International Journal of Advance and Applied Research
www.ijaar.co.in
ISSN – 2347-7075 Impact Factor – 8.141
Peer Reviewed Bi-Monthly
Vol. 6 No. 42 November - December - 2025

Role of MSMEs in Strengthening the Indian Economy

Bapu Suresh Shivkar
Research Students,
Prof. Ramakrishna More Arts, Science, Commerce, College, Akurdi, Pune 44
Corresponding Author – Bapu Suresh Shivkar
DOI - 10.5281/zenodo.17987468

Abstract:

Micro, Small and Medium Enterprises (MSMEs) are the backbone of the Indian economy, contributing significantly to GDP growth, employment creation, industrial output, innovation, and export performance. This research paper examines the role of MSMEs in strengthening India's economic structure, especially in the post-liberalization and post-COVID period. It also highlights key challenges and policy initiatives aimed at promoting the growth, competitiveness, and resilience of MSMEs.

Introduction:

The MSME sector plays a pivotal role in driving India's socio-economic development. As per the revised MSME classification (2020), the sector comprises manufacturing and service enterprises with specified investment and turnover limits. With over 63 million enterprises, MSMEs contribute around 30% of India's GDP, 45% of manufacturing output, and nearly 48% of exports. Their widespread geographical presence and labour-intensive structure make them critical for inclusive and balanced regional growth.

Importance of MSMEs in the Indian Economy:

1. Contribution to GDP:

MSMEs account for a significant share of India's GDP, reflecting their role in value creation, industrialization, and national income generation. Their participation in manufacturing, services, and trade enables sustained economic growth.

2. Employment Generation:

The MSME sector is the second-largest employer after agriculture, providing jobs to approximately 110 million people. MSMEs offer employment to semi-skilled and unskilled workers, promoting social inclusion, poverty reduction, and rural livelihoods.

3. Promoting Entrepreneurship and Innovation:

MSMEs foster grassroots entrepreneurship by enabling low-cost entry into business. They stimulate innovation through flexible operations, customized production, and adoption of emerging technologies such as digital tools, automation, and green technologies.

4. Balanced Regional Development:

MSMEs help reduce regional disparities by promoting industrialization in Tier-2 and Tier-3 cities, rural areas, and

backward regions. This decentralization supports sustainable development and reduces migration pressure on urban centres.

5. Enhancing Export Competitiveness:

India's MSMEs contribute nearly half of its exports, especially in sectors like textiles, leather goods, handicrafts, pharmaceuticals, engineering products, and processed foods. Their role in global value chains enhances India's competitiveness.

6. Supporting Large Industries:

MSMEs function as suppliers, subcontractors, and ancillary units for large corporations. They support supply-chain efficiency, domestic manufacturing, and sectoral diversification, especially in automobiles, electronics, and construction.

Government Initiatives for Strengthening MSMEs:

1. Atmanirbhar Bharat Abhiyan:

This flagship initiative focuses on enhancing self-reliance through:

- Collateral-free loans
- Equity infusion
- Fund of Funds for MSME expansion
- Global tenders exemption up to ₹200 crore to encourage domestic procurement

2. Udyam Registration:

A fully digital, paperless system that simplifies enterprise registration and reduces compliance burden.

3. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE):

Provides collateral-free credit up to ₹2 crore, improving financial accessibility for small businesses.

4. MSME Samadhan and MSME Sambandh:

Digital portals introduced to:

- Resolve delayed payments
- Ensure transparency in government procurement

5. Technology Upgradation Programs:

Schemes like:

- CLCS-TUS (Credit Linked Capital Subsidy Scheme)
- ZED (Zero Effect Zero Defect) Certification aim to promote quality and modernization.

Challenges Faced by MSMEs:

1. Limited Access to Finance:

Despite improvements, many MSMEs face difficulties obtaining credit due to:

- Lack of collateral
- Low credit rating
- High interest rates

2. Technological Backwardness:

A large proportion of MSMEs still rely on traditional processes, limiting productivity and global competitiveness.

3. Marketing and Export Barriers:

Challenges include:

- Lack of global market exposure
- High logistics costs
- Poor branding and certification

4. Infrastructure Constraints:

Inadequate storage, transport, electricity, and digital infrastructure affect operations, especially in rural areas.

5. Regulatory and Compliance Burden:

Multiple registrations and inspections create administrative challenges for small enterprises.

Opportunities and Future Prospects:

1. Digital Transformation:

Adoption of e-commerce platforms, digital payments, cloud technology, and AI can boost productivity and innovation.

2. Global Value Chain Integration:

India has opportunities to become a global manufacturing hub by:

- Upgrading technology
- Meeting global quality standards

3. Green and Sustainable MSMEs:

Renewable energy adoption, waste management, and green manufacturing can improve environmental sustainability.

4. Start-up–MSME Collaboration:

Linkages with start-ups in fintech, logistics, and edtech can enhance efficiency and modernization.

Conclusion:

MSMEs play a critical role in strengthening India's economic foundation by contributing to GDP, employment, exports, and entrepreneurship. With effective policy support, improved access to finance, technological upgradation, and digital transformation, the MSME sector can become a dominant driver of India's growth vision. Addressing existing challenges and harnessing new opportunities will ensure that MSMEs remain resilient, competitive, and central to India's journey toward becoming a global economic power.

References:

1. Ministry of Micro, Small and Medium Enterprises, Government of India (Annual Reports).
2. Reserve Bank of India (RBI) – Reports on MSME Sector.
3. NITI Aayog – MSME Policy Documents.
4. Confederation of Indian Industry (CII) – MSME Growth Reports.
5. World Bank (2023). "SME Finance and Global Trends."
6. OECD (2022). "Role of SMEs in Emerging Economies."