

## Driving industrial growth through MSMEs: Towards an India's vision of a \$5 trillion economy

Dr. Abdul Hannan <sup>1</sup>, Dr. Shubham Raj <sup>2</sup>, Dr. Vandana Kumari <sup>3</sup>, Dr. Ramla Fatma and Dr. Imran Alam <sup>4</sup>

<sup>1</sup> Faculty, Department of Economics, Magadh University, Bodhgaya, India,  
Email: [hannan.economics@gmail.com](mailto:hannan.economics@gmail.com)

<sup>2</sup> Independent Researcher, Ph.D. (Economics), PG Department of Economics, Magadh University, Bodh Gaya, India,  
Email: [shubhamraj466@gmail.com](mailto:shubhamraj466@gmail.com)

<sup>3</sup> Faculty & Head of Department of Labour & Social Welfare, Magadh University, Bodhgaya, India,  
Email: [vandana051swmu@gmail.com](mailto:vandana051swmu@gmail.com)

<sup>4</sup> Faculty, Department of Management, Magadh University, Bodh Gaya, India,  
Email: [ramla.fatma11@gmail.com](mailto:ramla.fatma11@gmail.com)

<sup>5</sup> Faculty, Department of Economics, Magadh University, Bodhgaya, India,  
Email: [imranalam.eco@gmail.com](mailto:imranalam.eco@gmail.com)

**Abstract---**Micro, Small, and Medium-Sized Enterprises (MSMEs) are fundamental to India's industrial sector, facilitating inclusive growth, creating employment, and advancing regional development. This study utilises secondary data from the Reserve Bank of India (RBI) and the Ministry of MSME to emphasise their contributions to GDP, manufacturing, exports, and employment—representing approximately 30% of GDP, over 45% of manufacturing output, nearly 43% of exports, and sustaining livelihoods for more than 111 million individuals. Their robust existence, especially as microenterprises in rural and semi-urban regions, guarantees economic inclusion and social stability. Nevertheless, the industry persists in encountering substantial obstacles, such as a ₹20–25 lakh crore credit deficit, restricted access to formal financing for micro enterprises, low productivity, inadequate technological adoption, inefficiencies in scale, delayed payments, and insufficient integration into global supply chains. The study emphasises the necessity for specific policy interventions to address these constraints, including cash-flow-based funding, technological advancement, cluster growth, rigorous enforcement of timely payments, and a streamlined facilitation system. Enhancing the MSME ecosystem is crucial for expediting industrial growth and achieving regional equilibrium, as well as for fulfilling India's aspiration of a \$5 trillion economy.

---

### How to Cite:

Hannan, A., Raj, S., Kumari, V., Fatma, R., & Alam, I. (2025). Driving industrial growth through MSMEs: Towards an India's vision of a \$5 trillion economy. *The International Tax Journal*, 52(5), 1660–1670. Retrieved from <https://internationaltaxjournal.online/index.php/itj/article/view/176>

The International tax journal ISSN: 0097-7314 E-ISSN: 3066-2370 © 2025

ITJ is open access and licensed under a Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License.

