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An Examination of the Economic Transformations in India as a Result of its MSME Policy

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ABSTRACT: -

Micro, small, and medium enterprises (MSMEs) play an indispensable role in driving inclusive and sustainable economic growth in India. With over 63 million units operating across the country, MSMEs contribute significantly to employment generation, industrial output, and export promotion. Recognizing this sector's multifaceted role, the Government of India has implemented a series of policy reforms, institutional frameworks, and incentive-driven schemes over the past two decades. These interventions—ranging from the enactment of the MSMED Act in 2006 to recent initiatives like RAMP, Udyam Registration, and ONDC integration—have aimed to formalize the sector, improve ease of doing business, enable access to finance and technology, and enhance global competitiveness. This report undertakes a comprehensive evaluation of the structural and economic transformations resulting from India's evolving MSME policy landscape from 2000 to 2024. It critically analyzes the impact of these policy changes on key macroeconomic indicators, namely GDP contribution, employment generation, and export performance. The study identifies persistent challenges such as limited access to institutional finance in rural areas, low digital adoption among micro-enterprises, bureaucratic delays in scheme execution, and inadequate policy awareness at the grassroots level. Through stakeholder insights and SWOT analysis, the research highlights areas for targeted policy improvement. The study concludes with evidence-backed policy recommendations to streamline institutional support, strengthen digital and financial ecosystems, enhance skill-building initiatives, and create a more adaptive, innovation-driven MSME policy framework. Ultimately, this report aims to inform policymakers, industry stakeholders, and researchers about the measurable impact of MSME policy reforms and contribute to shaping a more inclusive economic future for India.

Keywords: MSME Policy, Indian Economy, Employment, GDP, Formalization, Financial Inclusion

Introduction:

Over the course of the last few decades, India's economic development narrative has undergone significant shifts. These shifts have been driven by government policy reform, globalization, digital transformation, and the expansion of an entrepreneurial ecosystem. Throughout this progression, the micro, small, and medium enterprises (MSMEs) sector has been an essential component. Even though they are the backbone of India's industrial framework, micro, small, and medium-sized enterprises (MSMEs) also play an important role in the creation of employment opportunities, the promotion of innovation, and the formalization of the informal economy. Investment in plant and machinery or equipment and turnover thresholds are the two factors that are used to categorize the micro, small, and medium-sized enterprises (MSME) sector in India, as defined by the Ministry of MSME under the MSMED Act, 2006. The industry has confronted a number of challenges. Delays caused by bureaucratic procedures, restricted access to credit and contemporary technology, complicated regulatory compliances, and insufficient adoption of digital technology continue to be persistent concerns. This sector has frequently been prevented from realizing its full potential as a result of these structural barriers, particularly in the face of disruptions such as the COVID-19 pandemic. The lockdowns and disruptions in the supply chain brought to light the vulnerability of the sector, which prompted the government to implement immediate relief measures such as the Emergency Credit Line Guarantee Scheme (ECLGS). In light of this, it is of the utmost importance to conduct an analysis of the development of India's micro, small, and medium-sized enterprise (MSME) policy landscape, assess the impact of this policy on macroeconomic indicators such as gross domestic product (GDP), employment, and exports, and pinpoint the gaps that continue to impede growth. Consequently, the purpose of this study is to investigate in a methodical manner the dynamic interplay that exists between policy and performance in the micro, small, and medium-sized enterprise sector from the years 2000 to 2024.

Objectives of the Study

1. To study the chronological evolution of MSME policies in India from 2000 to 2024 and understand the rationale behind major policy changes.
2. To assess the contribution of MSMEs to India's GDP, employment generation, and export performance, especially post-enactment of landmark policies.
3. To evaluate the effectiveness of financial, infrastructural, and technological support offered through various government schemes and interventions.
4. To analyze the regional and sectoral variations in MSME performance and policy impact.

5. To identify challenges faced by MSMEs, particularly in credit accessibility, formalization, digital transformation, and regulatory compliance.
6. To provide evidence-based policy recommendations aimed at enhancing the sustainability, competitiveness, and inclusivity of the MSME sector.

1.4 Research Questions

1. What are the key MSME policies, and how have they evolved?
2. How have these policies impacted employment and GDP?
3. What are the challenges faced by MSMEs despite these policies?
4. What is the role of digitalization and credit schemes in MSME growth?

1.6 Scope and Limitations

Despite the study's extensive temporal and geographic coverage, it acknowledges certain limitations.

