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MSME Growth in India: Challenges and Opportunities

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Abstract

The Micro, Small, and Medium Enterprises (MSME) sector is a vital pillar of the Indian economy, often regarded as the backbone of its industrial and socio-economic progress. By 2025, this sector has demonstrated remarkable resilience and expansion, with over 6.82 crore MSMEs registered on the Udyam portal. It plays a crucial role in promoting inclusive growth, contributing approximately 30.1% to India's gross domestic product (GDP), 35% to manufacturing output, and accounting for more than 45% of total exports. The MSME sector serves as a key driver of economic growth in India. Beyond generating employment opportunities, MSMEs facilitate industrialization in rural regions and help reduce income disparities among residents. They significantly contribute to the Indian economy through export and domestic production, requiring relatively low investments, offering operational flexibility, and being technology-oriented enterprises. MSMEs comprise over 80% of all industrial enterprises and support industrial development by accounting for 40% of industrial output, 80% of employment in the industrial sector, and 45% of the value added in manufacturing. Additionally, they contribute 45% to total exports. This paper analyzes the growth, challenges, and opportunities of MSMEs, based on secondary data collected from various sources such as magazines, annual reports, the Department of MSMEs, and other published reports.

Keywords: *MSMEs, Growth, Challenges, Opportunities, Employment.*

Introduction

Micro, Small, and Medium Enterprises (MSMEs) are vital to India's economic progress and are often considered the backbone of the nation's industrial and entrepreneurial landscape. With over 63 million MSMEs operating across manufacturing, service, and trade sectors, they significantly contribute to employment, GDP growth, exports, and regional development. MSMEs represent nearly 30% of India's Gross Domestic Product (GDP) and provide employment to more than 110 million people, making them the second-largest source of employment after agriculture. In a developing economy like India, MSMEs are especially important for promoting inclusive growth, reducing poverty, and ensuring balanced regional development. These enterprises encourage grassroots entrepreneurship, leverage local resources, foster innovation, and help diminish income disparities by creating opportunities in rural and semi-urban areas. They also act as supporting units to larger industries and are crucial in strengthening supply chains and industrial clusters.

Despite their significant contributions and potential, MSMEs face numerous structural, financial, technological, and regulatory hurdles that restrict their growth and competitiveness. Challenges such as limited access to formal credit, outdated technology, inadequate infrastructure, lack of skilled labor, and compliance burdens are prominent. Additionally, MSMEs often encounter difficulties in accessing markets, adopting digital technologies, and building resilience against economic shocks like the COVID-19 pandemic and global supply chain disruptions. However, the sector is also witnessing new opportunities driven by policy reforms, digital transformation, globalization, and emerging market trends. Initiatives like Make in India, Atmanirbhar Bharat, Startup India, Digital India, and the updated MSME definition have created a more conducive environment for enterprise growth. Furthermore, access to e-commerce platforms, fintech solutions, and participation in global value chains have expanded the growth prospects of MSMEs.

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In this context, understanding the challenges and opportunities confronting MSMEs is crucial for developing effective policies and strategies that can unlock their full potential. This study aims to analyze the main growth barriers faced by MSMEs in India while also highlighting emerging opportunities that can promote sustainable and inclusive economic development across the country.

Definitions of MSMEs:
In 2006, the government introduced the current definition through the passing of the micro, small and medium enterprises development act. MSMEs can be either manufacturing or service rendering units.

1. Manufacturing Enterprises: Investment in Plant and Machinery
2. Service enterprises: Investment in Equipment.

Revised Classification Applicable w.e.f. 1 July 2020			
Composite Criteria: Investment in Plant and Machinery / Equipment and Annual Turnover			
Classification	**Micro**	**Small**	**Medium**
Manufacturing Enterprises and Enterprises Rendering Services	**Investment in Plant and Machinery / Equipment:** Not more than ₹ 1 crore **Annual Turnover:** Not more than ₹ 5 crore	**Investment in Plant and Machinery / Equipment:** Not more than ₹ 10 crore **Annual Turnover:** Not more than ₹ 50 crore	**Investment in Plant and Machinery / Equipment:** Not more than ₹ 50 crore **Annual Turnover:** Not more than ₹ 250 crore

Source: Ministry of MSMEs.

Literature Review:

Thiripurasundari, K., and V. Gurumurthy (2009): Examine the challenges faced by India's micro, small, and medium enterprises (MSMEs). They acknowledge that globalization presents both opportunities and difficulties for domestic MSMEs. While globalization benefits some, it also poses significant threats, especially as foreign manufacturing firms produce larger quantities. The study suggests that financially robust MSMEs are more likely to thrive in the globalized market.

