



Role of MSME in Economic Development

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“If there are challenges thrown across, then some interesting innovative solutions are found. Without challenges, the tendency is to go the same way”

- Ratan Tata

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Abstract

The Micro, Small and Medium Enterprises (MSMEs) sector plays an important role in India's economic development. MSME helps to increasing employment opportunities, promoting innovation, encouraging exports, and contributing continuously to GDP. MSME is a growth engine, and short-term inclusive development by supporting entrepreneurs from rural and urban areas, decreasing regional disparities, and encouraging industrialization at grass root level. However, the industrial sector faces hurdle such as limited access to finance, poor infrastructure, outdated technological adoption, and facing competition from smaller and larger industries. Ensuring sustainable development needs integrating green technologies, skill development, and digital transformation, alongside supportive government policies and institutional frameworks. Strengthening MSMEs is very important not only for economic growth but also for achieving long-term sustainable and inclusive growth.

Keywords: MSME, economic development, Sustainable development, employment generation

The Micro, Small, and Medium Enterprises (MSME) sector in India, officially introduced by the MSMED Act of 2006, incorporates businesses involved in manufacturing, functioning, or preservation of goods. Under the Aatma Nirbhar Bharat Abhiyan 2020, MSMEs are categorized based on their investment levels.

MSMEs in the Indian economy is play an important role for several reasons. It assists as a noteworthy source of employment, especially in economically disadvantaged regions, mainly contributing to poverty alleviation and inclusive growth to eradicate the Indian economy problems.

MSMEs increase the country's export prospective, encouraging international trade and

economic stability. The main aim of MSMEs is promote the entrepreneurship and innovation, motivating competitiveness and productivity within the economy. Through initiatives and government support, the MSME sector continues to succeed, making substantial contributions to India's GDP and overall economic development.

The MSME sector incorporates businesses participated in various economic activities, including manufacturing, processing, and services. Usually, MSMEs were categorized based on whether they were manufacturing or service-based entities.

The classification of MSMEs is now primarily based on their investment amount and annual turnover. As per the latest criteria:



Category	Investment Limit	Turnover Limit
Micro Enterprise	Less than ₹1 crore	Less than ₹5 crore
Small Enterprise	Less than ₹10 crore	Less than ₹50 crore
Medium Enterprise	Less than ₹50 crore	Less than or equal to ₹250 crore

Importance of MSME in the Economic Development of India

1. Employment Generation

MSMEs help to increase the important sources of employment, particularly in economically backward regions. They provide opportunities for both skilled and unskilled labour, and also contribute to job creation and decreasing unemployment rates.

2. Promotion of Entrepreneurship

MSMEs encourage entrepreneurship by giving a platform for people to start and develop their businesses with relatively low investment necessities. MSMEs encourage innovation and creativity, driving economic dynamism and develop a culture of entrepreneurship within the society.

3. Regional Development

MSMEs play a major role in state and regional development by establishing businesses in remote or backward areas, thereby attaining balanced economic growth in different regions. They decentralize economic activities, reducing the concentration of industries in urban centers and concentrate more on rural and semi-urban areas.

4. Export Promotion

MSMEs contribute more to export promotion by producing a wide range of goods and services for global markets. They often concentrate in niche products and cater to specific market demands, attractive the country's export competitiveness and spreading its global market reach.

5. Diversification

MSMEs give importance to economic diversification by functioning in different sectors such as manufacturing, services, agriculture based business, and technology. They remove the reliance on a single sector or industry, thereby enhancing the flexibility

of the economy to external shocks and market fluctuations.

6. Innovation

MSMEs are sources of innovation, constantly developing new products, processes, and technologies to stay competitive in the market. They encourage adopting modern technology, increase the productivity, and facilitate the adoption of innovative practices across industries, for contributing to overall economic growth and development.

7. Reduction of Income Disparities

MSMEs perform a crucial role in reducing income disparities by providing opportunities for wealth creation and income generation among diverse sections of society.

8. Support for Large Industries

MSMEs often oblige as suppliers and subcontractors to large industries, contributing them with essential products, components, and services. They contribute to the value chain of large industries by providing specialised products, customised solutions, and cost-effective services.

Review of Literature

Antima Agarwal (2013) conducted a study "*A study on various schemes for MSME: with special reference to SIDBI*" highlights the crucial role of the MSME sector in India, employing 73 million people through 31 million units, producing over 6,000 products, and contributing 44% to manufacturing output and 40% to exports. The Small Industries Development Bank of India (SIDBI), as the apex financial institution, promotes, finances, and develops MSMEs by introducing various schemes to meet their diverse needs. The study concludes that SIDBI supports financial intermediaries such as SFCs, SIDCs, NBFCs, factoring companies, SEBs, and others, and its schemes have significantly aided MSME growth.

