formalization via the Udyam Portal with over 7 crore registrations as of January 2026 has expanded their role in structured and tax-compliant growth.

2. Contribution to Manufacturing and Exports:

in the manufacturing sector MSME Play a very vital role, accounting for approximately 45% of India's total industrial production. Again in terms of exports, MSME product form a significant share of Indi's merchandise exports. Between 2029 t 2024, MSME related exports have consistently accounted for between 445 to 55% of total exports, demonstrating the global competitiveness of India's small scale industries.

3. Increasing employment opportunities:

MSMEs are critical to employment generation in India, providing jobs to over 25.18 crore individuals across 5.93 crore registered units. As the second largest employer after agriculture, this sector drives inclusive growth, particularly for women, youth, and rural populations. They require low capital investment, fostering entrepreneurship and widespread industrialization.

4. Accelerating Digitalisation and Technology-Driven Growth:

MSMEs in India are steadily evolving into digitally integrated and technology-oriented enterprises, with a large share of payments and customer interactions now conducted through digital modes. RBI's Public Tech Platform for Frictionless Credit is enabling faster, data-driven and largely collateral-free lending to small businesses. Growing MSME participation in aerospace supply chains, pharmaceutical manufacturing clusters and electronics and defense production ecosystems highlights the sector's expanding innovation capacity and its role in building technologically resilient domestic industries.

5. Enhancing India's export potentialities:

MSMEs plays a critical role of India's external trade, with a strong presence in export-oriented sectors such as textiles, leather, gems and jewellery, engineering goods, pharmaceuticals and processed foods. In 2023–24, MSME-associated products accounted for 45.73% of India's total exports, reflecting their cost efficiency, adaptability, and ability to cater to diverse international markets.

6. Advancing women-led social entrepreneurship:

Women-led MSMEs are increasingly emerging as catalysts of gender-inclusive growth, livelihood security, and social empowerment. Credit and enterprise-support initiatives such as Pradhan Mantri Mudra Yojana, Stand-Up India, DAY–NRLM, and Mahila Coir Yojana have significantly expanded access to finance, skills, and markets for women entrepreneurs, particularly in rural and semi-urban areas. By integrating self-help groups, home-based workers, and social enterprises into formal value chains, the MSME ecosystem is playing a critical role in democratising entrepreneurship, enhancing social mobility, and advancing inclusive development outcomes.

7. Revitalising Rural Livelihoods and Agri-Based MSME Ecosystems:

Rural and agri-based MSMEs play a pivotal role in strengthening the village economy, curbing distress-driven migration, and creating non-farm employment through activities such as agro-

processing, food and dairy industries, handicrafts, fisheries, and forest-based enterprises. Government interventions such as PM Vishwakarma, the Self-Reliant India (SRI) Fund, PM Formalization of Micro Food Processing Enterprises (PMFME) and cluster-based initiatives are accelerating rural industrialization and enterprise formalization.

8. Promoting Green, Resilient, and Sustainable MSME Growth:

MSMEs are increasingly becoming key enablers of India's shift towards green growth and circular economy practices by adopting renewable energy solutions, energy-efficient machinery, waste recycling, and cleaner production processes. National initiatives such as the Raising and Accelerating MSME Performance (RAMP) Programme, supported by multilateral institutions, along with schemes like ZED Certification, Energy Efficiency Financing Platform, and forward-looking state policies like Telangana's MSME Policy, are mainstreaming sustainability, compliance, and resource efficiency into MSME growth pathways, aligning economic competitiveness with environmental responsibility.

Challenges faced by MSME in India:

Despite its vital contribution TO India's economy, the Micro, Small and Medium Enterprises (MSME) sector continues to grapple with a series of persistent challenges that constraint its growth, competitiveness and long term sustainability. These issues include structural, financial, technological and policy related constraints. These can be summarized below-

1. Informality and incomplete formalisation:

Although over 7 crore MSMEs are registered on the Udyam Portal, NITI Aayog's Report on India's MSMEs highlight that nearly 90% of MSMEs continue to operate in the informal sector, reflecting the sector's high degree of fragmentation. Compliance fear, low digital literacy, and cost of formalisation deter registration, restricting access to institutional credit, insurance, export incentives, and government procurement.

2. Postponing or Delayed Payments:

One of the most important operational bottlenecks is delayed payment to MSME. As per the latest data from the MSME Samadhaan portal, Payments of ₹21,108 crore MSMEs are pending across 90,000 applications. For this reason micro, small and medium enterprises are lagging behind in

3. Productivity Constraints and Technological Gaps:

MSMEs continue to face structural productivity constraints due to low capital intensity, outdated machinery, and limited access to advanced technologies. Inadequate digital integration and weak quality certification reduce their ability to compete in high-value domestic and global markets. According to the MSME Annual Report 2024-25 , the RAMP programme (which includes technology upgradation, digitisation and innovation support) *is* envisaged to benefit about 5.5 lakh MSMEs, a small fraction relative to the millions of MSMEs , which means many MSMEs remain outside the ambit of structured technology upgradation support.

4. Persistent Credit Constraints and Limited Formal Finance:

Despite multiple schemes, MSMEs continue to face a structural credit gap of ₹25–30 lakh crore (RBI–IFC estimate).Informal borrowing remains prevalent, with 12% of micro enterprises, 3% of small industries, and 2% of MSMEs overall still relying on informal lending sources, leading to high interest burdens. While Pradhan Mantri Mudra Yojana expanded access, micro enterprises still receive small-ticket, short-tenure loans, limiting capital formation and scale.

5. Skill Gaps & Human Capital Constraints:

As per NSDC and Periodic Labour Force Survey (PLFS) data, a majority of MSME workers remain informally trained, with low exposure to modern manufacturing and digital skills. According to the National Skill Development Corporation (NSDC) around 47 per cent of businesses said they struggle to find employees with the right skill sets. High labour turnover and weak apprenticeship linkages reduce enterprise efficiency, particularly in export-oriented and technology-intensive sectors.

6. Regulatory & Compliance Burden:

Multiple compliances under GST, labour codes, environment laws, and local regulations impose disproportionately high costs on small firms. A detailed report by Team Lease Regtech highlights that India's MSMEs, especially manufacturing units , must comply with over 998 unique regulatory obligations and 1,450 total requirements annually, covering tax, labour, environment, industry, and local statutory norms.

7. Market Access & Scale Limitations:

Most of the MSMEs operate in local or regional markets, lacking branding, logistics, and marketing capacity. While Government e-Marketplace has expanded access, micro enterprises face challenges related to documentation, quality standards, and price competition, limiting their effective participation.

8. Green Transition & Sustainability Challenges:

A significant proportion of MSMEs face constraints in adopting clean energy solutions and circular economy practices due to limited inadequate technical expertise, financial capacity and low awareness of green technologies and sustainability standards.

Although there are lots of challenges faced by MSMEs, yet its positive influence towards Indian economy outweigh the challenges faced by these sectors and these sectors will continue to perform its role as crucial driver of India's economic growth.

Conclusion:

From the ongoing analysis it can be concluded that MSMEs are very crucial leader in accelerating the growth performance of the economy of India. Strengthening MSMEs is central to achieving Viksit Bharat@2047, with clear targets of raising MSME contribution to GDP, creating quality jobs and enhancing their share in exports beyond 60%. Bridging the credit gap, ensuring timely payments, accelerating digital and green transitions, and enabling scale will be decisive. A globally competitive, sustainable, and inclusive MSME ecosystem can transform India's demographic and entrepreneurial potential into long-term economic leadership.

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