

# From Grassroots to Global: The Rise and Struggles of Indian MSMEs

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**Abstract:** This article explores the transformative journey of India's Micro, Small, and Medium Enterprises (MSMEs), highlighting their critical role in driving economic growth, employment, and exports. Rooted in grassroots entrepreneurship, MSMEs now form the backbone of India's industrial landscape, with over 6.33 crores units contributing significantly to GDP. The paper outlines their classification under the revised 2025 norms and analyzes their economic contributions, challenges, and the evolving policy ecosystem. Drawing insights from government data and scholarly literature, it examines persistent issues such as financing barriers, technological gaps, regulatory burdens, and limited market access. It also reviews key government schemes and budgetary trends aimed at strengthening the sector. The article concludes that while MSMEs have demonstrated resilience and potential, sustained policy support, inclusive participation, digital integration, and innovation are crucial to unlocking their full potential in shaping India's journey toward becoming a \$5 trillion economy.

**Index Terms** – MSME, ONDC, SFURTI.

## INTRODUCTION

Starting with the basics, what is MSME?

Through the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Indian government initially proposed the idea of MSME. MSMEs are the entities whose investment in equipment or Plant & Machinery and turnover fall under certain threshold as prescribed time to time. They could be an enterprise rendering services or a manufacturing enterprise.

As proposed in union budget 2025, revised classification (composite criteria) applicable from 01st of April 2025 for any enterprise rendering services or engaged in manufacturing they may be classified as Micro, Medium or small on the basis of the following criterion.

- 1. Micro Enterprise:** Enterprise with annual turnover not more than Rs.10 crores and investment in equipment or Plant & Machinery is not more than 2.5 crores.
- 2. Small Enterprise:** Enterprise with annual turnover not more than 100 crores and investment in equipment or Plant & Machinery is not more than 25 crores.
- 3. Medium Enterprise:** Enterprise with annual turnover not more than 500 crores and investment in equipment or Plant & Machinery is not more than 125 crores.

MSMEs play a crucial role in the Indian economy by driving industrial development, creating employment opportunities, and contributing to economic growth. They are instrumental in boosting manufacturing output, fostering job generation, and accelerating GDP expansion.

Over the years, India's MSME sector has made a significant contribution to the country's GDP and continuously demonstrated remarkable endurance & dynamism. In 2017–18, the sector's Gross Value Added made up 29.7% of GDP; in 2022–2023 that percentage increased to 30.1%. MSMEs continued

to contribute 27.3% in 2020–21 despite the significant interruptions brought on by the COVID-19 epidemic, and they recovered well to 29.6% in 2021–22. In 2020–21, Micro, Small, and Medium-Sized Enterprises exported ₹3.95 lakh crores; in 2024–2025, that amount increased to ₹12.39 lakh crore. This increase illustrates their crucial role in India's economic development and their growing influence in international trade.

Since the launch of the Udyam Registration Portal on July 1, 2020, MSMEs have collectively reported providing employment to 27.20 crore individuals as of May 5th 2025. Policymakers have become more aware of the MSME's GDP contribution as they see how crucial they are to creating an independent India. As per the PIB press release posted on 22nd July 2024, the MSME sector plays a vital role in the Indian economy, contributing 35.4% to the country's total manufacturing output. Along with agriculture, investment, and exports, the MSME sector is one of the main drivers of India's development, and the Union Budget 2025–2026 recognizes this by introducing a number of initiatives to support this sector. As of 05th May 2025 there are 6,33,48,292 MSME units registered in Udyam Portal including UAP- Udyam Assist Platform out of which 6,32,94,795 units are classified in the following categories:-

**(a) Medium- 35,199 Units**

**(b) Small- 4,72,312 Units.**

**(a) Micro- 6,27,87,284 Units**

Despite numerous challenges such as lack of modern technological, Infrastructural gap, limited market reach, compliance burden, lack of skilled workforce, financial constraint their growth trajectory remains impressive, with the sector contributing significantly to India's economy. With continued government support, digital integration, and global market access, MSMEs can achieve even greater success in the coming years.

## REVIEW OF LITERATURE

According to Prakash et al. (2023), MSMEs are essential for promoting equitable industrial development, job creation, and poverty alleviation, all of which contribute to inclusive economic growth. MSMEs have the greatest employment growth rate, which has a favorable effect on exports and industrial expansion, according to their analysis, which is based on secondary data from resources such as the Annual MSME Reports. The writers emphasize how the industry supports equitable regional development by empowering women and underprivileged groups. MSMEs aid in addressing the unequal distribution of advantages that persist despite India's overall economic growth. Furthermore, programs like Digital India & Make in India are anticipated to support the MSME sector's expansion during the next ten years.

