

Evaluating the Impact of MSMEs on India's Economy : Employment, Innovation and Policy Imperatives

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Abstract: *This paper explores and outline the topic role of MSME in improving and boosting economy. Micro, Small, and Medium Enterprises (MSMEs) are vital engines of economic growth, innovation, and employment, particularly in developing economies. They contribute significantly to GDP, job creation, and poverty reduction while promoting regional development and equitable income distribution. Globally, MSMEs account for over 90% of businesses and 50% of employment, with their GDP contribution reaching 40-60% in emerging markets. In India, they drive 45% of industrial output and 40% of exports, underscoring their role in industrialization and export diversification. Despite their impact, Msme face challenges like limited access to finance, technological gaps, and regulatory constraints. Addressing these barriers through policy support, financial inclusion, and digital transformation can unlock their full potential. The study highlights the link between MSME growth and macroeconomic stability, emphasizing the need for targeted interventions to enhance competitiveness. By fostering a supportive ecosystem, MSMEs can accelerate inclusive and sustainable economic development*

Keywords: Micro, Small and Medium Enterprises, Economic Growth, Financial inclusion and Digital transformation

I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) serve as the backbone of economic growth, particularly in developing nations like India. Accounting for over 90% of global businesses and 50% of employment (World Bank), they drive job creation, innovation, and inclusive development. In India, the sector contributes 30% of GDP, 45% of manufacturing output, and 40- 45% of exports, while employing over 110 million people. Their decentralized nature promotes rural industrialization, reduces regional disparities, and empowers marginalized communities through entrepreneurship and skill development.

Despite their critical role, MSMEs face challenges like limited access to finance, technological gaps, and regulatory hurdles, which hinder scalability. Supportive policies—such as financial inclusion, digital transformation, and infrastructure development—are essential to unlock their full potential. This study examines MSMEs' economic contributions, challenges, and policy impacts, offering actionable insights to strengthen their role in sustainable development. Economic Pillar: MSMEs form 90% of global businesses, contributing 30% of India's GDP and 45% of exports. Employment & Inclusion: Generate massive rural employment, reduce poverty, and empower women and marginalized groups. Regional Balance: Decentralize industries, bridge urban-rural gaps, and promote equitable growth. Challenges: Struggles with financing, tech adoption, and infrastructure limit scalability. Policy Solutions: Requires better credit access, skill development, and digital integration for resilience.



II. REVIEW OF LITERATURE

1. Dr Kiritsinh Chauhan and Jigna Sarvalya (November 2024)

Dr Kiritsinh Chauhan and Jigna Sarvalya studies the role of Msme in India. The literature Underscores MSMEs' crucial role in driving India's economic growth, job creation, and industrial Development, despite facing challenges like inadequate access to technology, credit, and skill Development. Gaps exist in understanding the regional disparities in MSME growth, the impact Of complex labour laws, and the effectiveness of government initiatives such as "Made in India" And "Vocal for Local." Further research is needed on the integration of international technology, Investment, and strategies to address MSMEs' operational barriers for sustainable growth.

2. Anjali Singh And Mulayam Singh Yadav (December 2023).

Anjali Singh and Mulayam Singh Yadav studies the topic Msme in India : Growth, Performance And Challenges. The literature highlights the significant contribution of MSMEs to India's Economy, particularly during the COVID-19 pandemic, with government initiatives like the Atma Nirbhar Bharat package aiding their recovery. Studies by Khatri (2019), Ajit (2021), and Dey & Biswas (2021) focus on the challenges, growth, and role of MSMEs, including women Entrepreneurship. However, gaps remain in analyzing the long-term impact of emergency Schemes, regional variations in recovery, and the effectiveness of policy measures. Future Research should focus on MSME resilience and post-pandemic sustainability.

3. Rahul Sindhwani, Nitasha Hasteer, Akul Varshney, Adityanesh Sharma (09 February 2022)

Exploring "what," "why" and "how" of resilience in MSME sector However, research gaps exist in Understanding the specific interrelationships between these enablers and their combined impact On MSME sustainability, particularly in the context of emerging markets like India. Further studies Are needed to explore these dynamics in detail.

