



Unlocking India's MSME Potential

*This editorial is based on "[New definition for MSMEs, increased credit guarantee](#)" which was published in *The Indian Express* on 02/01/2025. The article brings into picture the expansion of MSME investment and turnover limits to boost growth and manufacturing. However, deeper policy interventions and structural reforms are needed to tackle persistent challenges.*

For Prelims: [Ministry of Micro, Small and Medium Enterprises](#), [Manufacturing Sector](#), [PM Vishwakarma scheme](#), [Mudra Yojana expansion](#), [Udyam portal](#), [Government e-Marketplace](#), [Production-Linked Incentive](#), [PM Vishwakarma Scheme](#), [RAMP scheme](#), [Economic Survey 2024-25](#), [Europe's Carbon Border Adjustment Mechanism](#), [Digital MSME 2.0](#)

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

The government has recently announced plans to expand the [Ministry of Micro, Small and Medium Enterprises \(MSME\)](#) investment and turnover limits, allowing more businesses to benefit from the sector's advantages. With over **1 crore MSMEs employing 7.5 crore people** and contributing significantly to manufacturing and exports, they remain a key driver of growth. The revised classification aims to raise investment limits to **Rs 2.5 crore for micro, Rs 25 crore for small, and Rs 125 crore for medium enterprises**, with higher turnover thresholds. These reforms aim to boost MSME growth and strengthen India's [manufacturing](#) potential. However, challenges remain, **requiring deeper policy interventions and structural reforms for long-term resilience.**

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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 is the Role of MSMEs in India's Economic Growth?

- **Employment Generation & Livelihood Support:** MSMEs are the largest source of non-agricultural employment in India, especially for **semi-skilled and unskilled workers**, fostering inclusive growth in rural and urban areas.
 - The rise of digitalization and fintech solutions has further enabled micro-enterprises to access financial markets and scale operations.
 - Scheme like **PM Vishwakarma scheme** and **Mudra Yojana expansion (₹5.41 lakh crore sanctioned in FY24)** have further boosted self-employment.
 - India has over **1 crore registered MSMEs**, providing employment to nearly **7.5 crore** people.
- **Contribution to GDP & Industrial Growth:** MSMEs significantly contribute to India's economic resilience by driving domestic production, industrial expansion, and localized supply chains.
 - They support large industries by supplying raw materials and intermediates, making them a critical component of industrial clusters.
 - With rising formalization through the **Udyam portal (4 crore MSMEs registered as of March 2024)**, their role in structured economic growth is expanding.
 - As of recent reports, the **MSME contribution stands at around 30% of India's total GDP and 45% of manufacturing output.**
- **Boosting Exports & Foreign Exchange Earnings:** MSMEs are pivotal in global trade, with their unique products catering to niche international markets, especially in textiles, leather, and engineering goods.
 - **Government e-Marketplace (GeM)** and the **Production-Linked Incentive (PLI)** scheme have strengthened MSME participation in global supply chains.
 - In 2023-24, MSME-related products accounted for **45.73% of India's total exports**, reinforcing their role in positioning the country as a global manufacturing hub.
- **Driving Digital & Technological Transformation:** With increased adoption of digital payments, automation, and AI-driven solutions, MSMEs are transitioning into tech-driven enterprises.
 - Government initiatives such as **ONDC (Open Network for Digital Commerce)** and the **₹1 lakh crore interest-free innovation corpus (Budget 2024)** encourage digital integration.
 - **72% of MSME transactions are now digital**, and RBI's Public Tech Platform for Frictionless Credit is improving access to non-collateral loans.
 - Initiatives like in aerospace (**Boeing contract for Tamil Nadu MSME**) and pharma (**Aragen Life Sciences' ₹2,000 crore investment in Hyderabad**) are fostering a robust **start-up ecosystem**.
- **Enhancing Women & Social Entrepreneurship:** **Women-led MSMEs** are emerging as drivers of social change, improving gender equity and economic empowerment.
 - Credit access through the Mudra Yojana has sanctioned ₹32.36 lakh crore for 51.41 crore loans, with **68% of the loans benefiting women**, enabling more women entrepreneurs to scale businesses.
 - Women-owned MSMEs now constitute **20.5% of Udyam registrations**, reflecting their growing role in the economy.
- **Strengthening Rural Economy & Agri-Based Enterprises:** Rural MSMEs help reduce migration to cities by creating localized job opportunities and supporting agro-processing industries.
 - The **PM Vishwakarma Scheme (₹13,000 crore outlay)** and **Self-Reliant India (SRI) Fund (₹50,000 crore corpus)** are enhancing rural industrialization.
 - Also, under the Animal Husbandry Credit Guarantee Scheme (2023), livestock MSMEs now get collateral-free loans, boosting India's dairy and meat processing industries.
- **Facilitating Green & Sustainable Growth:** MSMEs are at the forefront of India's green industrial revolution by adopting clean energy solutions and circular economy models.
 - The **RAMP scheme** (with World Bank support) and Telangana MSME Policy (₹4,000 crore to boost MSMEs and entrepreneurship) emphasize sustainability.

