

MSMEs SECTOR PROGRESS AND PERFORMANCE IN 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. 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. Inclusive and sustainable development for any economy plays an important role; it ensures equitable distribution of growth benefits across society. This paper examines the role of MSMEs in India's economic growth using secondary data from government reports, academic studies, industry publications, and reputable databases. According to the study findings, the Indian MSME Sector contributes to inclusive and sustainable growth by offering job possibilities, ensuring regional development, and empowering marginalized groups.

Keywords: MSMEs, Economic development, Sustainable development, GDP Contribution, Employment Generation.

1. 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.

The MSME sector is gaining great significance in the nation's economic development. It is evident from the popular terms given to MSMEs, i.e. backbone or engine of the economy. This sector not only provides job opportunities but also helps nations in becoming self-reliant. In many countries, MSMEs contribute significantly to GDP, exports, and innovation, providing employment opportunities to a large population segment, particularly in rural areas. In India also it is second largest job provider after the agriculture sector. In India, about 90 percent of industrial units belong to the MSME sector, which employs approx. 12 crore people. The MSME sector has appeared as a vibrant and dynamic sector that acts as a growth accelerator for the development of the Indian economy. MSMEs produce more than 6000 diverse products to meet the demands of local, national, and international customers. This paper explores the vital role of MSMEs in economic growth by creating employment opportunities, helping reduce regional disparities, empowering marginalized groups and addressing challenges for the sustainable development of MSMEs. Different organizations, commissions and individuals have defined sustainable development. Still, the World Commission on Environment and Development has given the most popular definition of sustainable development (Also known as Brundtland Commission Report, 1987). It defined sustainable development as "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs". The sustainable development goals cover a wide range of socio-economic, environmental, and political variables which helps mitigate the negative effect of climate change and helps create a sustainable society. It comprises 17 interconnected goals to be achieved by 2030. This compels the government to adopt sustainable policies and promote social and economic development. Indicators such as production, output, human resource development, the standard of living, consumption

patterns, and contribution to international trade, particularly export, meeting of social responsibilities, and just and equitable distribution of wealth among all citizens and segments of the nation's society are used to assess the role that MSMEs play in the country's economic sustainability.

2. LITERATURE REVIEW

Kamal-Chaoui, (2017) emphasized that SMEs can play a leading role in meeting the most economic goals of the SDGs. By discussing the importance of SMEs in promoting inclusive and sustainable economic growth, innovation, employment generation, gender equality, etc., the researcher emphasized that policies are needed to maximize the potential and productivity of SMEs. He mentioned two major hurdles in SME development: first, access to finance and second, the participation of SMEs in global value chains.

Ugwuegbe, U., Urama, N. E., et al. (2018) studied the role of entrepreneurship development in Meeting the 2030 SDG in Nigeria. This study discussed SDGs, entrepreneurship in developing countries, and entrepreneurship development and SDGs in Nigeria. It asserted that entrepreneurship can fast-track the achievement of most of the SDGs but give more emphasis to poverty alleviation (Goal 1), decent work and Economic Growth (Goal 8), and Industry Innovation and Infrastructure (Goal 9)., the study recommended providing adequate funding, loans, and infrastructure, encouraging creativity and self-reliance, and increasing collaboration among SMEs to provide an enabling environment to ensure the achievement of SDGs.

Verma, T. L. (2019) attempted to study the role of Micro, Small, And Medium Enterprises (MSMEs) in achieving sustainable development goals. It was a descriptive research based on secondary data. This study shows that MSMEs play a huge role in achieving SDGs, especially the goal of Poverty Alleviation (Goal 1), Decent Work and Economic Growth (Goal 8), and Industry Innovation and Infrastructure (Goal 9) and also contributes directly and indirectly to achieving other goals.

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.

3. METHODOLOGY

The paper is descriptive and relying on secondary data from the Ministry of Micro Small and Medium Enterprises (MSME) annual reports, the Handbook of Indian Economy Statistics, journals, and various websites.

