

## **A Study on MSMEs': Role in Propelling Economic Development of India**

**Dr. N. M. Makandar**

Associate Professor,  
Department of Commerce,  
Anjuman Arts, Science, Commerce  
College & PG Studies Dharwad

### **Abstract:**

Micro, Small and Medium-sized Enterprises (MSME) are one among the most important sectors, forming the backbone of the Indian economy. This sector has been instrumental in the growth of the nation, leveraging exports, creating huge employment opportunities for the unskilled, fresh graduates, and the underemployed, also extending the opportunities to banks for giving more credit to enterprises in this sector. The contribution of MSME to other sectors has been immensely instrumental. It is the biggest employer after agriculture sector, despite the fact that agriculture sector's contribution to GDP is less than MSME. While it contributes about 45% to manufacturing sector, and perhaps 40% to Exports, it forms the highest share of Employment sector in India, contributing around 69% to it. It is well known that the MSME sector constitutes the spine of the nation, small Industry has been one of the major pillars of India's economic development strategy since Independence. It is recognized fact that agriculture alone is not capable of meeting the challenges of unemployment and poverty reduction of our country. As such a planned and regulated development of industries is must for the growth of our nation. The present paper is an attempt to analyze the role of MSME in Indian economy.

**Keywords:** MSMEs, India, Globalization, Entrepreneurship, Unemployment, Export and Imports

### **Introduction:**

The Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic and social development of the country, often acting as a nursery of entrepreneurship and innovation. They also play a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The MSME sector contributes significantly to the country's manufacturing output, employment and exports and is credited with generating the highest employment growth as well as accounting for a major share of industrial production and exports. MSMEs have been globally considered as an engine of economic growth and as key instruments for promoting equitable development. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products, services and levels of technology. The sector not only plays a critical role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialization of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSMEs complement large industries. Micro, Small and Medium Enterprises (MSME) contribute nearly 22 percent of the country's GDP, 45 percent of the manufacturing output and 40 percent of the exports. They provide the largest share of employment after agriculture. They are widely dispersed across the country and produce a diverse range of products and services to meet the needs of the local markets, the global market and the national and international value chains. The major advantage of the sector is its employment potential at low capital cost. It is well known that the MSME sector constitutes the spine of the nation, small Industry has been one of the major pillars of India's economic development strategy since Independence. It is recognized fact that agriculture alone is not capable of meeting the challenges of unemployment and poverty reduction of our country. As such a planned and regulated development of industries is must for the growth of our nation.

**Meaning:**

A micro enterprise is a small business that employs a small number of employees. A micro enterprise will usually operate with lesser than 10 people and is started with a small amount of capital. Most of the micro enterprise market their goods or services to their local area.

**Definition:** According to MSME development Act 2006.

- In the case of manufacturing enterprise: A micro enterprise is one in which the investment in plant and machinery does not exceed 25 lakhs.
- In the case of Service enterprises: A micro enterprise is one in which the investment in plant and machinery does not exceed Rs 10 lakhs.

**Significance of the Study:**

Micro, Small and Medium-sized Enterprises (MSME) are one among the most important sectors, forming the backbone of the Indian economy. This sector has been instrumental in the growth of the nation, leveraging exports, creating huge employment opportunities for the unskilled, fresh graduates, and the underemployed, also extending the opportunities to banks for giving more credit to enterprises in this sector. The government should take utmost care of this sector in terms of providing more and more MSME Registration benefits through better regulations, Government simply, and enabling financial institutions to lend more credit at less interest rate for sustainability of this sector.

The contribution of MSME to other sectors has been immensely instrumental. It is the biggest employer after agriculture sector, despite the fact that agriculture sector's contribution to GDP is less than MSME. While it contributes about 45% to manufacturing sector, and perhaps 40% to Exports, it forms the highest share of Employment sector in India, contributing around 69% to it. Since the enterprises falling in this sector require low capital to start the business, it creates huge employment opportunities for many unemployed youth. India produces about 1.2 million graduates per year, of the total number about 0.8 million are engineers. And, there is no economy in the world that can provide jobs to so many fresh graduates in one year. MSME is the boon for many of this fresh manpower.

