

Role of MSMEs in Economic Growth of India

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) form a crucial pillar of the Indian economy, contributing approximately 30% to the country's Gross Domestic Product (GDP), 45–46% to total exports, and generating employment for over 110 million people across 63–73 million enterprises. Their diverse presence spans rural and urban regions, encompassing manufacturing, services, and trade, and playing a pivotal role in regional development, industrialization, and innovation. This review paper examines the role of MSMEs in India's economic growth using secondary data from government reports, academic studies, industry publications, and reputable databases. The analysis explores the sector's contributions to GDP, employment, exports, and entrepreneurship, while also identifying the structural challenges that constrain its potential. Key government initiatives, policy measures, and success stories are synthesized to provide a comprehensive understanding of the sector's trajectory. The findings reveal that while MSMEs have significant growth potential, persistent barriers such as limited access to finance, technological gaps, infrastructure deficiencies, and regulatory complexities limit their contribution. The paper concludes with recommendations for strengthening the sector through targeted policy interventions, digital transformation, skill development, and enhanced global market integration.

Keywords: MSMEs, Economic Growth, India, GDP Contribution, Employment Generation, Export Performance, Industrial Development.

Introduction

The Micro, Small, and Medium Enterprises (MSME) sector serves as one of the most dynamic and inclusive growth engines of the Indian economy. Defined under the *Micro, Small and Medium Enterprises Development (MSMED) Act, 2006*, with its 2020 revision introducing uniform classification based on investment and turnover MSMEs cover a wide spectrum of enterprises from rural handicrafts to high-tech manufacturing and export-oriented units.

The significance of MSMEs in India is profound. According to the *Ministry of MSME Annual Report (2023–24)*, the sector contributes approximately 30% to India's GDP, accounts for 45–46% of total exports, and provides employment to more than 110 million individuals across an estimated 63–73 million units nationwide. Notably, around 51% of these enterprises operate in rural areas, making the sector a key driver of inclusive growth and regional economic balance.

Beyond their quantitative contribution, MSMEs play a transformative role in fostering entrepreneurship, enhancing value chains, supporting large-scale manufacturing as feeder units, and enabling socio-economic development in underdeveloped regions. They are also instrumental in promoting indigenous innovation, developing niche products, and strengthening India's participation in global value chains.

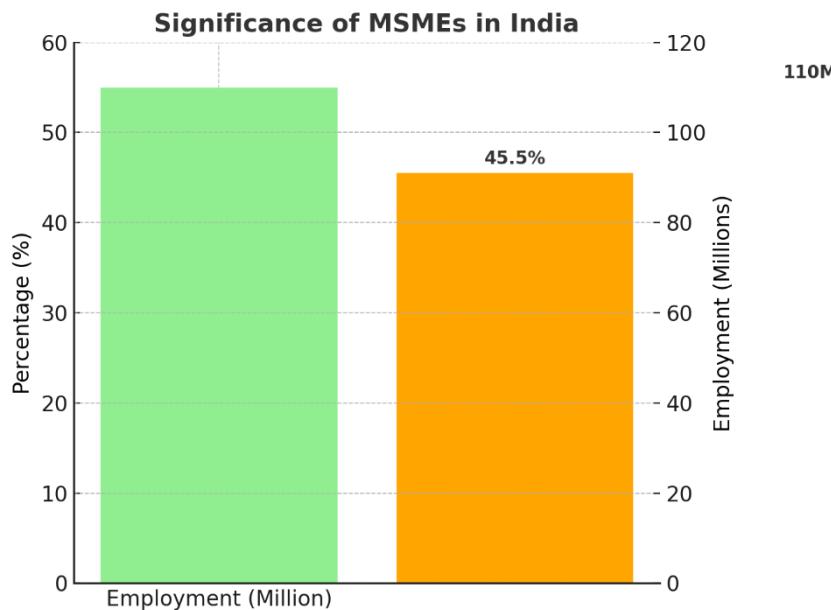


Figure 1: Significance of MSMEs in India

Source: Curated by the author

Despite these contributions, the sector faces a series of persistent challenges ranging from inadequate access to finance and outdated technology to infrastructure bottlenecks, compliance burdens, and skill shortages. Addressing these challenges is critical for unlocking the sector's full potential, especially as India aims to become a USD 5 trillion economy.

