



NITI Aayog Report on MSMEs in India

For Prelims: [NITI Aayog](#), [Micro, Small, and Medium Enterprises](#), [International MSME Day](#), [Ministry of Micro, Small and Medium Enterprises](#), [Manufacturing Sector](#), [Mudra Yojana expansion](#), [Udyam portal](#), [Government e-Marketplace](#), [Production-Linked Incentive](#), [Digital MSME 2.0](#)

For Mains: Role of MSMEs in Rural development, Role of MSMEs in India's Economic Growth, Key Issues Hindering the Growth of MSME Sector.

[Source: PIB](#)

Why in News?

[NITI Aayog](#), in collaboration with the **Institute for Competitiveness**, released a comprehensive report identifying **key challenges** hindering MSME growth and proposing **strategic reforms** to enhance their competitiveness and economic impact.

What are MSMEs?

- **About:**
 - **Micro, Small, and Medium Enterprises (MSMEs)** are businesses categorized based on their **investment in plant & machinery or equipment** and **annual turnover**.
 - They play a crucial role in India's economic structure by **promoting entrepreneurship, generating employment**, and **supporting industrialization in rural and semi-urban areas**.
- **Classification of MSMEs:**

New classification of MSME

Type	INVESTMENT		TURNOVER	
	Current	Revised	Current	Revised
MicroEnterprise	Rs 1cr	Rs 2.5cr	Rs 5cr	Rs 10cr
Small Enterprise	Rs 10cr	Rs 25cr	Rs 50cr	Rs 100cr
Medium Enterprise	Rs 50cr	Rs 125cr	Rs 250cr	Rs 500cr

Source: Budget 2025-2026, Speech of Nirmala Sitharama, Union Minister of Finance February 1, 2025.

What Role do MSMEs Play in Driving India's Economic Growth?

- **Contribution to GDP and Employment:** MSMEs contribute approximately **29.2% to India's Gross Domestic Product (GDP)**, **36.2% to manufacturing output**, and employing over **120 million people**.
 - For example, the **textile industry**, largely driven by MSMEs, employs millions in activities like **spinning, weaving, and apparel manufacturing**.
- **Export Promotion:** MSMEs contribute **nearly 45% (FY 2021-22)** of India's total **exports**, strengthening India's position in the global trade arena.
 - The **Indian handicraft sector**, largely of **small-scale enterprises**, contributes significantly to **export revenue**, accounting for around **40% of global handmade carpet exports**.
- **Rural Industrialization:** MSMEs promote **rural industrialization** and foster **inclusive growth**, aligning with **Dr. APJ Abdul Kalam's PURA (Providing Urban Amenities in Rural Areas) vision**.
 - For instance, the [**Khadi and Village Industries Commission \(KVIC\)**](#), consisting mainly of small-scale units, plays a critical role in providing **employment and empowering local communities in rural areas**, contributing to **balanced regional development**.
- **Innovation and Entrepreneurship:** MSME fosters **innovation** and **entrepreneurship**, with small businesses often quicker to adapt to changing market dynamics.
 - India's thriving [**startup ecosystem**](#) (**the third-largest in the world**) is predominantly driven by MSMEs, which have led to innovative solutions in sectors like **e-commerce, fintech**, and other emerging industries.
- **Supporting Women Empowerment:** MSMEs act as a **catalyst for empowering women and marginalized communities** by fostering **inclusive entrepreneurship**.
 - According to the Udyam Registration Portal, over **20% of MSMEs are women-owned**, highlighting the **growing participation of women** in the entrepreneurial ecosystem.

Click Here to Read More: [Significance of the MSME Sector in the Indian Economy](#)

What are the Key Challenges Faced by MSMEs in India?