Ghatak, Shambhu (2010), in his paper titled "Micro, Small and Medium Enterprises (MSMEs) in India: An Appraisal," notes that Indian MSMEs have a higher level of banking integration, with 95% of units linked to banking institutions, compared to only 36% in Pakistan and 46% in Bangladesh. Despite this relatively better banking infrastructure, Ghatak emphasizes the need for stronger government initiatives to further support sector development. His analysis indicates that, although Indian MSMEs benefit from improved infrastructure relative to neighboring countries, additional policy measures are essential to address existing structural challenges.

K. T. Srinivas (2013), in his study titled "Role of Micro, Small, and Medium Enterprises in Inclusive Growth," concludes that MSMEs serve as a vital engine for national economic growth. Over recent years, there have been significant efforts at both the national and state levels to strengthen this sector. However, issues such as inadequate infrastructure and limited marketing linkages hinder their growth. The support provided by both the central and state governments remain insufficient for the sector's upliftment. Consequently, entrepreneurs and government authorities should collaborate to implement initiatives that promote the further development of MSMEs in India.

Research Objectives:

1. To study the growth of MSMEs in India.
2. To identify the major challenges and opportunities faced by MSMEs in India.
3. To study the impact of MSMEs on employment generation.

Methodology:
The research relies on secondary data obtained from various sources such as government reports, industry publications, and academic journals to gather information about the MSME sector in India.

Data Analysis:

1. Estimated Employment in the MSME Sector (Activity Wise):

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	186.56	173.86	360.41	32
Electricity*	0.06	0.02	0.07	0
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
All	**497.78**	**612.10**	**1109.89**	**100**

Source: *Annual Report of 2024-25 issued by Ministry of Micro, Small & Medium Enterprises*

According to the National Sample Survey (NSS) data for the year 2023-24, the MSME sector has generated a total of 11.10 crore employment opportunities across the country. This includes approximately 36.04 million jobs in manufacturing, 38.72 million in trade, 36.22 million in other services, and around 7000 jobs in non-captive electricity generation and transmission, spanning both rural and urban areas nationwide.

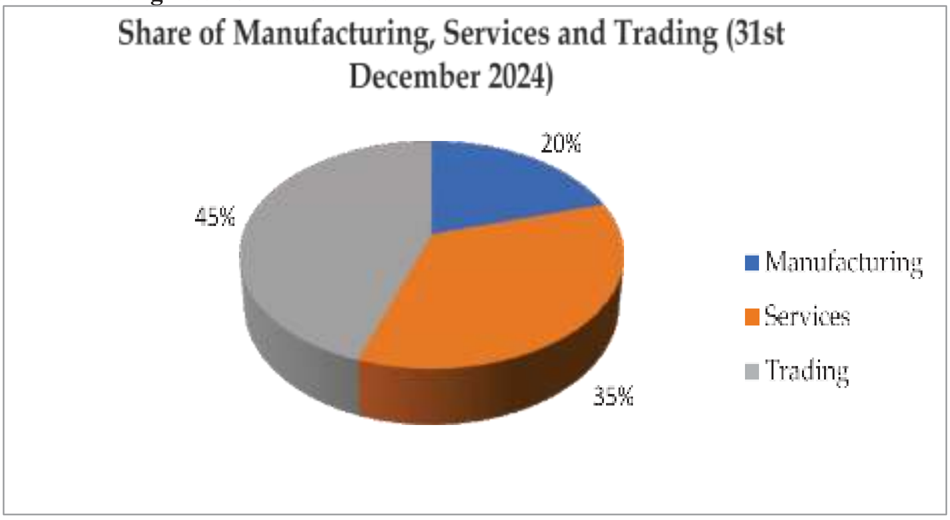
2. Number of SMEs (Activity Wise):

Activity Category	Number of Enterprises
Manufacturing	1,17,53,385
Service Sector	2,01,23,279
Trading	2,58,26,886
Total	5,77,03,550

Source: *Annual Report of 2024-25 issued by Ministry of Micro, Small & Medium Enterprises*

As of December 31, 2024, a total of 577,035,50 MSMEs, including IMEs under UAP, are registered. Among these, 117,53,385 enterprises are registered in the manufacturing sector, 201,23,279 in the service sector, and 258,26,886 in the trading sector.