➤ **Scope:**

- The focus is on India and includes a national and state-level analysis.
- The analysis encompasses policies and outcomes from 2000 to 2024.
- Includes analysis of primary data collected from 80 MSME units in Maharashtra, Delhi, Gujarat, Uttar Pradesh, and West Bengal.
- Evaluates policies in manufacturing, services, and trade sectors.

➤ **Limitations:**

- Time and resource constraints limited the scope of primary data collection to only five states.
- The study predominantly relies on secondary data sources for macroeconomic indicators, which may be subject to lags or reporting inconsistencies.
- The overlap with other concurrent reforms (GST, demonetization, digital India, etc.) makes it challenging to isolate the direct impact of MSME policies.
- The pandemic period (2020–2021) may distort trend data due to the extraordinary economic disruptions experienced globally.

Review Of Literature:

The purpose of this chapter is to provide a comprehensive review of the theoretical and empirical literature concerning the influence of micro, small, and medium-sized enterprise (MSME) policy on economic development. It identifies existing research gaps and provides a synthesis of the major themes, research findings, and methodological approaches that were utilized in previous studies. The review of domestic and international studies on the performance of micro, small, and medium-sized enterprises (MSME), economic impact, policy support, and challenge. The report highlights the research gaps that necessitate a comprehensive analysis of policy impacts from 2000 to 2024.

The role of MSMEs in economic development is rooted in several economic theories:

- a) Lewis's Dual Sector Model (1954): - Arthur Lewis emphasized the transfer of labor from the traditional (agriculture/informal) sector to the modern industrial sector. MSMEs, which straddle both, play a critical transitional role by absorbing surplus labour, thus facilitating structural transformation.
- b) Schumpeter's Theory of Innovation: - Joseph Schumpeter identified entrepreneurship as the engine of innovation and economic dynamism. MSME Entrepreneurs often exhibit disruptive innovation in processes, products, and services, especially in decentralized economies.
- c) Endogenous Growth Theories: - These models, developed by Romer (1990) and Lucas (1988), underscore the importance of human capital, innovation, and knowledge spillovers. MSMEs, being innovation-driven and labour-intensive, enhance productivity and foster inclusive growth.
- d) Institutional Economics: - North (1990) posited that institutions and governance frameworks significantly influence business efficiency and market outcomes. For MSMEs, policy clarity, ease of doing business, and regulatory predictability are crucial enablers of success.

➤ **Empirical Studies on MSME Contribution to GDP**

Empirical literature consistently underscores the MSME sector's economic relevance:

- Sahoo (2017) found that MSMEs accounted for over 28% of India's GDP, with robust growth following the implementation of the CGTMSE scheme. His longitudinal data analysis from 2000 to 2015 highlighted that access to institutional credit significantly influenced GDP contribution.
- Gupta and Kumar (2019) emphasized the positive correlation between policy-driven credit access and GDP growth. Their study argued that reforms such as Udyog Aadhaar and GST simplified tax regimes, indirectly boosting GDP.
- The Economic Survey of India (2022) also recorded a consistent upward trend in MSME GDP share, especially in states with proactive industrial policies like Gujarat and Delhi.

➤ **Employment Generation through MSMEs**

Employment generation is arguably the most celebrated aspect of MSME functioning.

- World Bank (2020) estimated that India's MSME sector employs over 110 million people—making it the second-largest employer after agriculture. Of this, over 70% are employed in rural or semi-urban settings, thus promoting geographic inclusivity.
- Sharma and Bansal (2021) assessed the MUDRA Yojana's employment outcomes and found a statistically significant increase in self-employment in Tier-2 and Tier-3 cities. The Shishu loan category (under ₹50,000) contributed the most to women-led micro-enterprises.
- Dhar. & Lath (2020) highlighted that employment elasticity in MSMEs is higher than in large enterprises, meaning job creation is more responsive to growth in this sector.

➤ **MSME Policy and Export Growth**

MSMEs serve as vital nodes in India's global trade ambitions:

- Joshi (2018) studied the Zero Effect Zero Defect (ZED) certification and found that enterprises with ZED compliance reported up to 20% improvement in export readiness within two years.
- The DGFT Annual Report (2022) recorded that MSMEs accounted for 48.3% of India's exports, particularly in sectors like textiles, gems and jewelry, pharmaceuticals, and leather goods.
- Mehta (2021) explored the role of trade fairs, digital marketplaces, and e-commerce exports in helping MSMEs access international markets, particularly in the post-COVID digital era.

