



# INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

## Role And Challenges Faced By Msme In The Indian Economy

Prannath Singh Yadaw ,Assistant Professor –Commerce, Govt. Girls Degree College, Ahiraula, Azmgargh

Kanchan Yadav, Assistant Professor –Home Science Govt. Girls Degree College, Ahiraula, Azmgargh

### ABSTRACT

Micro, Small and Medium Enterprises (MSMEs), considered the backbone of India's economy, play a vital role in promoting innovation, maintaining balanced regional development and generating employment opportunities. They provide over 30% of the nation's GDP and nearly 48% of its total exports, making them essential to promoting economic expansion and guaranteeing inclusive development. MSMEs, which are widely distributed throughout both urban and rural areas, promote business opportunities that serve to improve neglected groups and lessen regional inequities. MSMEs in India confront many operational and structural obstacles in spite of their vital significance. These include restricted market penetration, particularly in international trade, obsolete technology, infrastructural deficiencies, compliance difficulties, and insufficient access to formal credit. These problems were made worse by the COVID-19 epidemic, which seriously disrupted financial flows and operations for several companies in this industry.

An in-depth examination of MSMEs' contributions to India's economic growth and the various difficulties they face is provided in this article. The MSME Amendment Act and Budget 2025 provisions are among the government activities and policy interventions that are reviewed in order to develop this sector. Additionally, it offers tactical suggestions to promote innovation, enhance finance availability, and simplify regulatory procedures. The MSME ecosystem must be strengthened in order to achieve competitiveness, sustained economic growth, and the goal of an independent India.

**Keywords:** Micro, Small and Medium Enterprises, sector, role, challenges, and present state.

### A Brief Introduction

India's economy, which is among the fastest-growing in the world, is largely dependent on its thriving and varied MSME sector. This industry, which includes more than 63 million businesses, drives socioeconomic change by encouraging balanced regional development, creating jobs, lowering poverty, and encouraging an entrepreneurial mindset.

The growth of MSMEs has been continuously prioritized by the Indian government through a number of legislative changes and funding initiatives. Nevertheless, structural and operational issues still cause

MSMEs to suffer in spite of these initiatives. For sustainable development, it is essential to comprehend these issues and respond to them with suitable policy measures.

## REVIEW OF LITERATURE

Numerous research on a range of MSMEs-related topics have been carried out in India. Scholars have really and diligently endeavored to examine pertinent literature on the subject. Here are a few significant studies:

According to Sipahi (2020), MSME capital or finances have enormous potential to support rural areas, create jobs, employ creative skills, increase regional equity, and advance and build the country. Due to its size, industry scope, lack of financial executive resources, and inability to handle unforeseen problems or circumstances, this sector has been vulnerable during the COVID-19 pandemic.

According to Singh (2020), COVID-19 had a significant and harsh impact on the MSME sector by interfering with the supply chain, causing problems with raw materials, production procedures, and labor availability, which led to low revenue or profit generation.

According to Tripathy and Bisoyi (2021), 35% of MSME's and their self-employed units have no chance to recover and revamp because they are set to close, according to all Indian manufacturing industries. Additionally, the MSME sector faces a number of challenges when it comes to paying employees and fixed expenses like rent and energy.

Unni, J. (2020) examined how COVID-19 affected MSMEs and the informal economy. He discloses that macro-level forecasts and estimations of GDP, income, and employment loss are necessary. This will aid in the short-term visualization of policy and a plan of action.

Zanjurne, P. (2018) focused on the growth prospects and performance of MSME. She made use of secondary data and exploratory methodology. She came to the conclusion that the MSME sector makes a substantial contribution to manufacturing output, employment, and exports. In order to identify significant concerns, difficulties, and recommendations, Das, P. (2017) focuses on India's enormous growth potential and prospects as a variable for the development of the MSME sector. He made use of secondary data. He found that the industry has shown resilient enough to support itself with the help of new technologies, creative marketing techniques, and the strength of our conventional talents and knowledge.

A study by Sen and Salim (2016) addressed the significant regional differences in the MSME sector's growth. Given the significance of this industry, the governments of West Bengal and India implemented a number of programs to address the problems of excessive financing costs, workforce shortages, poor planning, and insufficient infrastructure.

Vasa (2016) studied a few specific chemical, pharmaceutical, and textile industries in China and India and how they affected the performance of small and medium-sized enterprises in these industries. However, there are still certain issues that MSMEs face, such as insufficient money, difficulty entering international markets, excessive financing costs, issues with product display, planning, and filling, as well as limited infrastructure facilities.

