

Role and Contribution of MSMEs in Indian Economy: Recent Status and Challenges

Sujata Rawani

Abstract

Micro small and Medium Enterprises (MSME) Sector is one of the strongest pillars of the Indian economy and this sector has been considered as a instrument of socio-economic development in many developing and developed countries. MSMEs are one of the four engines of the union budget 2025-2026 framework outlined by Finance minister to drive India's economic growth and its journey towards becoming a Viksit Bharat. This sector plays an important role in Indian economy and contributes significantly to industrial output, Gross Domestic Product (GDP), employment generation and export performance. Government of India has implemented several reforms including the new MSME classification, Udyam registration and various financial and technological support schemes to boost sectoral growth. Despite its vital importance the sector faces many major challenges. Keeping in view the above facts, the present paper is mainly focused on the current status, role, contribution, major challenges and government schemes for development of MSME sector in India.

Keywords: MSME Sectors, Indian Economy, Economic Development, Employment Generation.

Corresponding Author

P.G Scholar, Binod Bihari Mahato Koyalanchal University, Dhanbad (Jharkhand), University Department of Economics [email- sujatarawani123@gmail.com](mailto:sujatarawani123@gmail.com)

1. Introduction

The journey of India towards becoming a self-reliant and globally competitive economy is closely linked with the growth and development of Micro, Small and Medium Enterprises (MSMEs). The Micro, Small and Medium Enterprises is widely recognized as the “backbone” or “engine of growth” for the Indian economy by contributing significantly to employment generation, industrial production, exports, and inclusive growth and regional development. According to recent government reports, Union Minister for MSME and Minister of State for Micro, Small and Medium Enterprises, MSME sector accounts for 30.1 % of India's Gross Domestic Product (GDP) highlighting their strong role in driving economic

output, 35.4% of manufacturing and recent trends in Export of MSME related products reveal that contribution of MSME sector in overall merchandise exports has increased from 45.74% in 2023-24 to 48.55% in 2024-25 in USD value terms. Despite this vital role and performance this sector suffers from many problems like lack of technology, financial issues, lack of access and utilization of government schemes, obsolescent machinery as well as equipment, marketing difficulties and human resources deficiencies and many other challenges. On the other hand the government has launched numerous schemes like and continuously focused on the MSME sector to overcome its inherent challenges, aiming to further develop the sector and maximize its contribution to the Indian economy. While recognizing the pivotal role and contribution of MSMEs, the current paper attempts to study the major challenges of MSMEs and analysing the benefits of government schemes and initiatives intended for MSME support and growth.

Table-1

New Classification of MSME Sector (Effective April 1, 2025)		
Sectors	Investment	Turnover
Micro	2.5 Cr	10 Cr
Small	25 Cr	100 Cr
Medium	125 Cr	500 Cr

Source: SIDBI Publication & RBI.

The Government of India has introduced a new classification for Micro, Small and Medium Enterprises (MSMEs). The revised classification is based on **investment in plant and machinery or equipment** and **annual turnover**. Both investment and turnover limits must be satisfied to fall under a category. The new limits are higher than the earlier MSME classification.

- i. **Micro enterprise**, where the investment in plant and machinery or equipment does not exceed ₹2.5 crore and turnover does not exceed ₹10 crore.
- ii. **Small enterprise**, where the investment in plant and machinery or equipment does not exceed ₹25 crore and turnover does not exceed ₹100 crore.
- iii. **Medium enterprise**, where the investment in plant and machinery or equipment does not exceed ₹125 crore and turnover does not exceed ₹500 crore.

2. Review of Literature

Pooja Khatri (2019), focuses on the Reveals various aspects related to problems of finance marketing technology, human resources operation and export potential based on secondary data. This paper conclude that the overall environment is not very supportive because of factors like infrastructural gaps, complicated laws and other socio-cultural issues. It suggests that availability of supportive infrastructure should be has made for more accessible. The export potential of MSMEs should be improved by providing training to entrepreneurs regarding export procedures, export documentation, market research, negotiation with buyers, foreign standards and foreign demand pattern etc.

Jeemol Unni (2020), analysed the impact of COVID-19 on the Informal economy, workers and enterprises. He reveals that there is a requirement of micro-level understanding of the loss of employment, income, and GDP to successfully plan a revival of the economy. This will help to visualize a plan of action and policies in short term and medium term.

Dr. P. Mari Selvan (2021), analysed that government has to adopt integrated policy, providing sound data with efficient governance, promote skills development to increase productivity and providing accessible credit through government sponsored agency exclusively to MSME is essential to increase production and contribution to economic growth.

Dr. Ajit Singh (2021), focused on the status, various challenges and prospects associated with the MSME sectors in India. He used secondary data and discovered that the sector contributes significantly to India's industrial production, export, employment and generates an extensive entrepreneurial base but the sector is facing dominant issues like lake of skilled labour, issues of under-utilized capacity and deficiency of advanced technology so the author suggested that MSMEs require to construct capacities to involve ICT and other instruments in decree to serve the market needs.