The objective of this review is to provide a comprehensive synthesis of the sector's role in economic growth, examine existing literature and data trends, identify major constraints, and outline strategic recommendations for enhancing the MSME sector's contribution in the coming decades.

Methodology

This paper adopts a narrative review methodology with a descriptive orientation, relying entirely on secondary data sources supplemented by visual representations to synthesize and communicate findings.

Nature of the Study

The study is conceptual and analytical, aiming to consolidate existing literature, government data, and industry reports on the role of MSMEs in India's economic growth. It does not involve primary quantitative surveys, but integrates statistical data available from credible secondary sources into graphical form (bar charts, pie charts, and infographics) for clarity and impact.

Data Sources

The review draws on a wide range of reliable sources, including:

- **Government Reports:** *Annual Reports* of the Ministry of MSME, *Economic Survey of India*, Reserve Bank of India bulletins, and NITI Aayog policy papers.
- **Industry Association Publications:** Reports from the Federation of Indian Chambers of Commerce and Industry (FICCI), the Confederation of Indian Industry (CII), and the Associated Chambers of Commerce and Industry of India (ASSOCHAM).
- **International Bodies:** World Bank, International Finance Corporation (IFC), and UNCTAD reports relevant to MSME development.
- **Academic Literature:** Peer-reviewed journal articles, working papers, and conference proceedings focused on MSME performance, policy, and challenges.
- **Business and Trade Media:** Articles from credible economic publications (e.g., *Economic Times*, *Business Standard*, *The Hindu Business Line*).

Approach to Review

- **Thematic Structuring:** Literature and data were organized according to major themes: contribution to GDP, employment, exports, regional development, innovation, and challenges.
- **Trend Analysis:** Time-series data from 2015–2024 were compared to identify changes in MSME contributions and growth patterns.
- **Policy Mapping:** Government schemes and interventions were mapped against the specific needs and challenges identified in literature.
- **Visual Representation:** Quantitative secondary data were transformed into visuals (e.g., bar charts for GDP vs. export contributions, pie charts for rural–urban split, infographics for challenges) to aid comprehension.

Limitations

- **Secondary Data Dependence:** Findings are limited by the accuracy and currency of the data sources used.
- **Lack of Primary Quantitative Evidence:** No direct field survey or large-scale interviews were conducted, though select qualitative insights from published case studies are included.
- **Sectoral Variations:** The review focuses on national-level trends and may not capture specific nuances of every sub-sector or state-level variation.

Overview of MSMEs in India

The Micro, Small, and Medium Enterprises (MSMEs) sector forms the backbone of India's industrial and economic structure. With over 63 million units, MSMEs account for nearly 30% of the country's GDP, 45–46% of exports, and employ over 110 million people. The sector's widespread presence across rural and urban regions, along with its contribution to both manufacturing and services, positions it as a key driver of inclusive growth.

- **Geographic Spread**

MSMEs are geographically well-dispersed, ensuring economic decentralization and balanced regional growth. Leading states in MSME presence include Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, and Gujarat. These states benefit from supportive industrial policies, skilled labor availability, and strong market linkages.

- **Rural–Urban Distribution**

Approximately 51% of MSMEs operate in rural areas, often as agro-based industries, handicrafts, and traditional manufacturing clusters. The remaining 49% are in urban areas, engaged in manufacturing, services, and export-oriented production. This distribution underlines the role of MSMEs in bridging rural–urban economic divides.

- **Sectoral Composition**

The services sector constitutes about 60% of all MSMEs, reflecting India's shift towards a service-driven economy. The remaining 40% are manufacturing units, producing goods across sectors like textiles, engineering, food processing, pharmaceuticals, and leather.

