

Original Article

Role of MSMEs in Sustainable Development of the Indian Economy

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Abstract: MSMEs play a crucial role in every economy of the world. It is also known as the backbone or engine of the economy. India's MSME sector has appeared as a vibrant and dynamic sector that acts as a growth accelerator for the development of the economy. This sector is the second largest job provider after agriculture in India. There are 64 million micro, small, and medium enterprises in India, and they employ around 6 crore people. It contributes about 30 percent to the gross domestic product and more than 40 percent of the nation's total exports. In this way, MSMEs play a pivotal role in job creation, income generation, poverty reduction, and empowerment of marginalized groups, reducing regional disparities and contributing to GDP and national income. Inclusive and sustainable development for any economy plays an important role; it ensures equitable distribution of growth benefits across society. The present research paper is focused on assessing the performance of MSME's in Indian economy. The present study helps evaluate the economic contribution of MSMEs to the nation's development, as well as major issues and government initiatives to help the MSME sector. The present study is based on secondary data from various MSME's annual reports, the handbook of Indian economy statistics, journals, and various websites. 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, Employment, Sustainable development.

I. INTRODUCTION

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.

II. 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.

III. OBJECTIVES OF THE STUDY

1. To evaluate the economic contribution of the MSME sector.
2. To check the problems for sustainable development of the MSME sector.

IV. METHODOLOGY

The study is descriptive and completely based 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.

V. ECONOMIC CONTRIBUTION OF MSMEs TO NATION'S DEVELOPMENT

MSMEs play a vibrant role in the development of the economy by generating job opportunities for a vast portion of the population, increasing the nation's wealth and contributing to the nation's GDP.

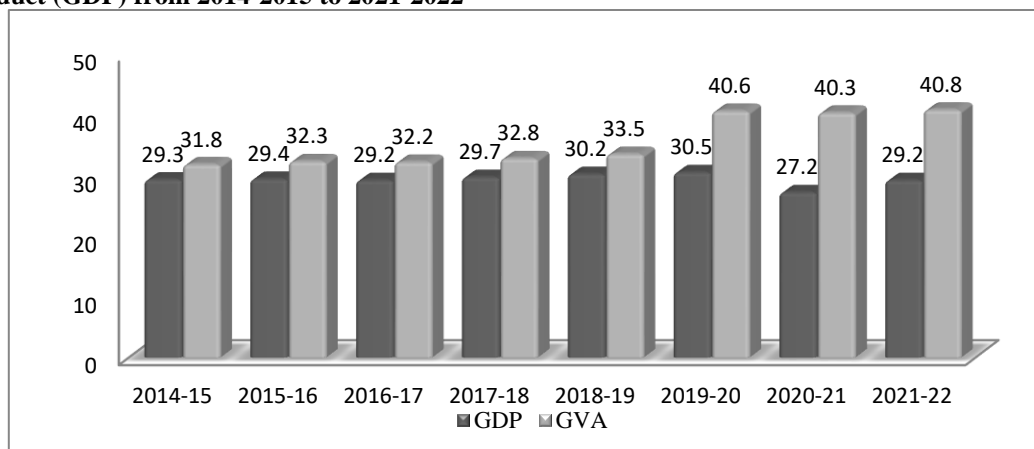
A) MSME and GDP growth

Table 1 provides an overview of the MSME sector's contribution to the Indian economy in terms of its share in GDP and GVA from 2014-15 to 2021-22. This table shows that MSMEs greatly contribute to India's GVA and GDP. Table 1 and Figure 1 show that there has been an increase in the contribution of MSMEs to both GDP and GVA. Analyzing the data, we found 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%). Overall, 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: Contribution of MSMEs to the economy of India.

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

Figure: Percentage share of micro small and medium enterprises (MSME) sector in gross valueadded (GVA) and gross domestic product (GDP) from 2014-2015 to 2021-2022



Source: Annual Report of Ministry of MSMEs 2023, RBI and Press Information Bureau/Directorate General of Commercial Intelligence and Statistics

