

Policy-Led Transformation of India's MSME Sector: Credit Accessibility, Digital Inclusion, and Sectoral Development in Union Budget 2025-26

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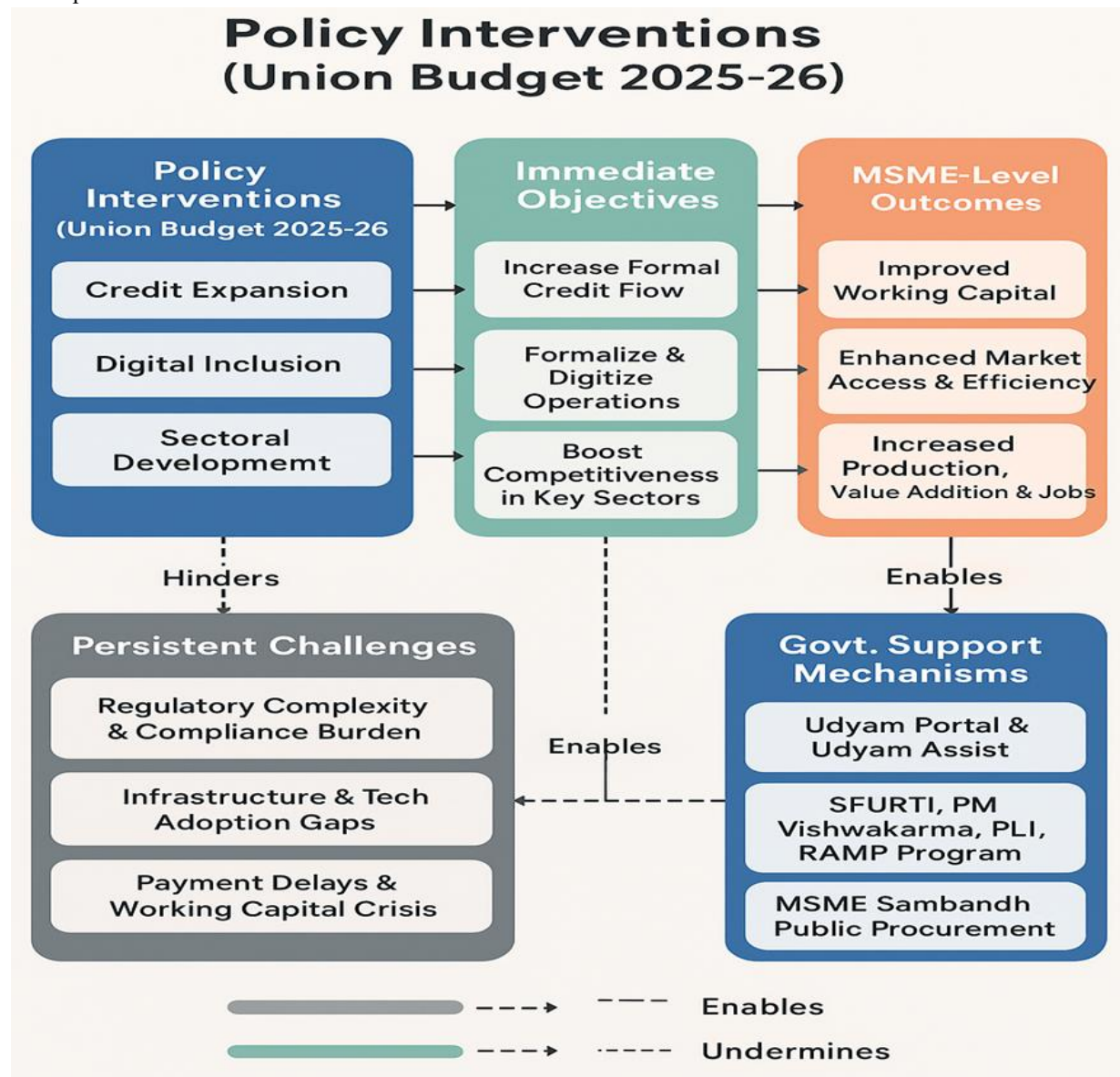
Abstract—The Union Budget 2025–26 focuses on India's MSME sector, which accounts for 30.1% of GDP and 45.73% of exports, by promoting sectoral growth, digital integration, and credit expansion. Key initiatives include sector-specific programs (toys, leather, food processing), UPI-linked credit cards, and increased credit guarantees (up to ₹10 crores for microenterprises). Despite progress, challenges such as infrastructure deficits, regulatory complexity, and financial gaps (₹20–25 lakh crore) remain. This study analyzes secondary data (The Indian Budget, PIB, The MSMEs performance reports 2019–2025, Udyam Portal, etc.) to examine export performance, employment trends, and budget allocations. While emphasizing the importance of streamlining compliance and adopting technology to enhance the role of MSMEs in Atmanirbhar Bharat, the findings highlight the potential of programs such as SFURTI and PM Vishwakarma. Additionally, it indicates a recovery in MSME exports (Rs 12.39 lakh crore in FY 2024-25). The research uses desk research and descriptive trend analysis to evaluate the effectiveness of budgetary measures.