4. 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.

a. 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.

b. 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.

c. 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.

i. Contribution of MSMEs of India

a. MSME and GDP growth

Table-1 shows the MSME sector's contribution to the Indian economy in terms of its share in GDP and GVA (Gross value addition) from 2014-15 to 2021-22. It shows that MSMEs greatly contribute to India's GVA and GDP. Table 1 show that there has been an increase in the contribution of MSMEs to both GDP and GVA. Analysis of the

data shows that the share of MSMEs in GVA (40%) is higher than GDP (30%). The share of MSME in GDP was recorded as highest during 2019-20 (30.5%) and lowest in 2020-21(27.2%). Whereas, the share of MSMEs in GVA was recorded as highest in 2021-22(40.8%) and lowest in 2014-15 (31.8%). On the whole, it shows an increasing trend in MSME’s contribution to GVA and GDP with a slight decrease in the contribution to GDP during 2020-21.

Table 1: MSMEs Contribution to the India economy

Year	MSME’s share In GDP (%)	MSME’s share in GVA (%)
2014-15	29.3	31.8
2015-16	29.4	32.3
2016-17	29.2	32.2
2017-18	29.7	32.8
2018-19	30.2	33.5
2019-20	30.5	40.6
2020-21	27.2	40.3
2021-22	29.2	40.8

Source: Annual Report of Ministry of MSMEs 2023

b. Exports

The data from the Directorates General of Commercial Intelligence and Statistics (DGCIS), shows the share of exports of MSME-specified products in all India exports was high from FY 2016 to FY 2021. It was around 50 %, but in FY22 and 23, the share decreased to 45 percent and 43 percent, respectively. This again increased to 45.8 percent in 2023-24 (up to November). Detailed data can be seen in Table 2.

Table 2: Share of MSME exports in total exports in India

Year	Percentage share of MSME exports
2014-15	44.75
2015-16	49.86
2016-17	49.69
2017-18	48.58
2018-19	48.00
2019-20	49.77
2020-21	49.35
2021-22	45.03
2022-23	43.59
2023-24*	45.80

Source: Directorate General of Commercial Intelligence and Statistics.

*Data up to September 2023.

c. Output and Employment

MSMEs play a crucial role in generating employment opportunities. It needs low capital cost compared to large industries. India has approximately 6.3 crore MSMEs, which are expected to grow to approximately 7.5 crores in the coming times, growing at a projected CAGR of 2.5%. According to the most recent data, as of March 2024, there are approximately 4 crore MSME registered on the Udyam portal, out of which 3,93,18,335 (97.7%) are micro-enterprises, 6,08,935 (1.5%) are small enterprises and 55,488 (0.8%) are medium enterprises. Of the total registered MSMEs, 72% belong to the service sector, and 28% to the manufacturing sector. In creating jobs, the food industry tops, employing around 4.80 lakh people, followed by non-metallic mineral goods, which employed 4.50 lakh people and then metal products, which employed 3.70 lakh people.

All these industries are leading in terms of generating employment opportunities. The top three states contributing to MSME registration and employment generators are Maharashtra, Tamil Nadu, and Uttar Pradesh. These states account for nearly 40% of all registered MSMEs and around 35% of persons employed in MSMEs in India. Figure 3 illustrates the share of MSME manufacturing output in overall Indian manufacturing output which is relatively stable over the year. It was 36.6 percent in FY20, 36.9 percent in FY21, and 36.2 percent in FY22.

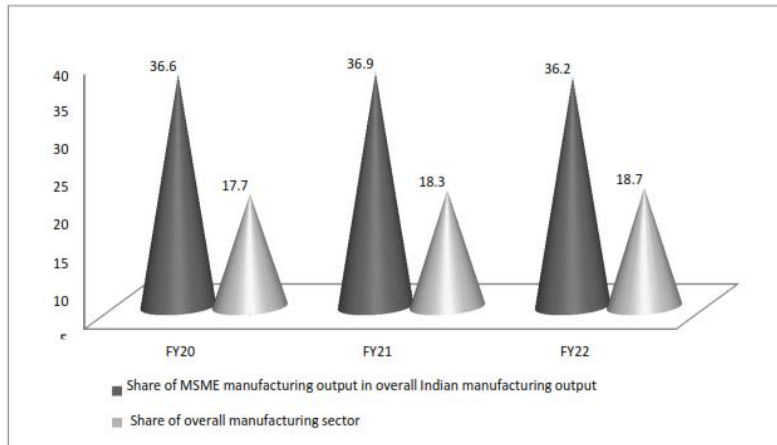


Figure 3. Share of MSMEs in India’s Manufacturing Sector

Source: RBI

d. Regional Development

MSMEs provide employment opportunities at comparatively lower capital costs than large industries and help uplift rural and backward areas, reducing regional imbalances and assuring a more equitable distribution of national income. MSMEs are growing at a consistent development rate over the years and are providing employment opportunities to rural and urban people. According to FICCI, about 309 lakh units (49 percent) of registered MSMEs are located in urban areas, and 324.88 lacks (51 percent) in rural areas. The government has taken many initiatives to reduce poverty and unemployment in rural areas.

