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MSMEs in India: Growth, Challenges and Prospects

Ms. Shubhangi Dashrath Avhad

Department of Commerce

Designation -Assistant Professor

Dhanlaxmi Shikshan Santha's SSK Arts & Commerce College, SSK Campus , Wadzire (Naigoan) , Tal: Sinnar, Dist:Nashik.

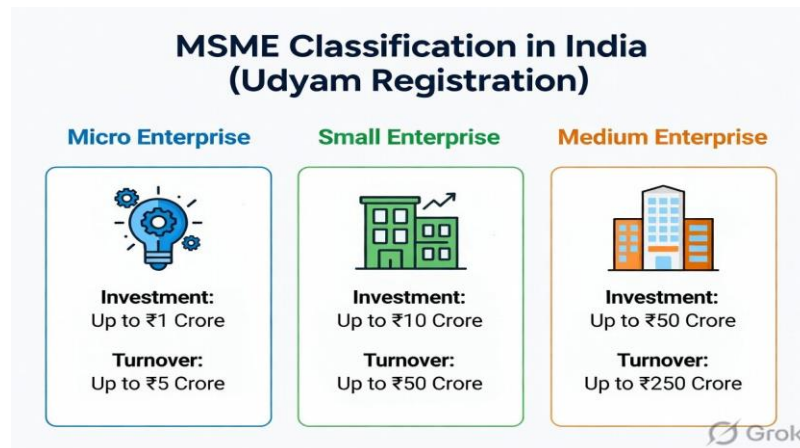
ABSTRACT :

The Micro, Small and medium enterprises of India is an important driving factor for the growth of Indian Economy. These MSMEs not only provide the employment opportunities but helps in the process of industrialization in rural areas simultaneously reducing the unequal income distribution among the residents. The MSMEs contribute significantly in the development of Indian economy through export production, domestic production, low investment requirements, operational flexibility, technology oriented enterprises etc. In India, after agriculture, small business is the second largest employer of human resources. MSMEs constitute more than 80 percent of the total number of industrial enterprises and support industrial development, 40 per cent of industrial output, 80 per cent of employment in the industrial sector, 45 per cent of value added by the manufacturing sector and 40 per cent of total exports. In this paper an attempt is made to know the growth and contribution made by Micro, Small and Medium Enterprises in India and to understand the role of MSMEs in providing employment opportunities in India. The various problems faced by these MSMEs in executing their operations have also been discussed in this paper.

Key words: MSMEs, Employment, Growth, Challenges of MSMEs. **I. Introduction** The Micro, Small and Medium Enterprises (MSME)

Introduction

Micro, Small and Medium Enterprises (MSMEs) constitute a vital component of the Indian economy and play a significant role in employment generation, entrepreneurship, industrial development, exports and inclusive economic growth. The sector encompasses enterprises engaged in manufacturing, trade and services and has become an important link between local economic activities and national as well as global markets. MSMEs are particularly important for promoting balanced regional development because they facilitate the growth of enterprises beyond major metropolitan centres and create employment opportunities for diverse sections of society. The MSME sector has experienced considerable transformation in recent years through formalisation, digitalisation, improved access to institutional credit, technological advancement and integration with e-commerce and global value chains. A significant policy development was the revision of the MSME classification criteria with effect from 1 April 2025. Under the revised classification, micro enterprises are those with investment up to ₹2.5 crore and annual turnover up to ₹10 crore; small enterprises have investment up to ₹25 crore and turnover up to ₹100 crore; while medium enterprises have investment up to ₹125 crore and turnover up to ₹500 crore. This revised framework enables growing enterprises to expand without immediately losing their MSME status. The importance of MSMEs is also reflected in their contribution to India's economic performance. According to the Economic Survey 2025–26, MSMEs contribute about 31.1% of India's GDP, 35.4% of manufacturing output and 48.58% of exports. The sector therefore plays an increasingly important role in strengthening India's production capacity, export competitiveness and employment base. Government initiatives such as Udyam Registration, Udyam Assist, the RAMP programme, CGTMSE, Technology Centres and various market-access and credit-support schemes have further encouraged formalisation and expansion of MSMEs. Despite their significant contribution and recent growth, MSMEs continue to face several challenges, including limited access to affordable finance, delayed payments, technological gaps, shortage of skilled labour, inadequate infrastructure, high logistics costs, regulatory compliance and difficulties in accessing wider domestic and international markets. These challenges can restrict productivity, competitiveness and long-term sustainability, particularly among micro and small enterprises. Therefore, the study of “MSMEs in India: Growth and Challenges” is important for understanding the changing role of this sector in India's economic development. Examining its growth, contribution and persistent constraints can help identify appropriate policy measures for enhancing productivity, competitiveness, employment generation and sustainable development of MSMEs in India.



