

## A Study on The Impact of MSMEs on India's Economic Growth

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### **Abstract**

*In India, micro, small, and medium-sized businesses (MSMEs) are vital to the country's economic progress because of the jobs they create, the goods and services they provide, the risk-taking and innovation they foster, and the inclusiveness of their development. This research uses secondary data gathered from the Ministry of Micro, Small and Medium Enterprises' Annual Report 2024-25, Udyam Registration, and Udyam Assist Platform to analyze the impact of MSMEs. The data reveals that when looking at the industry as a whole, micro companies account for the vast majority of registrations and jobs, with manufacturing accounting for the largest percentage of registered businesses. Government assistance programs including skill development and digital procurement via the Government e-Marketplace are also highlighted in the research, along with social and gender-based ownership patterns, investment distribution, turnover rates, and more. According to the results, micro, small, and medium-sized enterprises (MSMEs) are still crucial to India's economic growth and stability.*

### **Keywords**

*Economic Growth, Entrepreneurship, Investment, Atmanirbhar Bharat, Turnover*

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## **Introduction**

An integral part of India's thriving economy is its network of micro, small, and medium-sized businesses, or MSMEs. Due to their capacity to foster industry, create jobs, inspire entrepreneurship, and back up balanced regional growth, they are often considered the backbone of economic development. Micro, small, and medium-sized enterprises (MSMEs) are crucial in developing nations like India, where a significant portion of the population relies on informal economic activities for subsistence. They are an essential part of the rural and urban economies since their influence is seen in all three sectors: manufacturing, services, and trade. In addition to producing goods and services, micro, small, and medium-sized enterprises (MSMEs) play an important role in alleviating poverty, making good use of local resources, and ensuring that revenue is distributed fairly. As a result of policy initiatives like the Government of India's Atmanirbhar Bharat, which aim to promote self-sufficiency, and structural shifts in the Indian economy, the significance of micro, small, and medium-sized enterprises (MSMEs) has grown significantly in recent years. Textiles, food processing, engineering, handicrafts, retail trade, transportation, repair services, and new digital companies are just a few of the many areas where micro, small, and medium-sized enterprises (MSMEs) are active. Because of their adaptability, they can swiftly respond to shifts in the market, changes in consumer tastes, and variations in local demand. Micro, small, and medium-sized enterprises (MSMEs) are ideal for inclusive economic development since they may be developed in small towns and rural locations with far fewer infrastructure requirements than major businesses. Since more jobs are being created outside of large industrial hubs, regional inequities are being reduced as a result of this decentralized nature.

In an effort to boost competitiveness and increase formal involvement, India's legal and economic environment for micro, small, and medium-sized enterprises (MSMEs) has seen substantial alteration. Starting from 1 April 2025, MSMEs will be categorized based on a composite criteria of investment and annual turnover, according to the updated classification announced by the Ministry of Micro, Small and Medium Enterprises. In this structure, micro-enterprises are those with an investment of less than 2.5 crore rupees and a turnover of less than 10 crore rupees; small-enterprises are those with an investment of less than 25 crore rupees and a turnover of less than 100 crore rupees; and medium-sized enterprises are those with an investment of less than 125 crore rupees and a turnover of less than 500 crore rupees. The old sectorial categorizations have been superseded by this more inclusive one, which is equally applicable to service and manufacturing businesses. The policy acknowledgement that service firms now make a substantial contribution to economic output and should be supported equally is

reflected in the uniform categorization. Small and medium-sized enterprises (SMEs) play a significant role in India's economy by creating jobs. Providing prospects for livelihood to millions of individuals across skill categories, the industry is acknowledged as the second-largest source of employment, after agriculture. In areas with a glut of workers but no big industries, micro, small, and medium-sized enterprises (MSMEs) fill the void. They are great at lowering unemployment and underemployment rates, particularly among women, young people, and other economically disadvantaged groups, since they require a lot of manual labor. When compared to large-scale businesses, micro, small, and medium-sized enterprises (MSMEs) are more economically efficient from a developmental standpoint since they provide more jobs per unit of capital. Because of their abundance, global reach, and prevalence in family and community businesses, microenterprises in particular drive the economy's need for new workers. Micro, small, and medium-sized enterprises (MSMEs) not only generate jobs, but also significantly boost industrial production and value. Production of intermediate goods, consumer goods, machine components, textiles, agro-products, and engineering items is carried out by manufacturing MSMEs in India, which contribute to the country's industrial foundation. They supplement industrial supply chains by providing components and services to larger enterprises, acting as auxiliary units. Small and medium-sized enterprises (SMEs) play a crucial role in supporting local production systems in many of India's industrial clusters. In export-oriented industries like clothing, leather, arts and crafts, processed foods, and light technical items, where small businesses directly contribute to foreign currency revenues, their position becomes even more important. Manufacturing SMEs continue to play a significant role in India's industrial development, as seen by their considerable involvement in formal registration.