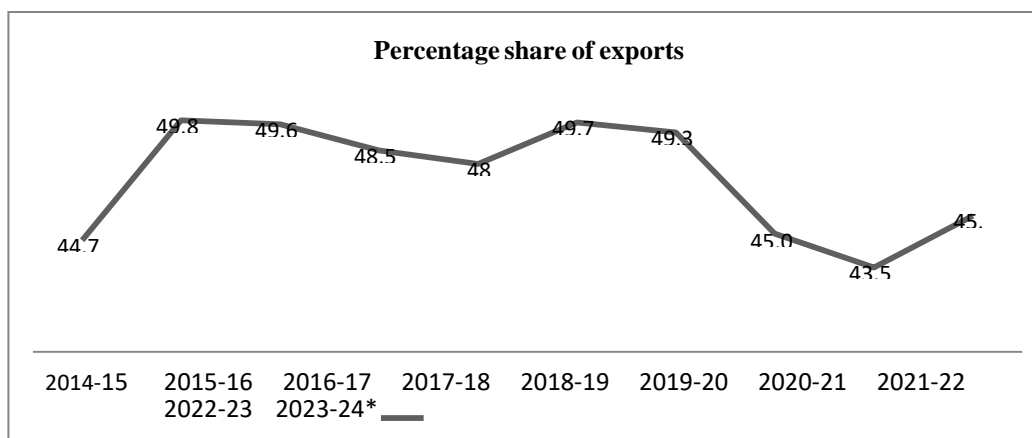
B) Exports

As per the information received from the Directorates General of Commercial Intelligence and Statistics (DGCIS), the share of exports of MSME-specified products in all India exports was high from FY2016 to FY2021. 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 and Figure 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

Figure 2: percentage share of MSME exports in overall Indian exports



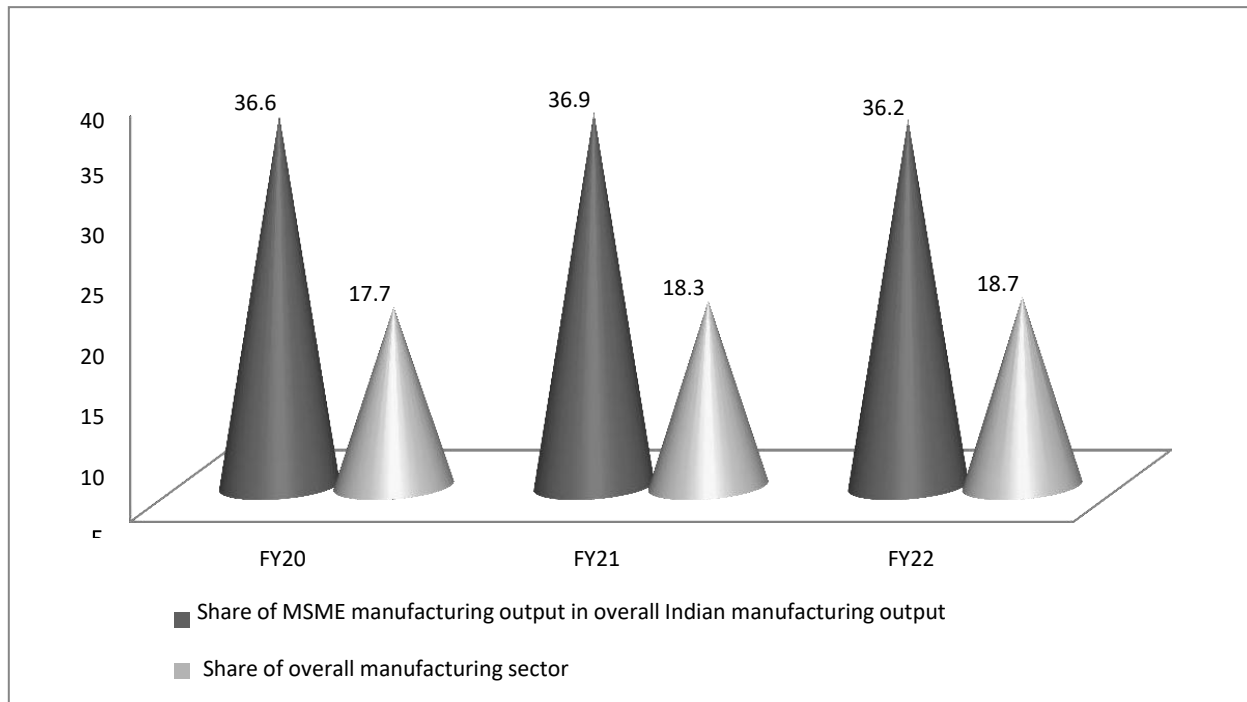
*Source: RBI and Press Information Bureau/Directorate General of Commercial Intelligence and Statistics. *Data up to September 2023.*

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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