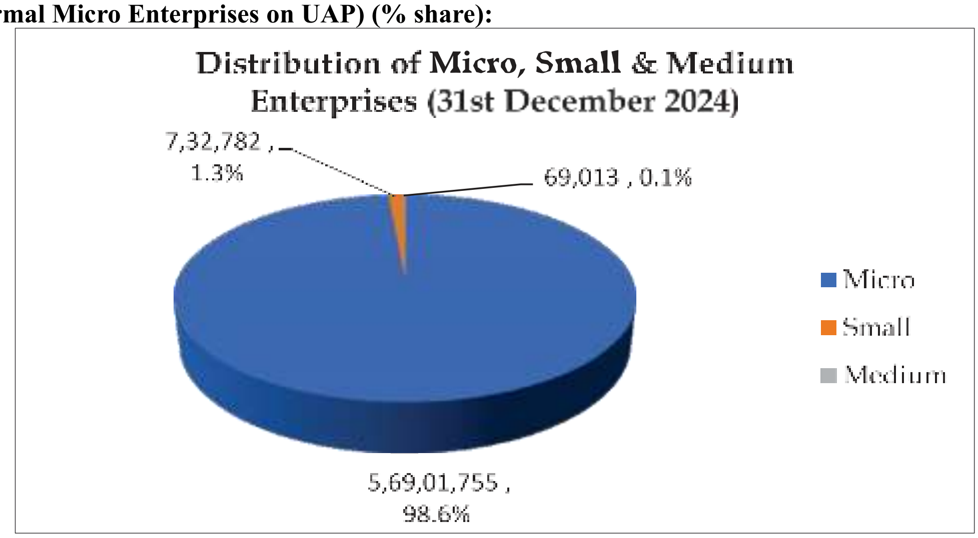
3. Share of Udyam Registration including Informal Micro Enterprises on UAP: Manufacturing, Services and Trading as on 31st December 2024:



Source: MSMEs Annual Report 2024-25

An examination of Udyam Registration, including IMEs registered on UAP, offers a detailed distribution of MSMEs across Manufacturing, Services, and Trading sectors. Notably, MSMEs in the Trading and Service sectors constitute a larger share of Udyam Registrations compared to those in the Manufacturing sector. The detailed breakdown is illustrated in the figure above.

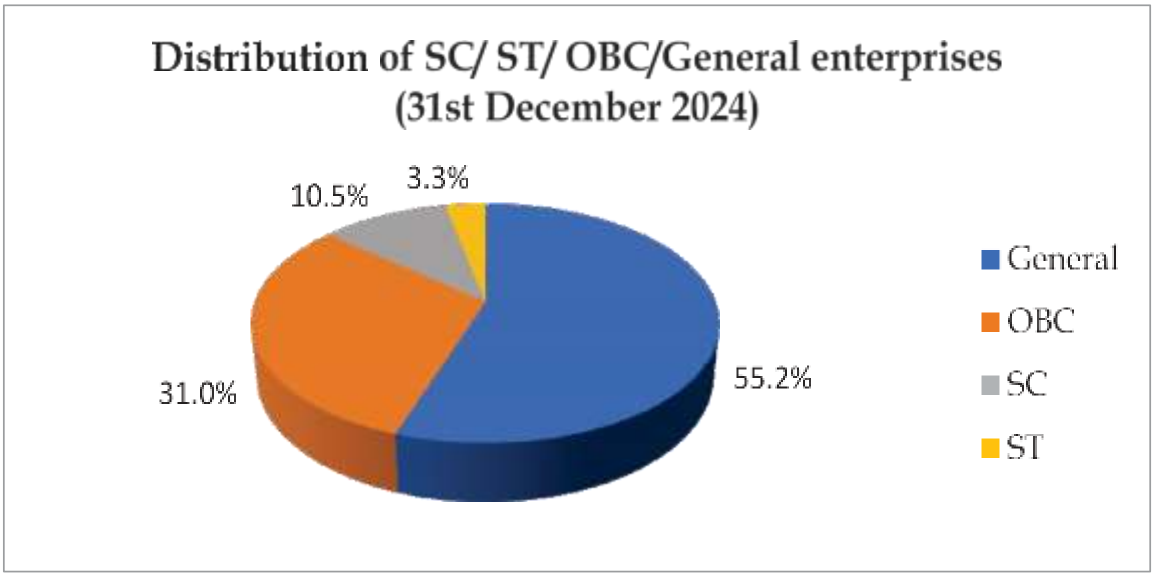
4. Distribution of Micro, Small and Medium Enterprises as per Udyam Registration (including Informal Micro Enterprises on UAP) (% share):



Source: MSMEs Annual Report 2024-25

The above figure illustrates the distribution of Udyam Registrations, including IMEs, on the UAP as of December 31, 2024. As observed, micro-enterprises make up the largest proportion of registrations, followed by small and medium enterprises in the total Udyam Registrations.

