

Original Article

An Economic Study of Micro, Small and Medium Enterprises (MSMEs) in India

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Micro, Small, and Medium Enterprises (MSMEs) are contributing around 30% to manufacturing output and nearly 48% of international trade hence these MSMEs are crucial to India's economy. This study try to evaluate the financial strength, current conditions of Indian MSMEs and also the challenges faced by them amid a changing economic landscape, using data from various sources available. Despite their huge importance, MSMEs encounter various issues like limited access to loans, outdated technology, and government regulatory barriers. Government measures provide some assistance, but the Covid 19 pandemic highlighted their vulnerabilities. The study emphasizes that to achieve a \$5 trillion economy goal, strengthening and enhancing the MSME environment through better financial access, updated technology, and supportive policies is vital, as this sector can drive innovation and national economic growth.

Keywords: MSME, Access to finance, Market access, Economic development

Introduction

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Since the Micro, Small, and Medium Enterprises Development (MSMED) Act passed in 2006, the MSME sector has undergone significant structural changes and now it has also get a lot of attention from legislators. With the primary goal of supporting the growth of MSMEs, with a particular emphasis on helping recovery after the Covid 19 epidemic, the Indian government has launched a number of relief and development programs over the past ten years, particularly after 2020, such as the Udyam registration platform, the ECLGS (Emergency Credit Line Guarantee Scheme), and the RAMP initiative. Though have a crucial role, this industry is consistently suffered by problems such limited access to funding, a lack of technological progress, difficult and complicated regulatory frameworks. This study seeks to examine the economic impact of MSMEs in India, examine the effectiveness of current government initiatives, and try to identify key areas where strategic improvement may require. The goal is to figure out how MSMEs can continue their contribution to India's goal of becoming a \$5 trillion economy.

Objective of Study

- To examine the contribution of MSMEs to India's economy.
- To understand the challenges faced by MSMEs.
- To evaluate the effectiveness of government schemes and initiatives.
- To suggest remedies for strengthening the MSME sector.

Research Methodology

The study is based on secondary data collected from government reports, Ministry of MSME publications, RBI reports, and research articles, books and magazines. A comparative analysis of growth trends and performance indicators from 2010 to 2025 has been conducted.

Importance of MSMEs in India

1. Employment Generation: From 2020 to 2025, Micro, Small, and Medium Enterprises (MSMEs) have played a pivotal role in employment generation in India. Employing over 120 million people, MSMEs account for nearly 62% of India's workforce¹.

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Making them the second-largest employment provider after agriculture. Despite challenges from the COVID-19 pandemic, MSMEs recovered steadily, adding around 11 million jobs in 2023–24 alone across manufacturing, trade, and services sectors. Government schemes like PMEGP and SFURTI further boosted job creation by supporting new enterprises and artisans. Formalization initiatives, such as Udyam Registration, brought millions of businesses into the organized sector, enhancing employment stability. While wage growth has been limited due to inflation, the sector shows strong potential for inclusive growth, especially in rural and semi-urban areas. With emerging opportunities in e-commerce, logistics, and technology, MSMEs are expected to generate over 200,000 new jobs by 2025, reinforcing their critical role in India's economic and social development.

2. Export Contribution: Between 2020 and 2025, Micro, Small, and Medium Enterprises (MSMEs) have significantly bolstered India's export landscape. Their contribution to total exports was 49.75% in 2019-20, slightly decreasing to 49.35% in 2020-21, and further to 45.03% in 2021-22. However, this trend reversed with contributions rising to 43.59% in 2022-23, 45.73% in 2023-24, and reaching 45.79% by May 2024².

This growth is attributed to several factors, including increased participation in global supply chains and supportive government initiatives. Notably, the number of MSMEs engaged in exports expanded from 52,849 in 2020-21 to 173,350 in 2024-25, marking a growth of over 200 %. Additionally, the value of MSME exports surged from ₹3.95 lakh crore in 2020-21 to ₹12.39 lakh crore in 2024-25³.

Government schemes like the International Cooperation Scheme and the Capacity Building of First Time Exporters (CBFTE) have played pivotal roles in this expansion, offering financial support and facilitating global market access. These developments underscore the MSME sector's vital role in enhancing India's export performance and economic resilience.

3. Contribution in GDP: Between 2020 and 2025, Micro, Small, and Medium Enterprises (MSMEs) have consistently contributed approximately 30% to India's Gross Domestic Product (GDP), underscoring their pivotal role in the nation's economic landscape. Despite the challenges posed by the COVID-19 pandemic, the sector demonstrated resilience, with its Gross Value Added (GVA) share in GDP at 27.3% in 2020–21, rebounding to 29.6% in 2021–22, and reaching 30.1% in 2022–23⁴.