(Source <https://www.ngopartner.co.in/legal-services-for-ngos/msme-registration/>)

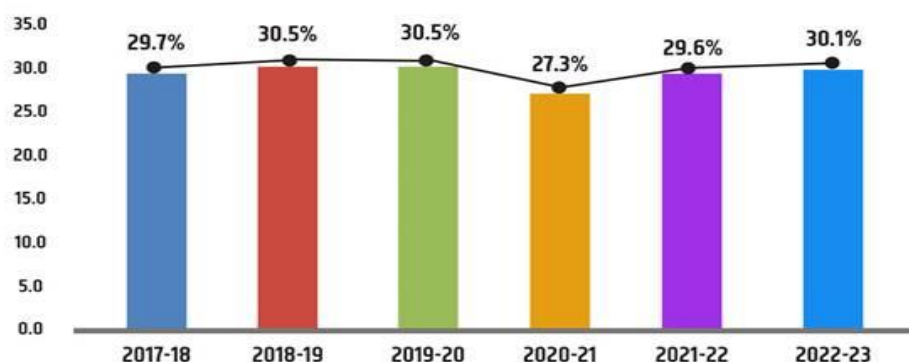
Objectives of the Study

1. To examine the growth and development of MSMEs in India.
2. To assess the contribution of MSMEs to India's economic growth, employment generation and exports.
3. To identify the major challenges faced by MSMEs and suggest suitable measures for their sustainable development.

Research Methodology

The present study adopts a descriptive and analytical research design to examine the growth and challenges of Micro, Small and Medium Enterprises (MSMEs) in India. The study is based primarily on secondary data collected from reliable sources such as the Ministry of MSME, Government of India, Economic Survey of India, National Statistical Office (NSO), Udyam Registration Portal, Directorate General of Commercial Intelligence and Statistics (DGCI&S), and relevant research publications and reports. Data relating to the number of MSMEs, employment, investment, turnover, GDP contribution, manufacturing and exports are analysed for understanding the changing position of the MSME sector. Percentage, growth rate, tables and comparative analysis are used to analyse the data. The study also reviews major government policies and identifies the principal financial, technological, infrastructural and market-related challenges affecting MSME development in India.

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



Source [PIB Press Note – Note ID 152063](#)

Interpretation The graph highlights the *important role of MSMEs in India's economic development*. Their share in Gross Value Added (GVA) remained close to 30% throughout the period, rising from 29.7% in 2017–18 to 30.5% in 2018–19 and 2019–20. This indicates the strong contribution of MSMEs to production, employment generation, entrepreneurship and value creation before the COVID-19 pandemic. The sharp decline to 27.3% in 2020–21