Index Terms—MSMEs, Credit Accessibility, Digital Inclusion, Sectoral Development

I. INTRODUCTION

With over 5.93 million registered businesses and a workforce of more than 25 crore people, India's MSME sector is a vital part of the country's economy, significantly contributing to exports, industrial output, and employment. However, it faces ongoing challenges, including a substantial credit deficit, limited access to formal financing, low technological adoption, and a complex regulatory environment. These issues restrict its ability to compete globally, scale effectively, and innovate. Recognizing the crucial role MSMEs play in achieving the goal of "Atmanirbhar Bharat" (Self-Reliant India), the Union Budget 2025–26 proposes a comprehensive approach built around three pillars: Credit Accessibility (e.g., personalized credit cards with ₹5 lakh limits, increased guarantees, customized credit products), Digital Inclusion (e.g., redesigning PM SVANidhi, improving the Udyam Assist Platform, UPI-linked Credit), and Sectoral Development (focusing on clean tech manufacturing and labor-intensive sectors like toys, leather, and food processing). This paper aims to critically assess the Budget 2025–26 proposals, examining how they might enhance credit flow, foster digital adoption, and boost the competitiveness of key MSME clusters, thereby driving policy-led transformation (PIB, Budget Documents 2025).

Conceptual view



Source: Author Compiled

II. OBJECTIVES

- To evaluate the effectiveness of credit expansion measures in bridging the 20-25 lakh crore funding gap for MSMEs, with a focus on micro enterprises and export-oriented units.
- To analyze the role of sector-specific interventions in enhancing employment generation, export competitiveness, and GDP contribution, based on pre- and post-performance trends from 2019 to 2025.

III. DATA AND METHODS

This research employs a comprehensive analysis of secondary data sources, including official websites, Indian Budget documents (2019–2025), the PIB, MSME reports, databases (Udayam registration, SFURTI MSME, SAMBANDH MSME, PM VISHWAKARMA), industry reports from CRSIL, and desk research. The methodological approach combines descriptive, Trend, Comparative, and Policy gap analysis.

IV. KEY HIGHLIGHTS FOR MSMEs IN UNION BUDGET 2025-26

4.1 Revised MSMEs Classification

Several initiatives are included in the Union Budget 2025–2026 to bolster the MSME sector through improved loan availability, assistance for new business owners, and the encouragement of labor-intensive sectors. India is now positioned as a global manufacturing hub thanks to the efforts of more than

1 crore registered MSMEs, which employ 7.5 crore people and account for 36% of our manufacturing. These MSMEs account for 45% of our exports thanks to their high-quality goods. The investment and turnover limits for classifying all MSMEs would be increased to 2.5 and 2 times, respectively, to assist them in achieving greater efficiencies of scale, technological advancement, and improved access to capital. This will provide them with the self-assurance to develop and create jobs for our young people.

