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# Role of Micro, Small and Medium Enterprises (MSMEs) in Indian Economy

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**ABSTRACT:** Micro, Small and Medium Enterprises (MSMEs) are units that produce, manufacture and process goods and commodities. The Government of India first introduced the concept of MSMEs through the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. The Micro, Small & Medium Enterprises (MSME) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSME are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. The MSME in India are playing a crucial role by providing large employment opportunities at comparatively lower capital cost than large industries as well as through industrialization of rural & backward areas, inter alia, reducing regional imbalances, assuring more equitable distribution of national income and wealth. Small and medium scale businesses play a major role in the development of the Indian economy. This is the reason why various schemes are launched by the government from time to time to promote them. In this article, we will discuss what is MSME, its features, its contribution to the Indian economy, etc.

**KEYWORDS:** Micro, Small & Medium Enterprises, Economy, Innovations, Employment

## I. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are the backbone of India's economy. They play a vital role in promoting economic growth as well as generating employment and promoting entrepreneurship. Their importance lies in contributing to GDP, boosting inclusive growth, actively participating in exports, promoting innovation and being the focus of various government initiatives. MSMEs symbolize the dynamism and diversity of the Indian economic landscape, which makes them crucial for the country's progress and development.

Definition of Micro, Small and Medium enterprises:

In accordance with the MSMED Act, MSME are classified as below:-

- A micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- A small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees;
- A medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

## II. MANDATE OF MINISTRY OF MSME

On 9 May 2007, the erstwhile Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises (M/o MSME). The Ministry designs policies, promotes and facilitates programmes, projects, schemes and monitors their implementation, with a view to assisting

MSME and helping them to scale up.

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address different issues affecting MSME, inter alia, the coverage and investment ceiling of the sector. The MSMED Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. The MSMED Act has the following key provisions:

- Establishment of a National Board for Micro, Small and Medium Enterprises headed by the Hon'ble Union Minister for MSME. The role of the Board is to examine the factors affecting the promotion and development of MSME, review the policies and programmes of the Central Government and make recommendations in regard to facilitating the promotion and development and enhancing their competitiveness.
- It provides the legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities.

- It empowers the Central Government to undertake programmes and issue guidelines and instructions to develop and enhance the competitiveness of MSME.

### **III. ROLE OF MSMES IN INDIAN ECONOMY**

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the Indian economy. They contribute significantly to various aspects of growth and development.

1- Exports:-MSMEs contribute significantly to India's export sector. They are engaged in the production and export of various goods and services. Their participation increases the country's presence in global trade.

2- Employment:-MSMEs are the largest job creators in the country. They provide employment opportunities to a large section of the population. Their decentralized nature contributes to inclusive economic growth by providing employment in different sectors.

3- Entrepreneurship:-MSMEs promote entrepreneurship by enabling individuals to set up and manage their own enterprises. The sector is a fertile ground for new business ideas, encouraging innovation and business ownership.

4- Innovation:-MSMEs contribute to innovation and technological advancement. Their adaptability and agility help in the quick implementation of new practices. This leads to progress in different industries.

In short, MSMEs work as a dynamic engine of economic growth. It plays a multi-faceted role in promoting trade, employment, entrepreneurship and innovation in the Indian economy.

### **IV. BENEFITS OF BEING CLASSIFIED AS AN MSME**

By obtaining MSME status, businesses can avail of these wide-ranging benefits, paving the way for sustainable growth, innovation and market expansion.

- Collateral-free loans:- Several financial institutions, under government-backed schemes, offer collateral-free loans to MSMEs, making it easier for businesses to secure financing and maintain cash flow.
- Low interest rates and priority lending:- MSMEs often get lower interest rates on loans and are given priority under various loan schemes, increasing their access to credit and helping them expand their operations.
- Government subsidies and incentives:- MSMEs can avail of a range of subsidies – such as credit-linked capital subsidy for technology up gradation and take advantage of schemes providing partial financing support for international trade fairs, marketing or patent registration.
- Preference in procurement:- Public sector units (PSUs) and government departments have specific procurement policies that provide preference to MSMEs, thereby increasing their chances of getting government contracts.
- Protection against delayed payments:- The MSME Development Act, 2006 mandates that buyers (especially large companies) must pay invoices for supplies from MSMEs within a stipulated timeframe, or face penal interest, helping MSMEs maintain healthy cash flow.

