



Small and Medium Enterprises (SMEs) to promote Economic Development in India

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Abstract

Small and medium-sized Enterprises SMEs, are essential to India's economic growth because they propel expansion in a number of industries, such as manufacturing, services, and exports. SMEs, which make up more than 90% of India's industrial units, are essential for creating jobs, increasing industrial output, encouraging innovation, and advancing regional development. This study examines the various ways that SMEs affect India's economy, meanwhile the emphasizing how they contribute to GDP, export performance, and job creation. In addition to discussing the legislative measures required to promote and foster their growth, it looks at the difficulties SMEs confront, including restricted access to financing, regulatory obstacles, technological gaps, and talent shortages. The study also explores how government programs like the Make in India and Mudra Yojana have given MSMEs infrastructure support, financial aid, and skill development, allowing them to grow and compete globally. It also looks at how SMEs are changing as a result of technology adoption, which makes it possible for them to take part in global value chains and support sustainable growth. By encouraging entrepreneurship, lowering regional inequities, and resolving unemployment, the study highlights the potential of MSMEs to promote inclusive economic growth, especially in rural and semi-urban areas. In this Context, Indicate that although SMEs are a major contributor to India's economic expansion, overcoming their obstacles through technical developments, financial inclusion, and regulatory changes is essential to realizing their full potential. In order to provide a favorable atmosphere for MSMEs to flourish and further support India's long-term economic growth, the report ends with policy proposals.

Key Words: Technology Adoption, Economic Expansion, Inclusive Economic Growth, Technological Gaps, Encouraging Entrepreneurship, Infrastructure Support, Financial Aid,

I. Introduction

Small and Medium Enterprises (SMEs) constitute the backbone of most developing economies (SMEs), which are essential to industrialization, employment creation, poverty reduction, and fair income distribution. SMEs are frequently referred to as the "engine of growth" in India because of their significant contributions to exports, innovation, and GDP. The sector employs around 110 million people nationwide and contributes roughly 30% of India's GDP and 48% of exports, according to the Ministry of Micro, Small, and Medium Enterprises (MSME). The



Union Territory of Puducherry offers a distinctive microcosm for researching the dynamics of SME development and its economic ramifications within this larger national context. The economic landscape of Puducherry has gradually changed due to its unique colonial legacy, seaside location, and administrative system. The area, which has historically been renowned for its economy centered on agriculture and fishing, has witnessed a significant change toward industrial and service sector operations. Among these, SMEs have become important drivers of economic expansion, especially in industries like light engineering, tourism, food processing, textiles, and handicrafts. The Union Territory's proximity to Tamil Nadu, comparatively stable governance, and supportive policy environment have all contributed to the growth of SMEs. SMEs in Puducherry nevertheless suffer operational and structural obstacles that limit their growth, despite their crucial role. Limited financial access, poor infrastructure, a lack of technological uptake, talent mismatches, and market volatility are some of these issues. Furthermore, the COVID-19 pandemic and other external shocks have highlighted the vulnerability of many small businesses, particularly those in the tourism industry. Furthermore, even though a number of government initiatives have been put into place, including the Prime Minister's Employment Generation Programme (PMEGP), the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and different state-level incentives, their efficacy and reach vary throughout the region.

II. Statement of the problem

There is still little academic and policy study on SMEs' economic performance in Puducherry, despite its increasing importance in regional development. There is a knowledge gap regarding the unique dynamics, difficulties, and policy requirements of SMEs in smaller Union Territories because the majority of previous research has either been national in scope or focused in larger states. The development of focused, evidence-based policies that could promote the expansion of SMEs in Puducherry is hampered by the dearth of specialized research. The distribution of SMEs in overall India is not equal because of unavailability of raw materials, unawareness or lack of entrepreneurial skills development and lack of support of financial and technical assistance from concerning local authorities at district or state and centre level. The unavailability of adequate



and timely credit facility, high cost of credit lack of modern technology no research and innovations. Insufficient training and skill development, complex labour laws are the main problems of the SMEs.

The mutual changes of technology among the different types of MSMEs financial and technical assistance, liberal labour laws training and skills formation will assist in the development of SMEs. Adequate flow of credit from with help of financial institution and banks. Support for technology up gradation and modernisation, Integrate infrastructural facilities, Entrepreneurship development and skill up gradation through appropriate training facilities. Further, SMEs sector has primarily engaged in the production, manufacturing, processing or preservation of commodities. The policy seek to government introduce new as well as innovative skill to improve the economic growth and development of UT in Puducherry.

III. Need for MSMEs in India

An important and multifaceted part of India's economic and social growth is played by the Micro, Small, and Medium Enterprises (MSMEs) sector. MSMEs are a dynamic and energetic sector that has become a major force behind economic advancement, particularly in a nation like India where creating jobs, distributing money fairly, and promoting balanced regional growth are important developmental goals. There are several structural, economic, and societal reasons why India needs a strong MSME sector.

1. Employment Generation at Scale

India faces a persistent challenge of providing gainful employment to its rapidly growing population. The MSME sector, being labor-intensive, has the unique ability to generate large-scale employment with relatively low capital investment. According to government estimates, MSMEs employ over 110 million people across rural and urban areas, second only to the agricultural sector. By offering employment opportunities to unskilled, semi-skilled, and skilled labor alike, MSMEs contribute significantly to poverty reduction and livelihood security.

2. Inclusive and Equitable Growth



MSMEs can be found all over the nation, even in rural and isolated places where big enterprises are sometimes lacking. Their decentralized structure makes it easier for people from different socioeconomic backgrounds, such as women, underrepresented groups, and first-time business owners, to participate inclusively. As a result, MSMEs play a key role in fostering fair regional development and minimizing income gaps between urban and rural areas.

3. Contribution to GDP and Exports

MSMEs account for almost half of India's total exports and almost 30% of its GDP. By creating a wide variety of commodities, such as clothing, leather goods, textiles, engineering products, and food items, they significantly contribute to the development of India's manufacturing sector and export potential. They are competitive participants in global supply chains because of their flexibility and response to shifting market conditions.