Rs. in Crore	Investment		Turnover	
	Current	Revised	Current	Revised
Micro Enterprises	1	2.5	5	10
Small Enterprises	10	25	50	100
Medium Enterprises	50	125	250	500

Source: Union Budget 2025-26

MSMEs in India

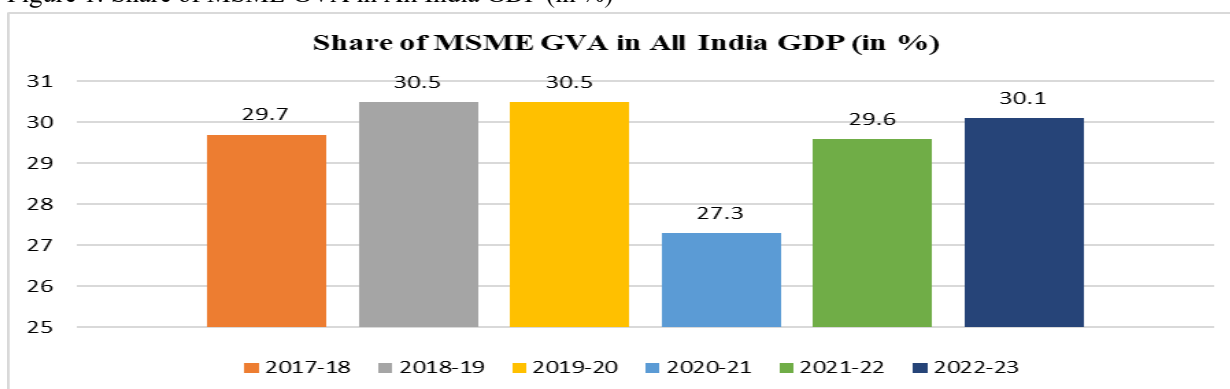
Table 1: Allocation of budget for the MSME Ministry

Financial Year	Budget Estimates	Revised Estimates
2019-20	7,011.29	7,011.29
2020-21	7,572.20	5,664.22
2021-22	15,699.65	15,699.65
2022-23	21,422.00	23,628.73
2023-24	22,137.95	22,138.01
2024-25	22,137.95	17,306.70
2025-26	23,168.15	-

Source: PIB & Union budget 2025-26

Table 1 shows Fluctuations in Revised Estimates. Some years (like 2020-21 and 2024-25) saw significant reductions from the initial budget. 2025-26 Revised Estimates Pending—The data for 2025-26 Revised Estimates is not yet available. Peak in 2022-23—The highest revision occurred in 2022-23, exceeding the initial budget.

Figure 1: Share of MSME GVA in All India GDP (in %)

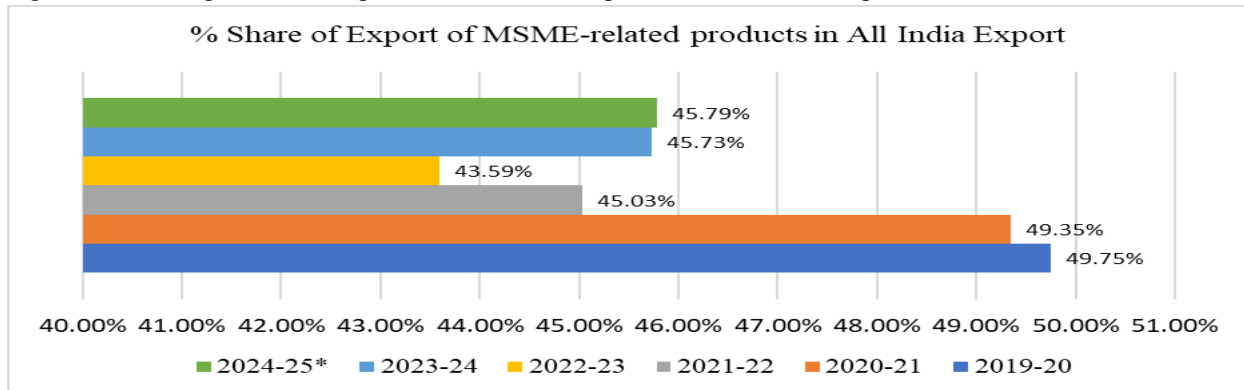


Source: Author Compiled from MSME, PIB 2025

The MSME sector's contribution to India's GDP from 2017-18 to 2022-23. The highest share was recorded in 2018-19 and 2019-20 (around 30-31%). However, 2020-21 saw a sharp decline, likely due to COVID-19 disruptions. The

sector recovered from 27.3% in 2020-21 to 29.6% in 2021-22 and 30.1% in 2022-23, highlighting its growing role in national economic output (Figure 1).

