

MSME SECTOR CONTRIBUTION TO INDIAN ECONOMY

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Abstract

MSMEs or Micro, Small and Medium Enterprises sector is one of the most powerful pillars of India's economic structure. For national output, employment, export, innovation and rural industrialization MSMEs are contributing a significant share till 2025. With an approximate contribution of 31% to India's GDP, 49% to the overall exports and over 110 million jobs being generated in this sector (Ministry of MSME, 2024), its systemic importance in nation-building cannot be overemphasized. This research paper highlights the economic contribution, structural composition, policy context, financial architecture and structure, technological disruptions to MSME sector in greater details. Drawing on secondary data from government reports, academic literature and industry analysis, the paper assesses the sector's performance 2019–2025 and anticipates future opportunities against respective background of digitalization, global trade and sustainable development.

Keywords: MSME, India, GDP contribution, employment generation, export performance, policy framework productivity.

Introduction

Micro, Small and Medium Enterprises are the backbone of India's industrial and entrepreneurial ecosystem. NITI Aayog(2024) notes that the MSME sector holds the unique stature of being home to more than 63 million enterprises, spanning a wide array of sectors – manufacturing, services, trade as well as newer digital industries contributing significantly to inclusive growth and socio-economic development. These findings work in rural and urban hubs, generating employment opportunities, decreasing regional disparities while operationalizing grassroots entrepreneurship.

The classification of MSMEs in 2020 brought in a fundamental change by using an integrated criteria comprising both investment and turnover, which increased the number of formal-sector units and allowed millions to register themselves digitally through the Udyam portal. As of 2025, over 30 million units were registered, offering improved visibility and enabling easier access to credit, markets and government schemes. The Indian MSME ecosystem is well aligned with India's larger economic vision of making a scientific (Make in India), digital (Digital India) and self-reliant economy (Atmanirbhar Bharat mission)—therefore, MSMEs are better placed to complement manufacturing competitiveness, export intensity, digital commerce and innovation-led growth.

Concept and Classification of MSMEs

As defined in the revised 2020 definition:

Category	Investment Limit	Turnover Limit
Micro	Up to ₹1 crore	Up to ₹5 crore
Small	Up to ₹10 crore	Up to ₹50 crore
Medium	Up to ₹50 crore	Up to ₹250 crore

This Investment and turnover based classification system has broadened the scope and have led expansion without losing MSME benefits.

Evolution and Growth of the MSME Sector

The MSME sector had its origins in the SSI (Small-Scale Industries) regime including institutional mechanisms that was instituted post-Independence to facilitate entrepreneurship and regionalisation of industries. In 2006, the MSME Act formalized and expanded its definition. A push towards liberalization in the 1990s expedited integration into global supply chains, while reforms post-2014 facilitated a robust flow of credit, ease of doing business and digital mechanisms for governance.

The period 2019 to 2025 is one of the most transformational phases in MSME development. Despite the adverse effects of COVID-19 on supply chains, consumer demand, and labor mobility, the sector showed significant recovery with the help of targeted policy interventions such as ECLGS that injected liquidity into this generally unorganized sector and prevented widespread firm shutdowns (RBI, 2023).

