

MSMEs as the Backbone of the Indian Economy: Contribution, Challenges, and Prospects

Ms. Komal Bansal*

Assistant Professor (Economics), Dr. Bhimrao Ambedkar Govt. College, Sriganganagar.

*Corresponding Author: komalbns124@gmail.com

Citation: Bansal, K. (2025). MSMEs as the Backbone of the Indian Economy: Contribution, Challenges, and Prospects. International Journal of Education, Modern Management, Applied Science & Social Science, 07(04(III)), 181-186. [https://doi.org/10.62823/IJEMMASSS/7.4\(III\).8531](https://doi.org/10.62823/IJEMMASSS/7.4(III).8531)

ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in strengthening the structure of the Indian economy by promoting inclusive growth, employment generation, export expansion, and balanced regional development. Recognized as the backbone of the economy, the MSME sector contributes significantly to India's Gross Domestic Product (GDP), industrial output, and total exports. It acts as a catalyst for entrepreneurship development and innovation, particularly in rural and semi-urban areas, thereby reducing regional disparities and poverty. Despite its substantial contribution, the sector faces several structural and operational challenges, including limited access to institutional credit, technological obsolescence, inadequate infrastructure, intense market competition, and regulatory complexities. This paper examines the economic contribution of MSMEs, analyzes the key challenges hindering their growth, and explores future prospects in the context of sustainable development and global competitiveness. The study highlights that strengthening policy support, improving access to finance and technology, and fostering innovation are crucial for enhancing the resilience and long-term sustainability of the MSME sector in India.

Keywords: MSMEs, Indian Economy, Employment Generation, Inclusive Growth, GDP Contribution, Export Promotion, Entrepreneurship Development, Economic Resilience, Sustainable Development, Government Policies.

Introduction

Micro, Small and Medium Enterprises (MSMEs) constitute a vital pillar of the Indian economy and are widely recognized as the engine of growth for developing nations, including India (Kesarkar, 2024). The sector plays a crucial role in promoting entrepreneurship, fostering innovation, generating employment, and ensuring balanced regional development. Due to their widespread presence across rural, semi-urban, and urban areas, MSMEs significantly contribute to inclusive growth and socio-economic transformation. In recent years, the MSME sector in India has demonstrated remarkable expansion. As of September 2025, more than 6.82 crore MSME units are operational across the country, providing employment to nearly 30 crore individuals. The sector contributes approximately 30 percent to India's Gross Domestic Product (GDP) and accounts for nearly 46 percent of total exports. MSMEs also play a strategic role in strengthening India's industrial ecosystem. Contributing around 30.1% to GDP and approximately 35.4% to the country's manufacturing output, they serve as suppliers of raw materials, components, and intermediate goods to large industries. This interdependence strengthens major industrial clusters such as automobiles, textiles, and pharmaceuticals. Furthermore, rapid formalisation through the Udyam Portal, with over 7 crore registrations as of January 2026, has enhanced transparency and tax compliance within the sector.

Objectives of the Study

* Copyright © 2025 by Author's and Licensed by Inspira. This is an open access article distributed under the Creative Commons Attribution License which permits unrestricted use, distribution, and reproduction in any medium, provided the original work properly cited.

- To examine the contribution of MSMEs to India's GDP, employment generation, and export performance.
- To analyze the challenges and constraints faced by MSMEs in the process of growth and competitiveness.
- To assess the effectiveness of government policies and schemes in promoting MSME development.