Rural vs Urban Distribution of MSMEs Sectoral Distribution of MSMEs

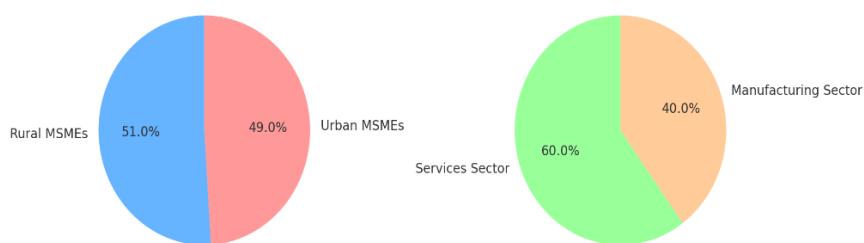


Figure 2: Rural–urban distribution and sectoral composition of MSMEs.

Source: Curated by the author

Role of MSMEs in Economic Growth of India

The MSME sector is a vital pillar of India's economy, contributing significantly to GDP, employment, exports, industrial output, and balanced regional development. Its role extends beyond mere numbers, it supports socio-economic inclusion, entrepreneurship, and innovation across diverse geographies.

- **Contribution to GDP**

MSMEs contribute approximately 30% to India's GDP, reflecting their importance in sustaining economic activity. This contribution comes from both manufacturing output and service provision, with the latter seeing accelerated growth due to digitization and market access improvements.

Key Insight:

- In manufacturing, MSMEs supply components and intermediate goods to large industries in automotive, engineering, and consumer goods sectors.
- In services, they operate in IT-enabled services, logistics, tourism, education, and healthcare.

- **Employment Generation**

Employing over 110 million people across the country, MSMEs are the second-largest employer after agriculture. They provide opportunities to skilled, semi-skilled, and unskilled workers, especially in rural and semi-urban areas.

Socio-economic Impact:

- Encourage women's participation in the workforce through home-based and small-scale enterprises.
- Absorb surplus labor from agriculture into industrial and service sectors.

- **Export Contribution**

MSMEs account for 45–46% of India's total exports. Their export portfolio includes textiles, leather, gems and jewellery, handicrafts, engineering goods, pharmaceuticals, and agro-based products.

Global Presence:

- Indian MSMEs supply to global value chains (GVCs), making them competitive in the international market.
- The sector benefits from export promotion schemes like MEIS, RoDTEP, and sector-specific subsidies.

- **Regional Development and Inclusion**

By operating in both rural and urban areas almost equally, MSMEs reduce economic disparities between regions. They are often set up in backward and underdeveloped districts, thus decentralizing industrial growth.

- **Role in Supply Chains**

MSMEs act as feeder industries to large-scale manufacturers. They supply components, parts, and sub-assemblies for sectors like:

- Automotive manufacturing (auto parts clusters in Pune, Chennai, Gurugram)
- Textiles and apparel (Tirupur, Surat, Ludhiana)
- Pharmaceuticals (Hyderabad, Ahmedabad)
- Agro-processing (Punjab, Maharashtra)

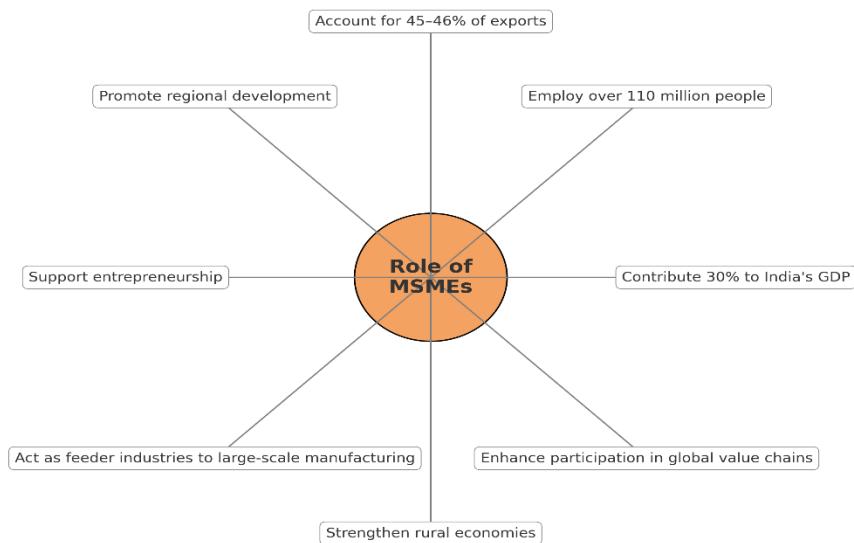


Figure 3: Role of MSMEs

Source: Curated by the author

Challenges Faced by MSMEs in India

Despite their crucial contribution to India's economic growth, MSMEs face several structural, financial, and operational challenges that hinder their potential. These challenges can be grouped into the following categories:

Limited Access to Finance

- Difficulty in securing formal credit due to lack of collateral and credit history.
- High dependence on informal sources of finance with high interest rates.
- Low awareness and utilization of government credit schemes like CGTMSE and MUDRA loans.

Inadequate Infrastructure

- Poor quality of roads, electricity, water supply, and logistics support in rural and semi-urban areas.
- Limited access to modern technology, testing facilities, and research centres.

Regulatory and Compliance Burden

- Complex registration, licensing, and tax compliance procedures.
- High cost of meeting environmental, labour, and safety regulations.

Technology Gaps and Low Productivity

- Outdated production techniques and lack of automation.
- Limited exposure to Industry 4.0 technologies like AI, IoT, and robotics.

Skilled Workforce Shortage

- Difficulty in attracting and retaining skilled manpower due to competition from large companies.
- Limited investment in skill development and training.

Market Access Constraints

- Limited integration into global value chains.
- Lack of marketing networks, branding strategies, and e-commerce adoption.

Delayed Payments and Cash Flow Issues

- Prolonged receivable cycles, particularly from large corporates and government departments.

- Weak enforcement of MSME Development Act provisions on timely payments.

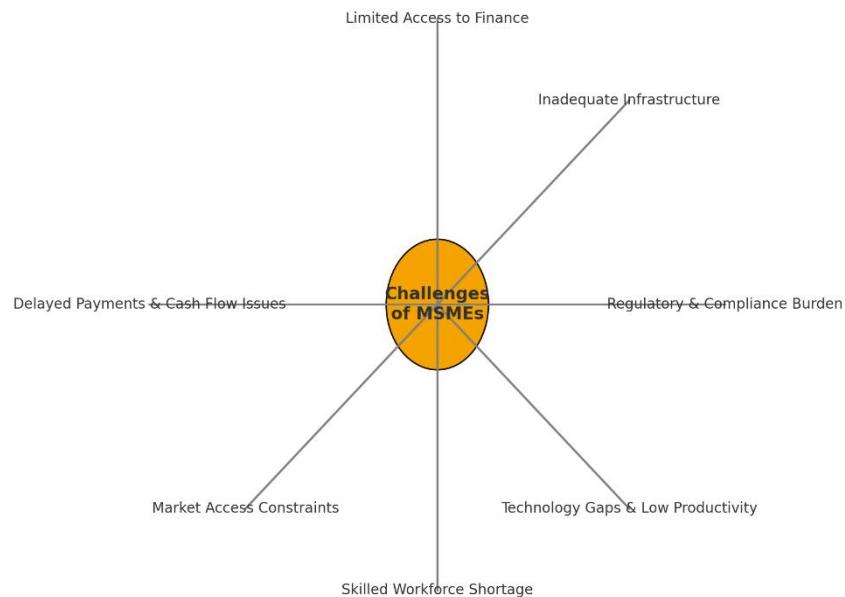


Figure 4: Challenges of MSMEs

Source: Curated by the author

Government Initiatives and Policy Support for MSMEs

The Government of India has introduced a wide array of policies, schemes, and institutional mechanisms to strengthen the MSME sector. These initiatives aim to address financing gaps, technological limitations, market access constraints, and skill shortages, thereby improving the sector's productivity and competitiveness.