In their analysis of the MSME sector's contribution to India's economic expansion, Pandey and Chaudhary (2024) concentrate on metrics such as GDP, employment, foreign direct investment, and exports. They evaluate how programs like SFURTI, PMEGP, and ASPIRE encourage innovation, entrepreneurship, and job development using statistical techniques on data from government and RBI sources. The report emphasizes that improving MSME performance and national growth requires government assistance, technological innovation, and sustainable policies.

Indian MSMEs' export-related difficulties are examined by Vasani and Abdulkareem (2024), with a focus on regulatory compliance, quality standards, and documentation. Their ANOVA analysis, which was based on a study of 163 service-based MSMEs from 2019 to 2023, shows that while micro and small businesses have trouble being prepared for immigration and exports, medium-sized businesses have more trouble with documentation and quality compliance. In order to increase export capacities,

the study highlights the necessity of focused policy initiatives. It does, however, recognize certain drawbacks, including its limited regional reach and dependence on quantitative data. The study makes suggestions for improving global competitiveness and provides insightful information about export hurdles in the MSME sector.

Citing their significant contributions to GDP, exports, and employment, Amutha (2022) emphasizes the critical role that MSMEs play in India's economic development. The study examines the distribution of MSME's by state (2018–19) and the effect of MSME manufacturing on GDP using secondary data from official sources. It draws attention to the sizeable unregistered sector and stresses the necessity of formalization in order to gain access to government programs and boost competitiveness.

The MSME sector has played a dynamic and expanding role in India's economic and social growth throughout the previous fifty years, according to Desai (2021). Through ancillary services, the sector supports large enterprises and promotes inclusive industrial development in addition to encouraging entrepreneurship and generating large-scale employment at relatively cheap capital investment. The report highlights the prospects this industry offers young people in India, particularly through start-ups that are backed by a number of government programs that give financial and regulatory advantages. Desai also emphasizes the vital role cost accountants play in helping MSMEs and startups by offering a variety of services like finance guidance, taxation, compliance, and advisory.

### MINISTRY OF MSME- OUTLAY IN BUDGET

The Ministry of Micro, Small and Medium Enterprises (MSME) has seen a steady increase in budgetary allocation over the years, reflecting the growing recognition of the sector's importance in employment generation, economic growth, and industrial decentralization. From ₹15,699.65 crore in FY 2021–22, the BE has risen by nearly 47.5% to ₹23,168.15 crore in FY 2025–26.

In FY 2022–23, the RE was significantly higher than the BE (₹23,628.73 crore vs. ₹21,422 crore), likely due to increased post-COVID support and stimulus measures.

In contrast, FY 2024–25 saw a sharp cut in RE to ₹17,306.70 crore from the BE of ₹22,137.95 crore. This reduction may reflect under-utilization of funds or fiscal realignment priorities.

The allocation for FY 2025–26 at ₹23,168.15 crore represents the highest-ever planned investment, although the RE is not available yet. This signals continued strategic support for MSMEs under initiatives like Make in India and Atmanirbhar Bharat.

Table 1: MSME Budget outlay during last 5 years (Fig in Rs. Crore)

FY	Budget Estimates	Revised Estimates
2025-2026	23,168.15	-
2024-2025	22,137.95	17,306.70
2023-2024	22,137.95	22,138.01
2022-2023	21,422.00	23,628.73
2021-2022	15,699.65	15,699.65

Source: PIB (Release ID: 2099687)

## MAJOR GOVERNMENT SCHEMES FOR MSME IN INDIA

Name	Objectives	Applicability
National SC-ST Hub Scheme	To give Scheduled Caste and Scheduled Tribe entrepreneurs expert assistance in meeting their responsibilities under the Central Government Public Procurement Policy for Micro and Small Enterprises Order 2012, implementing sensible business practices, and taking advantage of Stand-Up India's programs.	Existing & Aspiring SC/ST Entrepreneurs.
SFURTI- Scheme of Fund for Regeneration of Traditional Industries	To create collectives out of traditional industries and craftspeople by boosting output and value addition to make goods more competitive. and to support historic industries, raise artisan incomes, and create long-term jobs.	Current craftspeople from traditional industries in fields including textiles, agro-processing, honey, coir, bamboo, khadi, handicrafts, etc.
CGTMSE- Credit Guarantee Scheme for Micro and Small Enterprises	To encourage first-generation business owners to pursue self-employment by providing credit guarantee support for loans to MSEs that are free of collateral and third-party guarantees.	Micro & Small Enterprise registered on Udyam Portal.
ESDP- Entrepreneurship and Skill Development Programme	to encourage the establishment of new businesses, strengthen the capabilities of current MSMEs, and foster an entrepreneurial culture throughout the nation.	Existing and Aspiring Entrepreneurs.
PMS- Procurement and Marketing Support Scheme	The scheme aims to enhance market access for MSMEs by promoting participation in national and international trade fairs, expos, and conclaves, while also educating them on packaging technology, import-export	MSEs in the manufacturing and service sectors who possess a current Udyam Registration (UR) certificate.