Vedavathi M and Yogita Yadav (2018) highlighted the major problems of MSME's and documented the current status and contribution of MSMEs to the growth of Indian economy. This paper attempted to discuss a plethora of problems, such as lack of modern technology, less innovative



research, a decline in the structure of an economy, a high cost of credit, unavailability of modern technology, insufficient training and skill development programmes, unavailability of timely credit facilities, complex labour laws.

Objectives of the Study

1. To Study performance of MSMEs in Economic Development.
2. To Study the Growth of Promoting MSMEs.
3. To Study Sustainable Development of MSMEs in India.

Research Methodology

The Study Methodology based on Secondary data and Research Journals, Websites through Reference Books.

Limitation of the Study

The Data Collected is only Secondary data. The Data is Collected from Limited Sources.

How do MSMEs Contribute to the Indian Economy?

MSMEs are of countless support in India's economic development, serving as engines of growth and drivers of socio-economic development. This innovativeness is integral to job creation, particularly in rural and urban areas, contributing significantly to the reduction of unemployment and poverty. With nearly 63 million MSMEs spread across the country, they account for approximately 8% of India's GDP, 45% of manufacturing output, and about 40% of exports, solidifying their status as the backbone of the economy.

The MSME sector, managed by the Ministry of Micro, Small, and Medium Enterprises, has acknowledged substantial support from various stakeholders, including government bodies and state governments, facilitating its growth and development. By fostering the growth of the Khadi, Village, and Coir industries, MSMEs have contributed to rural industrialisation and the empowerment of local communities.

Moreover, MSMEs have verified resilience, even during challenging times such as the COVID-

19 pandemic, playing a essential role in India's economic recovery. Government interventions, such as relief measures and financial support schemes, have further strengthened the sector's ability to withstand economic shocks and continue driving growth.

Major Challenges Faced by the MSME Sector

1. **Lack of skilled workforce:** MSMEs fight with a shortage of trained personnel, deterring productivity and growth.
2. **Access to finance:** Limited access to credit and financial resources constrains MSMEs' ability to invest and expand operations.
3. **Competition:** Strong competition, both domestic and global, poses challenges for MSMEs in upholding market share and profitability.
4. **Technology:** Adoption and integration of latest technologies present difficulties for MSMEs due to resource limitations and technological barriers.
5. **Infrastructure:** Inadequate infrastructure, including transportation, energy, and telecommunications, hampers MSMEs' efficiency and competitiveness.
6. **Regulation:** Complex regulatory frameworks and bureaucratic procedures impose compliance burdens and administrative challenges on MSMEs.
7. **Emergencies:** MSMEs are vulnerable to various emergencies, including natural disasters and economic downturns, which can disrupt operations and threaten viability.

MSME Performance in Economic Development

Category	Latest Figures / Facts
Number of MSMEs	<ul style="list-style-type: none">• 40.04 million registered on Udyam portal (March 2024);• 63.39 million estimated total
Sector Distribution	Manufacturing: 196.6 lakh; Trade: 230.3 lakh; Other Services: 206.9 lakh
Rural vs Urban	51% rural, 49% urban



Contribution to GDP	27.3% in 2020-21; 30.1% in 2022-23
Share in Exports	45.79% of national exports (May 2024)
Employment Generated	<ul style="list-style-type: none"> 203.9 million jobs reported on Udyam portal (2020–2024); 270 million estimated total
Women Employment Share	26% of MSME workforce
Credit to MSMEs	US\$279 billion (Oct 2023) under priority sector lending; 48% credit gap
Reliance on Informal Credit	75% of MSMEs still use informal financing
Major Schemes	CGTMSE, Mudra Loan (₹20 lakh limit for repeat borrowers), PM Vishwakarma, MSME Credit Card
Budget Allocation 2024–25	₹22,138 crore for MSME sector; ₹1 lakh crore interest-free loan corpus
Regional Highlight (Tamil Nadu)	30 lakh MSMEs; 2.5 crore employed; 30% of state industrial output; 15% of national GDP contribution

Source: IBEF, Financial Express, Livemint, Statista, Economic Times

1. With **over 63 million units** across India (formal + informal), MSMEs represent one of the **largest business ecosystems** in the world.
2. The almost equal **rural–urban split** (51% rural, 49% urban) shows MSMEs are not just urban-based but are a major **driver of rural industrialization**.
3. **Trade** forms the largest share (36%), followed by **other services** (33%) and **manufacturing** (31%).
4. This indicates that while manufacturing is significant, the **service and trading segments** are equally important for job creation and GDP.

