



Reinvigorating India's MSMEs Sector

This editorial is based on “[ISID backs MSMEs, startups to drive manufacturing-led Viksit Bharat](#)” which was published in The Business Standard on 24/03/2025. The article brings into picture the critical role of MSMEs in India's industrial growth, contributing 30% to GDP yet struggling with market challenges.

For Prelims: [India's industrial landscape](#), [Udyam Registration Portal](#), [Handicrafts](#), [Clean tech](#), [AgriTech](#), [Prime Minister's Employment Generation Programme](#), [MUDRA](#), [SVANidhi](#), [One District One Product](#), [MSME Samadhaan portal](#), [Industry 4.0 standards](#), [Carbon Border Adjustment Mechanism](#), [Digital India](#).

For Mains: Significance of the MSME Sector in the Indian Economy, Key Issues Associated with MSME Sector in India.

[India's industrial landscape](#) stands at a critical juncture, with the **potential to transform its economic trajectory through strategic manufacturing development**. Despite contributing **30% to GDP and generating 109 million jobs**, MSMEs remain vulnerable, **with 99.5% classified as micro enterprises** struggling against import surges and market challenges. The **India Industrial Development Report 2024-25** underscores the urgent need for systemic reforms, advocating for strengthening small businesses through **government procurement, affordable credit, and technological adoption**.

What is the Significance of the MSME Sector in the Indian Economy?

- **Employment Generation and Inclusive Growth:** MSMEs are India's **largest source of non-farm employment**, enabling [inclusive growth](#) by **providing jobs across rural and semi-urban areas**.
 - They **absorb surplus labour, promote entrepreneurship, and reduce migration** by creating localized economic opportunities.
 - Their **decentralized nature makes them vital for equitable development**, especially among SC/ST/OBC and women entrepreneurs.
 - Over **100 million people** are employed across **65 million MSMEs**. Also, as per the [Udyam Registration Portal \(URP\)](#) of the Ministry of MSME, **women-owned MSMEs constitute 20.5% of the total number of MSMEs** registered on the Portal.
- **Boost to Exports and Foreign Exchange Earnings:** MSMEs play a crucial role in India's export economy by **contributing significantly to sectors like textiles, [handicrafts](#), engineering goods, and pharma**.
 - They **help India diversify its export base**, build niche products, and integrate with global value chains.
 - As tariff barriers rise globally, **MSMEs help India remain agile in international**

markets

- MSMEs contribute **45% of India's total exports**. In 2023, India's **engineering MSME exports** grew by **11%**, despite global slowdown.
- **Supply Chain Resilience and Domestic Value Addition:** By acting as suppliers to large industries, **MSMEs strengthen domestic supply chains** and **reduce over-dependence on imports**.
 - They **support large-scale production in auto, defence, electronics, and textile sectors**, enabling backward linkages and value addition.
 - In a post-Covid world, they are critical to building resilient, self-reliant manufacturing ecosystems.
 - For instance, the government data stated that under the food processing PLI scheme, **MSMEs play a key role**, with **70 directly enrolled and 40 supporting as contract manufacturers**.
- **Catalysts of Innovation and Tech-Driven Industrialization:** MSMEs are emerging hubs of innovation, particularly in areas like **Clean tech, AgriTech, health-tech, and industrial automation**.
 - Their agility allows them to adapt quickly to **new technologies, pilot solutions, and drive bottom-up industrialization**. With proper policy support, they can **lead India's IR4.0 transformation**.
 - India's **start-up ecosystem**, 3rd largest globally, has over **many registered startups as MSMEs**.
 - Also, the Indian government has **proposed a dedicated fund of Rs 5,000 crore** for the export capacity development, promotion, and marketing of MSMEs.
- **Drivers of Women and Marginalized Entrepreneurship:** MSMEs empower women and marginalized communities by offering low-entry-barrier platforms for enterprise.
 - Schemes like the **Prime Minister's Employment Generation Programme, MUDRA, and SVANidhi** have boosted entrepreneurship at the grassroots level.
 - This social empowerment via economic means also supports SDG targets on gender equality and decent work.
 - As of March 2024, **₹25 lakh crore in loans** sanctioned under **MUDRA Yojana**, with **68% to women borrowers** (DFS Annual Review). **PM SVANidhi** has supported **3.2 million street vendors**, many from vulnerable groups.
- **Regional Economic Development and Urban-Rural Balance:** MSMEs help reduce regional disparities by promoting industrial activity in **tier-2, tier-3 cities and rural clusters**.
 - **Cluster-based development in leather, textiles, handlooms, and food processing** helps uplift backward regions.
 - They are key to achieving spatially balanced growth envisioned under initiatives like **PM Gati Shakti**.
 - **One District One Product (ODOP)** initiative now covers **over 760 districts**, promoting localized value chains.
- **Sustainability and Green Transition Enablers:** MSMEs are poised to be the leaders in India's green economy shift by **adopting energy-efficient practices and circular economy models**.
 - They are crucial for India's climate goals, but need hand holding in tech adoption and financing. **Emerging green start-ups in MSME space** are innovating around waste, energy, and water efficiency.
 - The **Centre of Green Policy for MSMEs** will serve as a dedicated hub for innovation and capacity building, providing knowledge, tools, and support to help MSMEs adopt sustainable practices across sectors and regions in a tailored manner.