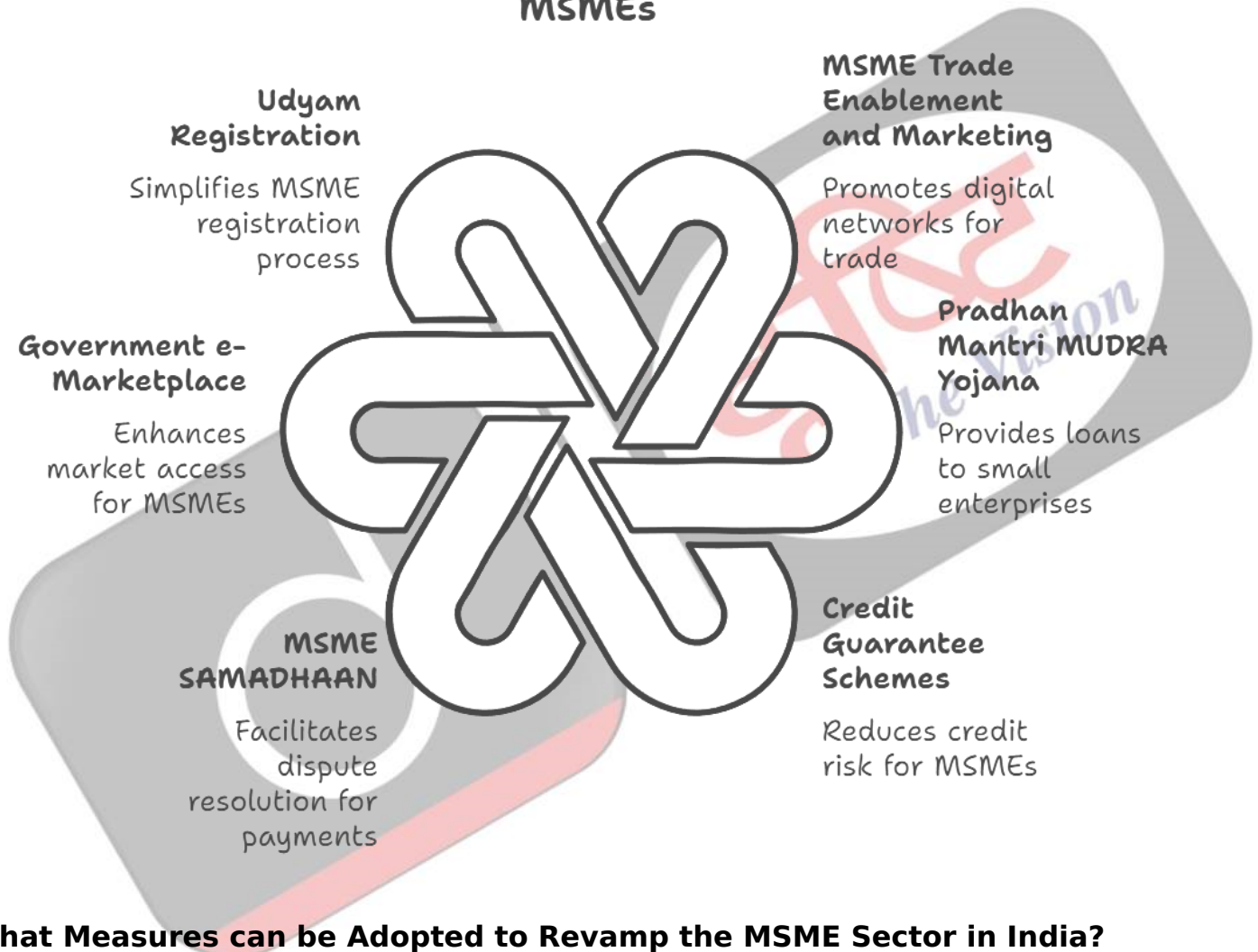
What are the Key Issues Hindering the Growth of MSME Sector?