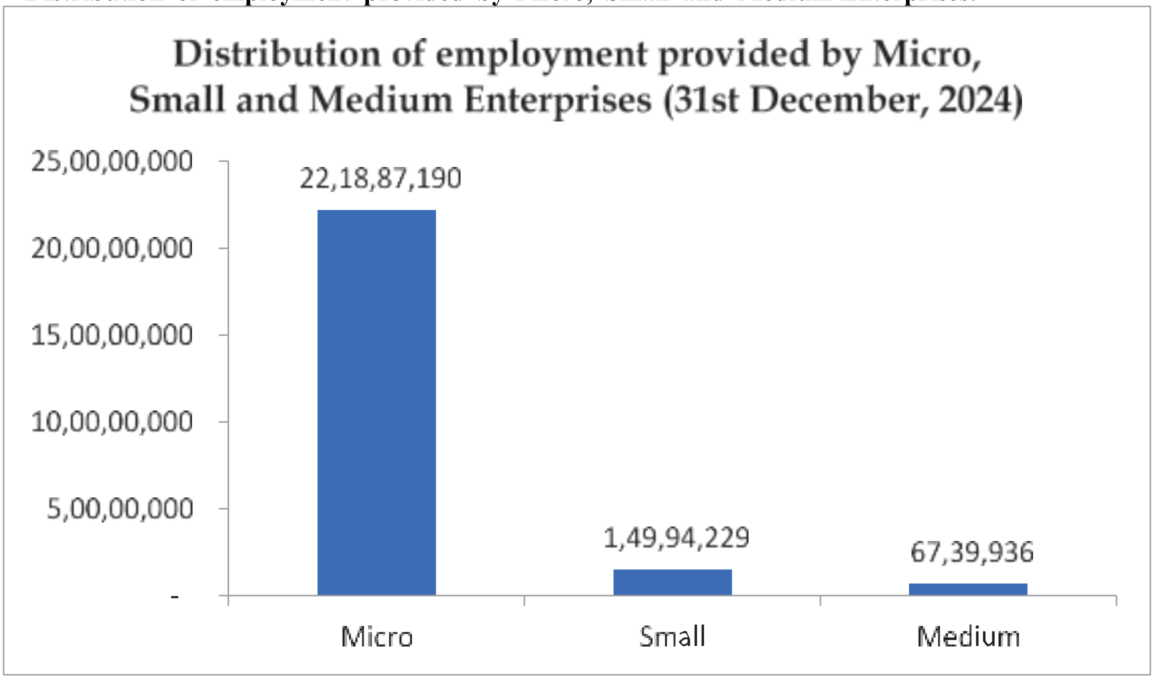
5. Distribution of SC/ ST/ OBC owned enterprises/General enterprises as per Udyam Registration (including Informal Micro Enterprises on UAP) as on 31st December 2024.



Source: MSMEs Annual Report 2024-25

The Udyam Registration Portal also gathers data on the social categories of enterprise owners. The figure presented illustrates the distribution of SC, ST, OBC, and General categories as of December 31, 2024.

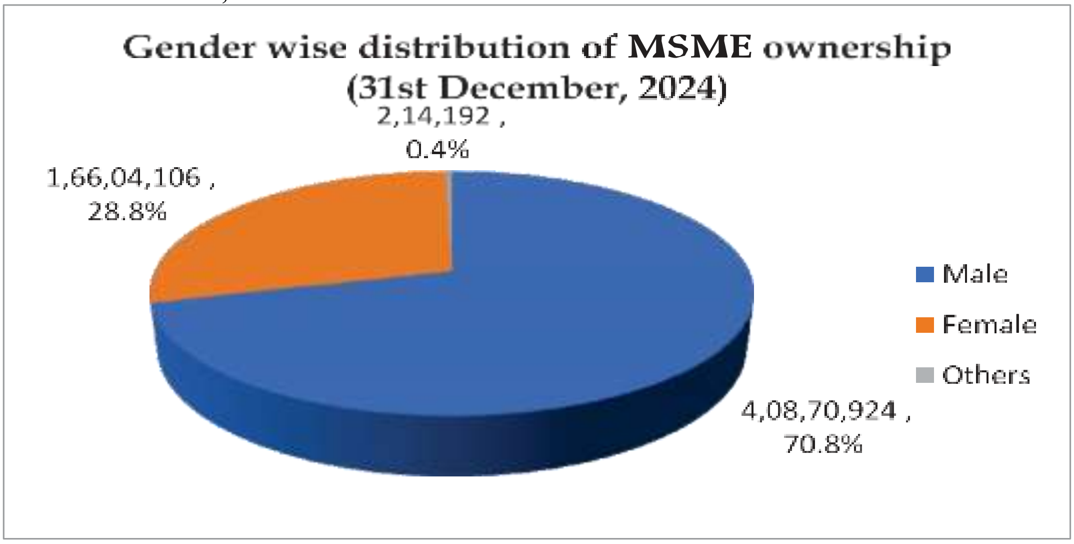
6. Distribution of employment provided by Micro, Small and Medium Enterprises:



Source: MSMEs Annual Report 2024-25

The above figure illustrates the significant contribution of microenterprises to employment generation in India. Udyam Registration, along with IMEs recorded in the UAP, also collects employment data reported by Micro, Small, and Medium Enterprises. The figure depicts the distribution of employment created by these enterprises as of December 31, 2024.

7. Gender wise distribution of ownership of MSME (including Informal Micro Enterprises on UAP) as on 31st December, 2024.

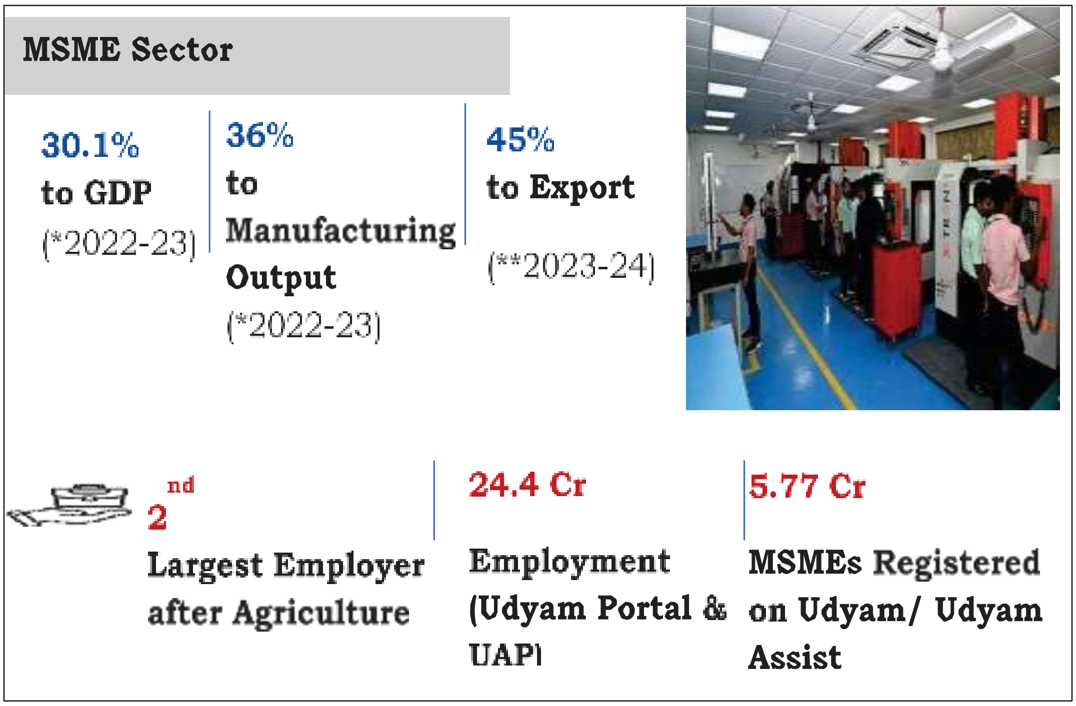


Source: MSMEs Annual Report 2024-25

Udyam Registration, along with IMEs on UAP, also offers a gender-wise breakdown of enterprises; the figure illustrates the distribution categorized by gender as of December 31, 2024.

8. Role of MSME in Indian Economy:

Micro, Small, and Medium Enterprises (MSME) are crucial drivers of entrepreneurial development and innovation within the business sector. They operate across a variety of industries, serving both domestic and international markets with a diverse array of goods and services. MSMEs are essential for creating substantial employment opportunities while requiring comparatively lower capital investment than larger corporations. Their contributions significantly impact various facets of the country's economy.