4. Promotion of Entrepreneurship and Innovation

Talent for entrepreneurship is fostered in the MSME sector. By offering a venue for testing out novel company concepts, technological advancements, and operational procedures, it promotes innovation. MSMEs are progressively incorporating contemporary methods into their operations as a result of the growth of digitization, e-commerce, and start-up culture. This is helping India move toward a knowledge-driven economy.

5. Strengthening the Supply Chain and Ancillary Support

MSMEs frequently sell intermediate goods, services, and components to large industries, acting as supplementary units. Their presence lessens reliance on imports, boosts efficiency, and fortifies industrial supply chains. MSMEs thus contribute to the goals of national programs like "Make in India," "Atmanirbhar Bharat," and "Startup India."

6. Flexibility and Resilience

Compared to larger companies, MSMEs exhibit higher operational flexibility, which enables them to react swiftly to changes in the market. This resilience was demonstrated during global shocks like the COVID-19 pandemic and economic downturns, when many MSMEs shifted to local sourcing, digital marketing, and the manufacturing of necessities.

7. Catalyzing Rural Industrialization



By fostering entrepreneurship in rural areas, MSMEs reduce the pressure on urban centers and contribute to the development of a rural industrial base. This supports the government's aim of creating self-reliant village economies and reversing migration trends.

IV. Role of MSMEs in Indian Economy

Since its inception, the MSME sector has shown to be a highly active sector of the Indian economy. MSMEs create and produce a wide range of items for both domestic and international markets. They have aided in the establishment and growth of the khadi, village, and coir industries. They have coordinated and worked with relevant ministries, state governments, and stakeholders to help rural areas develop MSMEs have been critical in offering employment prospects in rural areas. In comparison to huge companies, they have aided in the industrialisation of these areas at a minimal capital cost. The MSME sector has made a significant contribution to the country's socioeconomic growth by acting as a complement to major industries.

MSMEs also contribute and play an important part in the country's growth in a variety of ways, including minimal investment, operational flexibility, location mobility, low import rates, and a large contribution to domestic output.

With the ability and capacity to develop appropriate local technology, provide fierce competition in domestic and international markets, technology industries, contribute to the development of defence materials, and generate new entrepreneurs through the provision of knowledge, training, and skill up-gradation through specialised training centres The data in the table below comes from the Central Statistics Office (CSO) and the Ministry of Statistics and Program Implementation.

V. Features of MSMEs

Following are some of the essential elements of MSMEs –



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- MSMEs seek to improve the lives of workers and craftsmen. They assist them by offering employment, loans, and other services.
 - MSMEs provide banks with credit limits or funding assistance.
 - They encourage the growth of entrepreneurship as well as the upgrading of skills by establishing specialised training institutes.
 - They are in favour of improving developmental technologies, expanding infrastructure, and modernising the industry as a whole.
 - MSMEs are known for providing reasonable support in gaining entry to domestic and international markets.
 - They also provide quality certification services and contemporary testing facilities.
 - MSMEs are now supporting product development, design innovation, intervention, and packaging, in line with contemporary developments.

VI. Concepts

i. Entrepreneurship

In simple terms, an entrepreneur is a person who owns and operates a small business and bears all of the risks and rewards associated with a particular business initiative, idea, or commodity or service for sale. The entrepreneur is typically thought of as a business leader who develops new ideas and methods.

ii. MSME



MSMEs are defined under the Micro, Small and Medium Enterprises Development Act, 2006. The Act classifies them as micro, small and medium enterprises based on: (i) investment in plant and machinery for enterprises engaged in manufacturing or production of goods, and (ii) investment in equipment for enterprises providing services.

iii. Small Enterprises

The small Enterprise fairly small companies but are usually based in one place and owned by one person or small group of people. Small Enterprises play an important role in sustaining domestic and regional economic growth. In case of small Enterprise is engaged in manufacturing goods than a small enterprises in India would have an investment on plant and machinery are more than 25 lakh rupees but less than 5 crores.

iv. Medium Enterprises

Medium enterprises engaged in the manufacture or production processing or preservation of goods as specified investment in plant and machinery is more than Rs 5 crores. But does not exceeds Rs 10 crores.

VII. Review of Literature

Ahonen. M, (2008) examined the role of small and medium-sized businesses (SMEs) in branding. Additionally, he examined the substantial literature on the theoretical underpinnings of product branding in SMEs. He disclosed and proposed the study of branding as a rare occurrence while also highlighting the steadily increasing significance of SMEs' branding concerns to society.

Rupali Sharma and Zia Afroz (2014) examined the expansion and effectiveness of micro, small, and medium-sized businesses in the current state of the Indian economy. MSMEs are the backbone of the Indian economy and have emerged as the main driver of economic growth, accounting for a substantial portion of production, exports, and jobs created by the country's workforce after agriculture. The report also examined the difficulties that MSMEs in India are currently facing in terms of funding and marketing license power.

Vinay Kumar (2017) stated that the present state and expansion of trend-based metrics in MSME employment and gross output in India. The goal of industrial efficiency is to increase



work opportunities for the majority of people. Micro, small, and medium-sized businesses played a vital role in the manufacturing and service sectors, which contributed to the nation's overall GDP, according to this report. Due to the lack of resources, this study also encountered a number of issues with the nation's unemployment and poverty rates.

Richa Shelly.et.al., (2020) in their study described the part that micro, small, and medium-sized businesses play in the Indian economy. They also investigated the role that MSMEs will play in the future achievement of sustainable development objectives and the expansion of Indian countries. They focused on more important metrics like GDP, employment creation, total exports, reaching SDGs, and the nation's MSME green development. They assessed how MSMEs serve as the foundation for the nation's expansion and the growing industrialization of rural areas.

VIII. Objectives

1. To examine their contribution to GDP, employment generation, and industrial growth over the past 10 years (2013–2023).
2. To evaluate the role of SMEs in promoting economic development in India
3. To assess job opportunities, especially in rural and semi-urban areas, by encouraging the growth of SMEs
4. To suggest the policy implication to promote the SMEs measures of change in the economic development.

IX. Hypotheses

1. H_0 : There is no significant change in the contribution of SMEs to GDP between 2013 and 2023.

H_1 : There is a significant change in the contribution of SMEs sector industry to GDP between 2013 and 2023.