- **Limited Access to Credit & Financial Constraints:** MSMEs often struggle with inadequate financing due to **stringent collateral requirements** and risk-averse banking policies.

- The dependence on informal credit sources increases their operational costs and limits scalability.
 - Despite government-backed schemes, disbursement delays and lack of awareness hinder effective utilization.
- As per **CRISIL estimates**, only **20% of the country's MSMEs** have access to formal credit. The recent increase in **CGTMSE guarantees** has helped, but only **2.5 crore out of 6.3 crore MSMEs have availed formal credit, highlighting a major gap.**
- Also, delayed payments from large corporations and government departments create severe cash flow issues, making survival difficult.
 - A 2022 report estimated that **delayed payments to MSMEs** in India total around **₹10.7 lakh crore, or 6% of the country's GVA.**
- **Regulatory Burden & Compliance Complexity:** MSMEs face **cumbersome regulatory procedures**, frequent policy changes, and high compliance costs, limiting ease of doing business.
 - Multiple overlapping laws across labor, taxation, and environmental regulations create bureaucratic roadblocks.
 - The [Economic Survey 2024-25](#) calls for **urgent deregulation to boost MSME** growth, stressing that excessive regulatory burdens hinder business efficiency and innovation
- **Lack of Skilled Workforce & Technological Gaps:** Limited access to a skilled workforce and low technological adoption reduce productivity and competitiveness.
 - Most MSMEs rely on outdated machinery and lack the financial capability to invest in automation and AI-driven solutions.
 - Only **6% of MSMEs** actively use e-commerce platforms for sales, highlighting limited digital adoption in the sector.
 - According to a survey by the Ministry of MSMEs, **only 45% of MSMEs** have adopted some form of AI in their operations
- **Infrastructure Bottlenecks:** Poor road connectivity, inefficient rail freight systems, and high logistics costs hinder timely movement of goods, reducing MSME competitiveness.
 - **Frequent power outages** and high industrial electricity costs affect production efficiency, especially in rural and semi-urban MSME clusters.
 - **Limited access to high-speed internet, lack of industrial parks**, and inadequate common facility centers restrict MSMEs from leveraging technology and scaling operations.
 - Also, **most industrial clusters are concentrated in a few states**, leaving MSMEs in other regions with poor infrastructure support, limiting their integration into national and global supply chains.
- **Market Access & Global Competitiveness Challenges:** MSMEs struggle with limited access to international markets due to **inadequate branding, lack of export incentives, and stringent quality standards.**
 - [High logistics costs](#) and limited integration with global value chains (GVCs) further reduce competitiveness.
 - The **Economic Survey 2022-23** pointed out that logistics costs in India have been in the **range of 14-18% of GDP** against the global benchmark of 8%.
- **Lack of Awareness & Utilization of Government Schemes:** Despite multiple government schemes, many MSMEs fail to take advantage due to low awareness and bureaucratic hurdles.
 - Complex application processes and lack of proper guidance deter small businesses from availing benefits.
 - The situation is worse for first-time entrepreneurs and rural MSMEs who struggle with formal banking procedures.
 - As of Nov 2024, **₹2.57 lakh crore** was sanctioned under Mudra Yojana, but **many eligible businesses remain outside the credit net.**
- **Environmental & Sustainability Compliance Pressure:** With increasing global ESG (Environmental, Social, and Governance) standards, MSMEs face difficulties in meeting sustainability norms.
 - A 2018 report by the Centre for Study estimated that **Indian MSMEs produce around 110 million tonnes of CO₂ annually.** This highlights their significant carbon footprint and environmental impact.
 - High costs of adopting green technology and lack of incentives deter small enterprises from transitioning to eco-friendly practices.