Furthermore, digital formalization techniques have expedited the growth of MSMEs. A large number of businesses have joined the formal sector with the launch of Udyam Registration and the Udyam Assist Platform. Informal businesses may now obtain government help thanks to these digital tools, which have also streamlined registration processes and lowered paperwork hurdles. Businesses may access loan programs, subsidies, procurement chances, and skill development initiatives if they are formally registered. The availability of data for policy planning and monitoring is also enhanced. It is evident from the registration trend that a significant number of businesses still fall into the micro category. This underscores the growth of entrepreneurialism and the predominance of low-investment economic activity in India. In the aftermath of the COVID-19 pandemic's economic disruptions, government policy has been essential in bolstering MSMEs. To help with financial assistance, boost production, and safeguard jobs during the epidemic, the MSME

ministry saw a substantial rise in its budget allocation. Secured loans without collateral, emergency credit aid, and targeted help for struggling businesses are just a few of the programs put in place to expand people's ability to get the money they need. As a result of government procurement rules, digital platforms like the Government e-Marketplace have opened up new markets for micro, small, and medium-sized companies (MSMEs). Market access and reliance on conventional middlemen have both been enhanced by these endeavors. The encouragement of entrepreneurial spirit is another critical component in MSME growth. Opportunity for self-employment and the encouragement to form independent economic units with low capital are both fostered by micro, small, and medium-sized enterprises (MSMEs). In a nation where the need for jobs outstrips the ability to formally create them, this becomes even more crucial. In addition to fostering innovation and community-level economic engagement, entrepreneurship via MSMEs encourages problem-solving at the local level. Technical training, skill development, and entrepreneurship education are all offered by government institutes within the MSME ministry to help with the launch of new businesses. These programs are tailored to fulfill the needs of both traditional and contemporary industries, and they are in line with the national goals of skill development.

### **Review of Literature**

Sr, & Kumar, Praveen. (2022). The backbone of India's economy consists on micro, small, and medium-sized businesses, or MSME. Their contribution to the Indian economy is much valued. They have a crucial role in creating jobs and in motivating lower-level employees to start at the entrepreneurial level. The purpose of this study is to examine the projected number of micro, small, and medium-sized businesses in India, the impact they will have on the country's economy in 2020 and 2021, and the jobs they will create. Using Microsoft Excel, this research assessed the 2020–2021 annual reports of micro, small, and medium-sized enterprises (MSMEs) and presented the results visually. It has come to light that the micro, small, and medium enterprise (MSME) sector is crucial to the expansion and improvement of the Indian economy, as well as to the creation of jobs in both urban and rural regions. The survey has also revealed the expected employee count and proportion of key industries in the MSME sector. Also included in the research are the limitations and future suggestions.

Gugulothu, Bhargavi & Aleti, Prashanthi. (2024). Employment, innovation, and regional development are all boosted by India's Micro, Small, and Medium Enterprises (MSME) sector, which is at the forefront of the country's economic goals. The impact of micro, small, and medium-sized enterprises (MSMEs) on the entrepreneurial scene and India's GDP growth from 2018 to 2023 is assessed in this

study. A “Resilient Rebound” has been identified after the COVID-19 pandemic by analyzing the Udyam portal’s registration data, export shares, and Gross Value Added (GVA). While micro, small, and medium-sized enterprises (MSMEs) do account for over 30% of GDP, the research shows that their greatest social and economic benefit comes from helping to close the gap between rural and urban areas. This paper lays forth a plan for empowering micro, small, and medium-sized enterprises (MSME) to reach the \$5 trillion economic target, and it talks about how entrepreneurship may progress from being informal to formal.

Saxena, Abhinav & Dhaka, Narendra. (2025). Important to India’s economy, micro, small, and medium-sized businesses (MSMEs) employ about 110 million people across 63–73 million businesses, provide 45–46 percent to total exports, and account for around 30 percent of the country’s GDP. Their varied activities in manufacturing, services, and commerce are prevalent in both urban and rural areas, and they are essential to the growth, industrialization, and innovation of their respective regions. Using secondary data culled from authoritative sources such as government papers, academic studies, industry publications, and databases, this review study delves into the impact of MSMEs on India’s economic development. Examining the sector’s impact on GDP, employment, exports, and entrepreneurship, the report also pinpoints the systemic obstacles that limit its growth. The sector’s development is thoroughly explained by combining important government efforts, policy measures, and success stories. While micro, small, and medium-sized enterprises (MSMEs) have great development potential, they are unable to fully realize that potential due to obstacles such as a lack of capital, outdated technology, inadequate infrastructure, and complicated regulations. In order to boost the industry, the study suggests implementing digital transformation, skill development, targeted governmental interventions, and greater global market integration..