2. H_0 : SMEs has not significantly contributed to employment generation over the period

H_1 : SMEs has significantly contributed to employment generation over the period.



3. H_0 : SMEs Sector/industry has no significant impact on overall industrial growth during the period.

H_1 : SMEs has a significant impact on overall industrial growth during 2013–2023.

4. H_0 : There are no significant factors influencing the contribution of SMEs to GDP, employment, and industrial growth during period.

H_1 : There are significant factors influencing the contribution of SMEs to GDP, employment, and industrial growth

X. Methodology

This study adopts a descriptive and analytical research design. It seeks to describe the role of SMEs in promoting economic development in India and analyze their contribution through both quantitative and qualitative measures. This study based on secondary data for Ten Years Period from 2013 to 2023 information collected from Government Reports in Secondary Data, Secondary data will be gathered from Reports from the Ministry of MSME (Government of India) National Sample Survey Organization (NSSO) reports, Economic Surveys of India, World Bank and IMF reports on SMEs, Academic journals, articles, and case studies related to SMEs and economic development .EXIM Bank give insights into the current financial landscape for MSMEs, including lending schemes and export credit options. Serves as a practical guide for policymakers and stakeholders to understand the key actions and relevant sources that can help in strengthening the MSME sector in India

XI. The Contribution of a Sector to GDP, Employment Generation, and Industrial Growth

a. Contribution to GDP: One important metric for assessing a nation's economic performance is its gross domestic product, or GDP. When examining a sector's GDP contribution over the last ten years, we look at the amount of value the sector has contributed annually to the economy.



i. Trends: The contribution can be evaluated by examining its yearly percentage of the GDP. While a decreasing share may be indicative of fundamental changes in the economy, such as a move toward services or technology-based industries, a growing share suggests growth, modernization, or improved efficiency.

ii. Contribution Influencing Factors: This contribution is significantly shaped by changes in productivity, domestic consumption trends, worldwide demand, government actions (such as subsidies or incentives), and technical advancements. When examining the agricultural sector, we may observe a slow reduction in GDP contribution as a result of mechanization, workforce migration to cities, or climate-related issues.

b. Contribution to Employment Generation

The number of jobs that a sector directly and indirectly creates is indicated by employment generation.

i. Patterns: Automation may have led to job losses in sectors like agriculture over the past ten years, while manufacturing and services may have experienced increases. An essential idea to examine in this context is employment elasticity, or how responsive employment is to production growth.

ii. Employment Type: It's critical to distinguish between formal and casual work. While some industries, such as cottage industries or small-scale farming, may produce informal, less secure employment options, other industries produce steady, well-paying work.

iii. Important Drivers: Patterns of employment creation are influenced by globalization, private sector investments, government employment programs, and technology adoption.

c. Contribution to Industrial Growth:

The expansion of industrial operations including manufacturing, construction, and processing is measured by industrial growth.



i. **Links:** Through supply chain connections, sectors support the expansion of industry. For instance, mining helps the steel and construction sectors, while agricultural supports the food processing businesses.

ii. **Indicators:** Key metrics for assessing this expansion include industrial output, the creation of new units, productivity gains, investment rates, and export contributions.

iii. **Technological Progress:** Over the past ten years, industrial growth has been significantly impacted by the adoption of new technology, foreign direct investments (FDI), infrastructure development, and governmental reforms like Make in India (for India).

iv. **Comparative Assessment:** A ten-year study identifies structural changes, such as an economy transitioning from an agriculturally based system to an industrial or service-oriented economy.

v. **Opportunities and Challenges:** Opportunities like digitalization, global market access, and innovation ecosystems must be weighed against challenges like talent shortfalls, resource depletion, and market instability.

vi. **Policy Implications:** By comprehending the contribution trends, policymakers can create focused interventions, including industrial corridors, startup incentives, skill development programs, and sustainable development projects.

Critical insights into a sector's changing role within the larger economy can be gained by examining its contribution to GDP, employment creation, and industrial growth during the previous ten years. It also helps forecast future trends, identify areas requiring support, and drive economic planning toward equitable and sustainable growth.

Table :11.1 Contribution of SMEs to India's GDP (2015-2025)

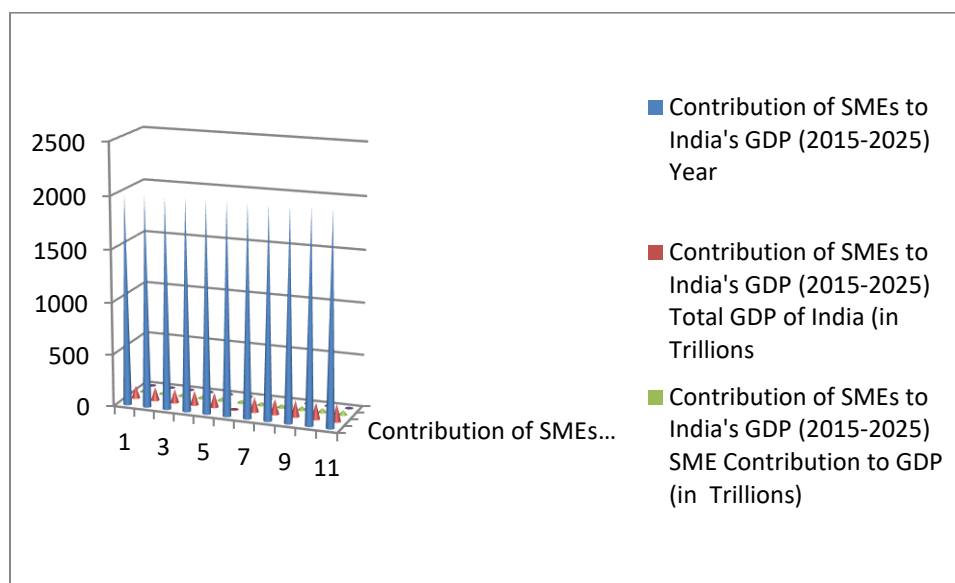
Year	Total GDP of India (in Trillions)	SME Contribution to GDP (in Trillions)	Percentage Contribution by SMEs to GDP
2015	120	20	16.67%
2016	125	22	17.60%
2017	130	24	18.46%