- **Many export-driven MSMEs risk losing international clients** due to non-compliance with global carbon footprint norms.
 - For instance, **Europe's Carbon Border Adjustment Mechanism**, which levies a carbon tax on certain exports into the EU, **is expected to hurt India's steel industry.**
- **Lack of Formalization:** A significant portion of MSMEs remains **unregistered**, leading to a lack of reliable data, weak policy implementation, and limited access to **institutional support**.
 - Informal businesses struggle with financial inclusion, making it difficult for them to avail government benefits, structured credit, and insurance schemes.
 - The **absence of formal labor contracts** results in **poor enforcement of labor codes**, leaving workers without essential social security benefits like ESI, PF, and health insurance.

Government Initiatives Related to MSMEs



What Measures can be Adopted to Revamp the MSME Sector in India?

- **Strengthening Formal Credit Access & Reducing Financial Bottlenecks:** Expand **collateral-free lending** via fintech and digital platforms. Integrate **Mudra Yojana & CGTMSE** for better risk coverage.
 - Establish **MSME Credit Monitoring Cell** to track loan delays. Promote **factoring services & invoice discounting** to ease cash flow. Also, MSME finance companies can be established.
 - Mandate **strict payment timelines** under the MSME Samadhan portal.
 - Link **TReDS & GeM procurement** for faster invoice settlements. Encourage **public sector units & large corporates** to prioritize MSME payments.

- **Streamlining Regulatory Framework & Reducing Compliance Burden:** Implement **single-window clearance** for MSME approvals. Strengthen **RAMP scheme** to cut red tape and lower compliance costs. Establish **self-declaration mechanisms** for minor regulatory filings.
 - Form **state-level MSME facilitation councils** for faster grievance redressal.
- **Boosting Market Access & Global Competitiveness:** Promote **export-oriented MSMEs** via Free Trade Agreements (FTAs) & global supply chains.
 - Expand **PLI schemes & cluster-based development** to strengthen local industries.
 - Improve **e-commerce integration** with ONDC & GeM for direct market reach.
 - Provide **subsidized branding & certification support** for international markets.
- **Enhancing Digital & Technological Adoption:** Facilitate **AI, IoT, & automation adoption** through MSME tech hubs. Integrate **Udyam & ONDC platforms** for seamless digital onboarding.
 - Launch **Digital MSME 2.0** to improve cybersecurity, cloud access, and e-commerce participation.
 - Expand **Skill India & PM Vishwakarma Scheme** to create sector-specific training programs.
 - Establish **MSME Apprenticeship Hubs** in industrial clusters.
- **Reducing Raw Material Costs & Supply Chain Constraints:** Develop **MSME-focused raw material banks** to ensure stable pricing.
 - Encourage **domestic manufacturing of key inputs** under the Atma Nirbhar Bharat initiative.
 - Strengthen **warehousing & logistics parks** for better inventory management. Implement **cluster-based procurement models** to reduce costs.
 - Promote **bulk buying cooperatives** for MSMEs to access cheaper raw materials.
- **Strengthening Rural & Agri-Based MSMEs:** Expand **PM Vishwakarma Scheme & SFURTI clusters** for artisan-based enterprises.
 - Provide **targeted financial incentives for rural industries** in agro-processing and handicrafts.
 - Strengthen **cooperative-based business models** to scale rural MSMEs. Promote **cold storage & rural supply chain networks** for agri-MSMEs.
 - Develop **MSME-friendly agricultural export hubs** to link small farmers with global markets.
- **Promoting Green MSMEs & Sustainable Growth:** Expand **Green MSME certification programs** for eco-friendly businesses.
 - Provide **low-interest green finance** for renewable energy adoption.
 - Establish **circular economy incentives** to reduce waste and boost recycling enterprises. Promote **ESG-linked credit programs** for sustainable business practices.
- **Strengthening Women & Social Entrepreneurship in MSMEs:** Provide **higher credit guarantee cover** for women-led MSMEs under CGTMSE.
 - Expand **Mudra Yojana's dedicated women entrepreneur fund**. Link **self-help groups (SHGs) with MSME clusters** for financial inclusion.
 - Encourage **co-working spaces & mentorship programs** for women entrepreneurs. Improve **market access through GeM for women-owned enterprises**.
- **Enhancing Disaster Resilience & Crisis Management:** Develop an **MSME Disaster Recovery Fund** for economic shocks. Strengthen **insurance schemes** to cover pandemic-like disruptions.
 - Implement **flexible credit restructuring policies** during downturns. Promote **alternative credit sources like crowdfunding & peer-to-peer lending**.
- **Formalization of MSMEs & Strengthening Institutional Support:** Implement **mandatory Udyam registration** with incentives like **lower GST rates & priority lending benefits** to encourage formalization.
 - Link **formal registration with access to government schemes, GeM procurement, and credit guarantee programs** for better participation.
 - **25% of annual procurement by Central Ministries/Departments/Public Sector Enterprises (CPSEs) has to be made from Micro & Small enterprises** is a significant step in the right direction.
 - Strengthen enforcement of **labor codes** while ensuring ease of compliance for small