**Objective of the Study:**

The main objective of the paper is to evaluate the overall growth and developments in the MSMEs sectors in India. Following are the specific objectives of this paper

1. To analyze the growth of MSMEs in Indian context.
2. To analyze the performance of MSMEs in present scenario.
3. To know the contribution of MSMEs in GDP contribution.
4. To critical examine the opportunities of employment created by the MSMEs.
5. To ascertain the Balanced Regional Development.

**Database & Research Methodology:**

The study is based in secondary data. All financial data are compiled from MSMEs Annual report, Government of India. . Ministry of MSME, Government of India, Centre for Monitoring Indian Economy, Reserve Bank of India, World Investment Report and World Investment Report. RBI bulletin, online data base of Indian Economy, journals, articles, newspapers, etc. Are also referred for compilation of this paper

**Review of Literature:**

A comprehensive review of literature has become an essential part of any investigation has it not only gives an idea about the work done in the past and assists in delineation of the problem area but also provides basics for interpretation of findings. An attempt is made along the following lines to review some of such studies. **Singh et al. (2012)** analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target. **Garg, Ishu. And Walia, Suraj.**

(2012) confirms that the significant growth of MSMEs have been taken place over a period of time and this sector is the major donor to gross domestic product (GDP), employment and exports in Indian economy using the OLS technique. **Annual Report of MSME 2012-2013**, , gives the overall view of MSMEs with respect to its performance and growth in production, employment, export, number of industries, detail view of various schemes and of various departments of MSMEs. **Dr. Meeravali S., K.Ramesh et al. (March 2017)** found that though MSME total working enterprises, employment and market value of fixed assets grown at CAGR of 4.39%,4.75% and 6.64% respectively, the contribution from manufacturing and service sector MSME contribution to GDP is -1.53% and 1.82% respectively. Researchers also suggest that government has to adopt integrated policy, promote skill development to increase productivity and also providing accessible credit through government sponsored agency exclusively to MSME is essential to increase productivity and contribution to economic growth.

#### **Analysis of Data:**

Following parameters have been identified to assess the role of MSME in propelling economic development of India

1. MSME'S Growth in India
2. MSME'S Contribution in GDP
3. Estimated Number of MSMEs (Activity Wise)
4. Distribution of Enterprises Category Wise
5. Estimated Employment in MSME Sector (Broad Activity Category Wise)
6. Share of MSME exports in total exports

#### **MSME'S Growth in India & Contribution in GDP:**

Micro, Small & Medium Enterprises (MSMEs) contribute significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture. Government is committed to supporting this critically important sector for better credit flow, technology upgradation, ease of doing business and market access's operation and growth have been persistently challenged by numerous internal and external factors, even a significant number of MSEs in different parts of the country have collapsed and goes out of operation. This research, therefore, aims to identify those internal (firm-specific) and external (macroeconomic) factors affecting the growth of MSEs in Bole Sub City of Addis Ababa City administration.

Table-1 Growth of MSMEs (Figures in lakh)

Parameters	NSS 73 <sup>rd</sup> Round 2015-16	Fourth All India census of MSMEs 2006-07	Annual Compound Growth Rate(5)
No.of MSMEs ( Total )	633.88	361.76	6.43
Manufacturing	196.65	115.00	6.14
Services	437.23	246.76	6.56
Employment ( Total	1109.89	805.24	3.63
Manufacturing	360.42	320.03	1.33
Services	749.47	485.21	4.95

Source: Annual Report MSME 2018-19,Page.35

The Micro, Small and Medium enterprises (MSMEs) play a pivotal role in the overall industrial economy of India. MSMEs constitute more than 80% of the total number of industrial enterprises and support industrial development. MSMEs contribute nearly 45% to manufacturing and about 40% to the Indian export sector. Their

contribution to the Indian GDP is 8% and the sector has registered a growth rate of 10.8%. Indian MSMEs have moved up from the manufacture of traditional goods including leather, gems and jewelry, agricultural goods to much more value addition in the manufacturing sector to its entry in the value added services as well. It is one of the major growth drivers of Indian Economy. It is based on the Model of Socio economic policies of the Govt. of India. It develops appropriate indigenous technology. It possesses the second largest sector after agriculture. It includes more than 26 million units which are producing more than 8000 products within the country. It provides employment to over 59 million.