This sustained contribution is attributed to the sector's adaptability and the government's supportive initiatives, including the Emergency Credit Line Guarantee Scheme (ECLGS), the Udyam Registration Portal, and the Credit Guarantee Scheme. These measures have facilitated easier access to credit, formalization of enterprises, and enhanced market linkages, enabling MSMEs to scale operations and integrate into global value chains⁵.

As India aspires to become a \$5 trillion economy, the MSME sector's role in fostering innovation, generating employment, and promoting inclusive growth remains indispensable.

4. Contribution in Gender Equality: Between 2020 and 2025, Micro, Small, and Medium Enterprises (MSMEs) in India have significantly advanced gender equality by fostering women's entrepreneurship. As of early 2025, women own 39% of MSMEs registered on the Udyam and Udyam Assist platforms, reflecting a substantial rise from previous years⁶.

Government initiatives have been pivotal in this progress. The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) enhanced guarantee coverage for women entrepreneurs to 85% and offered a 10% concession in annual guarantee fees, benefiting over 19 lakh women-led businesses. Additionally, the Pradhan Mantri Mudra Yojana (PMMY) disbursed loans worth ₹2.22 lakh crore to 4.24 crore women entrepreneurs in FY 2023–24⁷.

Programs like the UDAY-PRIDE project have also promoted gender equality by enhancing women's participation in sectors like automotive manufacturing through skill development and workplace inclusivity⁸.

Despite these strides, challenges persist, including limited access to formal finance and under representation in medium-sized enterprises. Continued efforts in policy support, skill training, and financial inclusion are essential to sustain and enhance women's roles in the MSME sector.

5. Contribution in Regional Equality: Between 2020 and 2025, Micro, Small, and Medium Enterprises (MSMEs) have played a pivotal role in promoting regional equality across India by balancing economic activities between rural and urban areas. As of 2023–24, 51% of MSMEs, totalling approximately 32.49 million enterprises, are situated in rural regions, while 49%, or about 30.9 million, operate in urban centres⁹.

This equitable distribution has been instrumental in decentralizing economic growth, generating employment, and reducing regional disparities. Government initiatives like the One District One Product (ODOP) scheme and the Pradhan Mantri Mudra Yojana (PMMY) have further bolstered this balance. Notably, PMMY has provided substantial financial support to rural entrepreneurs, enhancing their access to credit and fostering local enterprise development.

In terms of employment, the MSME sector has significantly contributed to job creation in both rural and urban areas. By 2023–24, MSMEs have generated approximately 120.6 million jobs, with a substantial portion in rural regions, thereby addressing urban migration and promoting inclusive growth.

Overall, the strategic expansion and support of MSMEs across diverse regions have been central to India's efforts in achieving regional economic parity and sustainable development.

Challenges Faced by MSMEs

1. Access to Finance:

From 2020 to 2025, access to finance has been a significant challenge for Micro, Small, and Medium Enterprises (MSMEs) in India. The COVID-19 pandemic exacerbated existing financial constraints, as lockdowns disrupted business operations and cash flows. Although schemes like the Emergency Credit Line Guarantee Scheme (ECLGS) provided some relief, many MSMEs—especially micro and informal units—struggled to meet collateral and documentation requirements of formal financial institutions. According to the *International Finance Corporation (IFC, 2022)*, the credit gap for Indian MSMEs is estimated at around USD 530 billion. Despite the growth of digital lending and fin tech solutions, rural and semi-urban MSMEs remain under banked. Financial illiteracy, lack of credit history, and perceived risk by lenders further limit credit access. Addressing this challenge requires regulatory reforms, improved credit assessment tools, and expansion of inclusive digital finance infrastructure¹⁰.

2. Technological Obsolescence:

Between 2020 and 2025, technological obsolescence has been a significant hurdle for Micro, Small, and Medium Enterprises (MSMEs) in India. Many MSMEs continue to rely on outdated machinery and traditional methods, making it difficult to compete with technologically advanced firms. The rapid pace of digital transformation, accelerated by the COVID-19 pandemic, exposed the digital divide within the sector. A majority of MSMEs lacked the financial capacity, technical knowledge, and skilled workforce needed to upgrade their operations. According to the Ministry of MSME's Annual Report (2022–23), limited access to modern technology has hindered productivity, innovation, and market competitiveness. While schemes like the Credit Linked Capital Subsidy Scheme (CLCSS) aim to support technological upgrades, their reach remains insufficient. To remain relevant and competitive, MSMEs must embrace digital tools, automation, and modern production techniques—supported by stronger policy initiatives and easier access to technology¹¹.

