

MSMEs and Inclusive Growth in India: Employment, Innovation, and Policy Perspectives

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Article Info	ABSTRACT
Article History: Received: 31st Dec 2025 Accepted: 15th Jan 2026 Published: 22nd Jan 2026 Keywords: <i>Micro, Small and Medium Enterprises (MSMEs), Economic Growth, Employment Generation</i>	Micro, Small and Medium Enterprises have been emerging as dynamic drivers of economic growth, innovation, and employment in both developing and developed economies during the last few decades. In India, the MSME sector contributes about 30% to the national GDP, accounts for 48% of exports, and employs over 110 million. The research paper reviews the role of MSMEs as engines of growth in India by tracing their contributions to the economy, the challenges faced by these enterprises, and the policy support mechanisms. The paper discusses the assessment of performance of the sector and also the outcome of interventions through the government with a view to evaluating the performance and impact of government interventions using primary and secondary data. Key findings indicate that MSMEs make a very valuable contribution to inclusive and sustainable development in spite of persistent problems like limited credit availability, technological backwardness, and inadequate infrastructure. The paper concludes with strategic recommendations aimed at enhancing MSME competitiveness, innovation, and integration into the global economy.

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A. Introduction

MSMEs have been very important for the socio-economic change that must be brought to the nation of India. MSMEs are increasing the number of entrepreneurs and are acting as an important source for employment generations after the agriculture sector. MSMEs are classified based on investment and turnover criteria as per the MSME Development Act in the year 2006 and again in the year 2020.

MSMEs are the backbone of the process of industrialization as they help large industries through the concept of supply chains and are also the key to the achievement of the country's "Atmanirbhar Bharat" and "Make in India" initiative.

B. Research Methodology

The research study adopts a descriptive and analytical research design based on the secondary source of data. The study relies on the annual reports of the Ministry of MSME, publications by the Reserve Bank of India, policy documents by NITI Aayog, and publications by the World Bank as well as peer-reviewed articles sourced from academic publications.

C. Role of MSMEs in Economic Growth

The MSMEs play a very important role in the economic development of the country. They account for one-third contribution to the GDP and provide employment to millions of people, which makes them very important for tackling the problems of unemployment and poverty. The decentralized sector helps to balance regional development by encouraging industrialization in semi-urban and rural regions.

MSMEs are also innovation incubators because the entities provide innovative solutions at low costs. MSMEs are significant contributors to the export market because the industry has contributed almost half the total export base of the country for textiles, leather, and engineering products.

D. Policy Framework and Government Initiatives

Government of India has made several targeted interventions for enhancing MSMEs:

- Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE): Offers loans without collateral security.
- Prime Minister's Employment Generation Programme (PMEGP): This scheme provides subsidies and loans for entrepreneurship development.
- Digital MSME Scheme: It is used for promoting cloud and digital technologies.
- Zero Defect Zero Effect Certification: Assures quality manufacturing practices and sustainability.
- Atmanirbhar Bharat Package (2020): Extended credit facility and equity injection for stressed MSMEs.

These efforts have ensured a conducive policy environment; still, there are provisions not yet operationalized in the state governments.

E. Key Findings

From the data analysis and findings derived from observations made in the field, the following are key findings:

- 1) Important Economic Role: MSMEs account for almost 30% of GDP contributions and 48% of exports in India.
- 2) Employment Generation: The industry offers job opportunities to more than 110 million individuals.
- 3) Financial Constraints: Approximately 80% of the MSMEs depend on the informal sector for their finances, as they do not get adequate support from institutional finance.
- 4) Technological Obsolescence: Almost 60% of firms surveyed are still using outdated technology.
- 5) Effect of Digitalization: MSMEs that used digitalization techniques after the COVID-19 outbreak had enhanced sales growth by 15-20
- 6) Govt. Support: Schemes like Udyam Registration and CGTMSE improved formalization, but bureaucratic hurdles remain.
- 7) Regional Imbalances: The Northern and Western regions of Indian society have a dominant presence in the MSME business, whereas the Eastern regions are left behind.

These results identify both successes and areas of structural deficiencies in the MSME sector.

F. Implications of the study

The implications of this research are multifaceted :

- 1) Policy Implication: There has been a need for more integrated financial systems that can interconnect banks, non-banking financial institutions, as well as fintech firms, to bridge the credit deficit of MSMEs.
- 2) Managerial Implication: MSME owners need to keep themselves updated about the latest business techniques, technology, and quality management systems to allow them to compete globally.
- 3) Social Implication: MSME development can play an important role in bringing improvements in the employment level in the economy. Also, the empowerment of women can take place with the development of MSME. Moreover, the rural economy can become industrialized with the development of MSME; thus, the
- 4) Economic Implication: The impact on the economy due to the increase in MSME productivity would be significant and would create a bright future in terms of GDP and export markets, thus fulfilling the aim of the Indian \$5 trillion economy.

G. Conclusion

MSMEs are in truth engine drivers in terms of adding to GDP, employment, innovation, and exports. Despite the challenges in structure and nature, there is immense potential in this sector in terms of transforming and adding to sustainable and inclusive developments. There can be absolutely no doubt in the point that lending more strength to this sector will be imperative in meeting and adding to India's dream of self-reliance.

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