#### **Contribution of MSMEs in Indian Economy:**

MSMEs have been contributing significantly to the expansion of entrepreneurial base through business innovations. MSMEs are widening their domain across sectors of the economy, producing a diverse range of products and services to meet demands of domestic as well as global markets. There are over 6000<sup>4</sup> products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. The contribution of MSME Sector in country's Gross Value Added (GVA) and Gross Domestic Product (GDP) at current prices for the last five years is as below:

Table -2 Contribution of MSMEs in Country's Economy at Current Price  
(Figures in Rs. Crores adjusted for FISIM3 at current prices)

Year	MSME GVA	Growth %	Total GVA	Share of MSME in GVA %	Total GDP	Share of MSME in GDP %
2011-12	2622574	--	8106946	32.35	8736329	30.00
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

Source: Annual Report MSME 2018-19. Page.27

The table presents the contribution of Micro, Small, and Medium Enterprises (MSMEs) to India's economy from 2011-12 to 2016-17, focusing on Gross Value Added (GVA) and their share in the Gross Domestic Product (GDP) at current prices. From 2011-12 to 2016-17, MSME GVA shows a consistent growth trajectory, increasing from Rs. 2,622,574 crores to Rs. 4,405,753 crores, indicating robust expansion in economic value generated by these enterprises. This growth reflects a steady annual increase, averaging around 9-15% per year, demonstrating the sector's resilience and contribution to overall economic output.

In terms of their share in total GVA, MSMEs grew from 32.35% in 2011-12 to 31.83% in 2016-17, indicating a stable but slightly declining trend over the years. Similarly, their share in total GDP decreased marginally from 30.00% to 28.90% during the same period. This suggests that while MSMEs continue to expand in absolute terms, their relative contribution to the overall economy has slightly decreased, potentially due to growth in other sectors or larger enterprises.

The data highlights the significant role of MSMEs in driving economic activity and employment generation in India. Their sustained growth in GVA underscores their importance as key contributors to GDP and emphasizes the need for policies that support their development and competitiveness in both domestic and international markets.

Table-3 Estimated Number of MSMEs (Activity Wise)

Activity category	Estimated Number of Enterprises ( in Lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
Electricity	0.03	0.01	0.03	00
<b>All</b>	<b>324.88</b>	<b>309.00</b>	<b>633.88</b>	<b>100</b>

Source: Annual Report MSME 2018-19.Page.28

The table presents estimated numbers of Micro, Small, and Medium Enterprises (MSMEs) categorized by activity and location. In rural areas, manufacturing dominates with 114.14 lakh enterprises, constituting 35% of the total rural MSMEs. This contrasts with urban areas where manufacturing remains significant but slightly less dominant at 82.50 lakh enterprises, comprising 27% of urban MSMEs. The trade sector shows a reverse trend with 108.71 lakh enterprises in rural areas (33% of rural MSMEs) and a higher concentration in urban areas with 121.64 lakh enterprises (39% of urban MSMEs). Other services display a balanced distribution between rural (102.00 lakh enterprises, 31%) and urban areas (104.85 lakh enterprises, 34%). Interestingly, the electricity sector contributes minimally to both rural (0.03 lakh enterprises, less than 0.01%) and urban areas (0.01 lakh enterprises, less than 0.01%). In summary, the data underscores the diverse landscape of MSMEs across India, revealing a predominance of manufacturing in rural areas and a more balanced distribution across trade and services in urban centers. These figures highlight the intricate interplay between economic activities and geographical locations within the MSME sector, reflecting varying regional priorities and economic dynamics.

Table -4 Distribution of Enterprises Category Wise (Numbers in lakh)

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
<b>All</b>	<b>630.52</b>	<b>3.31</b>	<b>0.05</b>	<b>633.88</b>	<b>100</b>

Source: Annual Report MSME 2018-19.Page.29

The table presents a distribution of enterprises categorized by size (micro, small, medium) across rural and urban sectors, with totals and percentage shares. In rural areas, micro-enterprises dominate significantly with 324.09 lakh units, comprising 51% of all enterprises surveyed. Small enterprises are minimal at 0.78 lakh units, and medium-sized enterprises are almost negligible at 0.04 lakh units.