Figure 2: Percentage Share of Export of MSME-related products in All India Export



Source: Author Compiled from MSMEs Reports & PIB 2025

The percentage share of MSME-related products in India's total exports from 2019-20 to 2024-25. The highest contribution was in 2019-20 (49.75%), followed by 2020-21 (49.35%). However, the share declined in subsequent years, hitting 43.59% in 2022-23, likely due to economic disruptions and global trade challenges. A recovery trend is observed in 2023-24 (45.73%) and 2024-25 (estimated at 45.79%), indicating renewed government support and resilience in the MSME sector (Figure 2).

There is a noticeable increase in MSME exports. The value of MSME exports virtually quadrupled in just five years, from ₹3.95 lakh crore in 2020-21 to ₹12.39 lakh crore in FY24-25. As Indian MSMEs broaden their product offerings and seize new export prospects, this impressive increase demonstrates their growing competitiveness in global markets. The increase in MSMEs involved in exporting, which increased from 52,849 in 2020-21 to 1,73,350 by 2024-25, is also noteworthy. This exponential growth highlights the sector's expanding role in India's export scene and emphasizes how crucial it is to create an atmosphere that encourages MSMEs to expand internationally. This change has been made possible by a number of government initiatives, such as infrastructure development, policy reforms, and financial support, which have helped MSMEs grow and bolster India's standing in international trade (Arghya Banerjee 2025).

4.2 Credit Expansion

Credit availability: a) from Rs. 5 crores to Rs. 10 crores for Micro and Small Businesses, which will

result in an extra credit of Rs. 1.5 lakh crore over the following five years

b) Term loans up to Rs 20 crores for well-managed exporter MSMEs

c) loan amounts for startups between Rs. 10 crores and Rs. 20 crores, with the guarantee fee reduced to 1 percent for loans in 27 key areas crucial to Atmanirbhar Bharat. Credit Cards for Micro Enterprises: Introduce customized Credit Cards with a Rs 5 lakh limit for micro-enterprises registered on the Udyam portal. In the first year, Rs 10 lakhs of such cards will be issued.

4.3 Entrepreneurship Promotion

With a ₹10,000 crore Fund of Funds to encourage start-ups, the 2025-2026 budget places a high priority on first-time business owners, particularly women and members of the SC and ST communities. Building on the Stand-Up India initiative, 5 lakh entrepreneurs from underprivileged backgrounds would benefit from a unique term loan program worth up to 2 crores. Fund of Funds for Start-ups: The Alternate Investment Funds (AIFs) for start-ups have received commitments of more than Rs. 91,000 crores. These are supported by the Fund of Funds set up with a Government contribution of Rs. 10,000 crores.

4.4 Sectoral Development

Measures for Labour-Intensive Sectors: The government will implement specific initiatives to increase employment and entrepreneurship in labor-intensive industries. The objectives of this program are to generate ₹1.1 lakh crore in exports, ₹4 lakh crore in revenue, and 22 lakh jobs. To further empower small

companies, the PM SVANidhi plan, which has benefited 68 lakh street vendors, would also be redesigned with increased loan limits, UPI-linked credit cards (₹30,000), and capacity-building assistance.

Measures for the Toy Sector: To establish India as a global center for toys, will carry out a plan that builds on the National Action Plan for Toys. To produce high-quality, distinctive, inventive, and sustainable toys that will reflect the "Made in India" brand, the program will concentrate on building clusters, skills, and a manufacturing ecosystem.

Support for Food Processing: A National Institute of Food Technology, Entrepreneurship, and Management will be founded in Bihar as part of our dedication to "Purvodaya." The institute will give the food processing industry in the whole Eastern region a significant boost. This will lead to (1) increased revenue for farmers by adding value to their food and (2) job, entrepreneurial, and skill development opportunities for young people.