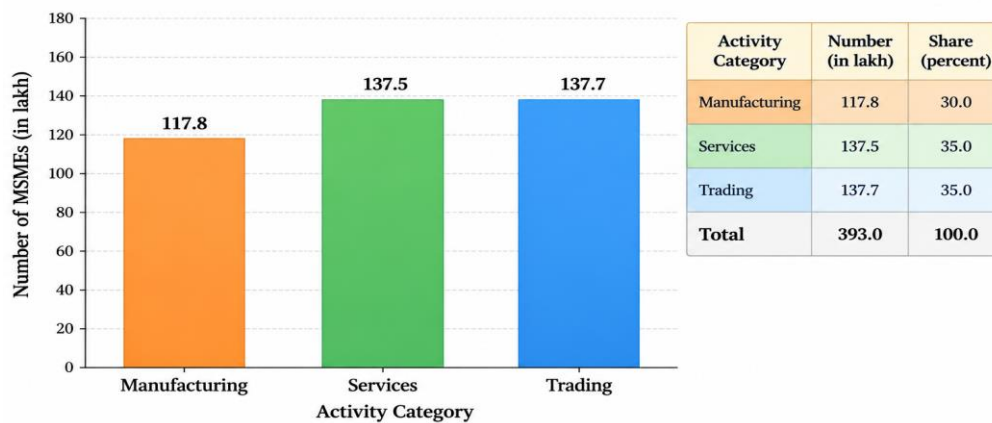
reflects the impact of lockdowns, supply-chain disruptions, reduced demand, labour shortages and difficulties faced by small businesses during the pandemic. With the reopening of the economy, the share recovered to 29.6% in 2021–22 and 30.1% in 2022–23. The recovery demonstrates the *resilience of the MSME sector* and its importance in supporting manufacturing, services, exports, local employment and balanced regional development. Overall, the trend shows that MSMEs consistently contribute *about one-third of India's economic value added*, making them a crucial pillar of inclusive and sustainable economic growth.

Activity-wise Distribution of MSMEs in India, 2024–25

Activity	Number of MSMEs	Share (%)
Manufacturing	1,17,80,000	30.0
Services	1,37,50,000	35.0
Trading	1,37,70,000	35.0
Total	3,93,00,000	100.0

source: Ministry of Micro, Small & Medium Enterprises, Government of India, *Annual Report 24–25*.

Number of MSMEs in India by Activity (2024-25)



Source: Ministry of Micro, Small and Medium Enterprises, Government of India, Annual Report 2024-25.

Interpretation The statistics in Table and the graph reveal that the highest number of MSMEs in India during 2024–25 are engaged in trading activities i.e. 137.7 lakh firms (35.0%). Second largest category is services with 137.5 lakh firms (35.0%) followed by manufacturing with 117.8 lakh enterprises (30.0%). The distribution suggests that the MSME sector in India is becoming more and more diversified with trade and services accounting for around 70 per cent of the reported companies collectively. Manufacturing, however limited in number, is nonetheless crucial for industrial production, employment and export oriented growth. Overall, the findings indicate the essential function of MSME in promoting entrepreneurship, economic activity and employment in India.

Challenges of MSMEs in India

Micro, Small and Medium Enterprises (MSMEs) play an important role in India's economic development by generating employment, promoting entrepreneurship, supporting exports and encouraging balanced regional development. However, the sector faces several challenges that affect its growth, productivity and competitiveness.

- 1. Lack of Finance** Limited access to affordable and timely credit is one of the major problems faced by MSMEs. Many small enterprises lack adequate collateral, proper financial records or credit history, making it difficult to obtain institutional loans.
- 2. Limited Access to Technology** Many MSMEs continue to use traditional production methods and outdated machinery. Limited investment in modern technology reduces productivity, product quality and competitiveness.
- 3. Marketing Problems** Small enterprises often have limited marketing budgets and weak distribution networks. They face difficulties in accessing large markets, establishing brands and competing with large domestic and multinational companies.