Submitted: 27 July 2025 | Revised: 18 August 2025 | Accepted: 05 September 2025

**Keywords---**MSMEs, Industrial Growth, Credit Access, Atmanirbhar Bharat, \$5 Trillion Economy.

## 1. Introduction

Acting as the backbone of the Indian economy, the Micro, Small & Medium Enterprises (MSMEs) sector is well acknowledged for being the main driver of industrial development, employment, regional development, and social incorporation. The MSME sector has emerged as an even more important part of the Indian economy as the country moves economically towards becoming a \$5 trillion economy and a source of manufacturing competitiveness and promoter of socioeconomic development. There are an estimated 73 million registered and un-registered MSME units operating in the manufacturing, trade, and services sectors in India, these units employ more than 115 million people and account for almost 30% of India's GDP (estimated by the Ministry of MSME). Vis a vis industrial performance, MSMEs out-originating more than 45 percent of India's total manufacturing output and accounting for approximately 43% of its exports, making these enterprises core to India's industrialization, international integration and balanced regional development. The development of MSMEs has not only been limited to urban areas but has even spread to the semi-urban and rural regions, thus providing equal distribution of industrial growth and playing a major role in the socio-economic development of backward areas. In spite of such phenomenal inputs, the industry still faces chronic problems such as restricted access to low-cost credit, poor technological uptake, infrastructural impediments, long payment periods from large firms and government agencies, and non-availability of scale economies. These limitations restrict MSMEs' ability to grow, compete globally, and develop in the long term in industry. Further, the structural shambles in the MSME sector, where micro enterprises constitute almost 95% of all units, and they have very little formal credit and exports respectively, presents a compelling case for new policy interventions meant to address distortions in the sector and spur competitiveness amongst the categories of enterprise. The Reserve Bank of India (RBI) and the Ministry of MSME, are aware of this situation, and have taken several various initiatives, including the Emergency Credit Line Guarantee Scheme (ECLGS), invoice discounting via TReDS platforms, cluster development schemes, and simplified registration via Udyam Portal, but it remains unclear to what extent these initiatives can address structural issues and promote industrial growth. The objective of this study is to survey the contribution of MSMEs to the industrialization of India through empirical analysis of data collected from Ministry of MSME and Reserve Bank of India statistics, to assess MSME's contribution to GDP, exports, manufacturing output, and employment, together with identifying the financial, infrastructural, and policy constraints to their growth potential. Furthermore, the study will analyze the potential improvements to the MSME ecosystem from recent policy interventions, such as the digital credit infrastructure, registration under Udyam, and the government support frameworks. Lastly, the study intends to find out the possible future roles of this sector in sustainable industrial development, especially in light of Make in India, Atmanirbhar Bharat, and merging into global value chains. By situating MSMEs within the larger discourse of industrial growth, this research attempts to generate insights that not only underline their macroeconomic significance but also provide evidence-based recommendations for improving credit delivery, technological adoption, competitiveness, and market access. Thus, the overarching purpose of the study is to reinforce the understanding that the MSME sector is not merely a supplementary component of Indian industry but a decisive force in shaping its growth trajectory, enhancing resilience, and driving equitable development across diverse regions of the country.

## 2. Review of Literature

In both national and international academia, the importance of Micro, Small, and Medium-Sized Enterprises (MSMEs) in industrial growth has been well recognised. Current Indian research highlights MSMEs as drivers of inclusive growth, echoing the role of small businesses as incubators of innovation

and entrepreneurship as highlighted by early studies like Schumpeter (1934) (Nayyar, 2012). The job intensity and regional dispersion of the sector were highlighted in the Planning Commission (2011) and subsequent NITI Aayog reports; this was especially pertinent given India's demographic makeup. The MSME Ministry's Annual Reports state that the industry accounts for more than 40% of India's exports and over one-third of GDP, making MSMEs an essential part of the industrial economy. Several empirical studies (Kant & Sharma, 2016; Raj & Dhal, 2018) have quantified MSMEs' contribution to manufacturing GVA, showing their importance in value chains of automobiles, textiles, and pharmaceuticals.

Access to finance has emerged as a recurring theme in the literature. RBI studies (2019, 2021) and policy papers highlight persistent credit gaps, collateral constraints, and uneven distribution of credit across regions. Beck, Demirgüç-Kunt and Levine (2005) demonstrated that financial access for small firms improves productivity and industrial diversification, a finding relevant for India where MSME credit as a share of GDP lags global benchmarks. Studies on credit guarantee schemes (Ghosh, 2017; World Bank, 2020) found that partial risk-sharing mechanisms improve credit flow but need stronger monitoring of repayment behavior. Recent RBI data also reveal that while private sector banks and small finance banks have expanded MSME lending, asset quality pressures remain, particularly in micro and small segments.

Another important strand of literature relates to MSME exports and competitiveness. Research by Kumar (2015) and EXIM Bank (2018) emphasized that MSMEs' global integration is constrained by limited adoption of technology, inadequate standards compliance, and infrastructure bottlenecks. Cluster development programs (Das, 2008; Mehta, 2014) were found to improve collective efficiency, quality certification, and innovation, though outcomes vary widely across states. Studies on digitalization (Chakraborty, 2022) show that GST, e-invoicing, and TReDS platforms are improving transparency and receivable management, though coverage remains limited.

In order to provide a cohesive analysis of MSMEs' contribution to industrial growth, a significant research gap still exists in the synthesis of structural data from the MSME Ministry with financial statistics from the RBI. Most existing research looks at structure of enterprises or credit dynamics separately. This study attempts to close that gap and provide a thorough understanding of the MSME sectors' contribution to India's industrial development by integrating official data sources.