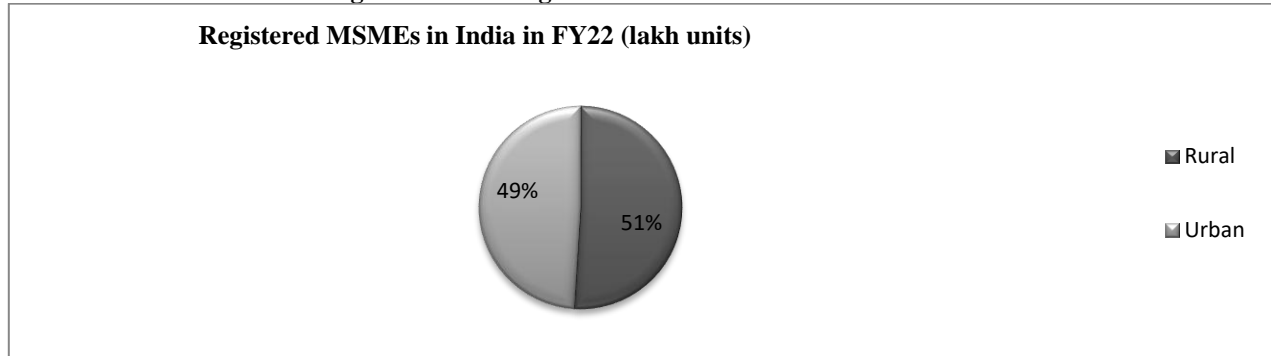


Source: RBI

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, as illustrated in Figure 4, 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.

Figure 4: Percentage share of rural and urban MSMEs.



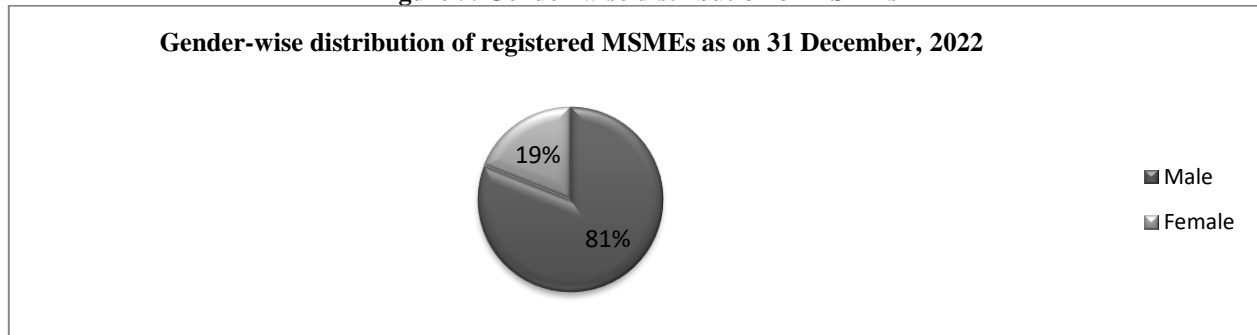
Source: FICCI-EY Re-imagining India's M&E sector, Ministry of Micro Small and Medium Enterprises, GeM Portal

Out of the total industrial units set up under the PMEGP, around 80% are in rural areas and around 20% in urban 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 whole world's empowerment. According to the 2023 MSME report, as illustrated in Figure 5, 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.

Figure 5: Gender-wise distribution of MSMEs



Source: Annual Report of Ministry of MSMEs 2023

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

Year	WOMEN ENTREPRENEURS (BENEFICIARIES) UNDERPMEGP
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.

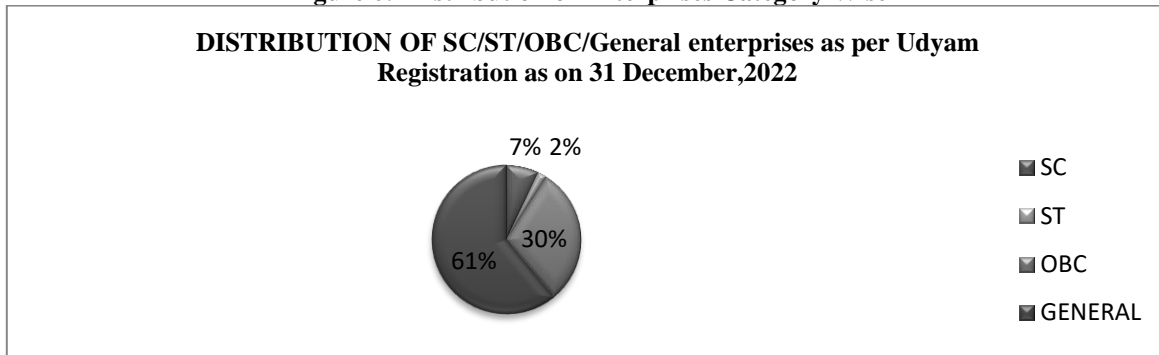
One such scheme is the Prime Minister's Employment Generation Programme (PMEGP); under this scheme, women entrepreneurs have set up around 2,59,339 projects that have been set up by women entrepreneurs since inception (i.e. 2008-09) to 23.01.2022. Table 3 shows year-wise women entrepreneur beneficiaries under the prime minister's employment generation programme from 2017 to 2022. Table 3 shows that since the inception of PMEGP in 2008- 09 up to 31st December 2022, 2,59,339 projects led by women entrepreneurs have received assistance under the scheme. PMEGP provides higher subsidies to women beneficiaries. Under the scheme, women entrepreneurs are categorized as Special Categories and eligible for 25% and 35% subsidies for projects established in urban and rural areas, respectively.