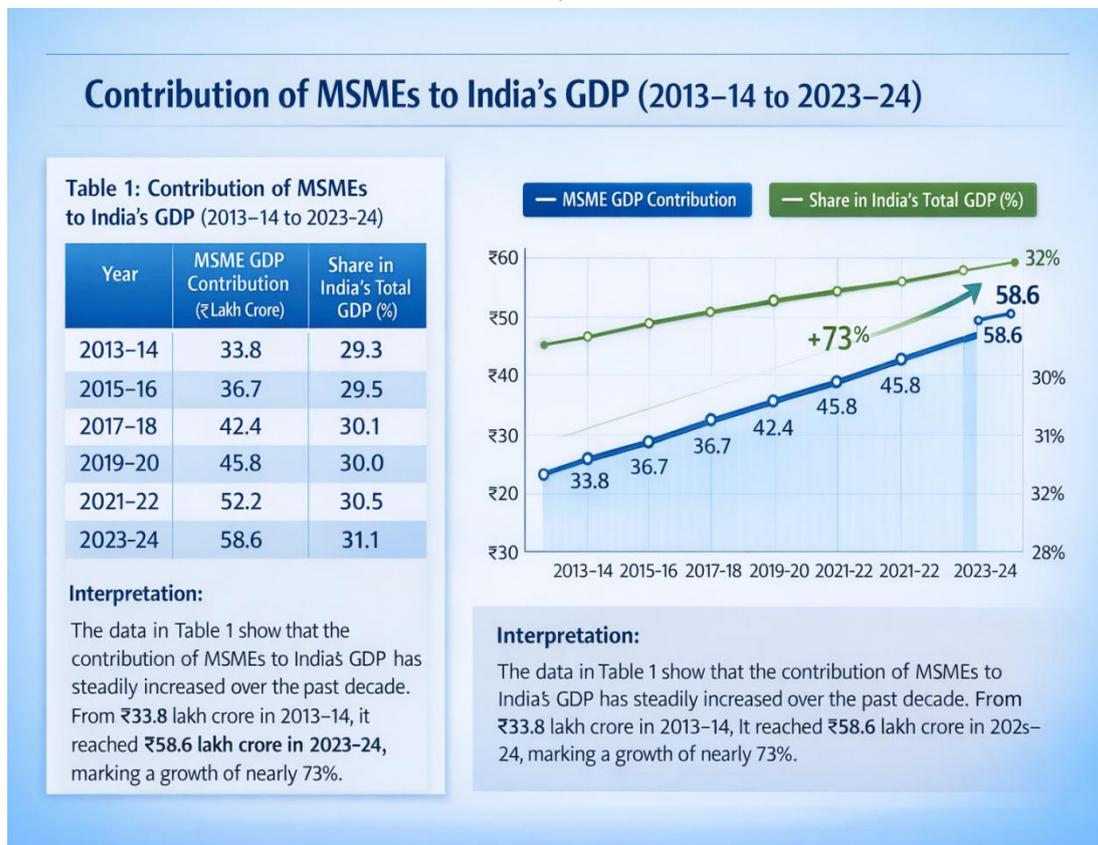
Research Methodology

The present study is analytical and descriptive in nature. It seeks to understand the role of MSMEs in strengthening the Indian economy through the use of secondary data. The study relies on data collected from government reports, policy documents, research articles, and official statistics related to GDP contribution, employment generation, and export performance of MSMEs.