### 3. Research Methodology

The Reserve Bank of India (RBI) and the Ministry of Micro, Small, and Medium Enterprises (MSME) are the main sources of secondary data used in this study's descriptive and analytical methods. The MSME Ministry provides information on the size, composition, regional distribution, and sectoral makeup of MSMEs through its Annual Reports, Udyam Registration Portal, and performance statistics for various schemes. Gross Value Added (GVA) and output figures from the National Statistical Office (NSO), referenced in the MSME reports, are included as well. From a financial perspective, the study uses RBI publications like the Handbook of Statistics on the Indian Economy, Sectoral Deployment of Bank Credit, Basic Statistical Returns, and the Financial Stability Report. These resources offer information on credit outstanding, the distribution of bank groups, and asset quality indicators relevant for MSMEs. Export-related data come from the Directorate General of Commercial Intelligence and Statistics (DGCI&S) as reported in the MSME Annual Report. The analysis includes trend analysis, share calculations, and comparative assessments to evaluate MSMEs' contribution to industrial growth in terms of output, employment, exports, and financial access. To demonstrate the changes over time, growth rates and ratios are calculated when relevant and tables are created to display relevant statistics in an orderly fashion. Considering the definitional changes made in 2020 for MSMEs and other constraints regarding the coverage of Udyam registrations, reasonable caution is exercised when interpreting the trends over the years. The descriptive elements also allow us to identify the existing

policy gaps and issues, by reviewing the relevant RBI policy notes and assessments of the MSME schemes, and the body of literature regarding MSMEs. The methodology that uses structural and financial data is helpful to provide a robust understanding of MSMEs in the context of India's industrial growth, and provide a robust basis for creating evidence-driven policy recommendations.

#### 4. Scale and Structure of MSMEs

The MSME sector in India has over 63.4 million businesses, which makes it one of the largest ecosystems of companies. Micro businesses represent more than 99% of all MSMEs, small businesses represent about 0.5% of MSMEs that are typically classified as small, and medium businesses represent only 0.01% of the MSME sector, according to stakeholders and the Ministry of MSME. The sector is probably best characterized by its unequal distribution at the lower-size end of the operational spectrum, but that represents a broad span of reach and can be said to have the potential to create jobs, while also identifying a number of shortcomings, which include productivity, inadequate financial resources, and limited technology use. This near-equal spread shows that MSMEs are not confined to industrial clusters or metropolitan hubs; rather, they extend deeply into semi-urban and rural economies, providing local employment, supplying goods and services tailored to local demand, and supporting ancillary activities for larger firms. In this sense, MSMEs are uniquely placed to reduce regional disparities and enable industrial growth that is both inclusive and geographically diversified.

From a sectoral perspective, MSMEs contribute around 6.11% to India's manufacturing GDP and nearly 24.6% to services GDP. The larger share in services reflects the proliferation of micro-enterprises in trade, repair, hospitality, and personal services. At the same time, their share in manufacturing remains significant, with strong representation in labor-intensive and export-oriented industries such as textiles, garments, leather, food processing, and engineering goods. Notably, while medium enterprises form just 0.3% of total MSMEs, they account for nearly 40% of MSME exports, underscoring their disproportionate role in driving India's integration with global value chains.

The structural features of the MSME sector therefore reveal a dual character: on the one hand, the overwhelming presence of micro units highlights the sector's critical role in employment generation and grassroots industrialization; on the other, the relatively small but dynamic segment of small and medium firms demonstrates the sector's potential for technological upgrading, productivity growth, and export competitiveness. Together, these layers make MSMEs indispensable for sustaining India's industrial growth, ensuring supply-chain resilience, and broadening the base of manufacturing and service activities.

**Table 1: MSME Units in India by Size Category (Approximate)**

Category	Estimated Share of All MSMEs (%)	Sectoral Spread*
<b>Micro</b>	~99%	Manufacturing & Services
<b>Small</b>	~0.5%	Manufacturing & Services
<b>Medium</b>	~0.01%	Manufacturing & Services
<b>Total</b>	100%	Manufacturing & Services

\*Absolute sectoral numbers are not separately available; micro units span both manufacturing and services.

Source: Ministry of MSME Annual Report 2023–24; IBEF (2024).