3. Objectives

1. To review the role and contribution of MSME Sector in the Indian Economy.
2. To identify the major challenges of MSMEs and key initiatives for development of MSME Sector.

3. To formulate strategic recommendations for providing a more supportive and conducive operational environment for the MSME sector.

4. Research Methodology

This study is based on descriptive research design relies entirely on the secondary data sources. The data has been collected from authentic government websites such as annual report of MSME 2024-2025, Press Information Bureau (PIB), SIDBI publications, Ministry of MSME, RBI Gazette Notification, additionally, relevant information has been extracted from published articles, research papers and credible online sources. For data analysis I have used only percentage to interpret various economic parameters and recent trends.

5. Data Analysis and Interpretation

Table-2. Contribution of MSMEs to the GDP	
Year	Share of MSME in GVA in All India (in %)
2017-2018	29.7
2018-2019	30.5
2019-2020	30.5
2020-2021	27.3
2021-2022	29.6
2022-2023	30.1

Source: Press Information Bureau (PIB)

The MSME sector's contribution to India's Gross Value Added (GVA) demonstrated significant volatility and resilience over the six-year period, starting with an initial growth from 29.7% in 2017-2018 to a peak of 30.5% in both 2018-2019 and 2019-2020. This positive trend was sharply reversed in 2020-2021, when the share dropped substantially to its lowest point of 27.3%, a decline of 3.2 percentage points, primarily reflecting the economic impact of the COVID-19 pandemic. However, the sector showed a strong and rapid recovery in the subsequent two years, rebounding to 29.6% in 2021-2022 and further increasing to 30.1% in 2022-2023, indicating a near-full recovery of pre-pandemic contribution levels.

Table 3. Contribution of MSMEs to the Exports	
Year	% Share of Exports of MSME related products in all India Exports
2019-2020	49.75
2020-2021	49.35
2021-2022	45.03
2022-2023	43.59
2023-2024	45.73
2024-2025	45.79-48.55

Source: Press Information Bureau (PIB)

The data shows MSME sector's contribution to All India Exports from 2019-2020 to 2024-2025 shows a concerning pattern of decline followed by a modest recovery, though not reaching the initial levels. The share started at its highest point of 49.75% in 2019-2020 and saw a slight dip to 49.35% in 2020-2021. However, the contribution experienced a sharp decrease in the following two years, dropping to 45.03% in 2021-2022 and reaching its lowest point of 43.59% in 2022-2023, indicating significant external challenges or shifts in export focus. A recovery trend began in 2023-2024, with the share increasing to 45.73%. Furthermore, the projection for 2024-25 forecasts a stabilizing or slightly increasing range of 45.79% to 48.55%, underscoring the sustained, yet fluctuating, vital role MSMEs play in generating foreign exchange for the Indian economy, but also suggesting a sustained need for policy interventions to boost MSME competitiveness in the global market.

Contribution of MSMEs in Employment Generation:

Micro, Small and Medium Enterprises play a crucial role in employment generation in India, this sector is one of the largest sources of non-agriculture employment, providing employment to millions of people across rural and urban areas. According to government reports, Udyam registration portal records Combining Udyam and Udyam Assist Platform (UAP) data, showing rapid growth since the portal's launch. According to Ministry of MSME, total Udyam registration for MSMEs (including Udyam Assist Platform) have reached over 7.28 crore as on December 2025 and according to MSME dashboard real time data MSMEs employment generation is more than 3 crore as on December 2025 which confirming the sector's vital role in employment generation. The Indian economy has undergone a crucial structural transformation over the last two decades, witnessing the Service Sector emerge as the dominant contributor to the Gross Domestic Product (GDP). However, this growth model has been

plagued by the challenge of 'Jobless Growth,' as the Service Sector's employment generation capacity remains limited, particularly for the vast young workforce. While the historically dominant Agriculture sector continues to shrink in relative terms, recent data highlights that the Industrial/Manufacturing Sector has become the most significant contributor to new employment generation. As the foundational entities of this industrial base, MSMEs hold the intrinsic potential to bridge this acute growth-employment gap by promoting labour-intensive production, fostering equitable development, and providing the necessary jobs for India's demographic dividend.

Budgetary Outlay-

Details of Budget Estimates (BE), Revised Estimates (RE) and Actual Expenditure (AE) for 5 years of the Ministry is as follows:

Table-4

(Rupees in crore)

Financial Year	Budget Estimates (BE)	Revised Estimates (RE)	Actual Estimates (AE)
2020-21	7,572.20	5664.22	5,647.50
2021-22	15,699.65	15699.65	15,160.47
2022-23	21,422.00	23,628.73	23,583.90
2023-24	22,137.95	22,138.01	22,094.17
2024-25	22,137.95	17,306.70	7,225.19*

Source: MSME Annual Report 2024-25

Challenges faced by MSME Sector in India:

Despite its crucial role, the MSME sector face several constraints like skilled labour shortages, skill gaps and difficulty in attracting talent, market access constraints with intense competition from large companies and export markets including the following-

Financial and Credit related challenges: MSMEs face significant difficulties in accessing institutional credit due to stringent collateral requirements, complex banking procedures and inadequate financial literacy among entrepreneurs leading to reliance on costly informal sources.