Financial Support and Credit Facilitation

- **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)**
 - Offers collateral-free credit up to ₹2 crore for new and existing MSMEs.
 - Encourages banks and financial institutions to lend without requiring third-party guarantees.
- **MUDRA Loans under Pradhan Mantri MUDRA Yojana (PMMY)**
 - Provides loans up to ₹10 lakh under Shishu, Kishore, and Tarun categories for different stages of business growth.
- **Stand-Up India Scheme**
 - Facilitates bank loans between ₹10 lakh and ₹1 crore for women entrepreneurs and SC/ST entrepreneurs.
- **Emergency Credit Line Guarantee Scheme (ECLGS)**
 - Launched during COVID-19 to provide additional working capital and term loans to MSMEs to recover from the pandemic-induced slowdown.

Technology and Infrastructure Development

- **Cluster Development Programme (MSE-CDP)**
 - Supports infrastructure development, common facility centres, and upgradation of clusters like textiles, handicrafts, and engineering goods.
- **Technology Upgradation Fund Scheme (TUFS)**
 - Assists MSMEs in modernising equipment and adopting new technology, especially in textile and manufacturing sectors.

- **Digital MSME Scheme**

- Encourages MSMEs to adopt ICT tools and cloud-based services to improve efficiency and competitiveness.

Market Development and Export Promotion

- **Procurement and Marketing Support Scheme (PMS)**: Helps MSMEs participate in trade fairs, exhibitions, and international marketing events.
- **Public Procurement Policy**: Mandates central ministries and public sector enterprises to procure at least 25% of their annual requirements from MSMEs.
- **Zero Defect Zero Effect (ZED) Certification Scheme**: Promotes quality manufacturing with minimal environmental impact, aiding global market entry.

Skill Development and Capacity Building

- **Entrepreneurship and Skill Development Programme (ESDP)**: Organises training programmes for existing and potential entrepreneurs.
- **Skill India Mission**: Partners with MSMEs to develop sector-specific skill sets and improve employability.

Policy and Regulatory Reforms

- **Udyam Registration** – Simplified online registration process replacing Udyog Aadhaar, fully integrated with GST and Income Tax databases.
- **Insolvency and Bankruptcy Code (IBC)** amendments to provide faster resolution for MSME insolvency cases.
- **TReDS (Trade Receivables Discounting System)** to facilitate faster invoice discounting and resolve delayed payment issues.

Government Initiatives & Policy Support for MSMEs

Financial Support

- CGTMSE - Collateral-free loans
- MUDRA Loans - Shishu, Kishore, Tarun
- Stand-Up India - SC/ST & Women
- FCES - COVID relief finance

Technology & Infrastructure

- MSE-CDP - Cluster Development
- TUFS - Tech upgradation
- Digital MSME Scheme

Market Development

- PMS Scheme - Trade fairs support
- Public Procurement Policy - 25% from MSMEs
- ZED Certification - Quality & Environment

Skill Development

- ESDP - Entrepreneurship training
- Skill India Mission - Sector skills

Policy & Regulatory

- Udyam Registration - Simplified
- IBC Amendments - Faster insolvency
- TReDS - Invoice discounting

Figure 5: Government Initiatives for MSMEs

Source: Curated by the author

Impact of MSMEs on Economic Growth

MSMEs play a transformative role in shaping India's economic structure. Their impact extends beyond GDP contribution, influencing employment, exports, innovation, regional balance, and social empowerment.

Contribution to GDP and Industrial Output

- MSMEs contribute approximately 30% to India's GDP, making them a vital engine of economic growth.
- They account for a significant share of manufacturing output, particularly in labour-intensive sectors such as textiles, handicrafts, food processing, and engineering goods.
- The sector's adaptability allows it to thrive in both domestic and export markets, boosting industrial diversification.

Employment Generation

- With over 110 million people employed across 63–73 million units, MSMEs are the second-largest employer after agriculture.
- They provide job opportunities for semi-skilled and unskilled labour, contributing to poverty reduction.
- Employment is distributed across rural and urban areas, reducing migration pressures on major cities.

Export Performance

- MSMEs account for 45–46% of India's total exports, playing a crucial role in sectors like garments, gems and jewellery, leather, engineering goods, pharmaceuticals, and IT services.
- They act as suppliers to large export-oriented firms and participate directly in global value chains.