**Table 2: Rural-Urban Distribution of MSME Units**

Location	MSME Units (lakh)	Share (%)
<b>Rural</b>	324.9	51.25
<b>Urban</b>	309.0	48.75
<b>Total</b>	633.9	100.0

Source: Ministry of MSME Annual Report 2023–24; Udyam Registration data.

5. Output, GVA, and Employment Linkages

Micro, Small, and Medium Enterprises (MSMEs) stand at the forefront of industrial resilience, delivering substantial output, employment, and value addition. Globally recognized as employment-intensive and flexible, MSMEs in India remain especially vital amid rising macroeconomic uncertainties.

5.1 Output & GVA Contributions

Recent data show the sector’s economic footprint is robust: MSMEs contribute approximately 35% to India’s GDP, with a particularly strong presence in services, where they account for nearly 24.6% of services GVA. Meanwhile, in manufacturing, MSMEs contribute about 6.1% of GVA. These figures underline MSMEs’ dual role: while prominent in services sectors such as trade, hospitality, and repair, they also retain significance in labor-intensive manufacturing segments like textiles, engineering, food processing, and leather.

5.2 Employment Impact

On the employment front, MSMEs are pillars of job creation. According to the MSME Ministry’s Udyam Portal data (as of February 10, 2025), MSMEs have generated around 251.9 million (25.19 crore) jobs. The Annual Survey of Unincorporated and Service Enterprises (ASUSE) estimates employment in the unincorporated non-agricultural sector at 120.6 million for FY2023–24, signifying a steady rise in firm-level employment. Further, NSS-derived estimates (factoring in manufacturing, trade, and other services) indicate that MSMEs employed approximately 111 million people, with 36% in trade, 32% in manufacturing, and 33% in other services.

Table 3: MSME Contribution to Output & GVA (Latest Available)

Sector	MSME Share in GDP/GVA
Overall GDP	~35%
Manufacturing GVA	~6.1%
Services GVA	~24.6%

Sources: IBEF and MSME Ministry (via IBEF)

Table 4: Employment in MSMEs (Latest Estimates)

Source / Dataset	Employment Estimate	Notes
Udyam Portal (MSME Ministry)	251.9 million jobs	Total jobs generated since portal launch
ASUSE (FY2023–24 estimate)	120.6 million jobs	Unincorporated sector employment
NSS/ASUSE Sectoral Breakdown	~111 million jobs	Manufacturing ~32%, Trade ~36%, Other services ~33%

Source: Ministry of MSME

5.3 Analysis of Linkages

**Output & Value Addition:** MSMEs' nearly 35% share of GDP demonstrates their expansive economic presence. The larger share in services reflects MSMEs’ flexibility, lower capital needs, and adaptability to local demand. Their role in manufacturing, while modest at 6.1%, is still notable given the sector’s heavy industrial structure. Many MSMEs act as key vendors, even globally oriented in sectors like engineering components, textiles, and food products.

**Employment Generation:** The staggering figure of 252 million jobs highlights MSMEs as a major engine of job creation. The sector’s resilience is further underscored by the consistent addition of jobs

in the unincorporated sector (not just formal MSMEs), affirming MSMEs' role in absorbing diverse workforce segments, including informal, semi-skilled workers.

**Sectoral Spread:** The near-equal employment distribution across manufacturing (32%), trade (36%), and services (33%) showcases MSMEs' multifaceted contributions. In manufacturing, they drive production and vendor ecosystems; in trade and services, they sustain local and regional economic intermediation, consumption, and service provision.

#### 5.4 Implications for Industrial Growth

These statistics collectively affirm that MSMEs underpin industrial expansion not just through value-added production but also via extensive job creation and supply chain integration. Their embeddedness in manufacturing and services enriches local economies, while their informal and formal nature allows agility in times of economic stress. To sustain and amplify this role, MSMEs require strategic support in scaling, formalizing, accessing technology, and integrating with global value chains.

### 6. MSMEs and Exports

India's MSMEs play a pivotal role in the nation's export-led industrial strategy. Following a multi-year contraction, their export share has rebounded strongly, underlining their resilience and strategic importance.

#### 6.1 Export Share and Trends

According to the Ministry of MSME, the share of MSME-specified products in India's total exports recovered to 45.73% in FY 2023–24, reversing a steady decline from a peak of 49.77% in FY 2019–20 to 43.59% in FY 2022–23. As of May 2024, this share further nudged up to 45.79%. The rebound comes amidst robust export volumes, with MSME exports valued at approximately ₹12.39 lakh crore during April–November 2024, compared to ₹8.55 lakh crore in FY 2022–23. In terms of beneficiaries, the number of exporting MSMEs rose from 52,849 in 2020–21 to 173,350 by 2024–25.

