



MSMEs as Pillars of Economic Prosperity

This editorial is based on “[Enduring growth of the MSME credit landscape](#)” which was published in The Hindu on 10/06/2025. The article brings into picture the robust growth of India’s MSME sector, marked by a 13% rise in credit exposure, while highlighting persistent challenges like limited credit access and regulatory hurdles that demand urgent policy reforms.

For Prelims: [India's MSME sector](#), [Mudra Yojana](#), [PM Vishwakarma scheme](#), [SFURTI \(Scheme for Fund Regeneration of Traditional Industries\)](#), [National Manufacturing Mission](#), [Industry 4.0](#), [Economic Survey](#), [GeM \(Government e-Marketplace\)](#).

For Mains: Role of MSMEs in Driving India’s Economic Growth, Key Issues Associated with India's MSME Sector.

[India's MSME sector](#) is experiencing robust growth, with **credit exposure increasing 13% year-on-year** to reach significant levels, driven by **strong demand from new borrowers who constitute nearly half of all fresh originations**. Despite this encouraging trajectory, MSMEs continue to grapple with persistent challenges including **limited access to formal credit, regulatory complexities**. India must urgently address these systemic issues through **comprehensive policy reforms and streamlined business processes** to ensure the MSME sector can truly become the backbone of sustainable economic development.

How India's MSME Sector is Driving India's Economic Growth?

- **Employment Generation and Job Creation:** MSMEs are the largest employment provider in India, contributing to **nearly 60% of the workforce**.
 - With an estimated 7.34 crore MSMEs, the sector plays a pivotal role in absorbing India’s young, expanding labor force.
 - The [Prime Minister’s Employment Generation Programme \(PMEGP\)](#) alone supported 89,118 enterprises in 2023-24, creating over 7.1 lakh jobs.
- **Boost to Exports and Global Trade:** The MSME sector is a major driver of India’s export performance, contributing to **45.79%** of India’s total exports as of 2024-25.
 - Their increasing participation in global trade is vital for improving India’s trade balance and strengthening its position as a global manufacturing hub.
 - A key policy initiative, the **Public Procurement Policy**, has boosted MSMEs’ access to government procurement, fostering export capabilities.
- **Financial Inclusion and Credit Accessibility:** Access to credit remains one of the most pressing issues for MSMEs, but recent government initiatives like [Mudra Yojana](#) and **Credit Guarantee Fund (CGTMSE)** are bridging the gap.
 - The **MUDRA** loan scheme has disbursed **₹5.41 lakh crore** (FY24) to MSMEs, empowering

businesses to scale and innovate.

- By offering collateral-free loans and expanding credit guarantees, these measures provide MSMEs with much-needed liquidity.
- **Digital Transformation and Technological Adoption:** The sector is undergoing a digital transformation, crucial for improving efficiency and market reach.
 - About **72% of MSMEs** now prefer digital payments, enhancing transparency and reducing transaction costs.
 - The **UPI** ecosystem processed transactions worth **₹23.48 lakh crore** in 2024, demonstrating the sector's growing digital engagement and its potential for future growth.
- **Government Support and Policy Reforms:** The government has significantly increased its allocation for MSMEs, with a **₹23,168 crore** budget allocation in **FY26** to support growth.
 - Reforms like raising investment and turnover limits, as well as introducing the **PM Vishwakarma scheme**, offer tailored support to artisans, especially women and rural entrepreneurs.
- **Regional Development and Inclusive Growth:** MSMEs are critical in promoting regional development, especially in rural and remote areas.
 - Schemes like **SFURTI (Scheme for Fund Regeneration of Traditional Industries)** have transformed traditional sectors, enhancing the productivity of rural artisans.
 - Furthermore, **Jammu & Kashmir** alone generated **3.56 lakh jobs** under **PMEGP**, significantly reducing regional disparities.
- **Sustainability and Green Initiatives:** **Sustainability** is becoming central to MSME growth, with green technology adoption and eco-friendly manufacturing gaining momentum.
 - **Atmanirbhar Bharat** has encouraged MSMEs to focus on green manufacturing processes, including clean tech initiatives in solar energy, EV batteries, and wind turbines.
 - The **National Manufacturing Mission** has a focus on clean tech, such as **solar PV cells** and **EV batteries**.

What are the Key Issues Associated with India's MSME Sector?