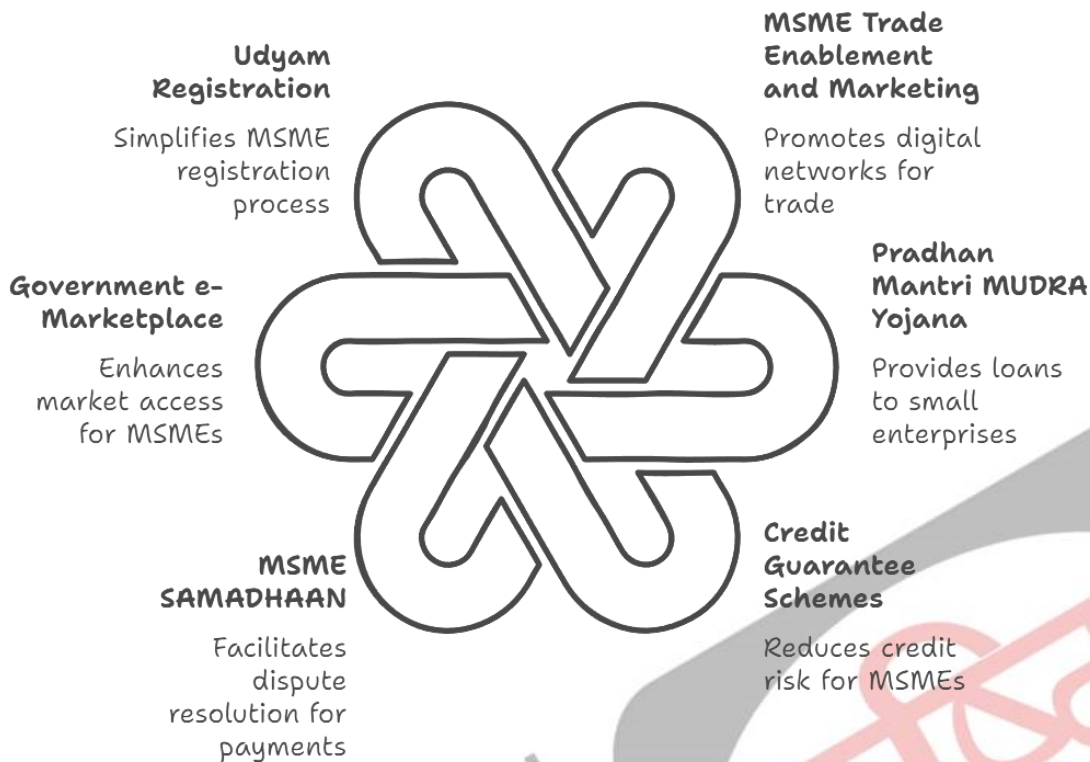
What are the Key Issues Associated with MSME Sector in India?

- **Credit Access and Financial Exclusion:** Access to timely and affordable credit remains the most persistent bottleneck for MSMEs.
 - Despite several schemes, **high collateral requirements, delayed payments, and risk aversion** among banks limit formal credit flow.
 - This **leads many MSMEs to depend on informal sources** with high-interest rates, affecting their sustainability and growth potential.
 - **For instance, only 16% of MSMEs get access to loans from banks**, while the rest have to rely on informal sources. MSMEs currently need around Rs 25.8 lakh crore in formal

credit.