4. **Shortage of Skilled Labour** Finding trained and technically skilled workers is a significant challenge. MSMEs often have limited resources to provide higher wages and extensive training compared with larger firms.
5. **Inadequate Infrastructure** Poor roads, unreliable electricity, limited industrial facilities, inadequate storage and logistics increase production and transportation costs, particularly for enterprises located in smaller towns and rural areas.
6. **Competition from Large Enterprises** MSMEs face strong competition from large companies that benefit from economies of scale, advanced technology, stronger brands and greater financial resources.
7. **Delayed Payments** Delayed payments from buyers, including larger businesses and institutional purchasers, create serious working-capital problems. This can affect the ability of MSMEs to pay wages, purchase raw materials and meet other expenses.
8. **Raw Material Problems** Fluctuations in the prices and availability of raw materials can increase production costs. Small firms generally have less bargaining power when purchasing inputs.
9. **Regulatory and Compliance Burden** Although the government has introduced several measures to simplify procedures, MSMEs may still face difficulties in dealing with registration, taxation, labour regulations, environmental requirements and other compliance procedures.

Suggestions for the Development of MSMEs in India

To overcome the challenges faced by Micro, Small and Medium Enterprises (MSMEs) in India, the following measures can be suggested:

1. **Improve access to finance** – Provide easy, timely and affordable institutional credit with simplified loan procedures and reduced collateral requirements.
2. **Promote digitalisation** – Encourage MSMEs to adopt digital payments, e-commerce, online accounting, digital marketing and other modern technologies.
3. **Technology upgradation** – Provide financial assistance and technical support for adopting modern machinery, automation and energy-efficient production methods.
4. **Skill development** – Strengthen vocational and technical training programmes to develop skilled workers according to the needs of MSMEs.
5. **Strengthen marketing facilities** – Create better market linkages through exhibitions, trade fairs, e-commerce platforms, government procurement and export promotion programmes.
6. **Reduce delayed payments** – Ensure timely payment to MSMEs by large companies and government agencies so that enterprises have adequate working capital.
7. **Improve infrastructure** – Develop reliable electricity, roads, industrial estates, storage facilities, transport and internet connectivity, particularly in rural and semi-urban areas.
8. **Support innovation and research** – Encourage MSMEs to invest in research, product development, quality improvement and innovative business models.
9. **Simplify regulations** – Further simplify registration, taxation and compliance procedures through single-window and digital systems.
10. **Promote exports** – Provide MSMEs with assistance for international certification, packaging, quality standards, market information and export procedures.
11. **Develop cluster-based industries** – Promote MSME clusters with shared testing laboratories, common production facilities, training centres, warehouses and marketing infrastructure.
12. **Encourage women and youth entrepreneurship** – Expand entrepreneurship training, mentoring, credit facilities and incubation support for young entrepreneurs and women-led enterprises.
13. **Strengthen crisis support** – Develop effective mechanisms for helping MSMEs during economic downturns, natural disasters and supply-chain disruptions.
14. **Promote sustainable production** – Encourage renewable energy, waste reduction, recycling, energy efficiency and environmentally friendly production practices.

Conclusion :

Micro, Small and Medium Enterprises (MSMEs) are an important pillar of the Indian economy. The present study shows that MSMEs contribute significantly to employment generation, entrepreneurship, industrial production, exports and regional development. Their presence in both urban and rural areas helps create livelihood opportunities and supports the development of economically weaker and less-developed regions. At the same time, the study highlights that MSMEs continue to face several challenges, including limited access to finance, inadequate infrastructure, technological limitations,

shortage of skilled labour, marketing difficulties, delayed payments, rising input costs and increasing competition. These challenges can restrict their productivity, profitability and ability to compete in domestic and international markets. The analysis indicates that government initiatives and institutional support have an important role in strengthening the MSME sector. However, greater emphasis is required on easy access to credit, technology adoption, digitalisation, skill development, market linkages, timely payments and infrastructure development. Special attention should also be given to women entrepreneurs, rural enterprises and enterprises operating in economically backward regions. Overall, the future growth of India's MSME sector depends not only on financial assistance but also on creating a supportive business, technological and institutional environment. Strengthening MSMEs can contribute to employment creation, balanced regional development, innovation and inclusive economic growth. Therefore, a coordinated approach involving government agencies, financial institutions, industries and entrepreneurs is essential for building a competitive, resilient and sustainable MSME sector in India.

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