

Aayushi International Interdisciplinary Research Journal (AIIRJ)

Peer Reviewed and Indexed Journal

ISSN 2349-638X

SJIF Impact Factor 8.379

Website: www.aiirjournal.com

Theme of Special Issue

‘Exploring Pillars for Viksit Bharat-2047’

(Special Issue No. 159)

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Aayushi International Interdisciplinary Research Journal

ISSN 2349-638x

Special Issue No.159

Feb.2026

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Sr. No.	Name of the Author	Title of Paper	Page No.
Vol. 01			
1.	Mrs. Prachi Tushar Raut, Prof.Dr. Sarang Shankar Bhola	A Study on Work Life Balance And Employee Performance in Manufacturing Sector in Satara	1
2.	Dr. Malatesh B Nagalapur	A Study on Consumer Behaviour on The Purchase of Gadgets on The Online Platforms in Haveri City of Karnataka	6
3.	Miss.Patil Amruta Ashok, Dr. G. J. Fagare	A Study of Government Initiatives for Artisans in Kolhapur District	12
4.	Dr. Sarjerao Sadashiv Chile	The effect of Skill Development Programs on the youth employability in India: A case study of Karad Tehsil	17
5.	Mrs. Snehal Amey Desai, Dr. Amey Atmaram Desai	Digital Transformation in Governance: Opportunities and Challenges	24
6.	Dr. Rajeshkumar P. Chetiwal	Impact of Rise in Securities Transaction Tax (STT) After Budget 2026	27
7.	Dr.Ms.Sulakshana V. Chavan	Role of AI Technology in Banking Sector	32
8.	Dr. Sandhya S. Jadhav	Startups and Entrepreneurship Developments in Viksit Bharat: Drivers, Challenges, and the Road to 2047	35
9.	Dr. Ashwini Tanaji Kamble	Role of Intermediaries in Strengthening the Tourism Sector	42
10.	Dr. Netaji Dnyanu Dabade	Impact of Awareness and Satisfaction of Digital Payments on Financial Inclusion in India	51
11.	Mrs. Sujata Chandrashekhar Bhasme	Economic Role of MSMEs and Start-ups in India: Challenges, Growth, and the Vision of Viksit Bharat 2047	55
12.	Mr.Ganesh Ramesh Vaske	Role of Commerce and Trade in Achieving Viksit Bharat-2047	61
13.	Miss. Dipali Hindurao Chavan Prof.(Dr) T. D. Mahanwar	A Study of Contract Farming Agreements and Their Implications on Poultry Growers	64
14.	Miss. Borate Jyotsna Pandurang	Study of Fintech in India	68

Economic Role of MSMEs and Start-ups in India: Challenges, Growth, and the Vision of Viksit Bharat 2047

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Abstract:

Micro, Small and Medium Enterprises (MSMEs) and the start-up ecosystem play a decisive role in shaping India's economic transformation and achieving the vision of Viksit Bharat 2047. This paper examines the economic role of MSMEs within India's development framework, analyzes the growth and significance of the Indian start-up ecosystem, identifies key challenges affecting these sectors, and assesses their strategic contribution toward inclusive and sustainable national development. Based on secondary data from books, journals, research articles, and official reports, the study highlights MSMEs' contributions to employment generation, GDP, exports, regional balance, innovation, and self-reliance. It also emphasizes the start-up ecosystem's role in technological advancement, digital transformation, entrepreneurship, and global competitiveness. Despite policy support, MSMEs and start-ups face constraints related to finance, technology, skills, infrastructure, and regulatory compliance. The study concludes that strengthening MSMEs and start-ups is essential for fostering inclusive growth, economic resilience, and long-term development in India's journey toward becoming a developed nation by 2047.

Keywords: MSMEs, Start-ups, Economic Development, Viksit Bharat 2047, Entrepreneurship, Inclusive Growth

Introduction:

India's long-term national vision of **Viksit Bharat 2047** envisions the transformation of the country into a developed, inclusive, innovation-driven, and self-reliant economy by the centenary year of Independence. Achieving this ambitious goal requires strengthening the foundational pillars of the Indian economy, among which **Micro, Small and Medium Enterprises (MSMEs)** and the **start-up ecosystem** occupy a central position. These sectors are widely recognized as engines of employment generation, entrepreneurship development, technological innovation, and balanced regional growth.

MSMEs constitute the backbone of India's industrial and service sectors, contributing substantially to gross domestic product, exports, and livelihood creation. Their widespread presence across rural, semi-urban, and urban regions enables inclusive growth by integrating local resources, traditional skills, and emerging technologies into the formal economic framework. At the same time, the rapid expansion of the Indian start-up ecosystem has repositioned India as a global hub of innovation, fostering digital transformation, knowledge-based industries, and new-age business models.