N. Aruna (2015) carried out research to determine the issues that businesses encounter and how these issues impact business growth, which in turn impacts national growth. Additionally, the statistics showed that India's general globalized economic environment has been conducive to the expansion of micro and small-scale industries. For these businesses to comprehend, use, and use them in their operations for compliance and safe advantages, simple and unambiguous policies and acts must be created. There are numerous government programs, but the survey found that the majority of these businesses are unaware of them and do not know how to take use of them.

A study was carried out by Ali and Husain (2014) to present the state of MSMEs in India. Certain circumstances include the requirement for bank loans, the rural sector's rivalry with multinational corporations, a lack of technological expertise brought on by the absence of efficient training and skill-development initiatives, etc. The MSME sector is not receiving as many loan approvals from foreign banks.

A study on the goals and advantages of the MSMEs Act of 2006 was carried out by Shihabudheen N. (2013). The purpose of the act is to give MSMEs the resources they need to grow their businesses and become more competitive. The purpose of the study was to determine how the MSME Act affected SSI Units and to provide ways to improve performance. To promote, grow, and improve competitiveness, special funds were established, along with progressive credit policies for micro and small businesses. The study has employed both primary and secondary data.

A study on the significance and effectiveness of micro, small, and medium-sized businesses in India was carried out by Kumar and Gugloth (2012). This paper's goal is to examine financial assistance for MSMEs. The significance of working capital management for small business performance is further examined in the study.

## RESEARCH OBJECTIVES

The following are the main objectives of this study:

1. Examine the growth, performance drift, and theoretical underpinnings of MSMEs in the Indian economy.
2. To comprehend the role that MSMEs play in the social and economic advancement of India.
3. To learn about the different issues and difficulties that MSMEs in India face.

## RESEARCH METHODOLOGY

A variety of criteria have been the subject of secondary data collection and analysis in order to accomplish these study goals. Various reports and the official websites of pertinent agencies were the sources of the data.

## DEFINITION AND CLASSIFICATION OF MSMES

As per the revised MSME Act guidelines (effective from 1st July 2020):

**Table-1: Classification of MSMEs**

Enterprise Type	Investment Limit	Annual Turnover
Micro	Up to ₹1 crore	Up to ₹5 crore
Small	Up to ₹10 crore	Up to ₹50 crore
Medium	Up to ₹50 crore	Up to ₹250 crore
Source: Government of India, Ministry of Micro, Small and Medium Enterprises		

## Current MSMEs' Performance and Growth in India

By boosting GDP, exports, and employment, the Micro, Small, and Medium Enterprises (MSME) sector is vital to the Indian economy. MSMEs are still the foundation of industrial growth as of 2025, promoting independence and inclusive growth.

**Table-2: Status (2024-25)**

Indicator	Data / Status (2024-25)
<b>Total Number of MSMEs</b>	~6.4 crore units (Udyam Registration Portal)
<b>Employment Generated</b>	Over 12 crore people
<b>Contribution to GDP</b>	~30%
<b>Share in Exports</b>	~45%
<b>Growth Rate of MSME GVA</b>	8.4% (2024-25 est.)
<b>Credit Disbursed under CGTMSE</b>	₹1.15 lakh crore (FY 2024)
<b>Digital Payments Adoption</b>	>75% MSMEs use digital tools
<b>Support in Budget 2025</b>	₹22,138 crore allocated (15% increase from FY 2024)

**Table-3: Growth Data (2020–2025)**

Year	Estimated MSME GVA (₹ Lakh Crore)	% Share in Total GVA	Employment (Crore)	Key Initiatives
2020-21	55.6	29.0%	10.5	ECLGS, Revised MSME Definition
2021-22	60.5	29.6%	11.0	Udyam Registration push
2022-23	63.9	30.3%	11.5	ONDC, PLI Scheme, PMEGP boost
2023-24	68.2 (Est.)	30.5%	12.0	Credit access, MSME Champions Portal
2024-25	73.4 (Proj.)	30.8%	12.3	₹22,138 crore in Budget, CGTMSE reforms
Source: MSME Annual Report				

### Analytical Perspectives

1. Resilience After the Pandemic: With financial assistance and digital inclusion, MSMEs demonstrated a robust recovery after 2020.
2. Formalization Boom: From 2020 to 2024, more than 3 crore MSMEs registered on the Udyam site.
3. Increase in Employment: Between 2020 and 2025, 1.8 crore new employment were generated.
4. Credit & Capital: There was a record rise in lending under MUDRA and CGTMSE.
5. Digital Shift: More than 75% of MSMEs now use digital technologies for marketing, inventory management, and payments.