- **Delayed Payments and Working Capital Crunch:** Chronic delays in payments from government departments, PSUs, and large private buyers hurt MSMEs' cash flow and working capital.
 - This leads to a **vicious cycle of credit dependency**, stalled production, and layoffs.
 - A 2021 report highlighted poor case disposal rates on the **Samadhaan portal**, with only **20% of applications resolved or mutually settled**, while 39% remained unattended
 - As per **RBI Report (2023)**, over **₹10,000 crore in delayed payments** are pending with government buyers. **MSME Samadhaan portal** has resolved only **33% of complaints** filed since its inception in 2017.
- **Technological Obsolescence and Low IR4.0 Adoption:** Most MSMEs **continue to operate with outdated machinery** and minimal digital integration, which limits productivity, quality, and scalability.
 - **Their low digital literacy and lack of R&D investments** prevent them from transitioning to **Industry 4.0 standards**.
 - This **widens the competitiveness gap, especially in global markets**.
 - India's spending on R&D in terms of percentage of GDP has been stagnant at **0.6 to 0.7% in the last two decades**, much lower than the **US, China**.
 - In 2024, a branchless banking and digital network, **reported that 36% of MSMEs cite resistance to adopting new technology**, and 18% struggle with the high costs associated with its implementation.
- **Regulatory Burden and Compliance Complexity:** MSMEs often face a disproportionate regulatory burden compared to their capacity.
 - **Multiplicity of laws, frequent compliance filings, and inspections** increase cost of doing business. Despite the push for **"ease of doing business,"** the reforms have not translated well to the smallest players.
 - MSMEs must comply with various regulations, including the **Shops & Establishment Act for registration**, the **Factories Act for labor and safety (if applicable)**, and the **Companies Act** for reporting and governance.
- **Market Access and Value Chain Exclusion:** Many MSMEs, especially micro and rural enterprises, struggle to access markets beyond their locality.
 - A large chunk of MSMEs operate informally, outside the tax net, labour regulations, and formal financing systems.
 - This **makes them invisible in policymaking and excluded from formal support schemes**. Informality also leads to poor productivity and weak social security for workers.
 - **They lack branding, digital marketing skills, and linkages** with larger value chains. This limits revenue, scalability, and integration with global trade flows.
 - MSMEs presence on e-commerce platforms **remains low**. ODOP and GEM initiatives are helping, but uptake remains low.
- **Vulnerability to External Shocks and Global Disruptions:** MSMEs are disproportionately affected by economic disruptions, supply chain shocks, and geopolitical tensions due to their limited buffers and narrow margins.
 - Events like **Covid-19**, EU's **Carbon Border Adjustment Mechanism (CBAM)**, and fluctuating import prices have exposed their fragility.
 - Post-Covid, **over 35,000 MSMEs have ceased operations**, highlighting the sector's ongoing challenges and the need for sustained support and resilience-building measures.
 - Also, The EU's CBAM may affect **textile MSME**.

Government Initiatives Related to MSMEs



What Measures can be Adopted to Enhance the Effectiveness of MSME in India?

- **Integrated Credit Framework with Risk-Based Lending Models:** To improve financial access, there must be a unified digital credit ecosystem that integrates **UDYAM**, **GST**, **TReDS**, and **Account Aggregator** platforms.
 - Credit assessment should shift from collateral-based to cash-flow and risk-based models tailored for MSMEs.
 - Public credit guarantee mechanisms like **CGTMSE** can be expanded with higher coverage and faster claims.
 - **Linking these platforms can ensure seamless, real-time credit disbursal.**
- **Cluster-Based Technology Upgradation with IR4.0 Focus:** Create regional **Technology Upgradation Hubs** in major MSME clusters with **plug-and-play** infrastructure, tech labs, and design centers.
 - These should be co-developed under **MSE-CDP** and **Digital India** initiatives with support from state governments.
 - **Focus must be on AI/IoT adoption**, energy efficiency, and process automation relevant to each cluster's domain.
 - Capacity-building programs should ensure tech absorption by micro units. **Partnering with CSIR, IITs, and private R&D labs** can drive grassroots innovation.
- **Streamlined Compliance through Unified MSME Portal:** Establish a **single-window digital MSME Compliance Portal** that integrates all state and central regulatory filings — **labour, GST, environment, factory, and licensing** — into one simplified dashboard.
 - Introduce graded compliance norms based on size and sector to reduce burden on micro units.
 - Embed real-time grievance redressal and chatbot-based advisory tools. Link it with **Ease of Doing Business 2.0** and **Vivad se Vishwas for MSMEs** for time-bound dispute resolution.

