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SMEs in India: Challenges and Opportunities

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Abstract

Small and Medium Enterprises (SMEs) play a very important role in the Indian economy. They help create jobs, make goods, and contribute to exports. The SME sector is like a strong engine that helps the economy grow, especially in smaller towns and rural areas. It helps spread economic growth more evenly across the country. Right now, Indian SMEs are dealing with many changes.

These include things like globalization, the use of digital technology, and new rules and policies. Even though they are important, SMEs face a lot of problems. They have trouble getting money from banks and financial institutions. They also have to follow more rules

The government has started several programs like Make in India, Digital India, Startup India, and special support for small businesses. These programs are helping SMEs to become more formal, connect with the internet, and reach more customers. The rise of online shopping, digital money, and new ways to export goods is making it easier for SMEs to sell to people all over the country and even abroad. Also, the growing need for special, made-to-order, and eco-friendly products is creating new markets where SMEs can do well.

This paper looks at the main problems and opportunities that Indian SMEs are facing today. It uses information from government reports, financial organizations, and published research. The paper shows how good management can help SMEs become more competitive and grow in a sustainable way.

1. Introduction

MSME's are the growth driving force of India's economy. MSME are the backbone of Indian industrial sector as these generate the huge amount of employment with relatively low capital investment. Indian MSME sector helps to increase in manufacturing, export, development of entrepreneurship and balanced regional growth. It is in the trade, manufacturing and service sectors; it is established in rural and urban areas.

Industrialization is one of the economic growth accelerators; MSMEs help in promoting decentralized industrial growth. They help in reducing regional disparities by establishing industries in backward and rural areas, thus enhancing income levels and living standards. The decentralized utilization of MSMEs offers more scope for innovation and competition, since the units establish as ancillary units of big industries.

However, they continue to face some structural and operational bottlenecks. Challenges like inadequate and untimely access to finance, high cost of credit, poor technology, unavailability of trained manpower and delay in payments from the buyers continue to exist. Seeing the magnitude of the challenges faced by the MSMEs, the Government of India has introduced various policies and schemes for their development. Hence, it is extremely important to discuss the challenges and opportunities of the MSMEs, in order to understand their contribution towards the economic growth of India.



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2. Literature Review

Literature Review: MSMEs

YEAR	AUTHOR /SOURCE	KEY FOCUS	MAJOR FINDINGS
2026	ECONOMIC SURVEY / ECONOMIC TIMES	POLICY IMPACTS & DIGITALISATION	DIGITAL INITIATIVES IMPROVED OPERATIONAL EFFICEINCY, BUT INFASRUCTION GAPS AND DELAYED PAYMENTS REMAIN MAJOR CONCERNS
2025	SIDBI REPORT	FINANCE & GROWTH CONSTRAINTS	CREDIT GAPS, DELAYEDPAYMENTS, AND UNEVEN ADOPTION OF DIGITAL TECNOLOGY RESTRICT MSMEs GROWTH
2025	ALL RESEARCH JOURNAL	PERFORMANCE & GOVERNMENT	MSMEs CONTRIBUTE SIGNIFICANTLY TO MANUFACTURING OUTPUT AND EMPLOYMENT
2024	SAINI & MAURYA	CHALLENGES & OPPORTUNITIES	MSMEs ENHANCE EXPORTS AND EMPLOYMENT BUT FACE FINANCIAL TECNOLOGICAL, ANDREGULATORY CHALLENGES

Summary of Literature Review

Analysis of literature shows that MSMEs are critical for growth in India in terms of job creation, manufacturing and exports. While there is sample evidence of the effects of policies and digitalization on efficiency and market reach in MSME's, institutional gaps, delayed payments and availability of appropriate skilled labor remain key potential bottleneck issues for growth. The literature indicates that

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adequate policy support, institutional reforms and capability enhancement are critical for sustainable MSME development.

3. Methodology Adopted

The present study adopts a **descriptive and analytical research design** to examine the performance, challenges, and opportunities of MSMEs in India.

- **Nature of Study:** Descriptive and analytical
- **Type of Data:** Secondary data
- **Sources of Data:** Government of India publications, MSME annual reports, SIDBI reports, Economic Survey, research journals, and published articles
- **Period of Study:** 2021–22 to 2025–26
- **Tools of Analysis:** Tables, figures, and trend analysis

The study analyzes data on government support, employment generation, and MSME exports to draw conclusions.

