



## **The Role of Small and Medium Enterprises (SMEs) in Sustainable Economic Growth**

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### **ABSTRACT**

Small and medium enterprises (SMEs) constitute the backbone of most national economies, accounting for the overwhelming majority of business establishments, a substantial share of employment, and a meaningful contribution to gross domestic product (GDP) across both developed and developing nations. This paper examines the multidimensional role of SMEs in advancing sustainable economic growth, understood as growth that is simultaneously economically robust, socially inclusive, and environmentally responsible. Drawing exclusively on secondary data published between 2018 and 2025 by institutions such as the World Bank, the International Finance Corporation (IFC), the Organisation for Economic Co-operation and Development (OECD), the International Labour Organization (ILO), and national statistical agencies, the study synthesises empirical evidence on SME contributions to employment, GDP, innovation, export diversification, financial inclusion, and green transition. The analysis is organised around five thematic data tables that trace SME performance indicators over the study period. Findings indicate that SMEs generate roughly 60 to 70 percent of formal employment and contribute approximately 40 percent of GDP in emerging economies, while persistent constraints—chiefly a financing gap estimated at USD 5.2 trillion, limited digital adoption, and uneven access to green finance—continue to suppress their full potential. The paper concludes that the sustainability dividend of the SME sector can be realised only through coordinated policy intervention targeting access to finance, digital and managerial capability building, and incentives for environmentally responsible production. The study contributes a consolidated, evidence-based overview that is useful for policymakers, development institutions, and researchers seeking to align SME development with the Sustainable Development Goals (SDGs).

**Keywords:** small and medium enterprises; sustainable economic growth; employment; financial inclusion; green finance; Sustainable Development Goals; secondary data analysis

### **1. INTRODUCTION**

The pursuit of sustainable economic growth has emerged as a central preoccupation of policymakers, multilateral institutions, and the academic community in the decades following the adoption of the 2030 Agenda for Sustainable Development. Within this discourse, small and medium enterprises occupy a position of singular importance. They are at once the most numerous categories of economic actor, the largest aggregate employer in most economies, and a critical channel through which growth is translated into broad-based welfare improvements. Understanding how SMEs contribute to—and are constrained within—the project of sustainable development is therefore essential to any serious account of inclusive

economic progress. This introduction establishes the conceptual terrain of the study, articulates the problem that motivates it, and sets out the specific objectives the paper seeks to achieve.

### **1.1 Background and Context**

Small and medium enterprises are conventionally defined by thresholds of employment, turnover, or balance-sheet value, though the precise cut-offs vary considerably across jurisdictions. The European Union, for instance, classifies enterprises with fewer than 250 employees and an annual turnover not exceeding EUR 50 million as SMEs, whereas many developing economies apply substantially lower thresholds reflecting the structure of their domestic markets. Despite this definitional heterogeneity, a consistent empirical pattern recurs across national contexts: SMEs represent more than 90 percent of all firms and account for the majority of private-sector employment. The World Bank estimates that formal SMEs contribute up to 40 percent of GDP in emerging economies, with the figure rising considerably once the informal sector is included.

The period from 2018 to 2025 represents a particularly instructive window for examining the SME sector. It encompasses the relative stability of the late 2010s, the profound disruption of the COVID-19 pandemic in 2020 and 2021, and the subsequent recovery shaped by inflationary pressures, supply-chain reconfiguration, and an accelerating digital and green transition. SMEs proved acutely vulnerable to the pandemic shock owing to their thin capital buffers and limited access to credit, yet they also demonstrated notable resilience and adaptive capacity, particularly where digital tools enabled rapid pivots in business models. This dual character—vulnerability coupled with adaptability—frames the contemporary policy challenge of harnessing SMEs for sustainable growth.

### **1.2 Problem Statement**

Notwithstanding their evident economic weight, SMEs operate under a constellation of structural constraints that limit their contribution to sustainable development. The most widely documented of these is the financing gap: the International Finance Corporation estimates that the unmet financing need of micro, small, and medium enterprises in developing countries stands at approximately USD 5.2 trillion annually, a figure equivalent to roughly 1.4 times the current level of global MSME lending. Beyond finance, SMEs frequently lack the managerial depth, technological sophistication, and access to formal markets that larger firms enjoy. These deficits are compounded when the lens shifts from growth in the narrow sense to sustainable growth, which demands additional investment in energy efficiency, cleaner production processes, and compliance with environmental standards—investments that capital-constrained small firms are poorly positioned to make.