- **Limited Access to Formal Credit:** One of the most pressing issues for MSMEs is their **limited access to formal credit**, which constrains their ability to scale.
 - While schemes like **Mudra Yojana** and **CGTMSE** have provided significant financial support, a substantial number of MSMEs still rely on informal lending sources.
 - Only **2.5 crore MSMEs** (out of 6.3 crore) have accessed formal credit sources.
- **Regulatory and Compliance Burden:** The MSME sector faces significant regulatory and compliance challenges, particularly for small enterprises.
 - The complexity of **tax, labor, and environmental regulations** often burdens MSMEs with high compliance costs and procedural delays.
 - These challenges are especially severe in manufacturing sectors like **auto components** and **pharmaceuticals**, where stringent standards are required.
 - MSMEs report **high compliance costs** as a barrier to productivity and competitiveness in global markets.
- **Skilled Labor Shortage:** The shortage of skilled labor remains a major bottleneck, especially in labor-intensive sectors such as **garments, food processing, and defense equipment**.
 - Despite efforts to increase vocational training, the mismatch between industry needs and available skills limits productivity and innovation in MSMEs.
 - About **25% of MSMEs** cite a skilled **labor shortage** as a significant challenge, particularly in sectors like **garments** and **food processing**.
 - **PMEGP** and other schemes aim to address this, but skill gaps remain substantial, hindering MSME growth.
- **Technological Gap and Digital Divide:** While MSMEs are increasingly adopting digital payments, they are still behind in embracing advanced technologies like **Industry 4.0, AI, and automation**.
 - The lack of technological infrastructure, along with limited access to affordable R&D, hampers MSMEs from improving product quality and competitiveness.
 - **Though 90% of MSMEs** have adopted **digital payments**, only **18%** use **digital lending platforms** and just **13%** actively use **digital marketing or e-commerce** to reach customers.

- Limited investment in **R&D** and **technological infrastructure** hinders MSMEs' ability to scale efficiently.
- **Market Access and Competition:** MSMEs struggle to access larger, high-value markets due to competition from bigger players and a lack of marketing expertise.
 - This is particularly evident in the **export sector**, where despite strong performance,
 - MSMEs overall contribute **45.79%** to India's exports, **yet many face stiff competition from global giants**.
 - **Udyam Portal** registrations reached **5.7 crore**, but the sector's reach in international markets remains limited.
- **Inadequate Infrastructure and Logistics:** Infrastructure bottlenecks, **including poor roads, power supply, and unreliable logistics**, continue to affect MSME productivity.
 - These issues are most **prominent in rural and remote areas**, where MSMEs face challenges in transportation and raw material procurement, significantly increasing operational costs.
 - With India's logistics costs estimated at **14-18% of GDP (Economic Survey 2022-23)** — **nearly double the global benchmark of 8%** — systemic inefficiencies have become a major concern.
- **Gender Disparities in Entrepreneurship:** Although the government has introduced initiatives to support **women entrepreneurs**, they still face disproportionate challenges compared to their male counterparts, including limited access to credit, market linkages, and business networks.
 - **Women-led MSMEs** constitute **26.2%** of total MSME enterprises but face **higher credit access challenges** than men.
 - According to **ASUSE 2023-24**, women-led MSMEs now account for **26.2% of proprietary enterprises**. Although 76% have credit access, **41% cite limited financing and intense competition** as key barriers to their growth.

What Measures can India Adopt to Enhance the Effectiveness of India's MSME Sector?

- **Simplification of Regulatory Framework:** India must streamline regulatory processes to reduce the compliance burden on MSMEs.
 - This involves **simplifying tax filing**, reducing procedural delays, and creating a single-window clearance system.
 - Introducing **one-click compliance platforms** and leveraging digital tools for routine government interactions will help MSMEs comply more efficiently.
- **Strengthening Financial Support through Digital Lending:** The accessibility and affordability of credit remain major hurdles for MSMEs.
 - Expanding **digital lending platforms** and ensuring greater participation of **NBFCs (Non-Banking Financial Companies)** in providing loans would empower MSMEs, especially those in remote areas.
 - Offering **collateral-free loans** and expanding the **Credit Guarantee Fund** will provide financial flexibility, while also encouraging innovation in MSMEs.
- **Skilling and Workforce Development Initiatives:** Filling the skills gap is essential for MSMEs to remain competitive.
 - The government should integrate **Industry 4.0** technologies, including automation, AI, and data analytics, into vocational training programs.
 - Partnering with **private sector companies** and **educational institutions** to create customized skill development programs will align the workforce with the evolving needs of the sector.
 - This will help improve productivity and innovation in MSMEs.
- **Promotion of E-commerce and Digital Marketing for MSMEs:** To enhance market access, MSMEs should be encouraged to adopt **e-commerce platforms** and **digital marketing tools**.
 - Providing incentives for MSMEs to set up **online stores** or integrate with large **digital marketplaces** like **GeM (Government e-Marketplace)** can help MSMEs reach broader markets, both domestically and internationally.
 - Support for digital training and the development of **user-friendly online platforms** is critical for this transformation.
- **Enhanced Infrastructure Development:** Addressing the infrastructure bottlenecks faced by