4. Empirical and Theoretical Results

Year-wise Details of MSME Enterprises Benefited

YEAR	NUMBER OF MSME ENTERPRISES BENEFITED	GOVERNMENT CONTRIBUTION IN CRORE
2021-22	75	155
2022-23	250	418
2023-24	107	579
2024-25	145	575
2025-26	85	433
TOTAL	662	2160

Information is taken from **official government statistics** related to MSME support schemes and the International Journal of Applied Research (2025).

The table clearly shows that a total of **662 MSME enterprises** benefited from government financial support amounting to **₹2160 crore** during the study period. The highest number of enterprises benefited in **2022–23**, while the maximum financial assistance was provided in **2023–24**.

Employment Generation by MSMEs

MSMEs' employment creation has received relative impetus through government assistance leading to the creation of more than 30 lakh jobs during the period of the

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study. These contributed to the creation of many jobs and, thus, alleviated the serious problem of unemployment in the country alongside the achievement of more inclusive growth. However, there was a downward movement in the rate of employment generation during later years, perhaps due to economic uncertainties, increased input costs, and technology changes.

Employment generation of MSME

YEAR	EMPLOYMENT GENERATION
2021-22	8,25,752
2022-23	6,81,336
2023-24	7,12,944
2024-25	4,77,664
2025-26	3,94,144
TOTALS	30,91,840

Theoretical Interpretation

From a theoretical point of view, MSMEs are regarded as engines of economic growth through increasing the pace of entrepreneurship and employment with less capital formation. Similarly, according to the theory of industrial development, MSMEs are related to utilizing local resources well and hence contribute towards industrial progress. Consistent with this, the study has shown that government support has been gradually contributing towards the productivity and employment creation of MSMEs. Nevertheless, changes in the number of enterprises covered by benefited MSMEs is indicative of several structural problems, such as credit barriers, payment delay and technology bottleneck, requiring well-established institutional support.

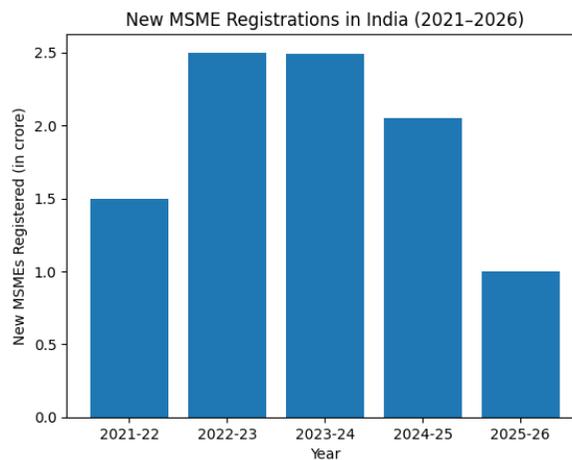
5. Implications of the Study

The study has several important implications for policymakers, entrepreneurs, and financial institutions:

1. Improved access to affordable and timely credit is essential for MSME growth.
2. Technological upgradation and digital adoption can enhance productivity and competitiveness.
3. Skill development programs are necessary to address the shortage of trained manpower.
4. Timely payment mechanisms must be strengthened to improve liquidity for MSMEs.

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5. Export promotion and market access support can help MSMEs expand globally.
6. As of September 2025, there are 6.82 crore (68.2 million) MSMEs registered on the Udyam Registration Portal and Udyam Assist Platform in India.



6. Study Hypothesis

Null

Hypothesis

(H₀):

MSMEs do not have a significant impact on employment generation and economic growth in India.

Alternative

Hypothesis

(H₁):

MSMEs have a significant impact on employment generation and economic growth in India.

Based on the analysis of employment and performance data, the alternative hypothesis is accepted, indicating that MSMEs significantly contribute to India's economic growth.

Conclusion

MSME in India contributes significantly to the economic development of the country through employment creation, industrialization and export promotion. MSMEs provide a major means of promoting equitable and balanced growth by way of fostering entrepreneurship across the country. Even though the micro, small and medium Enterprises encounter problems like lack of access to finance,

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technology gaps, late payments and shortage of skilled manpower, the sector has shown resilience.

Government interventions, reforms in the policy, and digitalization have presented a host of opportunities for MSMEs; however, persistent support in the form of investments, technology, infrastructure and skills is required to overcome the current constraints. Alleviating constraints by strengthening institutional support, credit availability, skill enhancement and adoption of technology could lead to marked improvement in MSMEs' performance. To conclude, the present study establishes that MSMEs holds the key to enhance sustainable and inclusive growth in India, provided they are attended to optimally.

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