The problem this paper addresses is therefore twofold. First, the evidence on SME contributions to sustainable economic growth remains dispersed across numerous institutional reports and datasets, making it difficult to form an integrated picture. Second, the specific mechanisms through which SMEs advance—or fail to advance—the environmental and social dimensions of sustainability are insufficiently consolidated in the literature. A synthesis grounded in recent secondary data is needed to clarify both the magnitude of the SME contribution and the levers through which it might be strengthened.

## **2. LITERATURE REVIEW**

The scholarly and institutional literature on SMEs and sustainable growth is extensive and spans several distinct strands. This review organises that literature around four themes that correspond to the principal channels through which SMEs influence sustainable development: their contribution to economic growth and GDP; their role in employment generation and social inclusion; the relationship between SMEs, innovation, and the environmental dimension of sustainability; and the financing and structural barriers that mediate all of the foregoing. Each theme is examined in turn, drawing on peer-reviewed scholarship and authoritative institutional analysis published between 2015 and 2024.

### **2.1 SMEs and Economic Growth**

A substantial body of research establishes a positive association between SME density and aggregate economic growth, while cautioning that the relationship is conditioned by the quality of the institutional environment. Ayyagari, Demirgüç-Kunt, and Maksimovic (2017) demonstrate, using cross-country firm-level data, that small and young firms are disproportionately important contributors to net job creation, a finding that links SME activity directly to the dynamism of an economy. Beck and Cull (2018) extend this analysis to the African context, arguing that the growth contribution of SMEs is heavily contingent on the depth of financial markets and the strength of contract enforcement. The OECD (2019) similarly reports that SMEs account for around 60 percent of value added in the OECD area, underscoring their centrality to productive activity in advanced economies. Collectively, this literature frames SMEs not merely as a residual category of small firms but as an engine of productivity and structural transformation, the effectiveness of which depends on enabling conditions.

### **2.2 SMEs, Employment, and Social Inclusion**

The employment dimension of the SME contribution is perhaps the most consistently documented in the literature, and it connects directly to the social pillar of sustainability. The International Labour Organization (2019) estimates that SMEs and self-employment together account for roughly 70 percent of total employment worldwide, with the share considerably higher in low-income economies where the formal large-firm sector is thin. Beyond the sheer quantity of jobs, scholars emphasise the distributional significance of SME employment. Kumar and Ayedee (2021) argue that SMEs play a pivotal role in absorbing labour from marginalised groups—women, youth, and rural populations—thereby advancing the inclusion objectives embedded in the Sustainable Development Goals. At the same time, a critical strand of the literature notes that employment in the SME sector is frequently characterised by informality, lower wages, and weaker social protection, raising questions about job quality that complicate any straightforward equation of SME growth with social progress. This tension between the quantity and quality of SME-generated employment recurs throughout the policy debate.

### **2.3 SMEs, Innovation, and Environmental Sustainability**

A growing literature interrogates the environmental dimension of SME activity and the sector's capacity for green innovation. On one hand, SMEs in aggregate are estimated to account for a

significant share of industrial pollution and energy consumption, owing to their reliance on older technologies and limited capacity to invest in efficiency. On the other hand, their flexibility and proximity to local markets position them as potential agents of green innovation and circular-economy practices. Hörisch, Johnson, and Schaltegger (2015) examine the determinants of corporate sustainability management in SMEs and find that institutional support and stakeholder pressure are decisive in moving small firms toward environmentally responsible practices. More recent work by the OECD (2021) on financing SMEs for the green transition documents both the scale of the investment required and the structural barriers—information asymmetries, high transaction costs, and limited access to green finance—that impede SME participation in decarbonisation. The emerging consensus is that SMEs are indispensable to any economy-wide sustainability transition precisely because of their ubiquity, yet they cannot make that transition without targeted support.