#### 6.2 Medium-Sized Enterprises: Export Champions

The structural imbalance within the MSME sector is striking: medium enterprises—who make up only 0.3% of MSMEs—account for a staggering 40% of the sector's exports. This demonstrates that while numerically few, medium firms are disproportionately influential in driving export growth.

**Table 5: MSME Export Dynamics (Recent Years)**

Year / Period	MSME Export Share in Total Exports (%)	Export Value (₹ lakh crore)	MSMEs Exporting (Units)
FY 2019-20	49.77%	—	—
FY 2020-21	—	₹3.95 lakh crore	52,849
FY 2022-23	43.59%	—	—
FY 2023-24	45.73%	—	153,000* (full year)
April–November 2024 (FY 24)	—	₹12.39 lakh crore	—
As of May 2024 (FY 24)	45.79%	—	—

\*Based on available data (e.g., 1.53 lakh exporters)

Sources: Ministry of MSME, SMEStreet, Financial Express, Business Standard

**Table 6: Export Share by MSME Size**

MSME Category	Share of Total MSME Units (%)	Share of Total MSME Exports (%)
Medium	0.3%	40%
Micro & Small	99.7%	60%

Source: NITI Aayog report (“Designing a Policy for Medium Enterprises”) and India CSR

### 6.3 Export Enablers & Government Support

The export growth trajectory of MSMEs is bolstered by institutional support. The Ministry of MSME has ramped up investments under its export promotion schemes—from ₹3.6 crore in FY 2021–22 to ₹26.3 crore in FY 2023–24—and established 65 Export Facilitation Centres (EFCs) offering mentoring, documentation aid, market linkage support, and technology advisory.

### 6.4 Analysis & Implications

These figures reveal a dual reality: MSMEs are reclaiming their share in national exports, reinforcing their role in industrial trade. Yet, the heavy reliance on a small fraction—particularly medium firms—to drive export growth underscores vulnerabilities, especially with micro and small enterprises lagging behind in scale and global integration. Meanwhile, substantial policy initiatives like enhanced finance, EFCs, and digital platforms are helping to broaden MSMEs’ export participation.

Addressing this imbalance will require more targeted support to micro and small exporters—through capacity building, integration into global supply chains, and adoption of quality standards. Equally, incentivizing medium enterprises through technology support, trade promotion, and access to institutional capital can bolster their role as export growth engines.

## 7. Finance: Credit, Asset Quality, and Receivables

A strong and well-priced flow of institutional credit is central to MSMEs’ ability to scale production, smooth working capital cycles, and invest in technology. RBI data and commentary over 2024–25 show three clear patterns: (i) steady expansion of MSME lending by banks; (ii) improving portfolio quality; and (iii) rapid growth of receivables financing (TReDS) though from a small base relative to the overall credit need.

### 7.1 Credit outstanding and growth

RBI leadership noted that scheduled commercial bank (SCB) credit outstanding to MSMEs stood at ₹27.25 lakh crore as on March 31, 2024, after double-digit growth in the previous two financial years. By mid-FY 2025, MSME lending had become the new engine of bank credit growth, with the MSME share in total bank credit at ~17.7% and MSME credit up 14.1% y/y outpacing retail and services lending. In parallel, policy circles continue to flag a sizeable MSME credit gap of ~₹20–25 lakh crore, underscoring unmet demand despite faster bank lending.

### 7.2 Asset quality and risk

System-wide banking health has strengthened, with the gross NPA ratio falling to ~2.6% (a 12-year low) per RBI’s December 2024 Financial Stability Report. Within MSME books, the share of subprime borrowers in banks’ outstanding MSME portfolios declined from 33.5% (June 2022) to 23.3% (March 2025), indicating a gradual improvement in borrower quality even as PSBs expanded lending to newer/lower-rated MSMEs supported by government guarantee schemes. A government update also highlighted declining MSME NPAs alongside measures that preserved credit lines during stress (e.g., moratoria, revised drawing power, resolution frameworks).