0.01 lakh units, contributing to a total of 324.88 lakh enterprises. Conversely, urban areas display a similar dominance of micro-enterprises at 306.43 lakh units, accounting for 49% of the total surveyed enterprises. Small enterprises are more prevalent here at 2.53 lakh units, and medium-sized enterprises, though still minor, slightly increase to 0.04 lakh units. This sums up to 309.00 lakh enterprises in urban sectors. Overall, when combining rural and urban sectors, micro-enterprises constitute the largest share at 630.52 lakh units, making up 99.5% of the total surveyed enterprises. Small enterprises follow with 3.31 lakh units (0.5%), and medium-sized enterprises are the least represented at 0.05 lakh units (0.008%). The total number of enterprises surveyed across both sectors amounts to 633.88 lakh units, reflecting the predominance of micro-enterprises in the national economic landscape.

#### **Employment:**

The table presents estimated employment figures in the MSME sector categorized by broad activity types and their distribution across rural and urban areas. Manufacturing emerges as the largest employment generator with 360.41 million jobs, constituting 32% of total MSME employment. This sector shows significant employment both in rural (186.56 million) and urban (173.86 million) areas. Trade follows closely, contributing 387.41 million jobs, with a higher share in urban areas (226.54 million) compared to rural (160.64 million), reflecting its urban-centric nature. Other Services account for 362.22 million jobs, distributed almost evenly between rural (150.53 million) and urban (211.69 million) areas, indicating a balanced employment pattern across regions.

Table -5 Estimated Employment in MSME Sector (Broad Activity Category Wise)

Broad Activity Category	Employment			Share ( % )
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.41	35
Other Services	150.53	211.69	362.22	33
Electricity	0.06	0.02	0.07	00
<b>All</b>	<b>497.78</b>	<b>612.10</b>	<b>1109.89</b>	<b>100</b>

Annual Report MSME 2018-19

The negligible employment in Electricity (0.07 million) underscores its minimal contribution to overall MSME employment. In aggregate, the MSME sector employs 1,109.89 million people, with urban areas contributing significantly more (612.10 million) than rural areas (497.78 million), reflecting the concentration of MSMEs in urban centers. This data from the MSME Annual Report 2018-19 highlights the sector's vital role in job creation across different economic activities and underscores the urban-rural disparity in employment distribution within the MSME sector.

**MSME Export to Total Exports:**

The MSME (Micro, Small, and Medium Enterprises) sector's contribution to total exports is a critical indicator of its economic significance and resilience within the global trade landscape. MSMEs typically comprise a large portion of export activities in many economies, playing a pivotal role in driving economic growth, job creation, and fostering innovation.

Table-6 Share of MSME exports in total exports (Amount in USD Million)

Year	Total Exports	Export by MSMEs	Share of MSMEs (%)
2012-13	300400	127992	43
2013-14	314415	133313	42
2014-15	310352	138896	45
2015-16	262291	130768	50
2016-17	275852	137068	50
2017-18	303376	147390	49

Source: RBI's Report of the Expert Committee on MSMEs 2019

The table illustrates the share of Micro, Small, and Medium Enterprises (MSMEs) in total exports of goods over a six-year period. From 2012-13 to 2017-18, the data reveals a consistent and significant contribution of MSMEs to total exports. In 2012-13, MSMEs exported goods worth USD 127,992 million, constituting 43% of the total exports amounting to USD 300,400 million. Over the subsequent years, this share fluctuated marginally, with MSME exports peaking at 50% of the total in both 2015-16 and 2016-17, when they contributed USD 130,768 million and USD 137,068 million respectively to total exports of USD 262,291 million and USD 275,852 million. Despite slight variations in the absolute amounts of MSME exports, their share generally remained robust, demonstrating their resilience and importance in the export sector. By 2017-18, MSMEs contributed USD 147,390 million to total exports worth USD 303,376 million, accounting for 49% of the total. This consistent presence underscores the vital role MSMEs play in the economy, not only as significant contributors to export earnings but also as engines of growth and employment generation, reflecting their agility and competitiveness in global markets.