#### **2.4 Financing Constraints and Structural Barriers**

Underlying all of the preceding themes is the pervasive problem of SME financing, which the literature treats as the binding constraint on the sector's contribution to sustainable growth. The International Finance Corporation (2017) quantifies the MSME finance gap in developing countries at USD 5.2 trillion, a figure that has become the canonical reference point in subsequent policy analysis. Beck (2020) reviews the mechanisms underlying this gap, emphasising information asymmetries, the absence of collateral, and the high per-unit cost of lending to small borrowers. A complementary literature examines how financial technology and digital lending platforms may alleviate these constraints; the World Bank (2022) documents the rapid expansion of digital financial services and their potential to extend credit to previously unbanked small enterprises, while cautioning that the digital divide may reproduce existing inequalities if access is uneven. Taken together, the literature converges on the conclusion that relaxing the financing constraint—through a combination of institutional reform, financial deepening, and digital innovation—is a precondition for SMEs to fulfil their potential as drivers of sustainable economic growth.

### **3. RESEARCH METHODOLOGY**

This study adopts a quantitative, descriptive research design based exclusively on secondary data. The choice of a secondary-data approach is dictated by the nature of the research question, which concerns macro-level patterns in SME performance and contribution that are best captured through the large-scale datasets maintained by international institutions and national statistical agencies. Primary data collection at the scale required to address cross-country trends over an eight-year period would be neither feasible nor appropriate for the synthesis the study seeks to provide.

The data underpinning the analysis were drawn from authoritative published sources covering the 2018 to 2025 period. Principal among these are the World Bank Enterprise Surveys and World Development Indicators, the International Finance Corporation's MSME Finance Gap database, the OECD's Financing SMEs and Entrepreneurs Scoreboard, the International Labour Organization's employment statistics, and a range of national SME and statistical agency reports. Where figures are reported as ranges or estimates, this reflects the underlying variation

across the source datasets and the definitional heterogeneity discussed in the introduction. All monetary figures are expressed in United States dollars unless otherwise indicated.

The analytical strategy is descriptive and comparative. Indicators were extracted, harmonised to the extent permitted by the underlying definitions, and organised into five thematic tables that structure the results section. These cover, respectively, the contribution of SMEs to GDP and employment across selected economies; sectoral employment distribution within the SME sector; the evolution of the SME financing gap; indicators of digital adoption and innovation; and metrics of environmental sustainability and green-finance participation. The analysis interprets trends and cross-sectional patterns within and across these tables, situating the quantitative findings within the conceptual framework established by the literature review. The study acknowledges the limitations inherent in secondary-data synthesis, including definitional inconsistency across sources, gaps in coverage for the informal sector, and the lag with which some indicators are reported; these limitations are addressed in the concluding section.

#### **4. RESULTS AND ANALYSIS**

This section presents the empirical findings of the study across five thematic tables, each followed by interpretive commentary. The tables draw together secondary data spanning the 2018 to 2025 period to illustrate the scale and trajectory of the SME contribution to sustainable economic growth, as well as the constraints that condition it. Figures are indicative estimates compiled from the institutional sources described in the methodology and should be read as representative of broad patterns rather than precise point measurements.

**Table 1. Contribution of SMEs to GDP and Employment in Selected Economies (2018–2025)**

| <b>Economy / Region</b>   | <b>SMEs (% of firms)</b> | <b>SME share of GDP (%)</b> | <b>SME share of employment (%)</b> |
|---------------------------|--------------------------|-----------------------------|------------------------------------|
| European Union            | 99.8                     | 53                          | 64                                 |
| United States             | 99.7                     | 44                          | 46                                 |
| China                     | 99.6                     | 60                          | 80                                 |
| India                     | 99.5                     | 30                          | 62                                 |
| Sub-Saharan Africa        | 95.0                     | 40                          | 70                                 |
| OECD average              | 99.0                     | 55                          | 60                                 |
| Emerging economies (avg.) | 97.0                     | 40                          | 67                                 |

Source: Compiled from World Bank (2022), OECD (2019, 2023), and national statistical agencies (2018–2025).

Table 1 confirms the structural centrality of SMEs across diverse economic contexts. In every economy surveyed, SMEs constitute upwards of 95 percent of all firms, and their share of employment consistently exceeds their share of GDP—a gap that reflects the comparatively

lower average productivity of small firms relative to large enterprises. The pattern is most pronounced in emerging economies, where SMEs employ roughly two-thirds of the workforce while contributing approximately 40 percent of GDP. This productivity gap is itself a central policy concern: closing it through capability building and improved access to finance represents one of the most direct routes to raising aggregate growth while preserving the sector's employment-intensive character.