Data Analysis and Interpretation

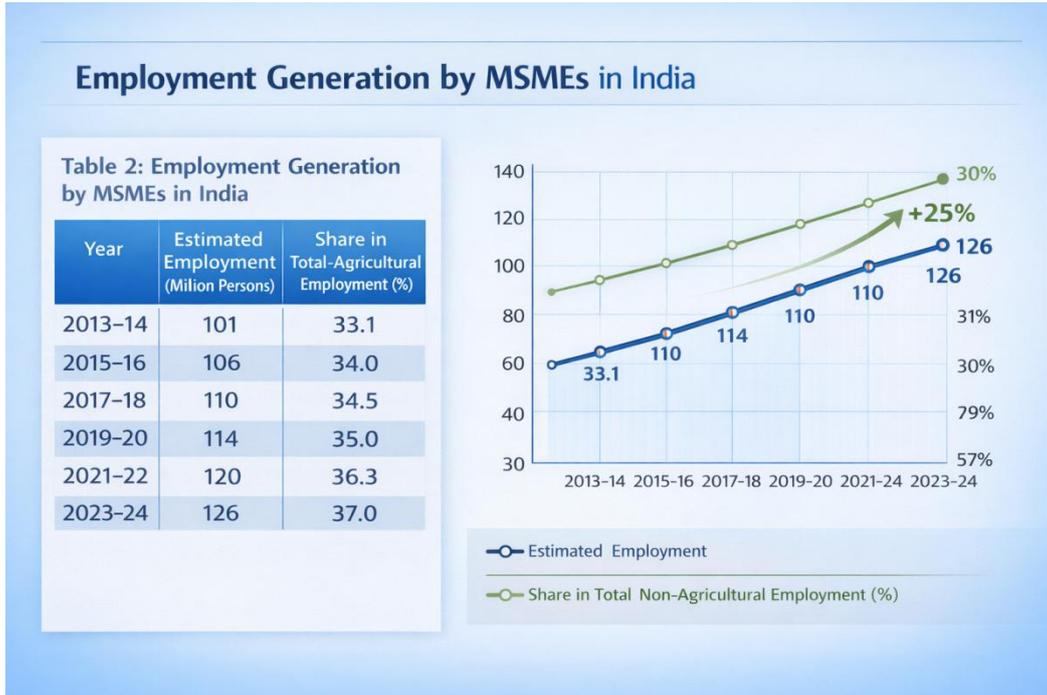
Contribution of MSMEs to India's GDP

The data indicate a steady rise in MSME contribution to India's GDP over the past decade. The contribution increased from ₹33.8 lakh crore in 2013–14 to ₹58.6 lakh crore in 2023–24, reflecting significant growth. The share in total GDP has consistently remained around 30–31%, highlighting the sector's structural importance in the national economy.



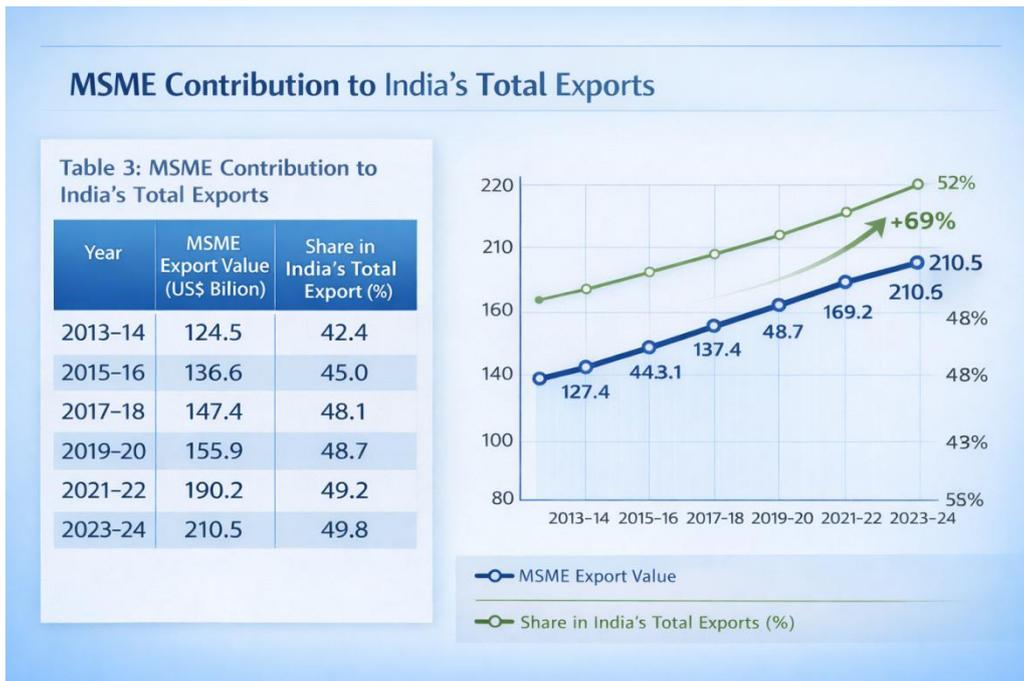
Employment Generation by MSMEs

MSMEs are major contributors to employment generation in the non-agricultural sector. Employment increased from 101 million persons in 2013–14 to 126 million persons in 2023–24. The share in total non-agricultural employment rose from 33.1% to 37.0%, demonstrating the sector's growing role in livelihood creation and poverty reduction.



• **MSME Contribution to India's Exports**

MSME export performance has shown consistent growth over the years. Export value increased from US\$124.5 billion in 2013-14 to US\$210.5 billion in 2023-24. The share of MSMEs in total exports rose from 42.4% to 49.8%, indicating improved global competitiveness and integration with international markets.



Classification of MSMEs (Composite Criteria)

Under the revised classification framework, MSMEs are categorized based on investment and turnover:

- **Micro Enterprises:** Investment up to ₹2.5 crore; turnover up to ₹10 crore.
- **Small Enterprises:** Investment up to ₹25 crore; turnover up to ₹100 crore.
- **Medium Enterprises:** Investment up to ₹125 crore; turnover up to ₹500 crore.