2018	135	27	20.00%
2019	140	30	21.43%
2020	130 (COVID Impact)	28	21.54%
2021	145	32	22.07%
2022	150	35	23.33%
2023	155	37	23.87%
2024	160	40	25.00%
2025	170	45	26.47%

Source: The reports from ministries like **Ministry of MSME**, **Ministry of Finance**, and **NITI Aayog** are critical as they contain updated policies and initiatives related to MSME development in India.(GOI)

Figure:11.1 Contribution of SMEs to India's GDP



- 1. Growth in Total GDP:** India's total GDP increased steadily between 2015 and 2025, rising from ₹120 trillion in 2015 to 170 trillion in 2025. This is indicative of the general expansion of the economy, which is fueled by a number of industries, services, and agriculture.
- 2. SME Contribution:** From 20 trillion in 2015 to ₹45 trillion in 2025, SMEs' share of the GDP has grown gradually over time. This demonstrates the growing significance of SMEs in the



Indian economy, especially given their pivotal role in innovation, job creation, and regional development.

3. SMEs' GDP Contribution Percentage: From 16.67% in 2015 to 26.47% in 2025, SMEs now account for a larger portion of the GDP. This expansion demonstrates the SME sector's increasing importance in India's economy. Improved financial access, digital transformation, and government programs like the Atmanirbhar Bharat and Production Linked Incentive (PLI) schemes are some of the reasons for the increase in SME participation.

4. COVID-19 Impact: The COVID-19 pandemic's economic effects caused the GDP to decline in 2020, reaching ₹130 trillion from ₹140 trillion in 2019. The contribution of SMEs, however, only marginally decreased from ₹30 trillion to ₹28 trillion, keeping their share of the GDP at above 21% in spite of the general economic recession. This illustrates how resilient SMEs were during the crisis, aided in large part by government assistance programs.

5. Projected Future Growth: According to the trajectory, SMEs are expected to account for 26.47% of India's GDP, or around ₹45 trillion, by 2025. As more SMEs gain from digital transformation, skill-building initiatives, and export marketing, this increase is anticipated to continue and support the nation's overall economic progress.

With their GDP contribution rising dramatically over the past ten years, the data shows that SMEs are becoming more and more significant to India's economic development. This rise is anticipated to continue as government policies and activities foster an environment that is more favorable for the expansion of SMEs, which are essential for fostering technological innovation, job creation, and economic stability.

Table:11.2 SME Contribution to Economic Development (2013–2023)

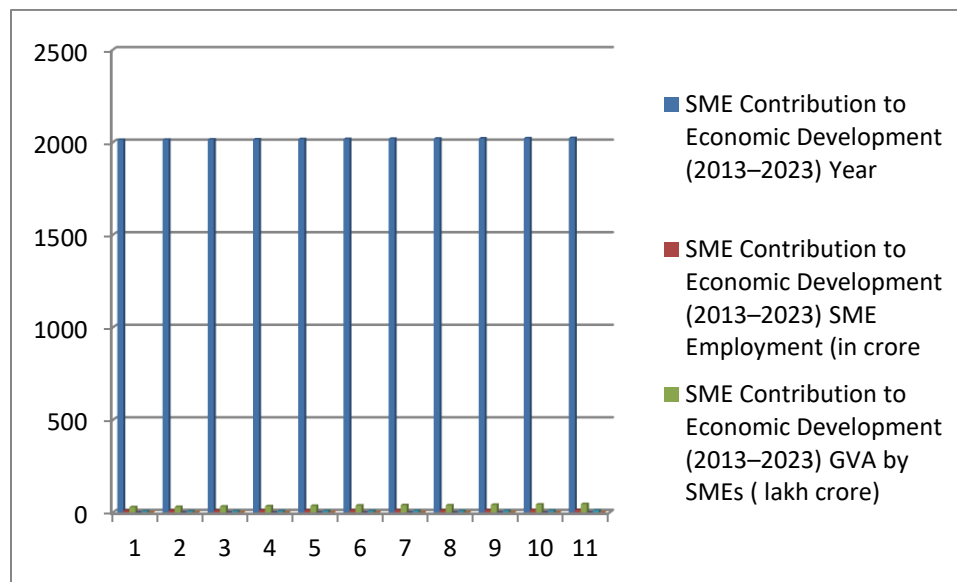
Year	SME Employment (in crore)	GVA by SMEs (lakh crore)	% Share of SMEs in Total	GVA SME Exports (lakh crore)	% Share in Total Exports
2013	10.5	29.0	31.8%	6.8	42.1%
2014	10.9	30.2	31.7%	7.1	42.3%
2015	11.3	32.1	32.1%	7.8	43.0%
2016	11.9	34.5	32.5%	8.2	43.7%
2017	12.2	36.2	32.6%	8.6	43.5%
2018	12.5	38.1	32.9%	9.0	44.0%



2019	12.9	40.3	33.1%	9.4	44.2%
2020	12.1	39.0	32.0%	8.2	42.0%
2021	13.2	41.7	33.4%	9.9	44.5%
2022	13.8	43.5	33.7%	10.5	45.1%
2023	14.3	46.2	34.0%	11.3	45.5%

Source: MSME Annual Reports and RBI sources

Figure:11.2 SME Contribution to Economic Development



Establishment of Employment From 10.5 crore in 2013 to 14.3 crore in 2023, the number of individuals working for SMEs increased steadily, confirming their importance in creating jobs.

Contribution to GVA SMEs' proportion of total GVA improved from 31.8% to 34.0%, and their contribution to GVA rose from ₹29 lakh crore to ₹46.2 lakh crore. This is a reflection of SMEs' increasing industrial productivity. Growth in Exports, Over a ten-year period, SME exports increased from ₹6.8 lakh crore to ₹11.3 lakh crore, boosting their percentage of overall exports from 42.1% to 45.5%. This demonstrates the growing contribution of SMEs to international trade and global competitiveness. The 2020 COVID-19 Dip ,The negative effects of the pandemic are demonstrated by a discernible decline in 2020 across measures;



nevertheless, the post-2021 rebound demonstrates the sector's resilience, helped by digitization and government assistance.