As per the NITI Ayog's Report on MSMEs:

- **High Informatization:** Over **90% of MSMEs in India remain informal**, with only **9% of registered firms having transitioned** from unregistered status.
 - Despite efforts like the **Udyam portal (95 lakh registrations vs 6.34 crore total MSMEs)**, **high compliance costs** and **regulatory burdens** deter many from formalising, limiting access to credit, schemes, and global value chains.
- **Lack of Formal Credit Access:** Despite improvements in credit access for MSMEs rising from **14% to 20% for micro/small** and **4% to 9% for medium enterprises (2020-2024)**, a significant **credit gap persists**.
 - Only **19% of credit demand was met by formal channels** in FY21 with other challenges like **lack of collateral, high NPAs, weak credit checks, and poor financial literacy**, forcing many MSMEs to **rely on informal credit at high interest rates (30-60%)**.
- **Skill Gaps:** From 2014-2022, **skilled labor increased by 19.94% in small, 20% in medium, and 12.72% in large enterprises** (World Bank).
 - However, a **significant skill mismatch exists**, with a **3.9% decline in knowledge-intensive hiring**.
- **Product Diversification Challenges:** MSMEs in India **face barriers to product diversification** due to **limited market awareness, technical knowledge, and high costs for machinery and marketing**.
 - Despite **18% growth in customer base for diversified firms**, challenges like **high development costs, poor marketing, and limited access to finance hinder brand establishment** and entry into international markets.
- **Compliance Burden :** Tax and other compliances remains a **significant challenge for MSMEs**

in India.

- While GST has improved efficiency, it has also **raised compliance costs and operational challenges for MSMEs.**
- **Inadequate Infrastructure & Outdated Technology:** Despite India's 40th rank in the 2023 Global Innovation Index, **MSMEs face limited access to advanced technology**, high costs, and unreliable infrastructure, restricting their scalability and integration into global value chains.
 - Only **6% of MSMEs use e-commerce** and just **45% have adopted AI**, reflecting the sector's **slow pace of digital adoption.**
- **The "Missing Middle" Problem:** Despite initiatives like **ECLGS (Emergency Credit Line Guarantee Scheme)** and **Startup India**, MSMEs in India struggle to **access and fully utilize government schemes** due to **limited awareness and understanding.**
 - It reflects the **underrepresentation of medium-sized enterprises**, with **97.92% of MSMEs classified as micro**, **1.89% classified as small** and only **0.01% as medium.**
 - This gap is caused by **strict regulations, high compliance costs, limited finance access, and low productivity.**

What are the Key Recommendations by NITI Aayog on MSMEs?

- **Reforming MSME Credit Access:** To bridge the credit gap in MSMEs, it is essential to reform the **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)** by **enhancing oversight and reducing risk premiums.**
 - NBFCs, especially in remote areas, should be **scaled up with SIDBI funding** to improve their capacity and governance.
 - At the state level, **lowering eligibility barriers for capital and interest subsidies** will further support MSMEs at various stages of their growth.
- **Skilling and Workforce Alignment:** Invest in **STEM education** to meet MSME manpower needs, particularly in rural areas.
 - **Align training programs with industry demands** and **reform vocational education** to address the skills gap, focusing on **financial literacy and operational skills.**
 - States should offer **partial subsidies for training**, with **curricula updated regularly** to ensure relevance.
- **Driving Tech & AI Adoption:** Enhance MSME supply chains with **digital risk management** and **tailored insurance products.**
 - Promote **Artificial Intelligence (AI)** adoption through **subsidies, grants, and awareness campaigns.**
 - Support **technological upgrades in textiles and chemicals**, and develop **affordable MSME-specific infrastructure.** Invest in **Industry 4.0 technologies** to address obsolescence.
- **Upgrading Innovation Ecosystem:** Strengthen Institute for Collaborations (IFCs) to foster **research, innovation, and technology upgrades** for MSMEs by **expanding knowledge networks between universities, research institutes, private entities, and government bodies.**
 - Upgrading **Common Facilitation Centres (CFCs)** to IFC standards will boost **productivity, innovation, and competitiveness in the MSME sector.**
- **Boosting Market Access and Supply Chain Management:** MSMEs should receive **export incentives and digital platform support**, similar to initiatives in Haryana, Bihar, Andhra Pradesh, and Tamil Nadu, including **quality certifications and market research.**
 - **Collaboration with design schools** and investment in new technologies will enhance competitiveness in sectors like textiles.
 - States should **invest in supply chain infrastructure and local training.** Additionally, **promoting food processing MSMEs** through **trade fairs and export programs** will improve market access.
- **Improving Policy Monitoring & Engagement:** Enhance **MSME policy awareness and outreach** at the state level. **Regular surveys** should **assess policy performance and drive improvements.**
 - **Engage effectively with MSME stakeholders**, including **Owner-Operated Enterprises (OAEs)** (where the owner is directly involved in the day-to-day operations) and **women-owned enterprises.**

- **Capture informal sector MSMEs in datasets** to reduce informality and identify areas for improvement.