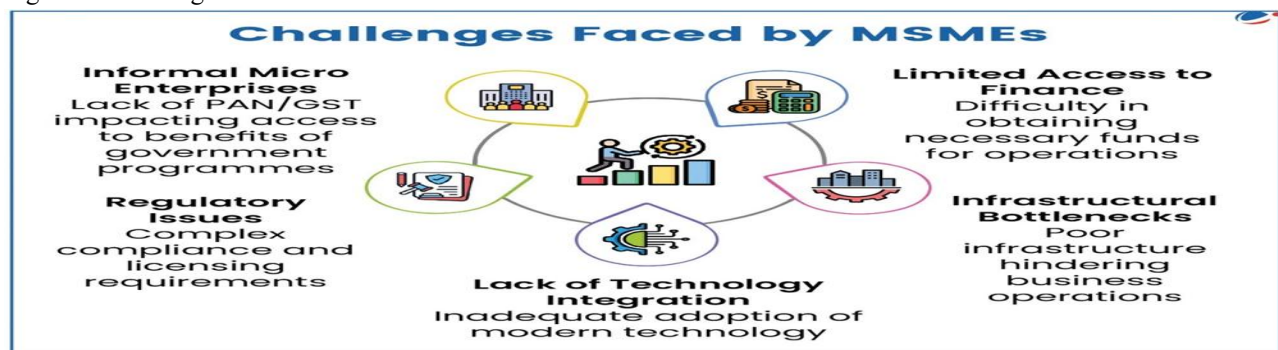
Manufacturing Mission - Furthering "Make in India": The government will set up a National Manufacturing Mission covering small, medium, and large industries for furthering "Make in India" by providing policy support, execution roadmaps, governance, and a monitoring framework for central ministries and states.

Clean Tech Manufacturing: This will aim to improve domestic value addition and build our ecosystem for solar PV cells, EV batteries, motors and controllers, electrolyzers, wind turbines, very high voltage transmission equipment, and grid-scale batteries.

V. IMPACT AND CHALLENGES

Through the revised classification, businesses with annual revenue up to Rs 500 crore would be able to qualify as MSMEs and receive additional incentives like the MSME CHAMPIONS initiative (which provides funding for technology upgrades) and the MSME Samadhaan scheme, which addresses late payments (buyers must pay within 45 days). To solve the significant funding gap of Rs 20–25 lakh crore that MSMEs face, which primarily affects micro-enterprises, it can be crucial to improve credit guarantee coverage for micro-enterprises and programs for first-time entrepreneurs. The operating capital requirements of microenterprises registered with Udyam would be met via customized credit cards. In its initial year, the program, which takes the shape of a revolving account facility and is active for a year, intends to issue at least 10 lakh cards. For start-ups founded before 2030, extending the incorporation period by five years will provide several advantages that will stimulate innovation and economic expansion. A focused product strategy with 0% export duty on crust leather and BCD exemption on wet blue leather (details pending) will strengthen the leather industry, which is worth Rs 73,000- 75,000 crore (FY 2024) and has an 85-90% revenue share from MSME. A sharp reduction in exports, which accounted for 40–45% of the industry's revenue, was the main cause of the 8–10% revenue decline. The unorganized sector, which makes up a sizable portion of the Indian economy, will benefit from the revamp of PM SVANidhi, which has granted Rs 13,742 crore in loans to street vendors, as well as the launch of credit cards linked to UPI (CRISIL, Budget Documents 2025).

Figure 3: Challenges of MSMEs



Source: visionias. in

The fact that just 5% of MSMEs possess quality certifications like ISO, BIS, or CE makes it difficult

for them to take part in government procurement initiatives and international supply chains. R&D is

done by less than 1% of MSMEs. Product development is hampered by a lack of academic collaboration, poor IP literacy, and insignificant innovation grants. More than 58% of MSMEs suffer payment delays longer than 60 days, which has a significant negative influence on their working capital, according to the CII (2022). Despite the MSMED Act's requirements, a large number of government ministries and PSUs are also said to be in default.

VI. ANALYSIS OF GOVERNMENT SUPPORT MECHANISMS: EXISTING SCHEMES AND BUDGETARY AUGMENTATION

These initiatives encompass a range of activities, including market integration, capacity building, procurement regulations, and financial assistance.