In recent years, policy initiatives undertaken by the Government of India, such as *Startup India, Make in India, Digital India*, and *Atmanirbhar Bharat*, have significantly enhanced the institutional and regulatory environment for MSMEs and start-ups. These initiatives aim to simplify compliance, improve access to finance, encourage innovation, and strengthen domestic manufacturing and services. Despite these policy efforts, MSMEs and start-ups continue to face multiple structural and operational challenges, including financial constraints, technological gaps, regulatory complexities, and market access limitations.

Against this backdrop, the present study seeks to examine the economic role of MSMEs within India's development framework, analyze the growth and significance of the Indian start-up ecosystem, identify key challenges affecting these sectors, and assess their strategic contribution toward achieving the objectives of Viksit Bharat 2047. By synthesizing insights from secondary sources, the study aims to provide a

comprehensive and analytical understanding of how MSMEs and start-ups can act as transformative agents in India's journey toward sustainable and inclusive national development.

Objectives of the study

The study is conducted with the following objectives:

1. To examine the economic role of MSMEs in India's development framework.
2. To analyse the growth and significance of the Indian start-up ecosystem.
3. To identify the major challenges faced by MSMEs and start-ups.
4. To assess the strategic contribution of MSMEs toward achieving Viksit Bharat 2047.

Methodology of the study:

The present study is descriptive and analytical in nature and is based entirely on secondary data. Information has been collected from books, research journals, scholarly articles, government reports, and official websites related to MSMEs and start-ups. The data has been analyzed through logical interpretation and synthesis to draw meaningful conclusions.

Concept of MSME

MSME stands for Micro, Small and Medium Enterprises. These are business entities classified based on their investment in plant and machinery or equipment and annual turnover, as defined under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, revised in 2020 by the Government of India.

The Government of India revised the definition of Micro, Small and Medium Enterprises (MSMEs) with effect from 1 July 2020 by introducing a composite criterion based on both investment and annual turnover. This revised classification applies uniformly to manufacturing as well as service enterprises, removing the earlier distinction between the two sectors. Under the new definition, a Micro Enterprise is one where the investment in plant and machinery or equipment does not exceed ₹1 crore and the annual turnover does not exceed ₹5 crore. A Small Enterprise is defined as an enterprise with investment up to ₹10 crore and turnover up to ₹50 crore. Similarly, a Medium Enterprise is one with investment up to ₹50 crore and turnover up to ₹250 crore. It is important to note that both conditions—investment and turnover—must be satisfied simultaneously for an enterprise to qualify under a specific category. This revised definition aims to promote growth, ease of doing business, and better access to government benefits for MSMEs

Concept of Start-up Ecosystem

The concept of a start-up ecosystem refers to a dynamic and interconnected network of individuals, institutions, policies, and resources that collectively support the creation, growth, and sustainability of start-up enterprises. It represents the overall environment in which new and innovative businesses are formed, financed, nurtured, and scaled.

A start-up ecosystem typically includes entrepreneurs, investors (angel investors and venture capitalists), incubators, accelerators, educational institutions, mentors, government agencies, financial institutions, technology platforms, and regulatory bodies. These components interact with one another to provide funding, infrastructure, knowledge, market access, and policy support necessary for entrepreneurial success.

In the Indian context, initiatives such as Startup India, Digital India, Make in India, and Atmanirbhar Bharat have strengthened the start-up ecosystem by simplifying compliance procedures, offering tax incentives, and improving access to funding. A strong start-up ecosystem fosters technological advancement, job creation, global competitiveness, and sustainable development.

Economic Role of MSMEs in India's Development Framework

Micro, Small and Medium Enterprises (MSMEs) play a crucial role in India's economic development by contributing to growth, employment, and inclusive development. Their economic significance can be explained as follows:

1. Employment Generation

MSMEs are among the largest generators of employment in India after agriculture. They provide job opportunities to skilled, semi-skilled, and unskilled workers at relatively low capital cost, helping to reduce unemployment and underemployment.

2. Contribution to Gross Domestic Product (GDP)

MSMEs contribute significantly to India's GDP by supporting industrial production and service activities. Their widespread presence across sectors strengthens the overall economic output.

3. Promotion of Inclusive Growth

MSMEs promote inclusive and equitable economic growth by encouraging entrepreneurship among women, youth, and marginalized communities, thereby supporting social and economic inclusion.

4. Balanced Regional Development

MSMEs are widely dispersed across rural and semi-urban areas. This helps reduce regional imbalances, prevents excessive urban migration, and promotes local economic development.

5. Export Promotion

A substantial share of India's exports originates from MSMEs, particularly in sectors such as textiles, leather, engineering goods, handicrafts, and pharmaceuticals. This strengthens foreign exchange earnings and improves trade balance.