More About MSME Sector in India

Click Here to Read: [Key Issues Associated with MSME Sector in India](#), [Measures to Enhance the Effectiveness of MSME in India](#)

INDIA'S MSME SECTOR

(MSME - Micro, Small and Medium Enterprises)

Manufacturing Enterprises and Enterprises rendering Services			
Classification	MICRO	SMALL	MEDIUM
Investment in Plant and Machinery or Equipment	≤ ₹1 crore	≤ ₹10 crores	≤ ₹50 crores
Annual Turnover	≤ ₹5 crore	≤ ₹50 crores	≤ ₹250 crores

MSME regulation

- **Nodal Ministry:** Ministry of Micro, Small, and Medium Enterprises
- **Act:** Micro, Small, and Medium Enterprises Development Act, 2006

Key MSME States - Maharashtra (17.74%), TN (10.20%), UP (9.34%), Gujarat (7.43%) and Rajasthan (7.38%)

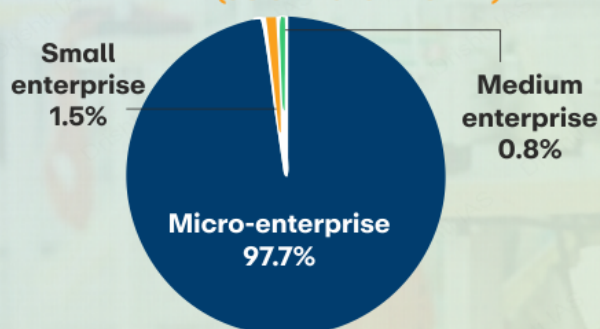
Share of MSMEs in Indian Economy

- India's Total Exports: 45%
- India's GDP: 30%
- Total Manufacturing Output: 38.4%
- Provides employment to ~11 crore people

Challenges

- Only 16% of SMEs get access to timely finance
- ~86% of manufacturing MSMEs in India are unregistered
- Outdated technology, lower productivity levels, lack of necessary skills and branding expertise
- Delayed payments from larger enterprises or govt agencies

Registered MSMEs in India in FY24 (as of march 2024*)



Government Initiatives and Support

Administrative Support:

- CHAMPIONS 2.0 Portal
- Mobile App for Geo-tagging of Cluster Projects and Technology Centers
- Udyam Assist Platform
- ASPIRE Scheme
- Zero Defect & Zero Effect (ZED)

Financial Support

- Raising and Accelerating MSME Performance (RAMP) Scheme
- Trade Receivable Discounting System (TReDS)
- Prime Minister's Employment Generation Programme (PMEGP)
- Pradhan Mantri Mudra Yojna (PMMY)
- Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)
- Interest Subsidy Eligibility Certificate (ISEC)

International
MSME Day **27th**
June



Drishti IAS

What are the Key Government Initiatives for MSMEs?

- [Pradhan Mantri MUDRA Yojana](#)
- [Mutual Credit Guarantee Scheme for MSMEs](#)
- [Udyam Registration](#)
- [CHAMPIONS Portal](#)
- [MSME SAMADHAAN](#)
- [Government e-Marketplace \(GeM\)](#), an online platform for MSMEs to participate in public procurement, expanding their market access.

Conclusion

MSMEs are crucial to India's economic growth but face challenges due to **inadequate data**. Leveraging existing data sources like **PLFS** and **improving platforms like UDYAM** will help formulate **better policies, enhance MSME competitiveness, and support their integration** into global value chains, driving **sustainable economic development**.

Drishti Mains Question

Prioritising the development of the Micro, Small and Medium Enterprises (MSMEs) sector is critical to the future of the country. Critically analyse.

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)

Mains:

Q.1 "Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far are the recent changes in Industrial Policy capable of increasing the industrial growth rate? (2017)

Q.2 Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? (2014)