Investment and Annual Turnover Classification (Composite Criteria)		
Investment in Plant & Machinery/Equipment and Annual Turnover		
Source: https://msme.gov.in		
MICRO	SMALL	MEDIUM
		
Investment < Rs. 2.5 crore	Investment < Rs. 25 crore	Investment < Rs. 125 crore
Turnover < Rs. 10 crore	Turnover < Rs. 100 crore	Turnover < Rs. 500 crore

Key Challenges Faced by MSMEs

Indian MSMEs face several interconnected challenges that limit their growth and competitiveness. One of the biggest problems is limited access to timely and affordable finance. According to the International Finance Corporation (IFC), the MSME sector has a credit gap of over ₹30 lakh crore, showing a large shortage of formal funding. Many micro and small enterprises do not have enough collateral to obtain bank loans, forcing them to depend on informal and costly sources of finance. Delayed payments from large companies and government departments further create cash flow problems. Even when loans are available, MSMEs often pay higher interest rates than large firms.

Technological backwardness is another major issue. Many MSMEs still use outdated machinery and inefficient production methods, which lowers productivity and reduces their ability to compete globally. Investment in research and development is very limited, restricting innovation and product improvement. Adoption of modern technologies such as automation, data analytics, and artificial intelligence is slow due to high costs and lack of skilled workers. There is also a digital gap within the sector—while some medium enterprises are adopting digital tools, many micro-enterprises still struggle to use basic digital payment systems and online platforms.

Government Initiatives and Policy Measures

Over the past decade, India's MSME policy framework has undergone significant expansion and restructuring. The government has introduced multiple initiatives aimed at addressing critical constraints faced by MSMEs, particularly in the areas of access to finance, technological upgradation, market linkages, skill development, and ease of doing business. The following measures highlight major financial and liquidity-focused interventions and provide a brief assessment of their relevance.

- **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE):** Launched in 2000 and further expanded during 2023–25, CGTMSE provides collateral-free credit guarantees to micro and small enterprises through member lending institutions. Recent reforms have increased the guarantee coverage limits and reduced guarantee fees, thereby encouraging banks and financial institutions to extend greater credit to MSMEs without demanding collateral security.
- **Pradhan Mantri Mudra Yojana (MUDRA), 2015:** The MUDRA scheme was introduced to facilitate micro-credit for non-corporate, non-farm small enterprises. It offers loans under three categories—Shishu (up to ₹50,000), Kishor (₹50,000–₹5 lakh), and Tarun (₹5–10 lakh). The scheme primarily addresses working capital requirements and small-scale asset purchases, particularly benefiting micro and first-generation entrepreneurs.
- **SIDBI Support Programs (e.g., SMILE and Refinance Schemes):** The Small Industries Development Bank of India (SIDBI) has introduced concessional funding schemes such as SMILE (SIDBI Make in India Soft Loan Fund for MSMEs) and various refinance lines of credit. These initiatives provide long-term financial assistance for capital expenditure, modernization, and technology adoption.

Suggestions

Based on the above findings, the following measures are recommended to strengthen the MSME sector:

- **Enhancing Access to Finance**
Financial institutions should streamline lending procedures for MSMEs. Expansion of collateral-free loans, reduced interest rates, and flexible repayment mechanisms can facilitate faster business expansion and financial stability.
- **Promoting Technological Modernization**
The government should encourage technology upgradation through subsidies, tax incentives, and skill training programs. Establishing technology parks, incubation centers, and innovation hubs can promote modernization and competitiveness.
- **Strengthening Marketing and Export Support**
MSMEs should be supported in expanding their market reach through e-commerce platforms, export promotion councils, and participation in international trade fairs. Training programs on digital marketing, branding, and export documentation should be widely implemented.
- **Improving Infrastructure Facilities**
Development of industrial clusters, logistics networks, warehousing facilities, and reliable power supply in rural and semi-urban areas will enhance production efficiency and reduce operational costs.
- **Skill Development and Entrepreneurial Training**
Focused skill development initiatives should emphasize modern production techniques, quality management, digital skills, and innovation capabilities to improve productivity and global competitiveness.
- **Better Policy Coordination**
Effective coordination between central and state governments is necessary for efficient implementation of MSME schemes. Continuous monitoring and evaluation mechanisms should be adopted to assess policy outcomes and improve effectiveness.
- **Encouraging Sustainable and Green Practices**
MSMEs should be incentivized to adopt environmentally sustainable production methods and invest in green technologies. Promoting innovation-driven and eco-friendly business models will ensure long-term sustainability.