6. Support to Large Industries

MSMEs act as ancillary units to large-scale industries by supplying components, raw materials, and services. This integration enhances industrial efficiency and supply chain resilience.

7. Entrepreneurship Development

MSMEs encourage entrepreneurial culture by enabling individuals to start businesses with limited capital. They act as training grounds for future entrepreneurs and innovators.

8. Utilization of Local Resources

MSMEs efficiently utilize local raw materials, skills, and traditional knowledge, thereby supporting sustainable and region-specific development.

9. Technological Innovation and Adaptability

MSMEs demonstrate flexibility and adaptability in adopting new technologies and processes, particularly in niche markets, contributing to innovation-driven growth.

10. Poverty Reduction and Income Generation

By generating employment and self-employment opportunities, MSMEs play an important role in poverty alleviation and improvement of living standards.

11. Contribution to Atmanirbhar Bharat

MSMEs support self-reliance by promoting domestic production, reducing import dependence, and strengthening indigenous manufacturing capabilities.

12. Resilience during Economic Shocks

Due to their flexible operations, MSMEs can quickly adapt to changing market conditions, thereby enhancing economic resilience during crises.

Growth and Significance of the Indian Start-up Ecosystem

The Indian start-up ecosystem has witnessed remarkable growth over the past decade and has emerged as one of the largest and most dynamic entrepreneurial ecosystems in the world. Its growth and significance can be explained as follows:

1. Rapid Growth in Number of Start-ups

India has experienced a sharp increase in the number of start-ups across diverse sectors such as fintech, edtech, healthtech, agritech, e-commerce, and artificial intelligence. This growth reflects a strong entrepreneurial culture and increasing innovation activity.

2. Global Position and Recognition

India has emerged as one of the top start-up hubs globally, attracting international attention and investment. The country hosts a large number of unicorn start-ups, enhancing its global economic standing.

3. Innovation and Technological Advancement

Start-ups are key drivers of innovation, introducing new technologies, digital platforms, and disruptive business models that improve efficiency and productivity across industries.

4. Employment Generation

The start-up ecosystem has become a significant source of employment, particularly for skilled professionals in technology, management, and research, thereby contributing to human capital development.

5. Growth of Venture Capital and Funding

Increased availability of venture capital, angel investment, and government funding has strengthened start-up financing and enabled scalability and sustainability of new ventures.

6. Digital Transformation of the Economy

Start-ups play a central role in India's digital transformation by expanding digital payments, e-commerce, online education, telemedicine, and digital financial services.

7. Supportive Government Policies

Initiatives such as Startup India, Digital India, Make in India, and Atmanirbhar Bharat have simplified regulatory processes, offered tax incentives, and created a favorable environment for entrepreneurship.

8. Regional Expansion Beyond Metros

The start-up ecosystem is expanding beyond major metropolitan cities to Tier-II and Tier-III cities, promoting balanced regional development and reducing urban concentration.

9. Strengthening of MSME and Industrial Ecosystem

Start-ups complement MSMEs by providing technological solutions, improving supply chains, and fostering innovation within traditional industries.

10. Attraction of Foreign Investment

The vibrant start-up ecosystem attracts significant foreign direct investment (FDI), contributing to capital formation and global economic integration.

11. Promotion of Entrepreneurial Culture

Start-ups encourage risk-taking, creativity, and problem-solving among youth, fostering a culture of entrepreneurship and innovation.

12. Contribution to Atmanirbhar and Viksit Bharat

By promoting domestic innovation, import substitution, and global competitiveness, the start-up ecosystem supports India's goals of self-reliance and long-term economic development.

Major Challenges Affecting MSMEs and Start-ups in India

Despite their significant contribution to economic development, MSMEs and start-ups in India face several structural, financial, and operational challenges. These challenges hinder their growth, sustainability, and global competitiveness. The major challenges are explained below:

- Limited Access to Finance** : MSMEs and start-ups often face difficulties in obtaining timely and affordable finance due to lack of collateral, limited credit history, and high perceived risk by financial institutions. This restricts their capacity for expansion and innovation.
- High Cost of Credit** : Even when credit is available, interest rates are often higher for small enterprises compared to large firms, increasing financial stress and reducing profitability.
- Regulatory and Compliance Burden** : Complex regulatory procedures, multiple registrations, and frequent compliance requirements increase administrative costs and discourage entrepreneurial growth.
- Inadequate Technological Adoption** : Many MSMEs lack access to modern technology, digital infrastructure, and automation tools, leading to low productivity and reduced competitiveness.
- Skill Gaps and Managerial Deficiencies** : Shortage of skilled manpower and limited managerial expertise in areas such as finance, marketing, and operations adversely affect business efficiency and scalability.
- Market Access Constraints** : MSMEs and start-ups often struggle to access domestic and international markets due to limited branding, marketing capabilities, and distribution networks.