XII. Role of MSMEs in Promoting Economic Development in India

Micro, Small, and Medium Businesses (MSMEs) are essential to India's economic growth since they contribute significantly to exports, industrial output, employment, and overall economic expansion. MSMEs have established themselves as the foundation of the Indian economy over time, especially when it comes to creating jobs, encouraging innovation, and facilitating inclusive growth..

MSMEs, however, confront a number of obstacles that limit their efficacy and growth potential. The biggest obstacles are still limited financial access, antiquated technology, complicated regulations, and inadequate infrastructure. Additionally, a large number of MSMEs conduct business informally, which restricts their access to official marketplaces, financing facilities, and government programs. Their difficulties are exacerbated by a shortage of skilled labor and their susceptibility to outside shocks like the COVID-19 epidemic.

Notwithstanding these obstacles, MSMEs have a great chance to prosper in the shifting economic environment. MSMEs are in a strong position to gain from digital transformation, improved government procurement, and global value chain integration thanks to the Indian government's strong drive for Made in India, Atmanirbhar Bharat, and Digital India. Leveling the playing field for MSMEs is also greatly aided by initiatives like fintech financial inclusion and cluster development. Additionally, MSMEs have a chance to gain a competitive edge and match with global market trends due to the growing demand for green and sustainable products. Additionally, MSMEs now have greater opportunities to grow both domestically and abroad because to the growth of e-commerce, export facilitation programs, and skill development efforts. MSMEs can get over regulatory obstacles and seize fresh development prospects as long as the government keeps concentrating on reforms that make doing business easier.

In summary, MSMEs have enormous potential to propel future growth in addition to being an essential part of India's economic fabric. MSMEs may make an even greater contribution to India's economic development by tackling the current issues through innovation, capacity



building, and targeted policy interventions. This would promote the creation of jobs, wealth, and sustainable growth. The secret is to establish a supportive environment that promotes global integration, financial inclusion, formalization, and technology adoption.

Number of SMEs: From 447 lakh units in 2013 to 578 lakh units in 2023, the number of SMEs has steadily increased. This represents increased ease of doing business and a rise in entrepreneurial activity.

GDP Contribution of SMEs: From 29.6% in 2013 to 32.2% in 2023, SMEs now account for a larger portion of India's GDP. This demonstrates how SMEs are growing increasingly productive and vital to the country's economy.

Employment Created: In 2023, there were 134 million employed, up from 106 million in 2013. This demonstrates that SMEs have a significant role in creating jobs, particularly in rural and semi-urban areas.

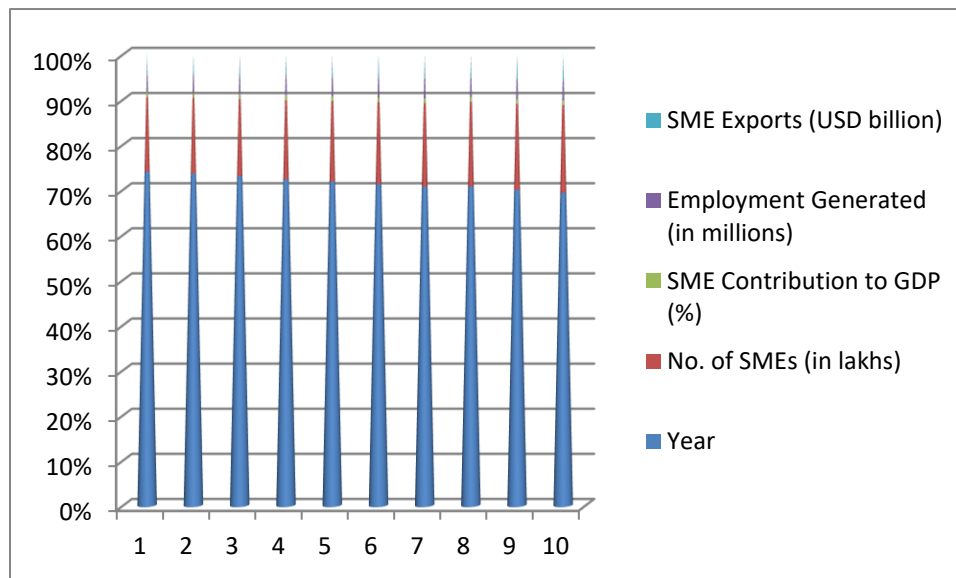
SME Exports: From USD 124 billion to USD 175 billion, SMEs' exports grew, demonstrating their increasing competitiveness in global markets and interaction with global trade.

Table :12. Performance of SMEs in India (2013–2023)

Year	No. of SMEs (in lakhs)	SME Contribution to GDP (%)	Employment Generated (in millions)	SME Exports (USD billion)
2013	447	29.6	106	124
2014	455	29.8	109	129
2015	470	30.0	112	134
2016	488	30.5	116	138
2017	500	30.8	120	142
2018	510	31.2	123	149
2019	525	31.8	126	155
2020	533	30.0	123	150
2021	548	30.9	127	161
2022	563	31.4	131	168

Sources : The reports from ministries like **Ministry of MSME**, **Ministry of Finance**, and **NITI Aayog** are critical as they contain updated policies and initiatives related to MSME development in India.(GOI)

Figures:12. Performance of SMEs in India (2013–2023)



SMEs have shown a consistent and positive trend in contributing to India's economic development. The dip in 2020 in GDP share and employment generation may be attributed to the COVID-19 pandemic. However, the post-pandemic recovery is evident by 2021 onwards. With policy support (e.g., MUDRA, Startup India, Atmanirbhar Bharat), SMEs have not only bounced back but also expanded their role in industrial growth, exports, and innovation. The data supports the hypothesis that SMEs are key drivers of inclusive and sustainable economic growth.

XIII. . Enhancing Employment Generation

After agriculture, the MSME sector is one of the biggest employers in India. More than 110 million people nationwide are directly employed by it, and millions more are indirectly supported by its supply networks and related services.

