Daily Mains Practice Question 27-06-2026

GS III - Economics

"Micro, Small and Medium Enterprises (MSMEs) are the backbone of India's economy and a key driver of inclusive growth." Discuss the role of MSMEs in India's economic development. Examine the recent policy reforms and government initiatives aimed at strengthening the MSME ecosystem. ***(15 marks, 250 words)***

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Answer

Introduction:

Micro, Small and Medium Enterprises (MSMEs) are enterprises (Manufacturing + Service Sector) categorized based on their investment and turnover levels. They play a pivotal role in the economy by promoting production, generating employment, and boosting exports.

It is governed by the Ministry of Micro, Small & Medium Enterprises under the MSME Development Act of 2006.

Main Body

MSMEs form the structural backbone of India’s economy, and their role extends beyond economics into social inclusion and entrepreneurship development.

Role of MSMEs in India’s Economic Development

- **Contribution to GDP, Output and Exports** – It contribute around 30–31% of India’s GDP, nearly 35% of manufacturing output, and about 45–48% of exports.
- **Employment Generation** – MSMEs are the second-largest employer after agriculture, providing livelihoods to 11 crore+ people while reducing disguised unemployment and promoting inclusive and decentralized growth.
- **Regional & Rural Industrialisation** – Promote balanced regional growth by fostering industrialisation in rural and tier-2/tier-3 areas, reducing migration.
- **Inclusive Growth** – It empowers women, youth, Scheduled Castes, Scheduled Tribes and rural populations through greater economic participation.
- **Entrepreneurship & Innovation** – MSMEs act as a nursery for entrepreneurship,

innovation, and start-ups, supporting first-generation entrepreneurs.
- **Supply Chain Integration** – It serves as ancillary units to large industries, strengthening domestic supply chains and industrial resilience.

Recent Policy Reforms and Government Initiatives

- **Udyam Registration Portal** – Simplified, Aadhaar-based MSME classification to improve formalisation and access to credit.
- **Emergency Credit Line Guarantee Scheme (ECLGS)** – Provided collateral-free loans during COVID-19, preventing large-scale MSME closures.
- **MUDRA Yojana** (via Micro Units Development and Refinance Agency) – Extended micro-credit to non-corporate, non-farm small businesses.
- **PMEGP (Prime Minister's Employment Generation Programme)** – Promotes self-employment and micro-enterprise creation.
- **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)** – Enhances collateral free institutional credit.
- **RAMP (Raising and Accelerating MSME Performance)** – Focuses on market access, competitiveness, and governance reforms.
- **MSME Champions Scheme** – Promotes innovation, sustainability (ZED certification), and productivity improvement.
- **Digital initiatives & ONDC integration** – Like Government e-marketplace (GeM) to improve market linkages and reduce dependence on intermediaries.

What are the challenges still persisting?

- Credit gap and delayed payments
- Low technology adoption among micro units
- Informality and limited scale-up capacity
- Weak integration into global value chains
- Infrastructure bottlenecks and compliance burden

Conclusion:

MSMEs are key drivers of inclusive growth, innovation, and employment. While recent reforms have strengthened the sector through digitalisation, credit support, and market access, continued focus on technology upgradation, formalisation, and global competitiveness is crucial to realise the vision of Viksit Bharat 2047.

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