5. MSMEs consistently contribute **around 30% of India's GDP**.
6. The recovery from **27.3% in 2020–21 (COVID hit)** to **30.1% in 2022–23** highlights **resilience and policy support effectiveness**.
7. With **45–46% share in exports**, MSMEs are vital for India's trade balance.
8. This suggests that boosting MSME competitiveness directly impacts **foreign exchange earnings** and **global market presence**.
9. MSMEs employ 200–270 million people, making them the second-largest employment generator after agriculture.
10. The 26% women participation reflects growing female entrepreneurship and workforce integration, though there's still scope for gender parity improvement.
11. Credit to MSMEs is growing (US\$279 billion in 2023), but the 48% formal credit gap and 75% reliance on informal finance highlight access-to-credit as a major bottleneck.
12. This gap pushes MSMEs toward high-cost, non-institutional borrowing, affecting profitability.
13. Initiatives like **CGTMSE, Mudra Loans, PM Vishwakarma**, and the **MSME Credit Card** are designed to bridge funding gaps.
14. The ₹1 lakh crore **interest-free loan corpus** and ₹22,138 crore budget allocation show **strong fiscal support** from the government.

Tamil Nadu's **30 lakh MSMEs** employing **2.5 crore people** and contributing **15% of national GDP** show how **state-level strategies** (cluster-based growth, export orientation, skilling) can make MSMEs globally competitive.

The data paints MSMEs as **the backbone of India's economy**—deeply embedded in rural and urban economies, contributing substantially to GDP and exports, and providing massive employment. However, **financing constraints, informal credit reliance**, and **the need for skill upgradation** remain critical challenges. Effective policy implementation and **digital + credit inclusion** could unlock even higher growth potential.



Suggestions for MSMEs to Sustainable Development Goals

A human-centered approach is essential in exploring the circular economy that can ignite entrepreneurs' innovative spirit and fostering inclusive growth. Which encourage business people to develop sustainable solutions that benefit both the environment and society, creating a more inclusive and rightful future.

1. Use of Local Resources: The MSMEs ought to use raw materials from local suppliers to eradicate transportation emissions and regional inequality, and recycled materials in production processes.
2. Involvement in Community development: Development cannot be possible vacuum form that's why MSMEs should participate energetically in local environmental initiatives and community development projects taken by government, and collaborate with NGOs and other organizations focused on sustainability.
3. Sunset Clause Scheme: It refers to a policy or regulation that includes a pre-determined time limit for certain benefits or exemptions provided to MSMEs. This will encourage MSMEs to grow and adapt within the time and businesses to become more self-reliant.
4. A Grandfathering Clause: This is a facility that allows existing businesses to retain certain welfares or rights under older regulations, even after new rules or changes are implemented. This helps to ensure stability for established MSMEs during transitions and encourage sustainable growth without the fear of losing previously granted benefits.
5. Corporate Social Responsibility: By implementing tailored CSR solutions, MSMEs can contribute to social good while driving sustainable growth.
6. Humans are the ones who provide creativity, emotional intelligence, and ethical oversight. The incorporation of Artificial Intelligence (AI) will boost the potential for innovation and growth for entrepreneurs and small businesses.

7. There are plaintiff possibilities to drive sustainable and inclusive growth for MSMEs in Tourism and sports sectors. To ensure the prosperous of MSMEs and their crucial role in economic development, suitable strategic policies should be implemented.

Conclusion

MSME can offer much greater service to the Indian nation than their bigger counterparts. These rural enterprises can do wonder if they have better capital inflows at their disposal. This has been the motive behind MUDRA to ease capital limitations faced by rural micro entrepreneurs and bring much more money at their discarding to grow themselves and make India grow. Micro entrepreneurs can contribute to Mr. Modi's Make in India programme through this scheme by making India a manufacturing hub of millions of small items and things and marketing them on a larger scale. However, government policies will be of no use without the participation of people. The available literature and data show that this sector is continuously growing the passage of time and encouraging employment opportunities for the youth. Government of India has taken many new initiatives and makes policies for the development of MSMEs with sustainability. With the advancement of technology and the up-gradation of small business keeping in mind the future of the Indian economy. A combined effort of government, family members and total involvement of the people at the grass root level will go a long way in bringing about planned development of rural microenterprises

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