Tax and compliance benefits: MSMEs can benefit from various tax relief measures and simplified compliance protocols, reducing their operational burden and freeing up resources to focus on growth.

### **V. IMPORTANCE OF MSMES IN INDIA'S GROWTH JOURNEY**

- Contribution to GDP and employment generation: -MSMEs currently contribute to around 30% of India's gross domestic product (GDP), playing a vital role in accelerating economic growth. Further, MSMEs are labour-intensive sectors and play a vital role in generating employment opportunities across various sectors. They currently employ over 11 crore people in India.
- Contribution to manufacturing output:- MSMEs contribute significantly to the country's manufacturing output, especially in sectors such as food processing, engineering and chemicals.
- Export Promotion:- MSMEs currently contribute to about 45% of India's total exports. Their diverse product range, which often caters to the demand of niche markets, strengthens India's presence in the global trade arena.
- Rural Industrialization:- MSMEs play a vital role in driving rural industrialization and promoting inclusive growth. The Khadi and Village Industries sector has been instrumental in providing employment opportunities in rural areas and empowering local communities.
- Innovation and Entrepreneurship:- The MSME sector promotes innovation and entrepreneurship, as it is often easier for small businesses to adapt to changing market conditions and introduce new products or services.

### **VI. IMPACT OF MSMES ON INDUSTRY**

The Micro, Small and Medium Enterprises (MSME) sector is a major contributor to the socio-economic development of the country. In India, the sector has gained significant importance due to its contribution to the country's Gross Domestic Product (GDP) and exports. The sector has also contributed significantly to entrepreneurship development,





especially in the semi-urban and rural areas of India. Amendments to the definition of Micro, Small and Medium Enterprises (MSME) were announced on May 13, 2020 under the Atmanirbhar Bharat Abhiyan Scheme. The Ministry of Micro, Small and Medium Enterprises has amended the definition and criteria of MSME through its gazette notification dated June 1, 2020. The new classification for MSME has become effective from July 1, 2020. So, as per the new classification of Micro, Small and Medium Enterprises (MSME) under the Atmanirbhar Bharat Abhiyan Scheme, enterprises are defined on the basis of investment criteria in plant and machinery and turnover. According to data from the Ministry of Micro, Small and Medium Enterprises, as of July 2024, the number of MSMEs registered on the Udyam Portal including the Udyam Assistance Platform (UAP) has reached 4.77 crore, showing a steady growth. MSMEs are being encouraged to market their products on e-commerce sites, especially through the Government e-Marketplace (GeM), owned and operated by the government, from where ministries and PSUs (public sector undertakings) make their purchases. In January 2024, UPI processed over 16 billion transactions, with a total value of Rs 23.48 lakh crore (US\$ 270.3 billion), showing a growth of 27% year-on-year. The MSME-Sambandh scheme has positively impacted the targeted beneficiaries by providing professional support, facilitating market linkages and assistance in upgrading their skills, resulting in a 17-fold increase in public procurement (in value terms) from SC/ST MSEs, i.e., from Rs 99 crore (US\$ 11.4 million) in FY 2016 to Rs 1,722 crore (US\$ 198 million) in FY 2024, as reported on the portal. As of December 2024, 32 States and Union Territories have submitted Strategic Investment Plans (SIPs), of which 31 have been appraised. Over 200 proposals amounting to about Rs 3,000 crore (US\$ 345.3 million) have been approved for States and Union Territories. Since its inception, all the initiatives under RAMP have positively impacted over 4,00,000 MSMEs.

## VII. MSME SCHEME FOR EMPOWERING WOMEN ENTREPRENEURS

The MSME schemes introduced for women entrepreneurs specifically ensure that they find it easier to start up new businesses and obtain the necessary MSME loans to start these businesses. Some of these schemes are:

- 1. Mahila Udyam Nidhi Scheme** - Originally introduced to offer financial assistance of up to ₹10 lakhs to small businesses, the Mahila Udyam Nidhi Scheme now also helps women set up new projects and businesses. Under this scheme, women entrepreneurs also have the liberty of upgrading the existing projects. The Mahila Udyam Nidhi Scheme has a variety of interest rates depending on the market rates, and the loans have a repayment tenure of up to 10 years with a 5-year moratorium period.
- 2. Tread Scheme** - The Trade-Related Entrepreneurship Assistance and Development (or TREAD) scheme is aimed to empower women by providing them with the necessary credit for projects which includes training, counselling, and knowledge to run the projects in the ideal way. The TREAD scheme aims to build the knowledge of women in businesses better. Under this scheme, the government provides a grant of up to 30% of the total project cost, which is determined by the financial institutions.
- 3. Prime ministers employment Generation Scheme** - The Prime ministers employment Generation scheme allows women entrepreneurs to receive the necessary financial assistance under this scheme to grow their businesses. The best thing about this scheme is that it is applicable in all industries, new and old businesses, and throughout all the services. The aim of the scheme is to empower women by providing them with the necessary MSME loans in order to help them become financially stable. One of the most important features of this scheme is that it also offers a 15% discount on the project costs, which is up to a maximum of ₹12,500 per person.
- 4. Annapurna yojana** - If any women want to take up their interest in catering and make it into a business, this scheme is the right option for them. The Annapurna Yojana allows women to launch a catering business by borrowing a sum of ₹50,000 under this scheme. With a repayment period of 36-months and required collateral, this scheme is already benefitting a lot of women throughout the country.
- 5. Udyogini Scheme** - The Udyogini scheme is ideal for women who want to start a new business of any kind. The original plan with the scheme is that it's more suitable for families that earn less than ₹1.5 lakhs per year. Without any discrimination against any class of women, the Udyogini scheme is meant to benefit everybody who needs it. Under this scheme, the loan amount of ₹3 lakh is provided in cash with a lower interest rate. The scheme aims to help women become financially stable to launch their own businesses, especially in remote areas.
- 6. Dena Shakti Scheme** - All women entrepreneurs that are involved in agriculture, manufacturing, or similar enterprises can acquire loans under the Dena Shakti scheme. The loans offered under the Dena Shakti Scheme are up to ₹50,000 with a concession of about 0.25% on the rate of interest. However, for retail trading, housing, or education, loans of up to ₹20 lakhs could be sanctioned.



## **VIII. SCHEMES FOR SMES IN INDIA**

The government runs several schemes to promote Indian small and medium enterprises (SMEs). Let us have a look at these schemes in detail:-

- **Make in India:-** This much-discussed initiative has played a vital role in boosting businesses and motivating Indian SMEs to manufacture, develop and assemble products made in India.
- **Financial Assistance to Small and Medium Enterprises under ZED Certification Scheme:-** This scheme aims to implement Zero Defect and Zero Effect (ZED) principles in the manufacturing of Indian MSMEs. Under this scheme, the Government of India provides subsidy of up to 80% to MSMEs.
- **Pradhan Mantri Rojgar Srijan Karyakram:-** This scheme set up by Khadi and Village Industries Commission (KVIC) was to finance MSMEs.
- **Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE):** -This scheme was implemented to address the financial problems faced by Indian small and medium enterprises (SMEs). It provides loans to individuals, micro and small enterprises without any guarantee.
- **Government Initiatives for Technology Upgradation and Innovation:-** The central government is striving to improve the condition of MSMEs in India and has implemented several initiatives to promote technology upgradation and innovation among Indian SMEs. These include Innovation, Rural Industries and Entrepreneurship Promotion Scheme (ASPIRE), National Manufacturing Competitiveness Programme (NMCP) etc. These schemes for SMEs in India help them deal with problems such as financing, technology etc. A strong SME sector helps to boost employment and technological advancement and grow the Indian economy.

## **IX. CONCLUSION**

The impact of MSME on the Indian economy cannot be emphasized enough. Today's youth need not move too far away from their homes for stable employment. Micro, Small, and Medium Enterprises (MSMEs) are the new fertile ground for ideas, innovation, and growth. These enterprises are at the forefront of driving manufacturing and industrial expansion, job creation, and GDP growth. However, they confront various challenges, including limited access to finance, infrastructure constraints, obsolete technology, regulatory issues, and a shortage of skilled labour. Addressing these hurdles becomes essential to harness the potential of MSMEs fully, ensuring they propel India's ongoing economic advancement. Based on their size and investment in assets, businesses are classified into micro, medium and small enterprises, also known as the MSME sector. They chiefly conduct operations in manufacturing, trade, and services. Their investments and annual turnover vary but are crucial to their success. MSMEs are known for their immense contribution to the Indian economy and are heavily encouraged by the Indian government in the form of better assistance programmes, tax benefits and accessible credit facilities.

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