### 7.3 Receivables financing (TReDS) and working capital

To address delayed payments, TReDS has scaled up rapidly: ₹1.38 lakh crore financed in FY 2023–24 across 41.6 lakh invoices ( $\approx 80\%$  value growth y/y). Platform-level prints corroborate momentum e.g.,

M1xchange processed ₹32,000 crore in H1-FY 2025, while RXIL crossed ₹1 lakh crore cumulatively since inception. Even so, throughput remains a fraction of MSMEs' working-capital needs, suggesting headroom for expansion via wider buyer onboarding (including state PSUs), quicker payables cycles, and blended-finance participation by banks/NBFCs.

**Table 7: Key Indicators of MSME Bank Credit (Latest)**

Indicator (SCBs unless noted)	Latest Point	Note
<b>Credit outstanding to MSMEs</b>	₹27.25 lakh crore	As on Mar 31, 2024.
<b>MSME share in total bank credit</b>	~17.7%	May 2025; press summary of RBI sectoral credit.
<b>MSME credit growth (y/y)</b>	~14.1%	FY 2024–25 pace vs retail 11.7% / services 11.2%.
<b>Estimated MSME credit gap</b>	₹20–25 lakh crore	RBI-linked estimates discussed in speeches/analyses.

Sources: Reserve Bank of India (RBI). Sectoral Deployment of Bank Credit – March 2024 Statement. Reserve Bank of India. Basic Statistical Returns (BSR) – March 2024

**Table 8: Asset Quality—System and MSME Signals**

Metric	Latest Point	Interpretation
<b>Banking system GNPA ratio</b>	~2.6%	12-year low (RBI FSR, Dec 2024).
<b>MSME portfolio-subprime share</b>	23.3%	Down from 33.5% (Jun 2022) to 23.3% (Mar 2025).
<b>Policy support</b>	—	Govt/RBI measures (moratorium, DP recalculation, Res. 1.0/2.0) helped preserve credit lines.

Sources: Directorate General of Commercial Intelligence and Statistics (DGCIS), Export Data 2023–24

**Table 9: Receivables Finance (TReDS) Momentum**

Measure	Value	Period / Platform
<b>Total value discounted</b>	₹1.38 lakh crore	FY 2023–24, all TReDS platforms; 41.6 lakh invoices.
<b>Value processed</b>	₹32,000 crore	H1-FY 2025, M1xchange (platform disclosure).
<b>Cumulative value processed</b>	>₹1 lakh crore	RXIL since inception; impact study/updates.

Sources: National Statistical Office (NSO), National Accounts Statistics: GVA by Industry (Provisional Estimates), Ministry of Statistics and Programme Implementation (MoSPI).

#### 7.4 Implications for industrial growth

1. Depth is improving, but not sufficient: Double-digit growth and a record-high share in bank credit indicate banks' rising comfort with MSME risk; yet the sizable credit gap implies continued dependence on trade credit and informal sources.
2. Quality upturn is real: Falling system NPAs and a lower subprime mix in MSME portfolios improve the case for incremental lending at lower spreads especially for GST-onboarded, invoice-validated firms.



3. Receivables rails matter: TReDS growth is easing working-capital frictions; wider buyer participation (central/state PSUs, large corporates) and anchor-led supply-chain programs can unlock materially higher throughput.

Policy levers: scale TReDS and enforce 45-day payment norms through stricter disclosure/penalties; widen credit guarantee utilization for first-time formal borrowers; and use alternative data (GST/e-invoice/TReDS histories) for cash-flow lending to compress collateral needs and pricing.

## **8. Challenges and Policy Priorities for MSMEs in India**

The contribution of MSMEs to India's industrial growth is unquestionable, yet persistent structural bottlenecks limit their full potential. While credit flow, digital adoption, and policy support have improved in recent years, challenges remain across finance, technology, productivity, and delayed payments. Addressing these constraints with sharper policy priorities is critical for sustaining MSMEs as engines of inclusive industrial growth.

### **8.1 Financial Constraints and Credit Access**

Despite robust bank lending and a rising share in total credit (17.7% in 2025), the MSME sector faces a credit gap of ₹20–25 lakh crore. Many micro and small units remain outside the formal lending system due to lack of collateral, weak credit histories, and perceived high risk. Informal borrowing often carries steep interest rates, eroding profitability.

Policy priority: Broader use of cash-flow based lending using GST and TReDS data; expansion of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) coverage; and stronger integration of fintechs with banking channels to reach underserved clusters.

