Scaling India’s MSMEs, From Resilience to Scale, Challenges

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Micro, Small and Medium Enterprises (MSMEs) have been the backbone of India’s economic growth, demonstrating remarkable resilience during the COVID-19 pandemic, global supply chain disruptions, and geopolitical uncertainties. As India moves towards Viksit Bharat 2047, the focus must now shift from resilience to scale by enabling MSMEs to become larger, more productive, technology-driven, and globally competitive enterprises.

What are MSMEs?

Micro, Small and Medium Enterprises **(MSMEs)** are **small businesses** that manufacture goods or provide services. They play an important role in India’s economy by promoting entrepreneurship, creating jobs, supporting industrial growth, and encouraging development in both urban and rural areas.

Classification of MSMEs

MSMEs are classified based on investment in plant & machinery/equipment and annual turnover:

Category	Investment in Plant & Machinery/Equipment	Annual Turnover
Micro	Up to ₹2.5 crore	Up to ₹10 crore
Small	Up to ₹25 crore	Up to ₹100 crore
Medium	Up to ₹125 crore	Up to ₹500 crore

An enterprise must satisfy both the investment and turnover criteria to remain in a particular category.

MSMEs Backbone of India's Economy

According to the Economic Survey 2025-26, MSMEs are one of the strongest pillars of India's economy.

- **Driving Economic Growth**: MSMEs **contribute 31.1% of India's Gross Domestic Product (GDP),** making them a major contributor to economic growth and industrial value addition.
- **Strengthening Manufacturing**: The sector **contributes 35.4% of India's manufacturing output**, supplying components, intermediate goods, and finished products across multiple industries and supporting the vision of **Atmanirbhar Bharat**.
- **Generating Employment**: With over 7.47 crore enterprises **employing nearly 32.8 crore people**, MSMEs are India's second-largest source of employment after agriculture.
    - **Example**: Textile clusters in Tiruppur, leather industries in Kanpur, and auto-component manufacturers in Pune support millions of livelihoods.
- **Boosting Exports**: MSMEs contribute **48.58%** of India's exports, strengthening India's foreign exchange earnings and integration into Global Value Chains (GVCs).
- **Promoting Regional Development**: MSMEs are widely distributed across Tier-II, Tier-III, and rural regions, reducing regional disparities and generating non-farm employment.
- **Encouraging Inclusive Entrepreneurship**: The sector provides entrepreneurial opportunities for women, youth, SCs, STs, artisans, and traditional craftsmen.
- **Driving Formalisation**: More than 7.47 crore enterprises have been registered on the Udyam Portal, expanding financial inclusion, tax compliance, and institutional credit.
- **Supporting Innovation**: Technology Centres under the Ministry of MSME have trained over 16 lakh youth, while MSMEs increasingly contribute to defence, aerospace, renewable energy, and precision engineering.

The "Missing Middle" Challenge

The **"Missing Middle"** refers to the large gap between small MSMEs and large companies in India. While millions of micro and small enterprises exist, very few grow into medium-sized or large firms. **More than 99% of registered MSMEs are micro enterprises, with very few graduating into medium-sized firms capable of competing globally.**

Most enterprises remain micro throughout their life because they struggle to access finance, technology, skilled manpower, markets, and institutional support. As a result, they fail to become the job-creating, export-oriented companies that drive productivity and industrial growth.

Concerns Related to the “Missing Middle” in MSMEs

When MSMEs fail to scale from micro and small enterprises into medium-sized businesses, it creates several economic and structural challenges:

- **Lower productivity**: Small firms often lack economies of scale, resulting in higher production costs and lower efficiency.
- **Limited job creation**: Failure to grow restricts the creation of formal, high-quality employment opportunities.
- **Weak manufacturing base**: A shortage of medium-sized firms hampers industrial growth and value addition.
- **Reduced export competitiveness**: Small enterprises struggle to meet international quality, volume, and compliance standards.
- **Poor integration into Global Value Chains (GVCs)**: Limited scale prevents MSMEs from becoming reliable suppliers to global industries.
- **Lower innovation and technology adoption**: Small firms have limited resources to invest in R&D, digitalisation, and advanced technologies such as AI.
- **Restricted access to finance**: Lack of scale reduces creditworthiness, making it difficult to secure growth capital.
- **Persistent informality**: Many enterprises remain informal to avoid compliance costs, limiting productivity and institutional support.
- **Regional development suffers**: Failure of MSMEs to expand reduces industrialisation and employment opportunities in smaller towns and rural areas.
- **Slower economic growth**: The economy loses a major source of investment, productivity gains, exports, and income generation.

Challenges in Scaling India’s MSMEs

Although MSMEs are central to India’s growth story, several structural bottlenecks continue to restrict their expansion.

- **Large Credit Gap**: According to SIDBI, the MSME sector faces a credit gap of nearly ₹30 lakh crore, limiting investment and expansion.
- **Collateral-Based Lending**: Traditional lending practices depend heavily on collateral rather than business cash flows, making formal credit inaccessible for many small enterprises.
- **Delayed Payments**: Despite the **MSMED Act, 2006** mandating payments within 45 days, delayed payments by government agencies and large corporations continue to create severe liquidity constraints.
- **Working Capital Constraints**: Limited access to seller financing and affordable working capital prevents MSMEs from fulfilling larger orders and expanding production.

- **Technology Adoption Gap**: While nearly 90% of MSMEs accept digital payments, only 18% have accessed digital lending, reflecting deeper technological and financial gaps.
- **Low Productivity**: Indian MSMEs operate at only around 18% of the productivity of large enterprises, far below the 45-70% productivity levels observed in **OECD** economies.
- **Weak Digital Commerce Ecosystem**: Although India has built world-class **Digital Public Infrastructure** for payments, digital systems supporting commerce, supply-chain management, and business credit remain underdeveloped.
- **Limited AI Adoption**: Most small businesses lack affordable access to Artificial Intelligence despite its potential to improve inventory management, forecasting, customer engagement, and regulatory compliance.
- **Women-Owned Enterprises Remain Underutilised**: Although women account for a significant share of Udyam-registered enterprises, access to finance, markets, technology, and business networks remains uneven.
- **Limited Integration into Global Value Chains**: India contributes only 2.9% of global manufacturing value added and 1.8% of global merchandise exports, indicating significant untapped potential for MSME-led export growth.

Way Forward From Survival to Scale

India's next phase of MSME growth must focus on enabling enterprises to scale into globally competitive, job-creating businesses rather than merely supporting their survival.

- **Build the "Missing Middle"**: Shift policy focus from creating more MSMEs to helping existing enterprises grow into sustainable medium-sized firms through mentoring, advisory support, formalisation, and growth capital.
- **Expand access to finance**: Strengthen growth capital, working capital, and seller financing to improve liquidity, fulfil larger orders, and support business expansion.
- **Develop next-generation digital infrastructure**: Extend Digital Public Infrastructure beyond identity and payments to digital commerce, credit, and B2B ecosystems that make business transactions easier and more efficient.
- **Leverage Artificial Intelligence (AI)**: Make AI-powered solutions affordable and accessible for MSMEs to improve inventory management, forecasting, customer engagement, compliance, and productivity.
- **Promote women-led enterprises**: Improve women's access to finance, markets, technology, and business networks to unlock a major source of entrepreneurship and employment.
- **Strengthen global competitiveness**: Integrate MSMEs into global value chains by improving product quality, productivity, innovation, and export readiness.
- **Create enduring institutions**: Build an ecosystem that enables MSMEs not only to survive economic shocks but to emerge as resilient, globally competitive enterprises contributing to manufacturing, exports, and inclusive economic growth.
