

Role of Small Scale Industries in The Economic Development of India

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Abstract

Small Scale Industries have traditionally been regarded as an important instrument of India's economic development. In the contemporary policy framework, the sector forms part of the broader MSME ecosystem. The present study examines the contribution of small enterprises to India's economic development with particular reference to GDP, manufacturing, exports, employment, entrepreneurship and regional development. The study is based on secondary data obtained from the Ministry of MSME, Ministry of Finance, NITI Aayog and published academic research. The analysis shows that MSMEs contribute substantially to India's manufacturing output, GDP and exports and provide employment opportunities across rural and urban areas. The sector also supports large industries through supply-chain linkages and contributes to entrepreneurship and inclusive development. Nevertheless, financial constraints, technological limitations, delayed payments, inadequate skills and market-related challenges affect the productivity and competitiveness of enterprises. The study concludes that strengthening MSMEs through finance, technology, skills, digitalisation and market integration is essential for broad-based economic development.

Keywords: Small Scale Industries, MSMEs, Economic Development, GDP, Employment, Exports, Entrepreneurship.

1. Introduction

Economic development involves more than an increase in national income. It includes employment generation, productivity improvement, entrepreneurship, technological advancement and equitable distribution of economic opportunities.

Small enterprises are important in this process because they can be established with relatively lower capital requirements and can operate across different geographical regions.

The Government of India reported that MSMEs accounted for around **31.1% of GDP, 35.4% of manufacturing and 48.58% of exports** according to the Economic Survey 2025–26. ([Press Information Bureau](#))

Earlier official data also showed that MSMEs accounted for approximately 29.1% of GDP and 36.2% of manufacturing output in 2021–22. ([Press Information Bureau](#))

The changing figures also demonstrate the importance of using year-specific data while analysing the sector.

2. Review of Literature

Anderson (1982) highlighted the role of small industries in employment generation and development in developing countries.

Little, Mazumdar and Page (1987) examined the employment and productivity characteristics of small manufacturing enterprises in developing countries.

Tyler (1988) analysed the growth of small-size enterprises in India and argued that growth in the number of enterprises did not automatically guarantee efficiency or innovation. ([ScienceDirect](#))

Ramcharan (2017) studied bank lending to small businesses in India and examined productivity and efficiency in the context of SME finance. ([ScienceDirect](#))

Bairagya, Bhattacharya and Bhattacharjee (2020) found that credit access has a positive relationship with earnings of self-employed businesses. ([ScienceDirect](#))

Recent research has also examined digital finance and found associations between digital adoption and MSME performance indicators such as sales, employment and labour productivity. ([ScienceDirect](#))

3. Objectives

1. To examine the role of small-scale industries in India's economic development.
2. To analyse their contribution to GDP and manufacturing.
3. To examine their role in employment generation.
4. To study their contribution to exports.
5. To identify major constraints affecting the sector.

4. Methodology

The study is based on secondary data.

Sources include:

- Ministry of MSME
- Economic Survey of India
- NITI Aayog
- Ministry of Statistics and Programme Implementation
- RBI publications
- Peer-reviewed academic literature

The research follows a descriptive and analytical approach.

5. Results and Discussion

5.1 Contribution to GDP

MSMEs accounted for approximately **29.1% of India's GDP in 2021–22** according to official data. ([Press Information Bureau](#))

More recent Economic Survey 2025–26 information places the contribution at approximately **31.1%**, illustrating the continuing significance of the sector. ([Press Information Bureau](#))

5.2 Contribution to manufacturing

MSMEs represented approximately **36.2% of manufacturing output in 2021–22**. ([Press Information Bureau](#))

The Economic Survey 2025–26 reports a share of approximately **35.4%**. ([Press Information Bureau](#))

Small enterprises therefore constitute an important part of India's industrial production structure.

5.3 Export contribution

MSME-related products accounted for approximately **43.6% of India's exports in 2022–23** according to Ministry of MSME information. ([Press Information Bureau](#))

The latest Economic Survey reporting cited above places MSME exports at approximately 48.58%. ([Press Information Bureau](#))

5.4 Employment

Small enterprises are highly relevant to employment generation because many operate in labour-intensive activities.

They also create opportunities for self-employment and entrepreneurship, particularly in smaller towns and rural areas.

5.5 Entrepreneurship

MSMEs provide an entry point into entrepreneurship for individuals who may not have sufficient capital to establish large-scale enterprises.

They therefore contribute to the expansion of the entrepreneurial base of the economy.

5.6 Regional industrialisation

Large industries tend to concentrate around locations offering infrastructure and market advantages. Small enterprises can operate in relatively smaller towns and districts.

They therefore contribute to decentralisation of industrial activity and local economic development.

5.7 Linkages with large industries

Small enterprises often operate as:

- Component suppliers
- Ancillary units
- Contract manufacturers
- Service providers
- Distributors
- Export suppliers

Consequently, their contribution to the economy extends beyond their own direct output.

5.8 Major constraints

Important constraints include:

- Credit availability
- High cost of finance
- Technology gaps

- Skill shortages
- Delayed payments
- Market access
- Quality certification
- Infrastructure

The RAMP programme identifies several of these issues as continuing MSME constraints. ([MSME RAMP Portal](#))

6. Conclusion

Small Scale Industries, within today's broader MSME framework, are an important component of India's economic development.

Their contribution can be seen through GDP, manufacturing, exports, employment, entrepreneurship and regional industrialisation. Their role is particularly significant because they connect economic growth with employment and entrepreneurial opportunities.

However, the future development of the sector requires a shift from merely increasing the number of enterprises towards improving **productivity, technology, innovation, quality and competitiveness**.

Improved credit delivery, digitalisation, technology centres, skill development, cluster development,

timely payments and stronger integration with domestic and global value chains can help small enterprises contribute more effectively to India's long-term economic development.

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