Conclusion

MSMEs form the backbone of the Indian economy, contributing nearly one-third to the nation's GDP and playing a crucial role in industrial production and export performance. The sector generates employment for more than 126 million people, making it one of the largest sources of livelihood after

agriculture and significantly reducing unemployment in both rural and urban areas. In terms of export contribution, MSMEs account for almost 50% of India's total exports. This substantial share strengthens foreign exchange earnings and enhances India's competitiveness in global markets. Their growing integration with international trade demonstrates their adaptability and improving production standards. Supportive government initiatives such as Make in India, Atmanirbhar Bharat Abhiyan, and Udyam Registration have strengthened entrepreneurship, improved formalization, and simplified business procedures. These policy measures have enhanced access to credit, digital platforms, and institutional support systems. Looking ahead, strengthening MSMEs through improved financial access, technological upgradation, infrastructure development, and skill enhancement is critical for achieving India's vision of sustainable, resilient, and self-reliant economic growth. A robust MSME sector will remain central to India's long-term development strategy and its aspiration to become a globally competitive economy.

References

1. Maharashtra Health Department. (2023). Annual Report on Health Services in Maharashtra. Government of Maharashtra.
2. World Health Organization (WHO). (2021). Universal Health Coverage and Equity in Access to Health Care. WHO Publications.
3. Ministry of Health and Family Welfare. (2020). National Health Policy 2017: Implementation and Review. Government of India.
4. Patel, R., & Sharma, A. (2019). Socio economic benefits of charitable hospitals in rural India. *Indian Journal of Social Sciences*, 14(2), 45–58.
5. Kumar, P., & Reddy, S. (2021). Role of non-profit health organizations in India's healthcare system. *Journal of Health Management*, 23(3), 231–246.
6. National Sample Survey Office (NSSO). (2022). Health Expenditure and Utilization of Services in India. Ministry of Statistics and Programme Implementation.
7. Deshmukh, S. (2020). An economic evaluation of charitable hospital schemes in Maharashtra. *Economic Review of India*, 12(4), 77–90.
8. Indian Council of Medical Research (ICMR). (2021). Healthcare Accessibility and Affordability Study. New Delhi.
9. Bhattacharya, D. (2018). Public-private partnerships in healthcare: The Indian experience. *Social and Economic Studies Journal*, 9(1), 62–80.
10. Ahmednagar District Health Office. (2023). Statistical Report on Hospital and Health Schemes (2022–23). Ahmednagar: Government of Maharashtra.
11. NITI Aayog. (2022). Best Practices in Health Sector: Role of Charitable and Non-Governmental Institutions. New Delhi: Government of India.
12. Bansal, R. (2019). Infrastructure bottlenecks and their impact on MSME competitiveness. *Journal of Small Business and Enterprise Development*, 26(4), 512–526.
13. Bhattacharya, A., & Roy, S. (2021). Digital adoption among Indian MSMEs: Opportunities and barriers. *Asian Journal of Management Research*, 12(2), 45–59.
14. Choudhary, P., & Gupta, N. (2021). Cluster-based development: A study of industrial hubs in southern India. *International Journal of Entrepreneurship and Small Business*, 43(3), 287–305.
15. Das, S., & Bhatnagar, P. (2021). COVID-19 and the resilience of Indian MSMEs: Lessons from the pandemic. *Indian Journal of Economics and Development*, 17(1), 55–68.
16. International Finance Corporation. (2023). Closing the credit gap for Indian MSMEs [Report]. World Bank Group.
17. Kumar, R., & Rani, P. (2019). Human resource challenges in small-scale enterprises: A case study approach. *Journal of Human Resource and Sustainability Studies*, 7(3), 142–151.
18. Mehta, S. (2020). Payment delays and working capital stress in Indian MSMEs. *Journal of Applied Economics and Business Perspectives*, 8(1), 76–84.