## Amendments to the MSME and Budget 2025

A number of revolutionary initiatives were adopted in the Union Budget 2025 with the goal of reviving the MSME sector, increasing its competitiveness, and guaranteeing its long-term viability. A more business-friendly regulatory framework was also established by the MSME Amendment 2025.

### Budget 2025's Main Points for MSMEs

#### 1. Financial Assistance and Credit Extension

- To guarantee better liquidity, an extra ₹75,000 crore was allotted under ECLGS 3.0.
- To boost credit availability for small firms, the maximum amount for loans without collateral was raised from ₹10 lakh to ₹20 lakh.

#### 2. Initiatives for Digital Transformation

- To encourage MSMEs to adopt AI, blockchain, IoT, and Industry 4.0 technologies, a ₹10,000 crore Digital Transformation Fund was established.
- Assistance with ERP systems, e-commerce integration, and digital onboarding.

#### 3. Assistance for Female Entrepreneurs

- Launch of a Women Entrepreneurs Support Program that provides women-led MSMEs with a special credit line with discounted interest rates.
- Initiatives to increase women's capacity in rural and semi-urban areas.

#### 4. Relief from Taxes and Compliance

- To lessen the burden on expanding MSMEs, the tax audit turnover threshold was increased from ₹10 crore to ₹15 crore.
- To promote formalization, GST compliance was loosened for microbusinesses with yearly sales under ₹2 crore.

#### 5. Development of Infrastructure and Clusters

- Introduction of a Women Entrepreneurs Support Program that offers a dedicated loan line with reduced interest rates to MSMEs run by women.

### MSME Amendment Act 2025: Important Changes

**1. Simplicity in Conducting Business:** The "Ease of Doing Business for MSMEs Act, 2025" was passed in order to simplify bureaucratic procedures by: Decriminalizing minor procedural infractions; Providing an online compliance dashboard for real-time tracking; and implementing single-window clearance systems.

**2. Institutional Support:** To facilitate the quicker settlement of business issues, MSME Facilitation Councils were established in each district. A more robust legal foundation to safeguard MSMEs in contracts.

**3. Delayed Payments Reform:** An amended Delayed Payments Act was introduced that requires digital payments to be made within a certain amount of time.

Improved monitoring via linked digital platforms Automatic interest penalties for nonpayment

## MSMES' IMPORTANCE TO THE INDIAN ECONOMY

### 1. GDP Contribution

MSMEs are an essential component of the Indian economy, accounting for almost 30% of the country's GDP. They exhibit durability, flexibility, and response to market movements, and they play a significant role in both the manufacturing and service industries.

**Key Points:** MSMEs are the second-largest contributor to GDP, after agriculture; they encourage economic decentralization, particularly in Tier-2 and Tier-3 cities; and they are very inclusive and scalable due to their low capital investment requirements.

### 2. Growing Employment

MSMEs are the country's second-largest employer, employing approximately 111 million people. They assist lessen reliance on agriculture for a living and are crucial in combating unemployment, especially in rural and semi-urban areas.

**Impacts include:** • Giving semi-skilled, unskilled, and migrant workers possibilities; • Serving as hubs for micro businesses and self-employment; and • Significantly reducing poverty and promoting inclusive growth.

### 3. Promotion of Exports

About 48% of India's overall exports are made by MSMEs, particularly in traditional and labor-intensive industries. This covers the following: textiles and clothing; handicrafts and handlooms; leather and footwear; food processing; and jewelry and gems.

**Importance:** Aids in India's integration into the global value chain.

- Boosts the "Vocal for Local" and "Make in India" campaigns.
- Improves trade balance and foreign exchange gains.

### 4. Regional and Inclusive Development

MSMEs are essential to balanced regional development because they promote the establishment of industries in undeveloped, rural, and tribal areas. They reduce regional disparities and help control urban migration.



Support programs include:

- One District One Product, or ODOP, which promotes regional specialties;
- SFURTI: For revitalizing historic industries.

Establishing industrial ecosystems in underdeveloped areas is the goal of the Cluster Development Program.

## 5. Innovation and Entrepreneurship

MSMEs, which are usually run by families, first-generation business owners, or small groups, are a haven for innovation and entrepreneurship. Their lean and flexible structures allow them to quickly innovate and cater to specific markets.

**Benefits:** • Encourage low-cost solutions and grassroots innovation.

- Encourage young people and women to take risks and have an entrepreneurial mindset.
- Support diversity and economic dynamism.