Technological Obsolescence: Most MSMEs continue to rely on outdated technology and obsolete machinery, resulting in reduced productivity and impact

competitiveness. Entrepreneurs as well as other employees of MSME sector are not well equipped with the information and communication technology (ICT) skills which can completely transform the way in which business are operated.

Human Resource Deficiencies: The sector suffers from a shortage of skilled and trained manpower. Lack of highly skilled personnel leads to faulty planning, execution and appraisal of the performance of the MSME sector.

Supply chain and market related challenges: MSME sector is the victim of supply chain inefficiencies. Procurement of raw materials is one of the most difficult task of this sector and there is irregular supply chains in many cases. MSMEs lack adequate marketing infrastructure, professional expertise and promotional resources, making it difficult for them to expand their market reach and compete in domestic and international markets.

Lack of awareness and utilization of government schemes: There are many schemes launched by Government of India to promote MSME sector but due to a lack of awareness and information many entrepreneurs are unable to take full advantage of government schemes.

Other challenges: There are different challenges in the areas related to storage, designing and packaging of products because of poor infrastructure. There are also export related constraints because of high tariff on raw materials like metals, chemicals, steel and copper that are being imported by the MSME sectors.

Government Schemes and Initiatives for MSME Sector:

Pradhan Mantri Mudra Yojna (PMMY) – This scheme has played an important role in empowering non-corporate, non-farm small and micro enterprises by providing loans up to Rupees 10 lakh and more than 20 lakh crore has been sanctioned and disbursed under PMMY during FY2021 to FY2024-25.

Standup India- Facilitates bank credit to women and SC/ST entrepreneurs to promote entrepreneurship among historically underserved communities for greenfield enterprises. At the end of 2024, total loan outstanding in the scheme was 57,466 crore.

PM Vishwakarma Yojana- Provides holistic support, skill training, financial assistance (up to 3 lakh loan) and marketing support to traditional Artisans and craftspeople.

Prime Minister Employment Generation Programme (PMEGP) – This scheme aims to provide financial assistance to set up self-employment ventures and generate sustainable employment opportunities in rural as well as urban areas.

Micro and Small Enterprises Cluster Development Programme (MSE-CDP) - Supports infrastructure development and common facility centres for MSME clusters and soft interventions to build the capacity of the cluster units.

Coir Vikas Yojana (CVY)- This is an umbrella scheme being implemented by Coir Board for the Development of Coir industries all over the country which includes modernization and skill development and women focused self-employment program. The primary goal is to enhance the production and utilization of coir and coir products, create employment and ensure the welfare of coir workers.

International Cooperation Scheme- Promotes the International cooperation activities of MSMEs by providing financial assistance for airfare, stall rent and market research.

A Scheme for promotion for Innovation Rural Industries and Entrepreneurship (ASPIRE)- Promote innovation and accelerate entrepreneurship by setting up a network of Livelihood Business Incubators (LBIs) primarily in rural areas. Provides up to 1 crore for government agencies and 75 lakh for private agencies.

Rausing and Accelerating MSME performance (RAMP)- The World Bank supported scheme to improve micro small and medium enterprises access to technology, finance and markets. Aims to benefit over 5.5 lakh MSMEs by FY2026-27.

Entrepreneurship and Skill Development Programme (ESDP)- Motivate youth and various sections of society to choose self-employment and entrepreneurship as a career option by providing training and skill development for new and existing entrepreneurs. Includes Entrepreneurship Awareness Programs and Advanced Management Programs.

Beyond the schemes detailed above, there are many other government schemes are instrumental in the advancement of the MSME sector.

6. Recommendations

To maximize the impact of government efforts on the MSME sector and contribution of MSME sector to GDP exports and employment generation I strongly recommend three key strategic interventions: First, policy focus must shift from mere scheme formulation to guaranteeing simplified access and maximized utilization by leveraging more digital tools to ensure last-mile delivery. Second there is a necessity to promote vocational and entrepreneurial skilling among women. Third, to maintain relevance and effectiveness in a

dynamic economic environment there is a need for periodic review and data driven modification of existing support schemes. MSMEs should be improved by providing regular trainings to entrepreneur regarding exports, foreign market, negotiation with buyers, demand patterns etc.

7. Conclusion

Micro, Small and Medium Enterprises genuinely plays a pivotal role and makes a significant contribution to the Indian economy across exports, manufacturing, Employment Generation and GDP, which validates the government's continued focused attention on this sector. This paper concludes that despite the implementation of numerous government schemes, this sector still faces several challenges like difficulty to acquire timely funds for working capital needs, lack of consultancy support, need based research programs, lack of skilled manpower, low ICT literacy, lack of latest technological skills and marketing skills etc. that must be addressed to further enhance the MSME sector's contribution to GDP, boost employment generation and accelerate India's overall economic growth.

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