- **Digital Market Linkages through Scheme Convergence:** Strengthen digital access by merging **ODOP**, **GEM**, and [Open Network for Digital Commerce \(ONDC\)](#) to create a seamless marketing platform for MSMEs.
 - This convergence should **offer branding, logistics support, B2B connections, and multilingual digital literacy.**
 - **Hand Holding for cataloguing, pricing, and payment systems** is essential, especially for first-time sellers.
 - Dedicated e-commerce zones in districts can act as incubation centers. This approach will help MSMEs tap both domestic and export markets efficiently.
- **Decentralised Skilling with MSME-Industry-Academia Interface:** Set up **District Skill Labs** in MSME clusters under [Skill India 2.0](#), co-managed by industry bodies, ITIs, and local polytechnics.
 - Focus should be on demand-driven, modular skilling tailored to cluster needs — **textile in Surat, machine tools in Rajkot, auto components in Coimbatore.**
 - Launch apprenticeship-linked incentives to encourage on-the-job learning.
 - **Promote women's participation via flexible training models** and creche facilities in industrial parks.
- **Formalization Push with Incentivised Transition Package:** Offer a **3-year Formalization Transition Package** for informal MSMEs registering on UDYAM, providing graded incentives like utility subsidies, tax rebates, marketing support, and simplified inspections.
 - Combine it with [PM Vishwakarma Yojana](#) and **SVANidhi** to bring artisans and nano-enterprises into the fold.
 - Provide digital onboarding kits and mentoring through industry chambers. **Emphasize ease, not enforcement, to nudge voluntary formalization** without overwhelming small entrepreneurs.
- **Green MSME Mission for Sustainable Manufacturing:** Launch a dedicated **Green MSME Mission** that provides technical and financial assistance for eco-friendly manufacturing — energy-efficient machinery, solar adoption, waste reduction.
 - Align it with **ZED Certification**, **SIDBI's green finance**, and **carbon credit trading.**
 - **Make ESG compliance aspirational, not mandatory**, using tiered recognition models. Promote green clusters in pollution-prone areas with incentives for cleaner production. This will **prepare MSMEs for future export standards like the EU's CBAM.**

Conclusion

A resilient MSME sector is **key to India's industrial transformation, job creation, and economic self-reliance.** Addressing credit constraints, technology adoption, and regulatory hurdles will enable MSMEs to compete globally and integrate into value chains. **Strengthening market access, digital linkages, and sustainability initiatives** can unlock their full potential.

Drishti Mains Question:

Discuss the challenges faced by MSMEs in India and evaluate the effectiveness of recent government initiatives in addressing them.

UPSC Civil Services Examination, Previous Year Question:(PYQ)

Prelims:

Q.1 What is/are the recent policy initiative(s) of Government of India to promote the growth of the manufacturing sector? (2012)

1. Setting up of National Investment and Manufacturing Zones
2. Providing the benefit of 'single window clearance'
3. Establishing the Technology Acquisition and Development Fund

Select the correct answer using the codes given below:

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (d)

Q2. Which of the following can aid in furthering the Government's objective of inclusive growth? (2011)

1. Promoting Self-Help Groups
2. Promoting Micro, Small and Medium Enterprises
3. Implementing the Right to Education Act

Select the correct answer using the codes given below:

- (a) 1 only
- (b) 1 and 2 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Ans: (d)

Q3. Consider the following statements with reference to India : (2023)

1. According to the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the 'medium enterprises' are those with investments in plant and machinery between `15 crore and `25 crore.
2. All bank loans to the Micro, Small and Medium Enterprises qualify under the priority sector.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (b)