## 6. Sector-Wise Distribution of MSMEs

India's MSME sector is extremely diverse, covering a wide range of operations in the manufacturing, services, and agro-based sectors. This distribution is essential to India's equitable and resilient economic development since it shows the sector's ability to absorb a range of skills and capital levels.

### 1. Manufacturing Industry

A sizable percentage of MSMEs are in the manufacturing sector, which comprises businesses that manufacture goods for both export and domestic use. Important areas consist of:

- Textiles & Garments: A significant employment, particularly in West Bengal, Gujarat, and Tamil Nadu. Spinning, weaving, dying, and sewing are all included.
- Food and beverage processing, which includes everything from packaged snacks to grain milling, adds value to agriculture and promotes food security.
- Leather and Footwear: Well-known in Vellore, Agra, and Kanpur, this company sells goods for both domestic and international markets.
- Chemical Products: Serving a variety of industries, these products include cleaning agents, dyes, and medications.

## 2. The Services Sector

Due to digital revolution and the growing need for individualized services, the services industry has experienced significant expansion and increased engagement from MSME's. Among the important sectors are:

- Hospitality and Tourism: This sector supports jobs and foreign exchange profits by include lodging facilities, dining establishments, travel agencies, and homestays.
- Education and Training: To meet the increasing need for skill development, there are private coaching centers, online learning environments, and vocational training facilities.

Accounting companies, microfinance organizations, fintech startups, and consulting services that assist companies of all sizes are all included in the category of financial and business services.

## 3. Industries Based on Agriculture

By adding value to raw agricultural products, agro-based MSMEs play a critical role in bridging the gap between agriculture and industry. They promote rural entrepreneurship because they are mostly found in rural and semi-urban settings. Important actions consist of:

- Dairy and Animal Husbandry: This sector helps women business owners and small farmers by producing, packaging, and distributing milk.
- Food processing: This process creates finished goods like pickles, jams, frozen foods, and spices from raw agricultural produce.
- Handloom, bamboo, ceramic, jute, and coir-based crafts are examples of rural and traditional crafts that employ craftsmen and conserve cultural heritage.

## CHALLENGES FACED BY MSMEs

MSMEs still encounter a number of operational and structural obstacles in spite of their enormous economic contribution to India. These difficulties impair their capacity for expansion, lower their level of competitiveness, and have an impact on sustainability. A thorough examination is provided below:

### 1. Limited Availability of Reasonably Priced Financing

For MSMEs, obtaining financing continues to be one of the most difficult obstacles.

- A lot of MSMEs are unable to obtain loans through official banking channels because they lack sufficient collateral or credit history.
- Unreasonably high interest rates are the outcome of a heavy reliance on unofficial lenders.
- A significant funding bottleneck is highlighted by the estimated ₹25 trillion credit deficit for MSMEs in India, which is further restricted by complicated documentation, drawn-out loan approval procedures, and delayed payouts.

### 2. Poor R&D and Technological Obsolescence

Due to a lack of information and resources, MSMEs frequently find it difficult to implement current technologies.



Why The majority of small businesses continue to use antiquated equipment and manual procedures.

- Research and development (R&D) and product innovation receive very little funding.
- Insufficient exposure to the industry IoT, automation, artificial intelligence, and data analytics are examples of 4.0 tools that restrict productivity and quality enhancement.

### **3. Inadequate Infrastructure**

For MSMEs, basic infrastructure continues to be a significant barrier, particularly in rural and semi-urban areas.

- Operations are disrupted by erratic electrical supplies, inadequate transit systems, and spotty internet connectivity.
- Facilities for warehousing and storage are either costly or insufficient.
- Economies of scale are restricted in industrial clusters when common facility centers (CFCs) are absent.

### **4. The Burden of Regulation and Compliance**

MSMEs frequently face a complicated and disjointed regulatory environment.

- Navigating numerous permits, registrations, and tax filings at several governmental levels presents challenges for entrepreneurs.
- There are risks of confusion and noncompliance due to frequent changes in tax regulations, such as amendments to the GST.
- MSMEs are susceptible to fines since they frequently lack specialized legal teams to oversee compliance.

### **5. Difficulties with Branding and Limited Market Access**

MSMEs frequently struggle to build a strong brand identity and have difficulty breaking into larger markets.

- A lot of small firms are inexperienced in consumer involvement, digital outreach, and marketing.
- Visibility is limited by limited involvement in international value chains, trade shows, and expos.
- Standardization and product certification, which are crucial for exports, are not supported enough.