MSMEs, particularly in rural areas, is key.

- The government should prioritize developing **industrial parks, logistics hubs, and common facility centers (CFCs)** in underserved regions.
- Additionally, improving **transportation networks** and **power supply reliability** will reduce operational costs and improve the competitiveness of MSMEs in global markets.
- **Focused Policy for Women Entrepreneurs:** There is a need for targeted schemes that provide **financial incentives, networking opportunities, and mentorship to women entrepreneurs** in the MSME sector.
 - This could include **increased credit guarantees, specialized loan products, and capacity-building programs** to overcome the unique challenges faced by women.
 - Empowering women entrepreneurs can significantly contribute to economic inclusivity and the overall growth of the sector.
- **Incentivizing Green and Sustainable Practices:** India should encourage MSMEs to adopt **green technologies** and **sustainable production methods** by providing financial incentives and facilitating easy access to **environmental credits**.
 - Policies aimed at **import substitution**, such as support for local sourcing of sustainable materials, would also help MSMEs transition towards environmentally responsible practices.
 - This will enable MSMEs to not only align with global sustainability goals but also reduce their dependence on imports.
- **Sector-Specific Credit Programs:** As per [NITI Aayog's recommendations](#), it is crucial to establish **sector-specific credit programs** tailored to meet the distinct needs of industries like textiles, defense manufacturing, and food processing.
 - These programs should focus on addressing challenges such as **working capital requirements, technology adoption, and market access**, particularly for MSMEs in these high-growth sectors.
 - Such specialized financing will help enhance their productivity and global competitiveness.
- **Improved Market Intelligence and Export Assistance:** To boost MSME exports, India should implement **market intelligence** programs that provide real-time insights into global market trends, trade barriers, and consumer preferences.
 - Establishing **dedicated export support cells** in MSME clusters, along with **training MSMEs in export procedures**, will ensure they are better equipped to engage in international trade.
 - **Public-private partnerships** can help MSMEs navigate export compliance and regulations more effectively.
- **Fostering Innovation and R&D through Public-Private Collaboration:** Creating **innovation hubs** in collaboration with **academic institutions** and **research bodies** can drive R&D for MSMEs.
 - Subsidizing access to cutting-edge technologies and offering **tax incentives** for MSMEs investing in R&D will encourage innovation.
 - Additionally, facilitating **public-private partnerships (PPPs)** in R&D will ensure that MSMEs can leverage state-of-the-art technology to improve production efficiency and product quality.
- **Improving Legal and Intellectual Property Support:** Strengthening **IPR (Intellectual Property Rights) support** for MSMEs is critical to foster innovation.
 - Government agencies should provide **subsidized IPR registration and legal assistance** to MSMEs for protecting their intellectual assets.
 - Offering training on patent rights, trademarks, and copyrights will also empower MSMEs to protect their innovations and encourage more creative ventures in the sector.

Conclusion:

From the **missing middle to India's economic juggernaut**, India's MSME sector is poised to unlock unprecedented growth. By tackling challenges such as access to finance, skill gaps, and regulatory complexities, MSMEs can drive innovation and job creation at scale. Empowering these businesses with **digital tools, tailored credit schemes, and improved infrastructure** will enhance their global competitiveness. With a focus on **inclusivity and sustainability**, MSMEs can truly become the backbone of India's future prosperity.

Drishti Mains Question:

Discuss the role of Micro, Small, and Medium Enterprises (MSMEs) in driving India's economic growth and employment generation. What are the key challenges faced by MSMEs, and how can the government's policies be enhanced to address these challenges and foster sustainable growth in the sector?

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)

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