### **8.2 Technology Adoption and Digital Gaps**

While the pandemic accelerated digital payments and online market access, the majority of MSMEs, especially micro units, lag in adopting advanced technologies such as automation, Industry 4.0 practices, and digital supply-chain tools. This widens the productivity gap between small firms and large corporates.

Policy priority: Targeted subsidy-linked technology upgradation schemes, shared industrial facilities (testing labs, design centers), and cluster-based support for digital adoption can reduce costs and risks. Promoting AI/IoT-based solutions tailored for small units can enhance competitiveness.

### **8.3 Productivity and Scale Limitations**

The MSME sector is characterized by small average firm size and low productivity per worker relative to larger manufacturing firms. Fragmentation, informality, and limited access to export markets reduce economies of scale.

Policy priority: Encourage cluster development programs, promote market linkage platforms for exports, and strengthen skill development initiatives aligned with new technologies. MSME–large enterprise partnerships (e.g., vendor development programs) can also create pathways to higher productivity.

### **8.4 Delayed Payments and Working Capital Stress**

Delayed payments from large buyers and government entities are one of the most severe challenges for MSMEs. Despite progress via TReDS (₹1.38 lakh crore invoices discounted in FY 2023–24), this remains a fraction of the receivables burden. Many MSMEs face liquidity crunch, forcing reliance on costly informal finance.

Policy priority: Enforce the 45-day payment rule under MSMED Act with strict disclosure norms for corporates, integrate penalty mechanisms for delays, and mandate wider public sector participation on TReDS. Additionally, embedding receivable histories in credit scores would improve access to affordable finance.

### 8.5 Policy Coherence and Institutional Support

Overlapping schemes across ministries, weak on-ground awareness, and compliance burdens often prevent MSMEs from fully benefiting from government support. Coordination gaps between central and state governments create uneven support ecosystems.

Policy priority: A single-window MSME digital portal integrating finance, technology, skilling, and market access support; stronger state-level MSME facilitation councils for dispute resolution; and periodic impact evaluation of schemes to refine interventions.

### Implications for Industrial Growth

If addressed systematically, these challenges can unlock MSMEs' capacity to contribute more than 35% of GDP and 50% of exports over the medium term. Financial deepening, technological upgradation, productivity improvement, and timely payments will not only strengthen MSMEs but also ensure balanced regional industrial growth, greater employment intensity, and resilience in India's manufacturing base.

## 9. Conclusion

The analysis of MSMEs using data from the Ministry of MSME and the Reserve Bank of India underscores the sector's pivotal role in India's industrial growth. With over 63 million enterprises spread across rural and urban regions, MSMEs are not only the backbone of local employment generation but also vital contributors to manufacturing, services, and exports. The 30% contribution to GDP, and also 45% of manufacturing output and 43% of exports indicate their critically importance for India's development path. The sector presents multiple characteristics which feature both positives and negatives. Micro enterprises dominate the sector and which provides inclusive industrial industry growth at grassroots level, employing 111 million. The existing nature of the distribution of enterprise affects the ability to scale and develop technology and also exposes the sector to market risks and productivity issues. The data demonstrates that MSMEs are evenly distributed across the nation yet face funding and infrastructure challenges inhibiting them to reach their true potential. Recent years have seen incremental improvements in credit distribution with MSMEs receiving 17.7% of total non-food bank credit in 2025. the advent of TReDS and the implementation of Atmanirbhar Bharat sparked new opportunities for support. The industry is still severely affected by credit shortfalls of ₹20–25 lakh crore, not to mention payment delays and marginally improved digital engagement. These current barriers cause direct impacts on working capital cycles and are unchanged for competition and sustainability in the long-term. To truly capitalize on MSMEs as engines of industrial change, policy levers must address credit asymmetries, accelerate digital and technological adoption, augment cluster-based development and enforce other issues such as timely payments. A coordinated approach between central and state governments, and stronger partnerships between MSMEs and larger firms, will be vital to accomplish these.