### **6. Skilled Labor Shortage**

The skills that MSMEs need and the workforce that is available are significantly out of sync. A large number of employees lack practical experience and training pertinent to the sector.

Why MSMEs frequently lack the funds necessary to support staff up skilling.

Continuity and productivity are also impacted by high attrition rates, particularly in metropolitan settings.

### **7. Buyers' Postponed Payments**

Payment delays, especially from big purchasers and government agencies, are one of the most urgent problems facing MSMEs.

- Working capital is strained, cash flow is disrupted, and loan defaults may result from these delays.
- Why MSMEs are frequently reluctant to voice disagreements for fear of losing future business.
- Complaint response is still delayed even with the MSME Samadhan Portal.

## SUGGESTIONS

- Finance: Promote alternative lending models, streamline loan procedures, and improve credit guarantees.
- Technology: Develop digital literacy initiatives, encourage R&D collaborations, and offer incentives for green technology.
- Infrastructure: Create MSME industrial clusters and enhance logistics and connectivity. Skill Development: Create training tailored to rural areas, collaborate with ITIs and NSDC, and assist female entrepreneurs.
- Regulation: expedite legal proceedings, establish a consistent compliance system, and provide incentives to frequent filers.
- Market Links: Assist with branding campaigns, plan trade shows, and include MSMEs into international supply chains.

## THE FUTURE STUDY SCOPE

- A comparison between MSMEs in India and other developing nations
- Research on how digital and green changes affect MSMEs
- Longitudinal analysis of the efficacy of government programs
- Evaluation of MSME performance by sector following the epidemic
- Assessing fintech's contribution to MSME financial inclusion

## CONCLUSION

Micro, small, and medium-sized enterprises (MSMEs) are crucial for economic growth, job creation, and equitable development in India. Their significant GDP and export contributions show how important they are to the nation's economy. MSMEs face challenges such as limited access to money, outdated technology, infrastructure limitations, and complex regulations notwithstanding their potential. These barriers hinder their capacity to expand, develop, and compete in both domestic and foreign markets.

Some of these difficulties have been addressed to a remarkable degree by government initiatives, such as recent improvements under the MSME Amendment Act and supportive measures announced in Budget 2025. Initiatives such as digital empowerment initiatives, credit guarantee schemes, and infrastructure support are positive steps. To fully realize this sector's potential, however, a more consistent and coordinated policy approach is required.

Improved financial inclusion, digitization, innovation, talent development, and ease of doing business are key components of MSMEs' future. A more strong and resilient MSME ecosystem can be achieved by promoting exports, strengthening ties with larger businesses, and streamlining regulatory frameworks. India can accomplish its objectives of job creation, sustainable economic growth, and global competitiveness by empowering this sector, bringing it one step closer to the Atmanirbhar Bharat vision.

## REFERENCES

1. Suneetha. K., & Sankaraiah, T. (2014). Problems of MSME's And Entrepreneurs in Kadapa District. IOSR Journal of Economics and Finance (IOSR-JEF) e-ISSN: 2321- 5933, p-ISSN: 2321-5925. 3, Issue 2, Ver. I (April), PP 31-37. 20.
2. Kavitha, N., & Sangeetha, J. (2014). A Study on Problems of Garment Exporters in Tirupur. 3, Issue 9, (September), ISSN - 2250-1991.
3. Das, P. (2017), "Micro, Small and Medium Enterprises (MSME) in India: Opportunities, Issues & Challenges", Great Lakes Herald, Vol 11, Issue No. 1
4. Mama, P. and Mistri, T. (2017), "Status of Micro, Small and Medium Enterprises (MSME) in India: A Regional Analysis", IOSR Journal of Humanities And Social Science, Vol 22, Issue 9. PP. 72-82
5. Mohanty, J. J. (2018), "A Study on Micro, Small and Medium Enterprises (MSME) in India: Status and its Performance", International Journal of Research and Scientific Innovation", Vol v, Issue v
6. Pachauri, A. and S. Sharma (2016), "Barriers to Innovation in Indian Small and Medium-Sized Enterprises", ADBI Working Paper 588, HTTP:// www. Adb.org/publication/barriers-innovation-indian-small-andmedium-sized-enterprises
7. Unni, J. (2020), "Impact of COVID-19 on Informal Economy: The Revival", The Indian Journal of Labour Economics (2020), 63 <https://doi.org/10.1007/s41027-020-00265-y>
8. Tripathy, S. & Bisoyi, T. (2021). Detrimental impact of COVID-19 pandemic on micro, small, medium enterprises in India. Jharkhand Journal of Development and Management, 19(1), 8651-8660.