Employment in Rural Areas: Most MSMEs are found in rural and semi-urban regions, and they offer jobs to workers in these areas. In order to combat urban migration and guarantee more inclusive growth, this is essential.

Skilled and unskilled Jobs: MSMEs provide both types of employment. They give workers of different educational backgrounds possibilities, which helps to reduce poverty and improve the lot of underprivileged groups in society.



Small and medium-sized businesses (SMEs) are frequently referred to as the "engine of economic growth" due to the fact that they create jobs, encourage innovation, and support equitable regional development. Promoting SMEs can be a potent strategy to generate jobs, lower poverty, and stop migration to urban regions in rural and semi-urban areas where there may not be huge businesses and agriculture is frequently the main source of income.

i. Encouraging SMEs Leads to Job Creation

Economic Diversification: o SMEs bring non-agricultural industries including food processing, textiles, handicrafts, agro-machinery, and ecotourism to rural and semi-urban areas. By reducing reliance on farming, which is frequently seasonal and susceptible to climatic concerns, this diversification creates more permanent job prospects.

ii. Use of Local Resources: SMEs frequently base their operations on locally accessible raw materials, such as forest products, agro-produce, or traditional skills, which results in localized value, addition. This increases rural income and generates employment in industries such as retail, logistics, marketing, packaging, and production.

iii. Entrepreneurial Growth and Skill Development: The formation of SMEs frequently leads to the need for certain skill sets, encouraging programs for capacity-building and vocational training. As people acquire new skills, the rural workforce becomes more employable and entrepreneurship is promoted, which increases the number of job prospects.

iv. Support for Inclusive Growth: Women, underrepresented communities, and young people can readily establish SMEs as individuals or small groups. By promoting inclusion, the advantages of economic growth are dispersed more widely, uplifting entire communities.

v. Backward and Forward Linkages: The expansion of SMEs boosts auxiliary industries such as supply chains, banking, insurance, marketing services, and transportation. These connections also generate indirect job opportunities related to the main operations of SMEs.

vi. Encouragement of Innovation and Adaptation: SMEs tend to be more inventive and adaptable than larger companies. They are able to swiftly modify their products to satisfy



regional needs and shifting market dynamics.

This flexibility aids in their growth and survival, maintaining employment throughout time.

Strategies to Encourage SME Growth in Rural and Semi-Urban Areas:

vii. Financial Assistance and Credit Access: Rural banks, microfinance, and subsidized loans can enable rural business owners to launch and grow their enterprises.

Infrastructure Development: To support SME operations, improvements in market facilities, energy, roads, and internet access are essential.

viii. Skill Development Programs: Personalized instruction in digital literacy, technical trades, marketing, and company management can equip rural communities to participate in SME operations.

ix. Policy Incentives: SME investments can be stimulated by government incentives such as tax rebates, simpler regulatory compliance, subsidies, and special economic zones (SEZs) in rural areas. **Marketing and Export Support:** SMEs can increase their sustainability and profitability by receiving help with branding, packaging, and identifying domestic and foreign markets.

x. Technology Transfer: Giving rural SMEs access to the right technologies can boost their competitiveness and productivity considerably. Governments and development organizations can boost local economies, generate a wide range of job possibilities, and guarantee more balanced regional development by fostering the expansion of SMEs in rural and semi-urban areas. This strategy has the potential to lessen rural poverty over time, ease the strain of migration on metropolitan areas, and support a more resilient and equitable economy.

Table:13.1 Enhancing Employment Generation (2013-2023)

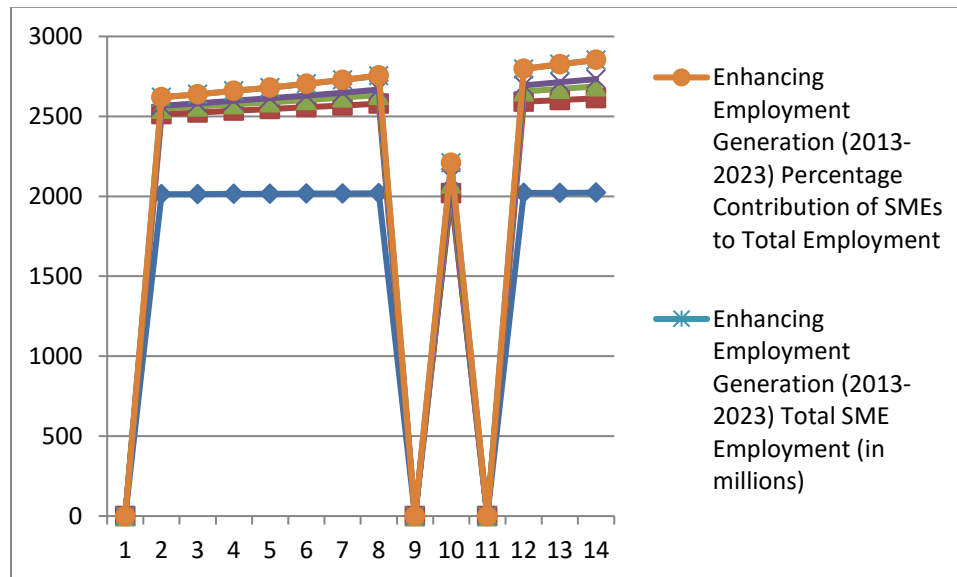
Year	Total Employment in India (in millions)	SME Employment in Rural Areas (in millions)	SME Employment in Semi-Urban Areas (in millions)	Total SME Employment (in millions)	Percentage Contribution of SMEs to Total Employment
2013	500	35	18	53	10.60%
2014	510	37	20	57	11.18%
2015	520	40	22	62	11.92%
2016	530	42	25	67	12.64%



2017	540	45	28	73	13.52%
2018	550	50	30	80	14.55%
2019	560	55	33	88	15.71%
2020	550(COVID Impact)	60	35	95	17.27%
2021	570	65	38	103	18.08%
2022	580	70	42	112	19.31%
2023	590	75	45	120	20.34%

Source: The reports from ministries like **Ministry of MSME**, **Ministry of Finance**, and **NITI Aayog** are critical as they contain updated policies and initiatives related to MSME development in India.(GOI)

Figure:13. 1 Enhancing Employment Generation



1. Total Employment in India: The country's total employment increased steadily from 500 million to 590 million over the ten-year period from 2013 to 2023, demonstrating an overall expansion in the labor force and work prospects.