e. Empowerment of Marginalized Groups

As a backbone of the economy, MSMEs contribute to the nation’s socio-economic development and help sustain livelihoods, particularly among the women, youth, and backward sections of society. Women’s empowerment is the world’s empowerment. According to the 2023 MSME report, about 19 percent of total MSMEs are owned by women and 81 percent by men. MSMEs are empowering women entrepreneurs through their different schemes and programmes.

Table 3: Women beneficiaries under the Prime Minister’s Employment Generation Programme (PMEGP)

Year	WOMEN ENTREPRENEURS (BENEFICIARIES) UNDER PMEGP
2017-18	15669
2018-19	25434
2019-20	24720
2020-21	27285
2021-22	39,192
TOTAL SINCE INCEPTION (UP TO 31.12.2022)	259339

Source: Annual Report of Ministry of MSMEs 2022.

ii. Challenges faced by MSMEs in India

Despite the importance of the MSME sector in a country like India, it faces several challenges that limit its production and overall performance. It is essential to address and tackle their problems to improve the sustainability of MSMEs. Major challenges that MSMEs face are as follows:

1. Lack of adequate and timely finance
2. Technology adoption
3. Skilled labour
4. Access to market
5. Lack of supportive government policies
6. Basic infrastructure Technology Adoption

iv. 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

essential financing gaps, technological limitations, market access constraints, and skill shortages, thereby improving the sector's productivity and competitiveness.

1. **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. Government 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.
2. **Stand-Up India Scheme:** It facilitates bank loans between ₹10 lakh and ₹1 crore for women entrepreneurs and SC/ST entrepreneurs. Emergency Credit Line Guarantee Scheme (ECLGS) which launched during COVID-19 to provide additional working capital and term loans to MSMEs to recover from the pandemic-induced slowdown.
3. **Technology and Infrastructure Development:** Cluster Development Programme (MSE-CDP) is aimed to support infrastructure development, common facility centres, and upgradation of clusters like textiles, handicrafts, and engineering goods. Another scheme Technology Upgradation Fund Scheme (TUFS) is made assist MSMEs in modernising equipment and adopting new technology, especially in textile and manufacturing sectors.
4. **Digital MSME Scheme:** Encourages MSMEs to adopt ICT tools and cloud-based services to improve efficiency and competitiveness.
5. **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 (PPP) mandates central ministries and public sector enterprises to procure at least 25% of their annual requirements from MSMEs.
6. **Zero Defect Zero Effect (ZED) Certification Scheme:** Promotes quality manufacturing with minimal environmental impact, aiding global market entry.
7. **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.
8. **Policy and Regulatory Reforms: Udyam Registration** is made to simplify online registration process replacing Udyog Aadhaar, fully integrated with GST and Income Tax databases. **Insolvency and Bankruptcy Code (IBC)** are amended to provide faster resolution for MSME insolvency cases.
9. **TReDS (Trade Receivables Discounting System)** to facilitate faster invoice discounting and resolve delayed payment issues.

5. CONCLUSION

The MSME sector stands as the backbone of the Indian economy, contributing substantially to GDP, exports, and employment generation. Over the years, this sector has significantly fostered economic growth, employment generation, and industrialization. This paper discussed the role of MSMEs in economic growth and its contribution toward the sustainable development of the Indian economy. It is contributing to GDP at a consistent growth rate of 30 percent over the last years, which is a significant contribution. A slight decline was found in the percentage share of MSMEs in GDP during 2020-21 (27.2%) from the last few years, i.e. 2014 to 2020, which again rises to 29.2% in 2021-22. Same way share of MSMEs in exports also shows a decline from 50 percent in 2020-21 to 45% and 43.6 % during 2021-22 and 2022-22, respectively. These declines in the contribution of MSMEs to GDP and exports occurred due to the COVID-19 pandemic. The number of registered MSMEs and their contribution to employment generation shows an increasing trend. MSMEs are providing uniform development to the society. MSMEs help generate employment in rural and urban sectors and help uplift backward areas and groups. Government has also taken many initiatives to promote MSME development.

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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