Dixit, Annapurna & Pandey, Alok. (2011). The majority of the research on SMEs has concentrated on three primary areas: performance metrics, the function of financial institutions, and development drivers in emerging nations. For the years 1973–1974 through 2006–2007, this research used cointegration analysis to look at how SMEs’ production, exports, employment, number of SMEs, and fixed investment correlated with India’s gross domestic product, total exports, and public and private sector employment. Findings show a positive causal relationship between GDP in India and production from SMEs. The short-term association between the factors pertaining to SMEs and India’s development was analyzed using the Error Correction Mechanism (ECM). There is a positive short-term relationship between the independent and dependent variables, according to the ECM findings..

## **Research Methodology**

### **Research Design**

A descriptive and analytical research strategy formed the basis of the study. This study uses official data on business categorization, registration, employment, investment, turnover, and government assistance to look at how MSMEs have contributed to India's economic development. The current state of micro, small, and medium-sized enterprises (MSMEs) is explained via descriptive analysis, and trends and economic impact are identified through analytical interpretation.

### **Population of the Study**

Research participants are all Indian SMEs that have registered with the Ministry of Micro, Small, and Medium Enterprises' Udyam Registration system or Udyam Assist Platform. The research includes micro, small, and medium-sized businesses as of 31 December 2024 from the service, manufacturing, and trade industries.

### **Data Collection**

The analysis relies only on secondary data culled from several government papers, the Udyam Assist Platform statistics, Udyam Registration data, the official MSME site, the Ministry of Micro, Small and Medium Enterprises Annual Report 2024-25, and other sources. An study has been conducted using data pertaining to budget allocation, employment creation, ownership pattern, investment range, and turnover distribution.

### **Data Analysis and Interpretation**

**Table 1: Sector-wise Distribution of MSMEs**

<b>Sector</b>	<b>Percentage%</b>
Manufacturing	44%
Services	21%
Trading	35%

As seen in the table, manufacturing firms make up the biggest percentage of MSMEs at 44%, highlighting their significant role in industrial output. With 35% coming from trading and 21% from services, the formal MSME sector is moderately represented.

**Table 2: Enterprise-wise Distribution of MSMEs**

<b>Enterprise Category</b>	<b>Registration (Approx.)</b>	<b>Percentage</b>
Micro	5.69 crore	98.5%
Small	0.07 crore	0.2%
Medium	0.73 crore	1.3%

Micro businesses account for almost all MSME registrations (98.5% percent), as seen in the table. A low rate of firm advancement into higher categories is shown by the tiny number of small businesses, whereas medium-sized organizations contribute 1.3%.

**Table 3: Social Category-wise Ownership of MSMEs**

Category	Percentage
SC	11%
ST	3%
OBC	31%
General	55%

The table shows that out of all the categories of entrepreneurs, 55% are from the general category, while 31% are from the OBC. The relatively lower levels of SC and ST ownership suggest a lack of equality in social involvement in business ownership.

**Table 4: Employment Contribution by MSMEs**

Enterprise Category	Employment (Approx.)	Percentage
Micro	22.2 crore	91%
Small	1.5 crore	6%
Medium	0.7 crore	3%

The table shows that micro enterprises are the largest employment providers, contributing about 91% of total MSME employment. Small and medium enterprises contribute 6% and 3% respectively, highlighting the labour-intensive nature of micro enterprises.

### **Conclusion**

Based on their substantial contributions to industrial development, job creation, entrepreneurship, and social inclusion, the research concluded that MSMEs play a critical role in India's economic progress. Micro companies are the backbone of the sector, accounting for the vast majority of registrations and the vast majority of jobs. This highlights the vital role these businesses play in sustaining local economies and people's means of subsistence. One indication of the robust production base in the manufacturing sector is the fact that it continues to account for the biggest percentage among registered MSMEs, followed by trade and services. Digital registration tools like Udyam and the Udyam Assist Platform, implemented by the Ministry of Micro, Small and Medium firms, have helped MSMEs develop and legitimize a huge number of firms, according to the report. Women and underprivileged populations are becoming more involved, according to statistics

broken down by social and gender, but there are still gaps. The industry has been further fortified by the government's backing, which has come in the form of increased funding, talent development programs, and procurement efforts like the Government e-Marketplace. When it comes to India's economic growth, micro, small, and medium-sized enterprises (MSMEs) continue to play a crucial role.

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