4. Shrijit Rudrappa Hubballi, Professor Deepak Shyam (September 2023)

The study overlooks specific challenges faced by women entrepreneurs In MSMEs, such as limited Access to finance, societal barriers, and work-life balance. It also fails to delve into sectorial Differences within MSMEs, their varying impacts from COVID-19, and long-term recovery Strategies. Furthermore, the role of government policies or support systems for MSMEs,

5. Chathar singh negi and Sanjay kumar (January 2024)

The study highlights the role of MSMEs in India's economy but overlooks several critical aspects. It does not explore the specific challenges faced by MSMEs in accessing finance, technology, or Skilled labour, particularly in rural areas. The impact of government policies and support programs Aimed at MSMEs is not addressed. Additionally, the study lacks an analysis of how MSMEs can Adapt to global competition and technological advancements. There is also no mention of the Sustainability practices within MSMEs or their role in contributing to green growth. Furthermore, The long-term effects of globalization on MSMEs' survival and growth are not explored.

6. Shrijit Rudrappa Hubballi, Professor Deepak Shyam (September 2023)

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7. Perna pandey (05/July/2024)

Perna pandey studies "The Role of Micro, Small, and Medium Enterprises in India's Economic Development": A Critical Analysis. The study does not address regional disparities in the Effectiveness of government schemes or explore sector-specific challenges. The role of MSMEs in Green innovation is also not discussed.



8. Rashmika Pathak (07 July 2024)

MSMEs significantly contribute to economic growth by generating employment, fostering Entrepreneurship, and improving living standards in both rural and urban areas. Studies highlight Their role in reducing rural-to-urban migration and supporting local economies. However, gaps in The literature include limited research on the specific challenges faced by MSMEs in rural areas, such as access to technology and markets. Furthermore, the long-term impact of MSMEs on Poverty reduction and their role in fostering inclusive growth remains underexplored

III. RESEARCH GAP

Despite recognizing the vital role of MSMEs in India's economic growth, existing literature reveals several research gaps. Studies often overlook regional disparities, sector-specific challenges, and the unique barriers faced by rural and women-led MSMEs. The long-term effectiveness of government schemes, sustainability practices, and adaptation to globalization remain underexplored. There is also limited analysis of the interrelationship between resilience factors and MSME sustainability in emerging markets. Future research must address these gaps to formulate inclusive and adaptive strategies for sustainable MSME growth and development.

Objectives:

1. To analyze the contribution of MSMEs to India's GDP and employment generation:
2. To examine the role of MSMEs in promoting entrepreneurship , innovation and regional Development.
3. To investigate the challenges faced by MSMEs and propose policy recommendations for their growth.

IV. METHODOLOGY OF RESEARCH

Secondary data :pertains to pre-existing information that has been gathered by another party, sometimes with an other Objective, but subsequently reused to support new study or analysis. An extensive selection of scholarly publications Authored, professors, and university students has been evaluated. On addition, an analysis was conducted on books that were published by houses in the market and government reports, and industry studies to understand their historical and current impact on the economy.

Data Collection

- Quantitative Data: Collect data from government databases(e.g., Ministry of MSMEs, RBI) And statistical agencies (e.g., NSSO) on MSMEs' contribution to GDP, employment, and Exports. Utilize data on MSME GVA share in GDP and export contributions.

Data Analysis

- Government Reports: Ministry of MSMEs Annual Reports, RBI Bulletins, and data from the official Bureau.
- Academic Journals: Peer-reviewed articles on MSMEs and economic development, such As Those published in the Asian Journal of Economics, Business and Accounting

V. DATA ANALYSIS

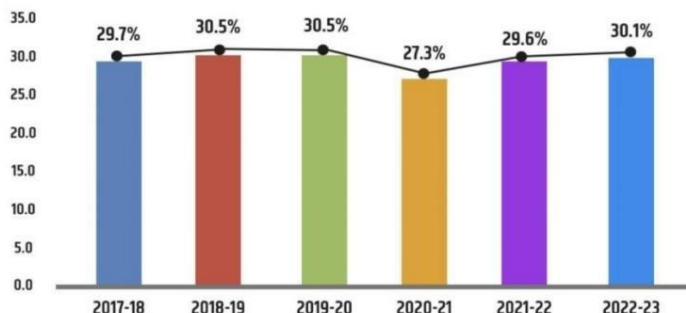
Interpretations:

Over the years, the Indian MSME sector has made a substantial contribution to the GDP of the Country and continuously shown incredible resilience and adaptability. MSMEs contributed 29.7% Of India's GDP in 2017–18, and this percentage increased to 30.5% in 2018–19 and 2019–

20. Despite the COVID-19 pandemic's unprecedented challenges, the sector maintained a 27.3% Contribution in 2020–21, increased to 29.6% in 2021–22, and reached 30.1% in 2022–23. These Numbers demonstrate the sector's crucial contribution to stability and economic growth, Demonstrating its ongoing resilience and significance to the Indian economy.

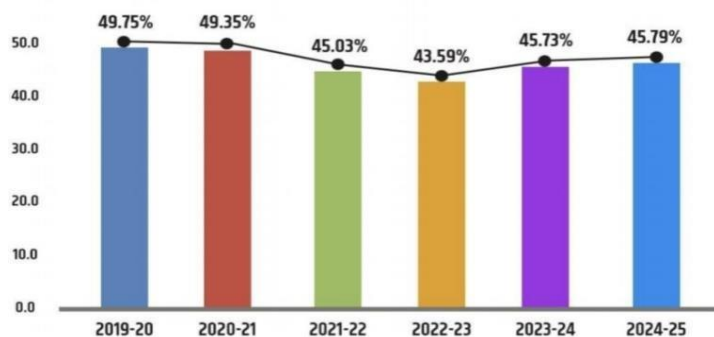


Share of MSME Gross Value Added (GVA) in India's GDP



The image depicts the share of MSME (Micro, Small, and Medium Enterprises) exports in India's total exports from 2019-20 to 2024-25. The data shows fluctuations, with the highest share at 49.75% in 2019-20, a dip to 43.59% in 2022-23, and a recovery to 45.79% in 2024-25. MSMEs play a pivotal role in boosting India's economy by contributing nearly half of the total exports, generating employment, and fostering inclusive growth. Their agility and innovation make them competitive in global markets, while their decentralized nature promotes regional development. To further enhance their impact, measures like easier access to credit, technological upgrades, skill development, and trade facilitation are essential. Strengthening MSMEs can drive higher exports, reduce trade deficits, and create jobs, ultimately fuelling economic growth and resilience. The data underscores the need for sustained policy support to harness their full potential in India's economic advancement.

Share of Export of MSME related products in All India Export



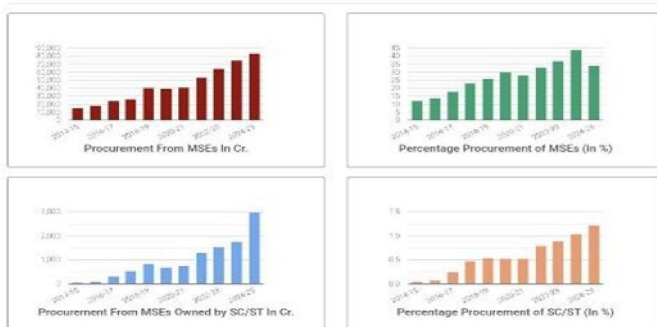
Interpretations:

The MSME Sambandh portal, which tracks public procurement from Micro and Small Enterprises (MSEs), particularly those owned by SC/ST entrepreneurs and women, plays a critical role in strengthening India's economy through inclusive growth, employment generation, and structural reforms. Here's a detailed analysis of its economic contributions.