6.1 Through Technology and Digital Integration: The PM Vishwakarma scheme, launched on September 17, 2023, aims to empower artisans and craftspeople by enhancing product quality and market integration. With ₹13,000 crores outlay for 2023-28, it provides comprehensive support to improve their socio-economic status. Since its inception, over 2.65 crore applications have been submitted, with 27.23 lakh registrations completed (pmvishwakarma.gov.in 2025).

6.2 The Udyam Registration Portal: The Udyam Registration Portal, launched on July 1, 2020, streamlines enterprise registration in India with a free, paperless, and self-declaration-based process, replacing Udyog Aadhaar and EM-II systems. Most of the 6,90,04,288 registered MSMEs on the Udyam Portal as of September 28, 2025 (6,89,52,905) are categorized as micro-enterprises. In addition to their financial contributions, these MSMEs have created a significant number of job openings, employing more than 30.12 crore people (udyamregistration.gov.in 2025).

6.3 Scheme of Fund for Regeneration of Traditional Industries (SFURTI): To promote product growth, diversification, and value addition, SFURTI, which was introduced in 2005–06, attempts to group traditional artisans into collectives or clusters. The program supports traditional industries and aims to raise craftsmen's incomes sustainably. As of September 28, 2025, total approved clusters are 513, 376 functional Clusters. In order to increase competitiveness, generate employment possibilities, and improve the marketability of their products, SFURTI's main goal is to cluster traditional industries and craftspeople. By bringing craftspeople together, the program enables them to pool their resources and expertise, improving their chances of earning a living and fostering long-term growth. To assist these clusters, a grant of ₹1,336 crores has been offered in total. About 2,20,800 craftspeople in 376 functional clusters now have sustainable job prospects (as of December 12, 2024), (PIB 2025, sfurti.msme.gov.in 2025).

6.4 MSME SAMBANDH (Public Procurement Policy for Micro and Small Enterprises)

The Ministry of MSME, Government of India, notified the Public Procurement Policy for Micro and Small Enterprises (MSEs) in 2012. The Ministry of MSME, Government of India, notified the Public Procurement Policy for Micro and Small Enterprises (MSEs) in 2012. This policy mandates that 25% of annual procurement by Central Ministries, Departments, and Central Public Sector Enterprises (CPSEs) must be sourced from MSEs. Within this 25%, 4% is reserved for MSEs owned by Scheduled Castes/Scheduled Tribes (SC/ST), and 3% is reserved for MSEs owned by women entrepreneurs. Additionally, 358 items are exclusively reserved for procurement from MSEs (PIB 2025).

Procurement From Central Ministries / Departments / CPSEs For FY 2025-26

2025-26 ▾



Source: sambandh.msme.gov.in (As of September 29, 2025)

6.5 Other

A) The PMEGP scheme provides Margin Money (Subsidy) to beneficiaries securing bank loans for new enterprises, with a maximum project cost of ₹50 lakhs for manufacturing and ₹20 lakhs for services. In 2023-24, it supported 89,118 enterprises, disbursing ₹3,093.87 crores in subsidies, enabling small businesses to expand. This initiative generated approximately 7.12 lakh jobs, reinforcing its role in fostering entrepreneurship and self-employment across India (MOF 2022).

B) Collateral-free loan up to a limit of Rs. 500 lakhs (w.e.f. 01.04.23) to MSEs with guarantee coverage up to 85 % for various categories of loan through Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) under Credit Guarantee Scheme.

C) Rs. 50,000 crore equity infusion through Self-Reliant India Fund. This scheme has a provision for a corpus of Rs. 10,000 crores from the Government of India.

D) Non-tax benefits are extended for 3 years in case of an upward change in the status of MSMEs.

E) Mutual Credit Guarantee Scheme (MCGSMSME): A new program that offers 60% guarantee coverage for loans up to ₹100 crore granted to qualified MSMEs for the acquisition of machinery and equipment has been approved. Through the facilitation of loan availability for capital investments, this effort seeks to strengthen the industrial sector.

F) Production Linked Incentive (PLI) Scheme: Designed to encourage exports and production in strategic areas, the PLI scheme will eventually be extended to small textile companies to raise garment exports to \$50 billion by 2030.