3. Market Access:

Despite contributing about 30% to India's GDP and employing over 110 million people, the Micro, Small and Medium Enterprises (MSME) sector faces significant obstacles to growth, primarily limited market access. A report by the Small Industries Development Bank of India (SIDBI) indicates that while credit access is a concern, MSMEs struggle more with selling beyond local markets. The majority still rely on traditional sales channels, with about 70% favoring conventional marketing methods and only 13% using social media for outreach. Shwetank Dixit from Justdial emphasizes that the primary issue is not ambition but visibility, as digital solutions often do not cater to the needs of small business owners. This challenge is especially pronounced in non-metro areas where low digital literacy exacerbates the problem, preventing MSMEs from adopting modern marketing or digital commerce, thus limiting their visibility and growth opportunities¹².

4. Delayed Payments:

MSMEs suffer considerably from late payments, which can compromise their financial liquidity, expansion, overall health, and long-term viability. Numerous difficulties arise for MSMEs due to slow payments from customers, but a number of fixes are available, such as government measures like the MSME Development Act and systems like TReDS. By creating solid credit guidelines, putting effective invoicing procedures into place, and utilizing available financial tools, MSMEs can now take a forward-thinking and long-lasting strategy to lessen the danger of late payments made by their clients¹³.

Recommendations

- Increase Lending Options:** Make more loans available that don't need collateral and lower the expense of borrowing. The Micro Enterprise Card (ME-Card), which includes pre-approved borrowing limits, is a novel tool. The Credit Guarantee Scheme for Micro & Small Enterprises (CGTMSE) is another essential strategy.
- Increase the Lending Capacity of NBFCs:** To promote a better distribution of money to micro-businesses, designate bank loans given to non-banking financial companies (NBFCs) for the purpose of lending to MSMEs as priority sector lending.
- Reduce Payment Delays:** Implement more effective methods, perhaps via an online dispute resolution (ODR) platform, to manage and resolve the issue of delayed payments to MSMEs from larger customers, which has a major impact on cash flow.
- Shut the Skills Deficit:** Establish partnerships between government agencies, industry sectors, and educational institutions to provide relevant technical and employment-related training that meets the needs of the labor market.
- Promote Entrepreneurial Activity:** Highlight initiatives like the Entrepreneurship and Skill Development Programme (ESDP), which aims to train both future and current business owners, especially women and members of underrepresented groups.
- Improve Global Competitiveness:** Assist MSMEs in participating in international trade shows, exhibitions, and B2B networking events through programs such as the International Cooperation (IC) program to expand their market reach and exposure.
- Provide Financial Support:** Offer grants and economic aid for upgrading technology, obtaining high-quality certifications, and protecting intellectual property rights (IPR) (patents, trademarks).

8. **Speed up digital modernization:** by promoting the use of digital solutions and online sales channels, such as the Government e-Marketplace (GeM), to make it easier for businesses to access procurement prospects.
9. **Streamline Regulatory Procedures:** Continue efforts to simplify commercial activities and reduce administrative barriers, possibly by changing governmental procedures¹⁴.

Conclusion

In India's economic progress, micro, small, and medium enterprises (MSMEs) are essential because they foster regional development, support innovation-driven entrepreneurship, and create jobs on a large scale. The MSME sector, which makes a significant contribution to GDP, exports, and industrial output, serves as a foundation for inclusive growth by improving rural and semi-urban areas and integrating them into national and international value chains. Their capacity to run with minimal capital needs while offering a wide range of goods and services makes them essential to sustainable economic growth.

However, despite their significance, MSMEs continue to experience a number of issues that prevent them from realizing their full potential. Operational obstacles include a lack of access to low-cost finance, inadequate infrastructure, obsolete technology, and regulatory requirements. Many MSMEs have difficulties with digital adoption, export competitiveness, and marketing connections. Their long-term viability is further hampered by problems like payment delays, a lack of trained personnel, and a lack of understanding about government programs. Their financial and supply chain infrastructures were further revealed to have weaknesses due to the COVID-19 outbreak.

It is necessary to improve institutional support, streamline laws, increase access to credit, and encourage technology advances in order to realize the sector's full potential. By overcoming these obstacles, MSMEs will be able to compete globally, be more resilient, and serve as a critical engine for India's long-term economic change.

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