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Procurement Status



S.No.	FY	Total CPSEs	Total Procurement	MSEs Procurement	Total Benefited	SC/ST Procurement	SC/ST Benefited	Women Procurement	Women Benefited
1	2024-25	139	244426	83178	231049	2980	11497	4868	23194
2	2023-24	157	170944	74728	258582	1761	11582	3153	21359
3	2022-23	168	174316	64721	236943	1547	10384	2319	16792
4	2021-22	162	165382	53778	227049	1302	10437	1713	11383
5	2020-21	156	145904	40807	176685	757	6644	720	4998
6	2019-20	151	131427	39665	157756	692	6340	393	3666
7	2018-19	166	153484	40399	128152	624	4587	232	1410
8	2017-18	172	114041	26357	89667	544	2255	N/A	N/A
9	2016-17	106	136281	24469	N/R	328	N/R	N/A	N/A

1. Boosting MSME Sector: The Backbone of India's Economy MSMEs contribute ~30% of India's GDP and employ over 110 million people. By mandating CPSEs to procure from MSEs, the policy: Boosting MSME Sector: The Backbone of India's Economy• MSMEs contribute ~30% of India's GDP and employ over 110 million people. By Mandating CPSEs to procure from MSEs, the policy:

- Increases demand for MSME products/services, scaling up their revenue.
- Formalizes informal sectors by integrating small businesses into government Supply chains.
- Encourages investment in MSMEs due to assured market access (e.g., Procurement rose from 24,469 Cr in 2016-17 to 83,178 Cr in 2024-25).

2. Promoting Social Equity & Inclusive Growth

- SC/ST Entrepreneurs: Procurement from SC/ST-owned MSEs surged 9x (□328 Cr in 2016-17 to 2,980 Cr in 2024-25), reducing historical economic disparities.
- Women-Led Enterprises: Procurement rose 12x (□393 Cr in 2019-20 to □4,868 Cr in 2024-25), fostering financial independence and gender parity.

Ripple Effect: Income growth in marginalized groups stimulates local demand, uplifting entire communities

3. Employment Generation & Poverty Reduction

- Direct Jobs: MSEs benefiting from CPSE contracts hire more workers (e.g., 231,049 MSEs Benefited in 2024-25).
- Indirect Jobs: Ancillary industries (raw materials, logistics) grow alongside MSEs.
- Poverty Alleviation: Stable incomes for SC/ST/women entrepreneurs reduce dependency On informal, low-wage work.

4. Strengthening Supply Chains & Competitiveness

- Diversification: Reduces reliance on large suppliers, mitigating monopolistic risks.
- Quality Upgradation: MSEs adopt better practices to meet CPSE standards, enhancing Global competitiveness (e.g., "Make in India")

The table highlights key indicators of the Micro, Small, and Medium Enterprises (MSME) sector in India, showcasing its critical role in economic growth. Here's a breakdown of how each data point Contributes to boosting the economy:

1. GDP Contribution (~30% in 2023)

- Significance: MSMEs contribute nearly one-third of India's GDP, making them a backbone Of the economy.
- Economic Impact:

Drives industrial output and value addition across sectors (manufacturing, services, trade). Supports local supply chains, reducing dependency on imports.



Indicator	Data Point	Significance
GDP Contribution	~30% (2023)	Major contributor to national income
Export Share	~45-50%	Key player in international trade
Employment	~62% (over 20 crore jobs)	Largest employment sector
Growth Rate	~11.5% annually	Rapid sector expansion
Credit Gap	Rs. 20-25 trillion	Major financing challenge

Enhances economic resilience by decentralizing production.

2. Export Share (~45-50%)

- **Significance:** MSMEs account for nearly half of India's total exports.

- **Economic Impact:**

Boosts foreign exchange earnings, strengthening the rupee and trade balance. Promotes 'Make in India' by exporting goods like handicrafts, textiles, engineering products, and Pharmaceuticals. Helps India integrate into global value chains, attracting FDI.

3. Employment Generation (~62%, Over 20 Crore Jobs)

- **Significance:** MSMEs are the largest employment providers after agriculture.

- **Economic Impact:** Reduces unemployment and underemployment, especially in rural and semi-urban areas. Supports informal sector workers (artisans, small traders, self-employed individuals). Promotes inclusive growth by empowering women, SC/ST communities, and first-time Entrepreneurs.