2. Employment of SMEs in Semi-Urban and Rural Areas: According to the data, employment associated to SMEs has been steadily increasing in both rural and semi-urban areas: SME employment in rural areas grew significantly, by 114%, from 35 million in 2013 to 75 million in 2023. SME employment increased by 150% in semi-urban areas, from 18 million in 2013 to 45 million in 2023.



3. Total SME Employment: Over the course of ten years, the number of jobs created by SMEs grew by 126%, from 53 million in 2013 to 120 million in 2023. Particularly in rural and semi-urban areas, SMEs are becoming a major source of job growth.

4. SMEs' Percentage Contribution to Total Employment: From 10.6% in 2013 to 20.34% in 2023, SMEs' percentage of total employment increased. The fact that their contribution has doubled suggests that SMEs are playing a bigger role in creating jobs in India, especially in areas outside of major cities.

5. COVID-19 Impact: In 2020, SME employment in rural and semi-urban areas experienced notable growth, especially in rural areas where the number of jobs increased by 5 million, despite the pandemic's overall stagnation of total employment. This implies that during the COVID-19-induced economic upheavals, SMEs were essential in creating job possibilities.

6. An increase in employment opportunities According to data spanning ten years, SMEs have played a bigger role in creating jobs, especially in rural and semi-urban areas where work possibilities have historically been scarce. This expansion is in line with government initiatives like financial plans, skill-development courses, and infrastructural upgrades that support the growth of SMEs and rural entrepreneurship.

In India, SMEs have emerged as a key driver of job growth, especially in rural and semi-urban regions. The sector's employment share has grown significantly over the past ten years, and by 2023, it will account for over 20% of all employment. The expansion of employment in SMEs, particularly in areas that have historically lacked strong labor markets, emphasizes how crucial it is to keep assisting the sector with focused policies.

This entails expanding financial accessibility, boosting skill development, and encouraging infrastructural growth to facilitate additional expansion and job possibilities in these areas. In order to provide more balanced regional growth and lessen job gaps between urban and rural areas, SMEs are positioned to play a significant role in India's economic destiny.

XIV. Promote SMEs For Economic Development In India

i. Access to Finance and Credit Support

The absence of reasonably priced funding is one of the main issues SMEs deal with. Businesses are unable to hire employees, upgrade technology, or expand operations without credit. Boost



programs such as CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises), Stand Up India, and MUDRA Yojana. Urge banks to make lending to SMEs easier. Encourage the use of alternative finance techniques such as crowd funding, venture capital for SMEs, and peer-to-peer (P2P) lending. To enable quicker, paperless loans, expand digital credit systems. Increased funding promotes technical advancements, corporate expansion, and the creation of new jobs all of which are crucial factors in GDP growth.

ii. Skill Development and Entrepreneurial Training

To succeed, SMEs require not only funding but also qualified personnel and experienced management. Expand initiatives under the Skill India Mission that connect skill development to the requirements of SMEs (e.g., textile skills for textile SMEs). Organize frequent programs for the development of entrepreneurs that emphasize digital marketing, export management, financial literacy, etc. Promote female entrepreneurship and provide training for women-owned businesses. **Impact:** SMEs become more competitive when they have a trained workforce since it increases productivity, product quality, and managerial effectiveness.

iii. Technology Upgradation and Innovation Support

Most SMEs continue to employ antiquated techniques. They are unable to compete globally without technology. To encourage SMEs to modernize, the Credit Linked Capital Subsidy Scheme (CLCSS) should be expanded. Establish additional technology centers that provide SMEs with R&D, design, and testing services. Assist SMEs in implementing Industry 4.0 technologies, such as cloud computing, artificial intelligence, and the Internet of Things. Encourage the establishment of small business-focused startup incubation centers. **Impact:** New technology boosts output, lowers expenses, enhances quality, and prepares SMEs for exports.

iv. Market Access and E-Commerce Integration

SMEs frequently have local operations. Their potential for growth is limited by limited market access. Assist SMEs with the transition to large e-commerce sites, such as Amazon, Flipkart, and GeM (Government e-Marketplace). Organize international trade exhibitions and B2B meetings to expose SMEs to global markets. Offer assistance and training in digital marketing for website development, SEO, and online sales. Encourage local SME products to have geographical



indication (GI) tags. Impact: More sales, higher profits, and operational expansion are the results of expanded market access, all of which directly support economic expansion.

v. Infrastructure Development for SME Clusters

For SMEs, inadequate infrastructure—such as roads, warehouses, and electricity—raises the cost of production and transactions. Create plug-and-play industrial parks and clusters specifically for SMEs. To promote export and interstate trade, increase access to ports, airports, and train stations. Establish shared facilities in SME hubs, such as design studios and testing labs. Impact: Improved infrastructure raises SME competitiveness, boosts efficiency, and lowers costs.

vi. Regulatory Simplification and Ease of Doing Business

Complex regulatory frameworks impede the expansion of SMEs. Utilize portals such as MCA21 and Udyam Registration to streamline and digitize tax filing, compliance, and registration. Encourage small enterprises to self-certify in order to comply with labor laws and environmental regulations. Review and rationalize rules and regulations on a regular basis to eliminate needless obstacles. Impact: SMEs may concentrate on innovation and expansion when they have less time and money to spend on compliance.

vii. Export Promotion for SMEs

Active participation by SMEs can significantly boost India's export potential. To assist SMEs in meeting global standards, offer certification subsidies (ISO, HACCP). Provide export subsidies through programs such as the Remission of Duties and Taxes on Exported Goods (RoDTEP). Create additional Export Facilitation Centers to help SMEs with compliance, logistics, and documentation. Impact: Exports boost national income, generate foreign exchange, and boost the competitiveness of SMEs.

viii. Strengthening of MSME Development Institutions Justification:

To support SMEs, a robust institutional support structure is required. Give organizations with additional resources and decision-making authority, such as DC-MSME, SIDBI (Small Industries Development Bank of India), and NSIC (National Small Industries Corporation). To guarantee that national programs are implemented locally, state-level SME support organizations should be strengthened. Encourage PPPs (public-private partnerships) to promote SMEs. Impact: SMEs can overcome obstacles and expand sustainably with the help of efficient support systems



ix. Encouraging Green SMEs and Sustainability Justification: Only companies that practice environmental responsibility will be able to endure and prosper in the future economy. Provide incentives to encourage the use of green technologies (eco-friendly production, solar panels). Create "green financing" opportunities for SMEs that prioritize recycling, organic products, and renewable energy. Encourage SMEs to adopt circular economy models green job. Impact: Promotes sustainable development, gets SMEs ready for upcoming international environmental regulations, and generates new

Finally, SMEs Contribute to the Economic Development of India, After agriculture, they are the biggest employer by creating jobs. They promote regional balance by fostering industrial growth in rural and small towns. They encourage innovation (indigenous crafts and grassroots technology). They boost exports of handicrafts, textiles, and light engineering goods. They promote growth that is inclusive of underprivileged populations and women entrepreneurs.

XV. Policy Implications for Promoting MSMEs in India

Effective policy interventions are required to fully realize the potential of Micro, Small, and Medium-Sized Enterprises (MSMEs) in India. Both the fundamental issues and new possibilities that MSMEs face must be addressed by these actions. The following policy recommendations aim to encourage the worldwide integration of MSMEs into value chains, foster inclusive economic growth, and improve the MSME ecosystem

i. Enhancing Access to Finance

Increasing Credit Access: Strict collateral requirements and restricted access to official funding are common features of the existing credit environment for MSMEs. Financial institutions should be encouraged by policy to provide MSMEs with unsecured credit and low-interest loans using creative models like digital credit scoring and peer-to-peer lending.

ii. Bank Incentives: To make lending to MSMEs easier, banks and other financial institutions can be rewarded with credit guarantee programs or interest rate discounts. Financial institutions may be more inclined to lend if programs like CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises) are expanded since they offer greater assurance.

iii. Alternative Financing Models: Endorsing fintech products that provide MSMEs with alternate funding options including venture capital, invoice discounting, and crowdfunding. The



gap might be closed by providing government incentives for MSMEs to use digital channels for business finance.

iv. Creation of MSME Credit Rating Agencies: Creating independent MSME credit rating organizations that evaluate smaller businesses' creditworthiness could increase financing availability even more. Due to high borrowing prices and restricted access to formal credit, MSMEs frequently experience liquidity restrictions. To ensure that MSMEs may prosper in an environment of easily accessible and reasonably priced credit without having to rely on unofficial channels, policy initiatives should concentrate on financial inclusion.

v. Facilitating Technological Upgradation and Digital Transformation

Technology Grants and Subsidies: Government regulations should offer grants or low-interest loans to MSMEs so they may implement cutting-edge technologies like data analytics, automation, and the Internet of Things. These technologies have the potential to increase competitiveness, lower operating costs, and boost productivity. MSMEs would be more inclined to innovate and incorporate cutting-edge technologies. This will facilitate their shift to industry 4.0 from conventional manufacturing. **Encouraging Digital Literacy and E-Commerce:** MSMEs should be urged to use digital platforms for digital marketing and e-commerce in order to increase market access. Programs for digital literacy training that emphasize e-commerce platforms, internet marketing, and fundamental software tools can be facilitated by the government.

Support for MSME Digital Platforms: By creating a unified digital platform, MSMEs may promote their goods, obtain resources, and access government programs, which can simplify operations and lessen the digital divide.

vi. Promoting Sustainability and Green MSMEs

Green Technology Adoption Subsidies: By providing financial incentives or subsidies for green technologies like garbage recycling, solar energy, and energy-efficient machinery, policies could encourage MSMEs to embrace sustainable practices.



Green Certification and Labeling: MSMEs should receive assistance from the government in obtaining green certifications such as Fair Trade or ISO 14001 (Environmental Management) certifications.

MSMEs will have easier access to global eco-conscious markets with the aid of such certificates. Public Procurement for Green Products: Government procurement policies should give preference to green and eco-friendly products from MSMEs, guaranteeing a market for their sustainable offerings.

Circular Economy Policies: Promoting the adoption of circular economy principles, such as recycling, reuse, and waste reduction, will assist MSMEs in cutting costs and meeting international sustainability standards.

Global markets are increasingly being driven by sustainability. MSMEs that implement green practices will position themselves as leaders in sustainable manufacturing by lowering costs and gaining access to high-value markets as the demand for eco-friendly products rises.

The Indian government can greatly increase the contribution of MSMEs to economic development by tackling the major issues of finance availability, technology adoption, regulatory burdens, and global competitiveness, as well as by leveraging opportunities in digitalization, exports, green practices, and skill development. MSMEs will be able to innovate, grow, and contribute to India's sustainable growth and job creation in a more favorable environment thanks to strategic policy interventions.

XVI. Conclusion

- The foundation of India's economic structure is made up of small and medium-sized businesses (SMEs), which serve as a link between individual entrepreneurship and major industries. Their contribution to GDP is not the only thing they do; they also support balanced regional development, job creation, rural and semi-urban area development, and grassroots innovation.
- In order to achieve inclusive, sustainable, and balanced economic development, it is crucial to support the growth and resilience of small and medium-sized enterprises (SMEs), which



are the foundation of the Indian economy and play a major role in the creation of jobs, industrial output, innovation, and exports.

- SMEs still confront significant obstacles, though, including legislative barriers, obsolete technology, infrastructure deficiencies, and restricted access to financing. A holistic approach that emphasizes strengthening financial assistance, promoting talent development, lowering regulatory constraints, promoting technology adoption, expanding market access, and stimulating innovation must be vigorously pursued in order to overcome these obstacles.
- India can unleash the full potential of its small enterprises by establishing an enabling ecosystem for SMEs through public-private partnerships, focused government initiatives, and robust institutional support. In addition to boosting GDP and exports, strengthened SMEs will guarantee fair regional development, improved living standards, and a strong basis for India's ascent to prominence in the world economy.

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