G) RAMP Program (2022-27): A World Bank-backed initiative worth \$808 million that aims to increase productivity, close credit shortages, and boost market access.

VII. RECOMMENDATIONS

The government has implemented digital skilling through NSDC, ITIs, and industry-academia partnerships in an effort to close the tech gap. On government markets like GeM and ONDC, where visibility and business-to-business sales can increase rapidly, MSMEs are being urged to join. To be competitive in the future, MSMEs need to make investments in digital marketing, cybersecurity, and

AI-powered analytics (Muneer Rasheed, 2025). Encourage the Green MSMEs fund to help with sustainable packaging, waste reduction, and the use of solar energy. Export Facilitation establishes "Export Hubs" that are correlated with a single area and a single product, and assists in obtaining international certifications. Empower District Industries Centers (DICs) with the authority to make decisions and provide services more quickly to support MSME advocacy. Expanding coverage under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and through initiatives like the Credit-Linked Capital Subsidy Scheme are examples of improved credit mechanisms and technology upgrade support (Deep Agrawal 2025).

VIII. CASE STUDY ANALYSIS: EXTRACTING LESSONS FOR EFFECTIVE POLICY IMPLEMENTATION

The cases are examined through the lens of the Three Key Success Factors: 1) Technology and Skills, 2) Cluster-based Ecosystem development, and 3) Export Orientation and Quality compliance.

8.1 Potential incorporation of global case studies into Indian MSMEs

Germany's Mittelstand places a strong emphasis on government R&D assistance, export-oriented innovation, easy access to inexpensive financing, and close cooperation with vocational training institutes. By connecting SMEs with local governments and cooperatives, granting employment and sourcing flexibility, and giving cluster formation and small-town infrastructure priority, China's Township and Village Enterprises (TVEs) were able to achieve rural industrialization. Japan's SME policy promotes knowledge sharing through industry consortia, robust buyer-supplier alliances, and subsidized innovation (OECD, 2020).

8.2 Domestic Case Insights

E-commerce (Amazon Karigar), exports to the United States and the European Union, Saharanpur, Uttar Pradesh, Woodcraft & Handicrafts Udyam registration. In Tamil Nadu, Tiruppur, using zero liquid discharge technology and solar power, knitwear and textile MSME clusters account for half of India's exports of cotton knitwear. Morbi, Gujarat, is home to more than 800 MSME ceramic tile companies that export to 170 countries using gas-based connections

and globally recognized quality certification. Hubballi-Dharwad, Karnataka: KLE Tech University's Agri-Tech and Precision Tools Incubators support startups offering Internet of Things (IoT)-based agricultural solutions. Kerala's Kochi: With MPEDA assistance, MSME seafood processors improve to EU standards, increasing export value addition (Deep Agrawal, 2025).

IX. CONCLUSION

Despite the Union Budget 2025–26 showcasing a multifaceted strategy for strengthening MSMEs, systemic issues must be addressed for it to be successful: 1. Impact of Credit Expansion: Restrictions on working capital may be alleviated by the improved credit guarantee (limit of ₹10 crore) and personalized credit cards (maximum of ₹5 lakh). However, the policy's reach is limited because microenterprises, which account for 96% of Udyam registrations, are still excluded due to non-compliance with GST and PAN requirements. 2. Sectoral Growth & Employment: The Focus Product Scheme and incentives for the leather sector align with the trends of export recovery (45.73% share in 2023-24). While SFURTI clusters and PM Vishwakarma (27L registrations) enhance integration with the informal sector, skill development must be scaled up. 3. Ongoing Difficulties: The delays in MSME Samadhaan payments and regulatory complexities remain unresolved. Competitiveness is hindered by low technology adoption and infrastructure deficiencies. Policy Suggestions: Simplify compliance by offering Udyam Assist to non-GST companies. Boost digital finance by increasing UPI-connected credit for unregistered MSMEs. Monitor buyer-supplier transactions using AI to enforce payment discipline. Prospective Research Paths: A gender-disaggregated examination of entrepreneurial programs (Stand-Up India); A link between long-term credit accessibility, digital technologies for inclusive and MSME growth.

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