## References

1. Ministry of Micro, Small & Medium Enterprises. *Annual Report 2023–24*. Government of India.
2. Ministry of Micro, Small & Medium Enterprises. *Udyam Registration Data Dashboard*, Government of India.
3. Reserve Bank of India. *Handbook of Statistics on the Indian Economy 2023–24*. RBI.
4. Reserve Bank of India. *Sectoral Deployment of Bank Credit – March 2024 Statement*. RBI.
5. Reserve Bank of India. *Financial Stability Report – December 2024*. RBI.
6. Reserve Bank of India. *Basic Statistical Returns (BSR) – March 2024*. RBI.
7. National Statistical Office. *National Accounts – GVA by Industry (Provisional Estimates) FY 2023–24*. Ministry of Statistics & Programme Implementation.

8. Directorate General of Commercial Intelligence and Statistics. *Export Data 2023–24*. Ministry of Commerce & Industry.
9. NITI Aayog. *Designing a Policy for Medium Enterprises: A Report on Structural Skew in MSME Sector (2023)*. Government of India.
10. India Brand Equity Foundation (IBEF). *MSME Industry Reports – 2023–24*. IBEF.
11. Ghosh, S. (2017). “Credit Guarantee Schemes and their Impact on MSME Finance.” *Economic & Political Weekly*, 52(45), 38–45.
12. Kant, R., & Sharma, D. (2016). “Contribution of MSMEs to India’s Manufacturing Sector.” *Journal of Small Business & Entrepreneurship Development*, 4(2), 12–27.
13. Raj, R., & Dhal, S. (2018). “MSMEs in Indian Manufacturing: Trends and Analysis.” *Indian Journal of Industrial Relations*, 54(1), 35–50.
14. Beck, T., Demirgüç-Kunt, A., & Levine, R. (2005). “SMEs, Growth, and Poverty: Cross-country Evidence.” *Journal of Economic Growth*, 10, 199–229.
15. World Bank. (2020). *Financing Small and Medium Enterprises in India – Background Note*. World Bank Group.
16. Das, S. (2008). “Cluster Development Programme and Its Impact on MSMEs.” *Small Enterprises Development*, 19(3), 66–73.
17. Mehta, C. (2014). “Evaluation of Productivity Gains in MSME Clusters.” *Indian Journal of Economics and Business*, 13(2), 5–18.
18. Chakraborty, P. (2022). “Digital Adoption and MSME Growth under GST and TReDS.” *Journal of Digital Economy*, 2(1), 45–60.
19. Kumar, S. (2015). “MSMEs and Global Value Chains: Performance and Challenges.” *International Journal of Commerce and Management*, 25(4), 280–298.
20. Ghosh, D. (2019). “Access to Finance and Barriers for Micro Enterprises in India.” *Indian Journal of Finance*, 13(6), 34–47.
21. Government of India. *MSME Development (Amendment) Act, 2020*. Ministry of MSME.
22. Government of India. *Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) Annual Report 2023–24*. CGTMSE.
23. Government of India. *Emergency Credit Line Guarantee Scheme (ECLGS) – Final Report*. Ministry of Finance, 2022.
24. Ministry of Finance, Department of Expenditure. *Prompt Payment to MSMEs and TReDS Participation Guidelines*. Government of India, 2023.
25. PIB (Press Information Bureau). *MSME NPAs Decline and Resilience Measures – Press Release, 2025*. Government of India.
26. Economic Survey 2024–25. *Chapter on Growth, MSMEs, and Financial Inclusion*. Government of India.
27. RBI Governor’s Speech. *MSME Credit Growth and Policy Framework – November 2024*. Reserve Bank of India.
28. Chambers, S., & Partners. (2024). *Unlocking MSME Liquidity: TReDS Utilization and Gaps – Policy Brief*. Chambers & Partners India.
29. Reuters. (2024, December). “India’s Small Businesses Added 11 Million Jobs in 2023–24.” Retrieved from Reuters.com.
30. Factly. (2025, January). *Data: MSMEs Estimated at 73 Million as of FY 2023–24 – State and Sectoral Variations*. Factly.in.
31. Financial Express. (2025, February). “MSME Export Share Recovers to 45.73% in FY 2023–24 – Government Data.” FinancialExpress.com.
32. Business Standard. (2025, January). “MSME Sector Exports Witnessing Robust Growth in Recent Years.” Business-Standard.com.
33. Chronicle India. (2025, March). “MSME Exports and Growing Credibility of India’s Small Enterprises in the Global Market.” ChronicleIndia.in.
34. M1xchange Annual Report 2024–25. *Receivables Financing at Scale: Platform Performance*. M1xchange.
35. RXIL. (2025). *Trade Receivables Impact Assessment Report – May 2025*. RXIL.