Source: National Statistical Office, Ministry of Statistics and Programme Implementation

Data culled out from Directorate General of Commercial Intelligence and Statistics (DGCIS)

Problems / Challenges of MSMEs in India:

1. Limited and Untimely Access to Credit from Banks:

Currently, MSMEs face challenges in securing quick and adequate financing due to high interest rates, a perceived high risk by banks, unreasonable collateral requirements, restrictive and conditional working capital limits, and substantial procedural costs. As a result, they lack alternative funding sources.

2. Complexity of Labour Laws and Bureaucratic Procedures:

The laws and regulations governing manufacturing and service MSMEs are highly complicated and challenging to comply with, making operational processes difficult and time-consuming.

3. Inadequate Infrastructure:

Many MSMEs in India operate in outdated industrial estates or unorganized rural areas. Poor infrastructure, including unreliable power supply, inadequate roads, and water shortages, hampers their ability to compete globally, leading to lower production capacity and increased costs.

4. Insufficient Marketing and Promotion Support:

MSMEs often struggle with marketing their products due to limited financial resources and lack of market intelligence. Unlike multinational corporations, they have limited access to modern technology, which affects their competitiveness and business growth.

5. Taxation and Regulatory Challenges:

The regulatory environment is often rigid, complex, and cumbersome, leading to delays and increased costs. These stringent norms make doing business more expensive in India compared to other countries, hampering the growth of MSMEs.

Opportunities Available to MSMEs in India:

1. **Government Programs:**
   The Indian government has introduced various schemes to promote the development of MSMEs, such as the Make in India initiative and Startup India program.
2. **Embracing Digital Technologies:**
   The widespread adoption of digital tools, including online commerce and digital payment systems, offers MSMEs opportunities to reach a broader customer base and enhance their competitiveness.
3. **Global Trade Opportunities:**
   India's expanding trade partnerships with countries like the United States and China create avenues for MSMEs to export their goods and services internationally.

Major Findings of the study:

1. Micro Enterprises constitute the vast majority (98.6%) of the enterprises.
2. Maximum (2,58,26,886) enterprises registered in Trading category.
3. Distribution of Ownership of MSMEs according to category: General-55.2%, OBC-31%, SC-10.5% & ST-3.3%
4. MSMEs Share in manufacturing is 20%, services-35% & Trading- is 45%.
5. Micro Enterprises provides employment to 22,18,87,190 workers, small scale enterprises employment generation is 1,49,94,229 & medium scale provides employment to 67,39,936 workers.
6. **Gender wise distribution of ownership of MSMEs (including Informal Micro Enterprises on UAP) as on 31st December, 2024 is Male- 4,08,70,924 (70.8%), Female- 1,66,04,106 (28.8%) and Others- 2,14,192 (0.4%)**

Recommendations:

To enable MSMEs to be competitive in domestic and global market, a few recommendations are given below to overcome the problems.

1. Facilitate access to credit for MSMEs at prevailing or lower interest rates, and develop strategies to offer cost-effective financing while enhancing the reach and quality of credit delivery in terms of both quantity and service.
2. Ensure the development of improved infrastructure, including roads, railways, ports, airports, water supply, sewage systems, and reliable power supply.
3. Improve the skills of the workforce to align with industry needs through targeted training and development initiatives.
4. Simplify and relax complex labor laws to promote better compliance and flexibility for MSMEs.
5. Implement measures to prevent industrial sickness and facilitate the revival of financially viable but struggling units.
6. Encourage MSMEs to adopt total quality management practices and adhere to ISO standards to enhance competitiveness.
7. Support quality improvement, innovation, and research and development efforts within MSMEs to strengthen their market position.
8. Recognize employees of MSMEs as valuable assets and foster their growth through recognition and skill development initiatives.

Conclusion:

MSMEs (Micro, Small and Medium Enterprises) are a key driver of economic growth in India, contributing significantly to GDP and industrial production. To sustain this growth, MSMEs need to improve productivity, quality, and innovation, while reducing costs. Government policies should support MSMEs to increase efficiency and competitiveness. Initiatives like cluster approach and industry association involvement can help prevent major issues in MSMEs. Friendly policies and a conducive operating environment are essential to maintain the growth momentum of MSMEs.

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Conflicts of interest
The authors declare that there are no conflicts of interest regarding the publication of this paper

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