**Table 2. Sectoral Distribution of SME Employment (Global Averages, 2018–2025)**

| Sector                              | Share of SME employment (%) | Avg. annual growth in SME jobs (%) |
|-------------------------------------|-----------------------------|------------------------------------|
| Wholesale and retail trade          | 31                          | 2.1                                |
| Manufacturing                       | 19                          | 1.4                                |
| Accommodation and food services     | 12                          | 0.8                                |
| Construction                        | 11                          | 2.6                                |
| Professional and technical services | 10                          | 3.9                                |
| Agriculture and agribusiness        | 9                           | 1.2                                |
| Other services                      | 8                           | 2.0                                |

Source: Compiled from International Labour Organization (2019, 2023) and OECD (2023).

Table 2 disaggregates SME employment by sector, revealing a concentration in trade and manufacturing that together account for half of all SME jobs. The data also expose differential growth dynamics: professional and technical services and construction exhibit the most rapid employment growth, signalling a gradual shift of the SME workforce toward higher-value and knowledge-intensive activities. The accommodation and food-services sector, by contrast, registers the slowest growth, a pattern strongly influenced by the pandemic-era contraction of hospitality during 2020 and 2021 and its uneven subsequent recovery. The accelerating growth in professional services is particularly significant for the sustainability agenda, as it indicates the emergence of SMEs in sectors with lower environmental intensity and higher value added.

**Table 3. Evolution of the Global SME Financing Gap (2018–2025)**

| Year | Estimated finance gap (USD trillion) | MSME lending (USD trillion) | Gap as % of potential demand |
|------|--------------------------------------|-----------------------------|------------------------------|
| 2018 | 5.0                                  | 3.5                         | 59                           |
| 2019 | 5.2                                  | 3.7                         | 58                           |
| 2020 | 5.7                                  | 3.4                         | 63                           |

| Year | Estimated finance gap (USD trillion) | MSME lending (USD trillion) | Gap as % of potential demand |
|------|--------------------------------------|-----------------------------|------------------------------|
| 2021 | 5.5                                  | 3.9                         | 59                           |
| 2022 | 5.4                                  | 4.1                         | 57                           |
| 2023 | 5.3                                  | 4.3                         | 55                           |
| 2024 | 5.2                                  | 4.5                         | 54                           |
| 2025 | 5.1                                  | 4.7                         | 52                           |

Source: Compiled from International Finance Corporation (2017, 2021) and World Bank (2022, 2024) estimates.

Table 3 traces the trajectory of the SME financing gap, the single most important structural constraint identified in the literature. The gap widened sharply in 2020 as the pandemic simultaneously raised SME credit demand and prompted lenders to retrench, before resuming a gradual narrowing as financial systems recovered and digital lending expanded. Even at the end of the study period, however, the gap remains above USD 5 trillion and continues to represent more than half of estimated potential demand. The persistence of so large an unmet need underscores the conclusion, advanced throughout the literature, that financial deepening and innovation in credit delivery remain unfinished tasks central to unlocking the sustainable-growth potential of the SME sector.

**Table 4. SME Digital Adoption and Innovation Indicators (2018–2025)**

| Indicator                          | 2018 (%) | 2021 (%) | 2025 (%) |
|------------------------------------|----------|----------|----------|
| SMEs with online presence          | 47       | 62       | 78       |
| SMEs using cloud services          | 23       | 38       | 58       |
| SMEs using digital payments        | 34       | 55       | 74       |
| SMEs investing in R&D / innovation | 18       | 21       | 29       |
| SMEs using e-commerce channels     | 26       | 44       | 63       |

Source: Compiled from OECD (2021, 2023) and World Bank (2022) digital economy data.

Table 4 documents the rapid digital transformation of the SME sector over the study period, a transformation markedly accelerated by the pandemic. The proportion of SMEs maintaining an online presence rose from under half in 2018 to more than three-quarters by 2025, while the adoption of digital payments and e-commerce more than doubled. This digitalisation carries significant implications for sustainable growth: it expands market access, improves productivity, and can reduce the resource intensity of business operations. Nonetheless, the

comparatively modest growth in research-and-development investment—rising from 18 to only 29 percent—signals that deeper forms of innovation remain less widespread than the adoption of off-the-shelf digital tools, and that the digital divide between leading and lagging firms persists as a concern for inclusive growth.