Regional and Inclusive Development

- Around 51% of MSMEs operate in rural areas, driving industrialisation in less-developed regions.
- The sector helps reduce regional economic disparities by creating income-generating activities in backward and semi-urban areas.
- MSMEs often promote local entrepreneurship, preserving traditional skills and crafts.

Innovation and Technology Development

- Many MSMEs are at the forefront of product innovation, especially in niche markets.
- They adapt quickly to changing consumer preferences and market demands.
- With support from government schemes, MSMEs are gradually adopting modern technology, enhancing competitiveness.

Social Impact and Women Empowerment

- MSMEs provide livelihood opportunities to women, SC/ST communities, and other disadvantaged groups.
- Women-led MSMEs are increasing in number, especially in handicrafts, food processing, and digital services.
- The sector's flexible work arrangements enable a better work-life balance, attracting more women entrepreneurs.

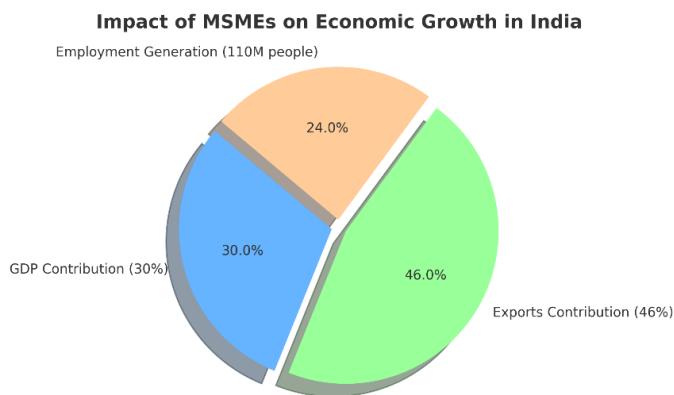


Figure 6: Impact of MSMEs on Economic Growth in India

Source: Curated by the author

Case Studies and Best Practices

To strengthen the understanding of the MSME sector's role in India's economy, this section presents selected case studies and best practices that highlight innovative strategies, policy successes, and scalable business models.

Case Study 1 – Amul Dairy Cooperatives

Sector: Agro-based MSME

- Background:** Amul, a cooperative from Gujarat, began with small dairy farmers pooling resources to counter exploitative intermediaries.
- Success Factors:**
 - Strong cooperative model empowering rural producers.
 - Integration of procurement, processing, and marketing under one umbrella.
 - Leveraging brand identity for value-added products.
- Impact:** Generated steady rural employment, improved incomes for farmers, and became a benchmark for agro-MSMEs worldwide.

Case Study 2 – Tirupur Knitwear Cluster

Sector: Textiles and Garments

- Background:** Tirupur, Tamil Nadu, emerged as a global hub for cotton knitwear exports.
- Success Factors:**
 - Cluster-based approach enabling cost efficiency.
 - Specialisation in eco-friendly dyeing and compliance with international quality standards.
 - Strong linkages with export markets.
- Impact:** Accounts for over 90% of India's cotton knitwear exports, creating over 500,000 jobs locally.

Case Study 3 – Jaipur Handicrafts and Gems MSMEs

Sector: Handicrafts and Jewellery

- Background:** Jaipur is renowned for gemstone cutting and traditional crafts such as blue pottery and block printing.
- Success Factors:**
 - Promotion through Geographical Indication (GI) tagging.
 - Support from handicraft fairs and government export promotion councils.
 - Adoption of e-commerce platforms for global reach.
- Impact:** Preserved heritage crafts, empowered women artisans, and expanded export opportunities.

Khadi and Village Industries Commission (KVIC) – Reviving Traditional Crafts

- KVIC has been instrumental in supporting rural artisans through capacity-building programs, access to modern equipment, and marketing channels like e-commerce. The "Khadi India" brand has transformed traditional products into fashion statements, boosting rural employment and connecting local products to global markets.