4. Growth Rate (~11.5% Annually)

- **Significance:** The sector is expanding faster than many other industries.

- **Economic Impact:**

Indicates rising entrepreneurship and innovation (e.g., tech-enabled MSMEs). Encourages private investment in small businesses.

Helps India achieve its \$5 trillion economy target by sustaining high growth.

5. Credit Gap (Rs. 20-25 Trillion)

- **Significance:** MSMEs face a massive financing shortage, limiting their potential.

- **Economic Impact if Addressed:**

More loans = More expansion → Higher production, exports, and jobs.

Digital lending & fintech (e.g., Udyam Portal, PSB loans) can bridge this gap.

Government schemes like CGTMSE (credit guarantee) and MUDRA loans help MSMEs access Capital.



VI. FINDINGS

- **Significant GDP Contribution:** MSMEs contribute around 30% to India's GDP and approximately 45% of the manufacturing output, underscoring their critical role in industrial production and Economic growth.
- **Major Employment Provider:** MSMEs employ over 110 million people, accounting for about 62% Of India's total employment, especially supporting rural and semi-urban areas, thus helping Reduce unemployment and poverty.
- **Export Promotion:** MSMEs contribute nearly 45-50% of India's total exports, making them key Players in enhancing India's global trade competitiveness.
- **Regional and Inclusive Development:** MSMEs promote balanced regional growth by Decentralizing industrial activities from urban centers to rural and underdeveloped regions, Fostering inclusive economic opportunities and reducing income disparities
- **Innovation and Entrepreneurship:** MSMEs are hubs of innovation, fostering entrepreneurship With relatively low capital investment and encouraging new product development and technology Adoption.
- **Challenges:** Despite their importance, MSMEs face significant hurdles such as limited access to Formal finance, lack of skilled workforce, infrastructure deficits, regulatory complexities, and Competition pressures.
- **Resilience and Adaptability:** MSMEs have shown resilience during economic shocks like the COVID-19 pandemic by adopting digital tools and alternative business models, contributing to Economic recovery.

Suggestions:

- **Enhance Access to Finance:** Strengthen credit availability through easier loan processes, Collateral-free lending schemes, and promotion of fintech solutions to bridge the Rs. 20-25 trillion Credit gap faced by MSMEs.
- **Skill Development:** Implement targeted skill development programs to address workforce Shortages and improve productivity and innovation capacity within MSMEs.
- **Infrastructure Improvement:** Invest in better physical and digital infrastructure, including Transportation, energy, and internet connectivity, especially in rural and semi-urban areas where Many MSMEs operate.
- **Simplify Regulatory Framework:** Streamline compliance and reduce bureaucratic hurdles by Digitizing processes and providing MSMEs with regulatory support to ease their operational Burden.
- **Promote Innovation and Technology Adoption:** Encourage MSMEs to adopt modern technologies And sustainable practices through subsidies, training, and incubation centers to enhance Competitiveness.
- **Strengthen Market Linkages:** Facilitate MSMEs' integration into global value chains and large
- **Industry supply chains** through cluster development and export promotion initiatives.
- **Government Support Continuity:** Continue and expand government schemes like Make in India, Start-up India, and MSME Champions to provide financial aid, mentorship, and market access.

VII. CONCLUSIONS

Micro, Small, and Medium Enterprises (MSMEs) are the unsung heroes of India's economic Growth, acting as the backbone of industrialization, employment generation, and equitable Development. Their contributions span across GDP, exports, job creation, and innovation, making Them indispensable to India's journey toward becoming a \$5 trillion economy. MSMEs are the Backbone of the Indian economy, driving growth through substantial contributions to GDP, Employment, exports, and regional development. Their role in fostering entrepreneurship and Innovation further enhances economic dynamism and inclusivity. However, to fully realize their Potential and support India's vision of becoming a \$5 trillion economy, addressing challenges Related to finance, skills, infrastructure, and regulation is imperative. With sustained policy Support, infrastructure upgrades, and capacity-building efforts, MSMEs can significantly boost India's economic resilience, competitiveness, and inclusive growth trajectory.



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