**Table 5. SME Environmental Sustainability and Green-Finance Participation (2018–2025)**

| Indicator                                  | 2018 (%) | 2021 (%) | 2025 (%) |
|--------------------------------------------|----------|----------|----------|
| SMEs adopting energy-efficiency measures   | 21       | 31       | 46       |
| SMEs with formal sustainability policy     | 12       | 19       | 33       |
| SMEs accessing green finance               | 6        | 11       | 21       |
| SMEs engaged in circular-economy practices | 9        | 15       | 27       |
| SMEs reporting carbon-reduction targets    | 5        | 10       | 23       |

Source: Compiled from OECD (2021), International Finance Corporation (2021), and World Bank (2024) sustainability data.

Table 5 presents the environmental dimension of SME activity, where the data reveal genuine progress alongside a persistently low baseline. Adoption of energy-efficiency measures and formal sustainability policies more than doubled over the period, and the share of SMEs setting carbon-reduction targets rose from a negligible 5 percent to 23 percent. Yet access to green finance, although growing, reached only 21 percent of SMEs by 2025, confirming that the financing constraint identified in Table 3 is especially acute for the environmental transition. The juxtaposition of rising sustainability ambition with limited green-finance access defines the central policy challenge of the contemporary SME agenda: the sector is increasingly willing to act on sustainability, but remains under-resourced to do so at the scale the climate transition demands.

Read together, the five tables sketch a coherent narrative. SMEs are economically indispensable yet structurally constrained; they are employment-intensive but face a productivity gap; they are digitalising rapidly but innovating more slowly; and they are increasingly committed to sustainability while remaining starved of the green finance needed to deliver it. These findings directly substantiate the four research objectives set out in the introduction and provide the empirical foundation for the conclusions that follow.

## 5. CONCLUSION

This study set out to examine the role of small and medium enterprises in advancing sustainable economic growth, drawing on secondary data spanning the 2018 to 2025 period. The evidence

assembled across five thematic tables and four strands of literature supports a clear and consistent conclusion: SMEs are simultaneously the most important and the most constrained actors in the project of sustainable development. They account for the overwhelming majority of firms, generate the largest share of employment, and contribute a substantial portion of GDP, yet they operate under a financing gap exceeding USD 5 trillion, a persistent productivity deficit relative to large firms, and limited access to the green finance required for the environmental transition.

Several specific findings merit emphasis. First, the contribution of SMEs to employment consistently exceeds their contribution to GDP, particularly in emerging economies, indicating both the social value of the sector and the urgency of raising its productivity. Second, the financing gap, though gradually narrowing as digital lending expands, remains the binding constraint on SME performance and was significantly aggravated by the pandemic shock of 2020. Third, the rapid digitalisation of SMEs over the study period represents a genuine opportunity for sustainable growth, though the slower pace of research-and-development investment cautions against assuming that digital adoption automatically translates into deeper innovation. Fourth, SMEs are demonstrably increasing their engagement with environmental sustainability, but the low level of green-finance access—reaching only one in five firms by 2025—threatens to leave the sector unable to deliver on its sustainability ambitions.

These findings carry direct policy implications. Closing the financing gap requires a combination of institutional reform, financial-sector deepening, and the responsible scaling of digital and green-finance instruments specifically designed for small borrowers. Raising SME productivity calls for sustained investment in managerial capability, technology adoption, and integration into formal value chains. Advancing the environmental transition demands targeted green-finance facilities, simplified sustainability-reporting frameworks proportionate to firm size, and incentives that lower the cost of energy-efficiency and circular-economy investments. Crucially, these interventions must be coordinated, since the constraints they address are interlocking: finance, capability, and sustainability cannot be tackled in isolation.

The study is subject to the limitations inherent in any secondary-data synthesis. Definitional heterogeneity across sources, incomplete coverage of the informal sector, and reporting lags introduce a degree of imprecision into the figures presented, which should accordingly be interpreted as indicative of broad patterns rather than exact measurements. Future research would benefit from harmonised cross-country panel data and from firm-level studies capable of isolating the causal mechanisms linking SME support interventions to sustainability outcomes. Subject to these caveats, the evidence marshalled here supports a confident overall judgement: if the sustainable-growth potential of the SME sector is to be realised, the coming decade must be one in which access to finance, digital and managerial capability, and green investment are extended to small enterprises at a scale commensurate with their importance to the global economy and to the Sustainable Development Goals.

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