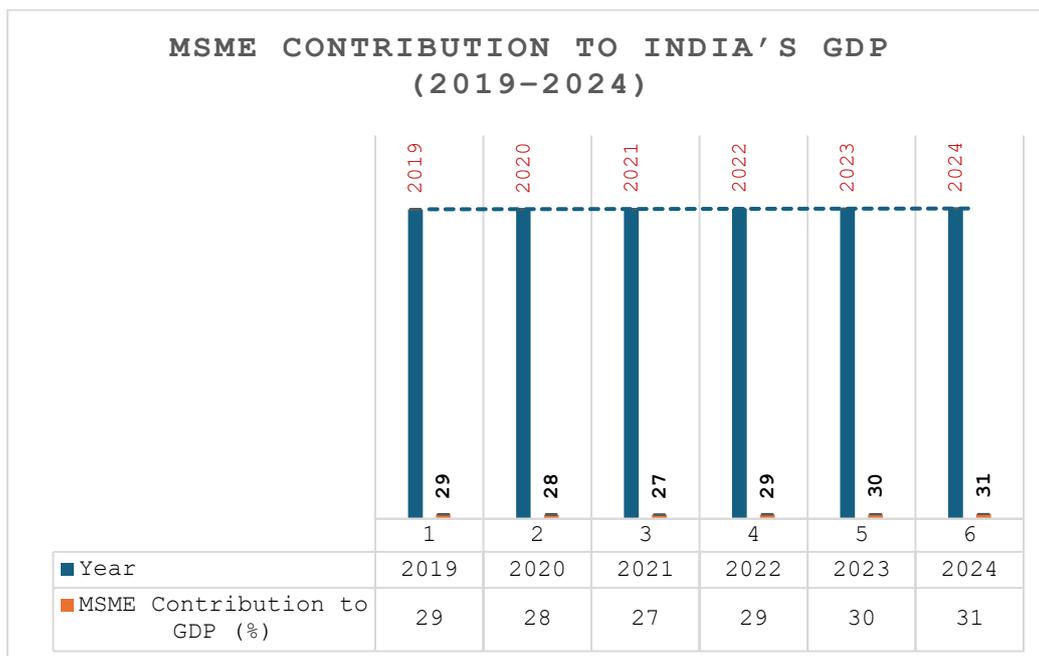
MSME's and its contribution to GDP of India

The MSME sector's GDP share has proved resilient in the face of economic shocks. The (2025) and report from the Ministry of MSME provides data reflecting a steady growth post-2021, with GDP contributions increasing from 27% in 2021 to 31% as of 2024 owing to uptick in manufacturing production, services diversification trends, and integration into the online marketplace.

MSME Contribution to India's GDP (2019–2024)

Year	MSME Contribution to GDP (%)
2019	29
2020	28
2021	27
2022	29
2023	30
2024	31

It represents the accelerated adoption of digital tools, more formalization and integration of MSMEs within global and domestic value chains.



Employment Contribution

Currently, MSMEs provide jobs to over 110 million people in the country in 2025 and make up the second-largest employment sector after agriculture (Economic Survey 2024). Increase in women-owned enterprises and self-help group (SHG) involvement, along with rural industrial clusters reflects a growing employment base.

Another remarkable trend has been a continued rise of women-owned and home-based businesses. Various policies such as the Trade Related Entrepreneurship Assistance and Development (TREAD) scheme, Self-Help Group (SHG)-linked microenterprises and the Stand-Up India initiative are helping implore greater gender participation and improve socio-economic inclusivity. The increase in khadi, coir, handicrafts and cluster-based manufacturing initiatives has transformed rural industrialization and created a host of decentralized employment (making the immense demographic potential dairy with respect to India). Similar formalization of enterprises through platforms like Udyam Registration has also increased the quality of employment. Formalisation has brought this access to social security benefits, wage structures that are appropriate for the job and skill-development opportunities under an initiative like Skill India Mission. As digital technologies deepen within business operations, a new form of employment – gig and platform-based work – established itself within the MSME ecosystem. The flexibility offered by digital commerce, logistics, IT-enabled services and creative industries has translated into an increase in technology-based jobs across numerous sectors that appeal to enterprises for investment.

In addition, the government-supported cluster development programmes under SFURTI (Scheme of Fund for Regeneration of Traditional Industries) and ASPIRE (A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship) have enabled region-specific employment ecosystems. These clusters enable shared infrastructure, skill training and

training common facility centres and market linkages, thus strengthening the local labour market in totality.

In other words, the MSME sector serves as an important employment stabilizer in times of economic turmoil. Its decentralized and labour-intensive nature can create throughout the year more and inclusive jobs especially for less privileged people in rural areas. As India moves towards a more connected and innovation-driven economy, the MSME sector will see a gradual increase in employment opportunities with emerging roles in advanced manufacturing, e-commerce, green technologies as well as service-oriented sectors.