businesses. Integrate **MSME databases with Aadhaar, GSTIN & banking systems** to improve policy targeting and implementation.

Key Recommendations of Standing Committee on Finance Report on MSME Credit (April 2022)

- **Bridging Credit Gap through a Digital Ecosystem:** The Committee recommended leveraging digital platforms like Udyam, Aadhaar, and BHIM UPI to reduce transaction costs, eliminate physical collateral requirements, and enable quicker loan approvals. *(Example: Udyam portal can serve as a central repository for lenders to verify MSME credentials.)*
- **Adopting an Account Aggregator Framework:** Secure digital financial data sharing can improve access to credit, prevent fraud, and reduce NPAs. *(Example: SAHAY GST platform enables instant digital lending using GST invoices as an alternative to physical collateral.)*
- **Shifting to Cash-flow Based Lending:** Instead of traditional asset-backed lending, MSME loans should be based on real-time cash flow and revenue generation. *(Example: Linking GSTIN to the account aggregator framework to allow regulated entities access to transaction data for better credit assessment.)*
- **Accelerating MSME Formalisation:** Less than 40% MSMEs have access to formal credit, leading to dependence on high-cost informal sources. Linking credit access to GST invoices can encourage more MSMEs to register under GST. *(Example: Providing working capital loans based on GST invoices to boost tax compliance and formalisation.)*
- **Providing Targeted Credit Guarantees:** Special attention should be given to vulnerable sectors and regions that struggle with credit access. *(Example: Extending credit guarantees to sectors like salons, tour agencies, and rural MSMEs to ensure financial support in crises.)*
- **Strengthening SIDBI's Role:** The Committee recommended injecting ₹5,000-10,000 crore into SIDBI to strengthen its equity base, allowing it to finance NBFCs and lower borrowing costs. *(Example: SIDBI's Udyam Assist Platform to facilitate MSME registration and financial linkages.)*
- **Launching a Vyapar Credit Card Scheme:** Similar to the Kisan Credit Card, Vyapar Credit Cards should be introduced to provide MSMEs with short-term loans at lower interest rates for working capital needs. *(Example: Enabling small businesses to access credit conveniently for daily operations.)*
- **Implementing System-wide KYC Reform:** The Committee recommended moving from per-transaction KYC to a system-wide KYC framework for smoother credit processing. *(Example: Encouraging financial institutions to adopt account aggregator standards for seamless identity verification.)*

Conclusion:

The MSME sector is a vital pillar of India's economy, contributing significantly to employment, GDP, and exports. Strengthening **formalization, promoting green practices, and enhancing market access can propel MSMEs to new heights**. Targeted policy interventions and structural reforms will be crucial in unlocking the sector's full potential. Ultimately, a resilient MSME ecosystem is **key to India's long-term economic development and global competitiveness**.

Drishti Mains Question:

Analyze the role of the MSME sector in driving India's economic growth, with special reference to employment generation and exports. What are the key challenges faced by MSMEs, and how can government policies and reforms address them for long-term sustainability?"

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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