Table 4: PHC beneficiaries under the Prime Minister's Employment Generation Programme (PMEGP)

year	PHC ENTREPRENEURS (BENEFICIARIES) UNDER PMEGP
2017-18	44
2018-19	495
2019-20	414
2020-21	400
2021-22	484
TOTAL SINCE INCEPTION (UPTO 31.12.2022)	4964

Source: Annual Report of Ministry of MSMEs 2022.

Under PMEGP, Persons with disabilities are treated as a Special Category and are entitled to a higher rate of subsidy and lower personal contribution. Table 4 shows that since inception (i.e. 2008-09 to 31.12.2022), 4964 projects initiated by Persons with Disabilities have received assistance under PMEGP.

Figure 6: Distribution of Enterprises Category Wise

Source: annual report of the Ministry of MSME (2022-23)

Figure 6 depicts the distribution of enterprises in different social groups. The data shows that the general group owns the largest proportion of registered MSMEs (7953959, 61%), then 30% (3891979) by OBC, 7% (931643) by SC, and only 2% (299173) owned by the ST group. Both ST and SC groups owned a small proportion of MSMEs. To provide professional support, capacity building, and market linkages and enhance the competitiveness of ST/SC entrepreneurs, National Small Industries Corporation Limited has introduced various interventions and financial assistance in the form of subsidies under various components of the national SC ST hub scheme.

F) Environments

MSME sustainable Zero Defect, Zero Effect (ZED) certification scheme is another good initiative to transit towards sustainability and reduce environmental costs. This scheme was launched in October 2016 and revamped in April 2022 to encourage MSMEs to constantly upgrade their quality standards by adopting zero defect production processes without impacting the environment. It provides three certification levels (gold, silver, and bronze) for environmentally conscious manufacturing. According to the 2022-23 annual report, 26000 MSMEs have registered under the scheme, out of which 1381 got bronze, 42 silver, and 41 gold certificates. This scheme offers a 100% subsidy for ZED certification for women-owned MSMEs.

VI. MAJOR ISSUES

Despite the significance of the MSME sector, especially in a developing 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 issues that MSMEs face are as follows:

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

VII. GOVERNMENT INITIATIVES

The Ministry of Micro, Small and Medium Enterprises has implemented various schemes for the growth and development of the MSME sector in the areas of credit support, technological assistance, infrastructure development, formalization, capacity

building, new enterprise development, skill development and market assistance to the MSME sector. The schemes/programmes include the Prime Minister's Employment Generation Programme(PMEGP), Credit Guarantee Trust Fund for Micro Small Enterprise (CGTMSE), Entrepreneurship Skill Development Programme (ESDP), Micro and Small Enterprises Cluster Development Programme (MSE-CDP), MSME Sustainable (ZED) and National ST/SC Hub.

VIII. PROSPECTS FOR SUSTAINABLE DEVELOPMENT OF THE MSME SECTOR

1. Government initiatives: To promote the MSME sector government has launched various schemes, including credit guarantee programs, technology upgradation, and skill development.
2. Digital transformation: By embracing digital technologies like e-commerce and digital marketing, MSMEs can enhance efficiency, reduce costs, improve market access to MSMEs and it can increase their reach to large audiences of potential clients.
3. Capacity building: Training programs and workshops can enhance managerial skills and promote innovation.
4. Collaborative Ecosystem: MSMEs can benefit from collaboration and partnerships. Platforms like clusters and incubators are provided for collaborations.
5. Skill development: Besides improving the quality of goods and services, focusing on skill development and vocational training can empower MSMEs and their workforce.

IX. CONCLUSION

Micro, small, and medium enterprises are undeniably the backbone of the Indian economy. Over the years, this sector has significantly fostered economic growth, employment generation, and industrialization. This research 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. All three economic, social, and environmental aspects are considered in the development of the MSME sector. If this continues, the nation will attain sustainable development.

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