Udupi Coir Cluster, Karnataka – From Local Resource to Global Reach

- The Udupi Coir Cluster used common facility centers, funded through the MSME Cluster Development Programme, to introduce mechanized spinning and dyeing facilities. This improved productivity, reduced production time, and enabled export-quality goods, opening new international markets.

Sualkuchi Handloom Cluster, Assam – Weaving Economic Growth

Sualkuchi, known as the 'Manchester of the East' for silk weaving, has leveraged MSME schemes to provide training, credit access, and participation in national and international trade fairs. This has preserved heritage weaving techniques while ensuring sustainable livelihoods.

Best Practices in MSME Development

- **Cluster Development Programmes (CDP):**
 - Government-led initiatives supporting sector-specific clusters for shared infrastructure, training, and marketing.
- **Technology Upgradation Schemes:**
 - Schemes like CLCSS (Credit Linked Capital Subsidy Scheme) encouraging MSMEs to modernise machinery and adopt automation.
- **Digital Adoption:**
 - Use of e-commerce, digital payments, and cloud-based solutions to improve operational efficiency and market reach.
- **Skill Development Initiatives:**
 - Partnerships with institutions like NSDC (National Skill Development Corporation) to upskill workers in niche sectors.

Future Prospects and Policy Recommendations

The future of India's MSME sector is promising, provided that targeted reforms, technological integration, and capacity-building initiatives are implemented. The sector's role in achieving India's ambition of becoming a USD 5 trillion economy will be significant if challenges are addressed proactively.

Future Prospects

- **Digital Transformation and Industry 4.0**
 - Adoption of automation, IoT, and AI can enhance productivity and reduce operational costs.
 - Cloud-based solutions and digital marketplaces can improve access to customers and suppliers.
- **Integration into Global Value Chains (GVCs)**
 - MSMEs can increase exports by meeting international standards, participating in cross-border e-commerce, and forming joint ventures with foreign firms.
- **Sustainable and Green MSMEs**
 - Transitioning towards energy-efficient production and sustainable raw materials can enhance competitiveness and attract green financing.
- **Expansion into Tier-2 and Tier-3 Cities**
 - Leveraging low-cost locations while accessing skilled manpower can decentralise industrial growth and create new employment hubs.
- **Emerging Sectors for MSMEs**
 - Renewable energy components, electric vehicle parts, agritech solutions, and healthcare devices present new opportunities.

Policy Recommendations

- **Access to Affordable Credit:** Expand credit guarantee schemes and introduce innovative financing tools like revenue-based lending and peer-to-peer lending platforms.

- **Ease of Doing Business:** Simplify compliance requirements and harmonise state-level regulations to encourage MSME formalisation.
- **Skill Development and Capacity Building:** Establish dedicated MSME skill hubs in collaboration with industry bodies and technical institutions.
- **Technology Upgradation Support:** Offer tax benefits or subsidies for MSMEs adopting automation, digital tools, and quality certification.
- **Market Access Facilitation:** Create exclusive MSME marketplaces and ensure participation in government procurement through the *Government e-Marketplace (GeM)*.
- **Cluster-Based Development:** Strengthen existing clusters and develop new ones in emerging industries, ensuring shared infrastructure and logistics support.
- **Encouraging Formalisation:** Link MSME benefits to formal registration, digital invoicing, and tax compliance to expand the organised sector.

Conclusion

The MSME sector stands as the backbone of the Indian economy, contributing substantially to GDP, exports, and employment generation. Its widespread presence across urban and rural India ensures not only industrial growth but also balanced regional development and socio-economic inclusion.

While the sector has demonstrated remarkable resilience in the face of challenges such as global competition, credit constraints, and compliance complexities, its untapped potential remains significant. With the right mix of policy support, technological adoption, skill development, and easier market access, MSMEs can further amplify their role in driving India's economic growth.

The future will demand sustainable practices, integration into global value chains, and digital transformation as critical levers for success. By fostering innovation, encouraging formalisation, and strengthening industry clusters, MSMEs can emerge as the key enabler for India's ambition to become a global economic powerhouse.

In essence, the MSME sector's journey ahead is not merely about economic statistics, it is about empowering communities, creating livelihoods, and building an inclusive and resilient India.

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