	procedures, the GeM portal, and recent trade developments.	
ATI- Assistance to Training Institutions Scheme	The funding is given in the form of a capital grant to national level training institutions that are part of the Ministry of MSME, specifically NI-MSME, MGIRI, Coir Board, KVIC, Tool Rooms, and NSIC, with the aim of building and enhancing infrastructure and supporting training programs for skill development and entrepreneurship.	Current State-level EDIs and the Ministry of MSME's institutions.
PMEGP- Prime Minister's Employment Generation Programme	The program seeks to provide sustainable job possibilities in both rural and urban regions by offering financial support for the establishment of self-employment businesses.	Individual with minimum 18 year of age.
IC- International Cooperation Scheme	The program aims to increase MSMEs' ability to enter the export market by offering them actionable market intelligence, compensating them for various expenses related to exporting goods and services, and facilitating their participation in international fairs, conferences, seminars, and buyer-seller meetings. In order to meet the challenges posed by changing demand, new markets, technological improvements, etc., the Plan provides MSMEs with the opportunity to continue improving.	<ol style="list-style-type: none"> <li>1. Ministry of MSME and its affiliated organizations.</li> <li>2. Government Organizations Registered Industry/Enterprise Associations, State/Central, and Institutions, etc.</li> </ol>

Source: Compiled from scheme booklet –MSME website

### CHALLENGES FOR MSMEs IN INDIA

Despite ongoing government assistance and digital transformation programs, Micro, Small, and Medium Enterprises (MSMEs) in India have numerous obstacles that prevent them from reaching their full potential as of 2025. Access to financing continues to be one of the most urgent problems. Due to

strict collateral requirements and risk-averse lending procedures by traditional financial institutions, many MSMEs, especially micro and unregistered units, struggle to acquire timely and inexpensive loans. This limitation significantly affects their capacity to make investments in growth and innovation or even efficiently oversee daily operations.

Another significant obstacle is technological obsolescence, which prevents many MSMEs from having access to contemporary equipment, automation technologies, and digital infrastructure. Productivity, quality, and their capacity to compete in both domestic and foreign markets are all negatively impacted by this. Moreover, there are still a lot of regulations and compliance requirements. The tangle of labor laws, tax laws, and environmental standards can be particularly difficult for smaller businesses with less administrative resources to navigate. Their operational challenges are exacerbated by frequent policy changes without sufficient transition assistance.

Another major obstacle is market access. Due to their limited marketing capabilities, lack of branding, and inadequate supply chain integration, MSMEs frequently find it difficult to break into larger local and international markets. Digital adoption is still unequal, despite efforts like the Open Network for Digital Commerce (ONDC) and the Government e-Marketplace (GeM) to help. Due to inadequate infrastructure and poor levels of digital literacy, many MSMEs are either unaware of these platforms or are unable to use them effectively.

There are still issues with exports. The sector's worldwide competitiveness is nevertheless hampered by problems like documentation complexity, adherence to international quality standards, and ignorance of export incentives and demand trends. Furthermore, inadequate physical infrastructure continues to be a significant obstacle, especially in rural and semi-urban areas. Examples of this include unstable power supplies, ineffective logistics, and restricted access to shared facility centers.

## CONCLUSION

With more than 6.33 crore businesses, India's Micro, Small, and Medium Enterprises (MSMEs) have grown from small businesses to become an important part of the country's and the world's economy, making a substantial contribution to GDP, employment, and exports. MSMEs still confront structural obstacles that prevent them from integrating into global value chains, despite their impressive development and institutional support. These obstacles include limited access to financing, a lack of skills, regulatory barriers, and digital divides.

Strong policy purpose is reflected in government programs including PMEGP, CGTMSE, SFURTI, Udyam Registration, GeM, and ONDC; nevertheless, successful implementation, public awareness, and inclusive participation—particularly from women and marginalized groups—are necessary for actual impact. MSMEs can propel India's economy toward \$5 trillion and a future that is independent, just, and competitive worldwide with consistent innovation, digital adoption, and targeted governmental assistance.

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