Research Gaps: - While the reviewed literature covers various aspects of MSME performance and policy, few studies offer a holistic view incorporating macroeconomic impacts over time. Despite a rich body of literature, notable gaps remain:

1. Lack of longitudinal analysis: Most studies focus on specific schemes or short timeframes. Few explore policy impacts across multiple decades (2000–2024), as this study does.
2. Limited integration of statistical testing: There's insufficient use of paired t-tests, regression models, or hypothesis testing in many descriptive studies.
3. Neglect of qualitative insights: Few studies triangulate quantitative data with stakeholder perceptions, interviews, or case studies.
4. Inadequate regional analysis: National-level conclusions often mask intrastate variations and local governance effects.
5. Digital MSME research is nascent: The role of AI, ONDC, and e-commerce in MSMEs is underexplored and emerging as a critical area.

Research Methodology: -

the research framework that was designed to evaluate the impact of India's micro, small, and medium-sized enterprise (MSME) policies on important macroeconomic indicators such as gross domestic product, employment, and exports. Methodology is intended to bring about academic rigor, data reliability, and relevance to policy challenges that are encountered in the real world. mixed-method approach, which combines statistical analysis with qualitative insight, to capture the complex dynamics that are influencing the micro, small, and medium-sized enterprise sector.

Research Design

1. Exploratory Research: To explore the evolution and structure of MSME policies in India.
2. Descriptive Research: To describe the trends and statistical changes in GDP, employment, and export patterns.
3. Explanatory Research: This research aims to clarify the relationship between policy interventions and macroeconomic indicators using correlation and regression analysis.

Data Collection Methods

Data collection is a cornerstone of any empirical study. This research uses both primary and secondary data to provide a rich, triangulated understanding of the policy landscape and its outcomes.

➤ Primary Data

Primary data were collected through structured questionnaires targeting MSME stakeholders, including:

- MSME entrepreneurs and unit owners
- Bankers and financial advisors

These responses were gathered across 5 major states—Maharashtra, west Bengal, Uttar Pradesh, and Tamil Nadu—to ensure geographic and sectoral diversity.

➤ Questionnaire Sections:

- Demographic profile of MSMEs
- Awareness and usage of government schemes
- Challenges in finance, compliance, and market access
- Impact of COVID-19
- Suggestions for policy reform

➤ Secondary Data

Secondary data were sourced from the following reliable institutions:

- Government of India: MSME Ministry, Ministry of Finance, NITI Aayog
- RBI and SIDBI Reports: Credit flow and refinancing patterns
- National Sample Survey Office (NSSO): Enterprise surveys (67th and 73rd rounds)
- Directorate General of Foreign Trade (DGFT): Export contribution data
- Annual Economic Surveys from 2000 to 2023
- Academic Journals and Think Tanks: World Bank, OECD, CII, and RBI working papers

Analytical Tools and Techniques

To interpret the data effectively, a range of statistical and qualitative tools were employed.

➤ Descriptive Statistics

Used to summarize general trends such as MSME distribution, average credit received, employment created, and export performance. Measures include:

- Mean
- Median
- Growth Rate (%)
- Standard Deviation

➤ Correlation Analysis

Used to evaluate the strength and direction of relationships between

- Credit flow and GDP contribution

- Scheme usage and employment generation
- Export facilitation and export performance

➤ Regression Analysis

A multiple regression model was developed to assess how different variables (e.g., policy access, finance, technology use) explain changes in economic performance indicators.

Regression Equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where:

Y = Economic Outcome

X₁ = Policy Exposure

X₂ = Financial Access

X₃ = Digital Adoption

➤ Paired t-Test

This research was designed to test the difference in economic indicators before and after the introduction of the policy, specifically the 2006 MSMED Act.

➤ SWOT Analysis

Used for qualitative evaluation of MSME policy implementation—Strengths, Weaknesses, Opportunities, and Threats—based on stakeholder interviews and field responses.

Limitations of the Study

The study heavily relies on secondary data, which may have limitations in terms of accuracy and timeliness.

- Time and resource constraints restricted the number of primary respondents.
- The dynamic nature of economic policy makes it challenging to isolate the impact of policies specifically designed for micro, small, and medium-sized enterprises (MSMEs).

Policy Overview and Evolution: - The purpose of this chapter is to provide a chronological and thematic overview of the evolution of MSME policy in India from the year 2000 to the year 2024. The chapter is organized around significant policy milestones, flagship programs, and institutional interventions that have shaped the landscape of micro, small, and medium-sized enterprises.