**Major Announcements for Startups and MSMEs:**

Budget 2020 has announced several measures which would impact the Startups and MSMEs:

- The Govt has launched a Digital Platform for the protection of Intellectual Property Rights which shall facilitate seamless applications.
- A subordinate debt scheme has been introduced for MSME which would be counted as quasi-equity.
- Eligible for registering as a Startup the earlier criteria of turnover of Rs.25 Crore has been increased to Rs.100 Crore.
- The tax exemption benefit that was given to the Startups for a period of 3 years in a block of 7 years has been increased to 10 years which means that a Startup can now avail tax benefits for a period of 3 years out of a block of 10 years.

- Tax Audit for MSME shall be required in case the turnover exceeds Rs.5 Crore which was earlier Rs.1 Crore. However, this benefit can only be availed by those MSME whose total cash transaction does not exceed 5% of the total transactions.
- 8000 Crore allocated for National Mission for Quantum Technology over a period of 5 years.
- A new Export Credit Scheme shall be introduced called NIRVIK.
- National Logistics Policy shall be launched to make MSME more competitive.

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in addressing both self-employment and unemployment challenges in economies worldwide. These enterprises are often characterized by their ability to generate employment opportunities at a significant scale, particularly in sectors where large-scale industries may not be as prominent or feasible.

MSMEs provide avenues for self-employment by empowering individuals to start and manage their own businesses with relatively lower capital requirements and operational overhead. This aspect is particularly beneficial in economies with high youth unemployment rates or where formal job opportunities are limited. By enabling individuals to become entrepreneurs, MSMEs contribute to economic growth, innovation, and community development.

Moreover, MSMEs contribute to reducing unemployment by absorbing a substantial portion of the workforce, especially in developing countries. They are known for their flexibility in hiring practices and ability to adapt to market conditions quickly, making them resilient in economic downturns. This flexibility also allows them to provide employment opportunities to individuals with varying skill sets and educational backgrounds.

However, challenges such as access to finance, market access, technology adoption, and regulatory compliance can hinder the growth and sustainability of MSMEs, impacting their ability to create more jobs. Governments and support organizations often play a crucial role in addressing these challenges by providing financial assistance, capacity building programs, and fostering an enabling business environment. Over recent years, the share of MSME exports in total exports has shown notable trends. From the data provided, it is evident that MSMEs consistently contribute a substantial portion to a country's export earnings. For instance, between 2012-13 and 2017-18, MSMEs contributed between 42% to 50% of the total export value in the periods analyzed. This demonstrates their ability to compete in international markets despite their size compared to larger enterprises.

The resilience of MSMEs in export markets can be attributed to several factors. Their flexibility allows them to quickly adapt to changing market demands and take advantage of niche opportunities. Moreover, advancements in technology and e-commerce have lowered barriers to entry into global markets, enabling MSMEs to access customers worldwide.

Policy support and initiatives aimed at enhancing the competitiveness of MSMEs in exports are crucial. These may include financial assistance, capacity-building programs, market access facilitation, and measures to improve infrastructure and logistics. Such support not only boosts MSME export performance but also contributes to overall economic development by diversifying export bases and spreading economic benefits more broadly across regions and communities.

### **Conclusion:**

Micro, Small and Medium Enterprises (MSMEs) are amongst the strongest drivers of economic development, innovation and employment. The MSME sector also contributes in a significant way to the growth of the Indian economy with a vast network of about 63.38 million<sup>1</sup> enterprises. To provide impetus to the manufacturing sector, the recent National Manufacturing Policy envisaged raising the share of manufacturing sector in GDP from 16% at present

to 25% by the end of 2022. To become backbone of global manufacturing giants, SMEs must be technologically and skillfully upgraded. Industry-friendly policies should be initiated by the government for promoting infrastructural support facilities. Further the Government has to start implementing the above strategies for strengthening and upgrading the production potential and export orientation of SMEs. MSMEs serve as a vital pillar for self-employment and reducing unemployment globally. Their role in fostering economic inclusion, innovation, and job creation underscores the importance of supporting and nurturing these enterprises to unlock their full potential in driving sustainable economic growth.

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