7. **Intense Competition** : Competition from large domestic firms and multinational corporations poses significant challenges, particularly in terms of pricing, quality, and technological superiority.
8. **Delayed Payments** : Delayed payments from buyers, especially large corporations and government agencies, adversely impact cash flows and working capital management.
9. **Infrastructure Deficiencies** : Inadequate physical infrastructure such as power supply, transportation, logistics, and industrial facilities increases operational costs and reduces efficiency.
10. **Limited Research and Development (R&D)** : MSMEs and start-ups often lack sufficient resources for R&D activities, restricting innovation and product development.
11. **Cybersecurity and Data Protection Risks** : Increased digitalization exposes enterprises to cybersecurity threats, data breaches, and technological vulnerabilities.
12. **Global Market Challenges** : Compliance with international quality standards, intellectual property protection, and global trade regulations presents additional challenges for exporting enterprises.
13. **Business Sustainability and Survival Risks** : High failure rates due to market uncertainty, limited experience, and financial instability remain a critical concern, especially during initial years.

MSMEs' Strategic Contribution toward Achieving *Viksit Bharat 2047*

Micro, Small and Medium Enterprises (MSMEs) play a **pivotal and strategic role** in realizing the vision of *Viksit Bharat 2047*, which aims to transform India into a **developed, inclusive, innovative, and self-reliant economy** by the centenary of Independence. Their contributions can be explained as follows:

1. **Employment Generation and Inclusive Growth** : MSMEs are the largest employment generators after agriculture. They provide jobs to millions across rural, semi-urban, and urban areas, thereby reducing unemployment, poverty, and regional imbalances—key goals of *Viksit Bharat 2047*.
2. **Balanced Regional Development** : MSMEs promote industrialization in backward and rural regions by utilizing local resources and skills. This helps in reducing migration to cities and ensures geographically balanced economic development.
3. **Strengthening 'Make in India' and 'Atmanirbhar Bharat'** : MSMEs are the backbone of domestic manufacturing and supply chains. By reducing import dependence and boosting indigenous production, they support national self-reliance—an essential pillar of *Viksit Bharat*.
4. **Contribution to GDP and Economic Growth** : MSMEs significantly contribute to India's GDP and industrial output. Their expansion enhances overall economic productivity and supports India's transition to a high-income economy by 2047.
5. **Export Promotion and Global Integration** : MSMEs contribute substantially to India's exports, especially in textiles, handicrafts, engineering goods, pharmaceuticals, and IT services. Their global integration strengthens India's position in global value chains.
6. **Innovation and Entrepreneurship Development** : MSMEs and start-ups foster innovation, creativity, and entrepreneurship. Adoption of new technologies, digital platforms, and innovative business models accelerates India's move toward a knowledge-driven economy.
7. **Digital Transformation and Formalization** : With initiatives like Udyam Registration, digital payments, and e-commerce platforms, MSMEs are becoming more formal, transparent, and efficient—aligning with the vision of a modern and digitally empowered India.
8. **Support to Sustainable and Green Growth** : MSMEs increasingly adopt eco-friendly practices, renewable energy, and sustainable production methods. This supports environmental sustainability and India's climate commitments under the *Viksit Bharat* framework.
9. **Women and Youth Empowerment** : MSMEs provide entrepreneurial opportunities to women and youth, promoting social equity, leadership, and financial independence—critical for inclusive national development.
10. **Resilience and Economic Stability** : MSMEs enhance economic resilience by diversifying production and reducing dependence on a few large industries. This strengthens India's ability to withstand global economic shocks.

11. **Skill Development and Human Capital Formation** : MSMEs act as training grounds for skill development, apprenticeships, and on-the-job learning, contributing to a skilled workforce essential for a developed nation.
12. **Alignment with Government Development Policies** : MSMEs effectively implement development initiatives of the Government of India, ensuring last-mile delivery of economic reforms and inclusive growth strategies.

Conclusion

MSMEs are not merely economic units but **strategic nation-building partners**. By driving employment, innovation, exports, sustainability, and inclusiveness, MSMEs form the **foundation of India's journey toward Viksit Bharat 2047**—a prosperous, self-reliant, and globally competitive nation. MSMEs' strategic contribution toward employment generation, innovation, exports, sustainability, and inclusive growth positions them as key drivers in India's journey toward becoming a developed nation. Strengthening MSMEs and start-ups through coherent policies and effective implementation by the Government of India will not only accelerate economic growth but also ensure that development remains inclusive, resilient, and future-oriented. Thus, MSMEs and start-ups are not merely economic entities but vital partners in nation-building and in realizing the long-term aspirations of **Viksit Bharat 2047**.

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