- **Prior to the Year 2006 Policy Framework:** - Prior to the enactment of the MSMED Act, 2006, the sector was referred to as the Small-Scale Industries (SSI) sector. Policies were largely focused on protectionist measures such as reservation of products for SSI, concessional finance, and tax exemptions.
- **MSMED Act, 2006:-** The Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006, was a landmark reform that formalized the definition of MSMEs and created a uniform policy structure across states. It introduced classification based on investment in plant and machinery, which was later updated in 2020 to include turnover criteria.
- **Key Policies and Schemes (2006–2024)**
 - Credit and Financial Inclusion
 - Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)
 - MUDRA Yojana (2015)
 - Emergency Credit Line Guarantee Scheme (ECLGS) (2020)
 - Infrastructure and Cluster Development
 - Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
 - Micro The Small Enterprises Cluster Development Programme (MSE-CDP)
 - Technology and Innovation Support
 - Credit Linked Capital Subsidy Scheme (CLCSS)
 - Digital MSME Scheme (2017)
 - **COVID-19 Pandemic and MSME Reforms** The pandemic prompted emergency reforms:
 - Reclassification of MSMEs based on investment and turnover in 2020.
 - ₹3 lakh crore ECLGS announced.
 - MSMEs brought under the Atmanirbhar Bharat mission.
 - **Recent Developments (2022–2024)**
 - The RAMP Scheme (Raising and Accelerating MSME Performance) was launched with World Bank support.
 - Digital Payments and ONDC Integration for MSMEs.
 - Inclusive This section discusses the role of global value chains (GVCs) in enhancing export facilitation and trade fairs.

Impact On the Indian Economy

Introduction

The macroeconomic implications of MSME policy in India are the primary focus of this chapter, with an emphasis on GDP contribution, employment generation, export performance, and sectoral linkages. Using longitudinal data from 2000 to 2024, the analysis highlights the measurable effects of policy reforms.

MSME Contribution to GDP

According to data from the Ministry of MSME and the Reserve Bank of India, the MSME sector's contribution to GDP increased from approximately 28% in 2000 to over 30.5% in 2023.

Employment Generation

The MSME sector is the second-largest employment generator after agriculture. It has created over 110 million jobs as of 2023.

Export Performance

MSMEs contribute nearly 49% of India's total exports as of 2023. Policies such as ZED, TReDS, and market access programs under DGFT have helped boost competitiveness.

Regional and Sectoral Impact

- Regional Distribution: States like Maharashtra, Delhi, Gujarat, and Uttar Pradesh lead in MSME output and employment.
- Sectoral Distribution: Manufacturing contributes 36%, trade 33%, and services 31% to MSME output.

Impact of COVID-19 and Policy Response

The pandemic disrupted MSME operations, causing a decline in output and job losses. However, the Emergency Credit Line Guarantee Scheme (ECLGS) and policy reclassification in 2020 cushioned the impact.

Findings

- Economic Impact of MSMEs
 - MSMEs contribute over 30.5% to India's GDP (2023).
 - Employment generation reached over 110 million jobs.
 - Export contribution rose to approximately 49% of total exports.
- Policy Outcomes
 - Significant improvements occurred post-MSMED Act, 2006.
 - Schemes like MUDRA, ZED, ECLGS, and RAMP contributed to inclusive growth and competitiveness.
 - Udyam registration streamlined formalization of enterprises.

Conclusions

- MSMEs are not only engines of inclusive growth but also pillars of macroeconomic stability.
- Policy frameworks have evolved from protectionist to globally competitive and innovation-driven.
- Digitalization, financial inclusion, and institutional reforms have broadened the sector's economic footprint.
- There exists strong empirical evidence that policy interventions post-2006 have significantly impacted GDP, employment, and exports.

Recommendations

- Enhance Financial Accessibility
 - Strengthen outreach of CGTMSE, MUDRA, and ECLGS in rural and Tier-II/III areas.
 - Encourage fintech collaboration to offer customized credit scoring for MSMEs.
- Improve Digital Integration
 - Promote ONDC and e-marketplace access.
 - Incentivize cloud adoption, AI, and ERP tools among small businesses.
- Capacity Building and Skilling
 - Scale up Skill India and cluster-specific training programs.
 - Promote Industry-Academia collaborations for innovation.
- Export Promotion Support
 - Facilitate certification (ZED, ISO, etc.) for global market access.
 - Simplify compliance and integrate MSMEs into Free Trade Agreements (FTAs).
- Strengthen Institutional Support
 - Ensure faster grievance redressal via MSME Samadhan.
 - Increase data transparency through periodic MSME Census.

Scope for Future Research

- Longitudinal studies post-2024 to evaluate RAMP Scheme impact.
- Sector-wise MSME performance in high-tech industries.
- Impact of climate resilience and ESG integration in MSMEs.

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