Key employment-related trends include:

- Micro-enterprise growth (gig- and platform-based)
- Growing stay at home players in high-skill sectors, including IT services and design technologies
- Creation of rural manufacturing clusters under the SFURTI and ASPIRE schemes dyan Registration has formalized enterprises digitally leading to better job quality, connected jobs with higher wages and social security coverage.

MSMEs and Export Performance

As significant contributors to foreign exchange earnings, MSMEs in India account for 49% of national exports (DGFT, 2024). Export-intensive clusters include:

- ✚ Textiles and garments
- ✚ Leather and footwear
- ✚ Pharmaceuticals
- ✚ Engineering goods
- ✚ Auto components
- ✚ Gems and jewellery
- ✚ IT and digital services

The rise of the Open Network for Digital Commerce (ONDC) allowed MSMEs to sell directly to global markets with fewer intermediaries, making them more competitive too.

FILIPINO SELF CONFINING FINANCE SYSTEM.

Seamless credit access is vital for MSME growth. Significant improvements have occurred through:

1. ECLGS, which has guaranteed loans of over ₹5 lakh crore
2. All such learning will be done through similar activities. Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE)
3. TReDS platforms for invoice discounting
4. Digital lending platforms using alternative credit scoring
5. Priority sector lending guidelines of the Reserve Bank of India

Nevertheless, credit gaps remain due to insufficient collateral, costs of transactions and risk aversion by banks.

Technological Adoption and Innovation

Increased competitiveness of MSME has become important through technological upgradation. Adoption of the following technologies rose sharply between 2022 and 2025:

- Cloud computing

- Artificial intelligence (AI) for predictive analytics
- 3D printing in manufacturing
- Digital payment systems (UPI-based)
- Enterprise resource planning (ERP) tools
- E-commerce and e-marketplaces

Design in India, MSME Digital Saksham and Technology Centres Systems Programme (TCSP) have facilitated modernization through technology support.

Government Initiatives Supporting MSMEs

Big reforms that have been framed with a vision to change the MSME ecosystem in 2025 are:

- ❖ Atmanirbhar Bharat -Facilitating domestic production and import substitution.
- ❖ PMEGP (Prime Minister's Employment Generation Programme).- Funding first-time entrepreneurs and rural businesses.
- ❖ Cluster Development Programme- Federated production clusters with common facilities
- ❖ Digital Udyam Registration- Enabling formalization and compliance transparency.
- ❖ ONDC- Enhancing market access and digital storefronts for MSMEs.
- ❖ Zero Defect Zero Effect (ZED)- Encouraging quality and environmental compliance.

Challenges Facing MSMEs in 2025

MSMEs face overbearing structural and functional challenges notwithstanding their huge contributions:

- ✚ Restrictions on access to credit, particularly for micro-enterprises
- ✚ Low levels of technological literacy amongst rural units
- ✚ Increasing raw material and logistics prices
- ✚ Late payments from companies and government organizations
- ✚ Limited international market knowledge
- ✚ Regulatory compliance burdens

In order to overcome these challenges, coordinated policies reform, financial inclusion strategies and capacity development initiatives are needed.

Opportunities for MSME Growth (2026–2030)

There are significant opportunities ahead in the next decade such as:

1. **Digital Commerce Expansion-** E-commerce penetration among MSMEs is expected to rise by 12–15% annually.
2. **Green MSMEs-** Implementation of clean technology initiatives especially renewable energy, sustainable packaging and waste-recycling.
3. **Export Diversification-**The company is now expanding into African, ASEAN and Middle Eastern markets.
4. **GVC Integration-** Automotive, Electronics, Defence and Textile sector Opportunities
5. **Startup–MSME Collaboration-** News Technology Transfer: Product Development and Innovation Partnerships

Conclusion

The MSME sector continues to be integral to India's economic resurgence. By 2025, it will make a significant contribution to GDP, jobs, exports and innovation. Reforms of the government, modernization through technology, increasing financial inclusion and expansion

of markets all reinforced the resilience of this sector. However, the evolving landscape presents lingering barriers to credit access, digital literacy, infrastructure and regulatory compliance that need immediate attention. With policy enablement sustained & strategic infusion, MSMEs can propel India to a global economic and manufacturing hub.

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