

# A Study on Impact of MSMEs on Job Creation in the Indian Economy

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*Abstract— The Micro, Small, and Medium Enterprises (MSME) sector has become a vital driver of economic growth and job creation in India. This research paper seeks to explore and evaluate the impact of the MSME sector on employment generation within the country. The study reviews the current state of MSMEs, identifies key factors influencing job creation, investigates the challenges confronting the sector, and offers policy recommendations to boost its contribution to employment. Utilizing a descriptive methodology, the research incorporates quantitative analysis of secondary data from sources such as academic papers, government publications, and MSME Annual Reports, alongside insights from expert interviews related to the paper's theme. The results highlight the MSME sector's significant role in generating employment, particularly in rural and semi-urban areas. However, the sector is hindered by obstacles like limited financial access, poor infrastructure, and complex regulations. The paper concludes by suggesting measures to strengthen the MSME sector, including easier access to credit, infrastructure enhancement, regulatory simplification, and the promotion of skill development programs.*

*Index Terms- MSMEs, Job creation, Financial Access, Skill Development Programs, Obstacles*

## I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have emerged as a cornerstone of the Indian economy, playing a pivotal role in driving economic growth and creating employment opportunities. In a country like India, where a significant portion of the population is either unemployed or underemployed, the MSME sector holds immense potential to bridge the employment gap. With their capacity to absorb labour across a range of skill levels, MSMEs contribute significantly to job creation, especially in rural and semi-urban regions. They provide not only formal employment but also support livelihoods for millions of individuals through entrepreneurial activities. As per the Economics times (dated on July 6 2024) Total employment in MSMEs crosses 20.2 crore mark, up

66%. The number of workers employed with registered MSMEs has shot up by 66 percent from the corresponding figure of 12.1 crore in July last year. There are 4.54 crore women staffers among the total number of workers employed in these enterprises.

MSMEs account for a considerable share of India's GDP, contributing to manufacturing output, exports, and employment generation. As the country moves towards a more self-reliant economy, MSMEs are expected to play an even more vital role in sustaining economic development. Their flexibility, low capital investment, and ability to operate in diverse sectors make them essential for fostering balanced regional growth. Moreover, by addressing the unemployment crisis, MSMEs help in reducing poverty and promoting social equity.

Union Ministry of Micro, Small and Medium Enterprises (M/o MSMEs) has issued Gazette notification to pave way for implementation of the upward revision in the definition and criteria of MSMEs in the country. The new definition and criterion will come into effect from 1st July, 2020. After 14 years since the MSME Development Act came into existence in 2006, a revision in MSME definition was announced in the Atmanirbhar Bharat package on 13th May, 2020. As per this announcement, the definition of Micro manufacturing and services units was increased to Rs. 1 Crore of investment and Rs. 5 Crore of turnover. The limit of small unit was increased to Rs. 10 Crore of investment and Rs 50 Crore of turnover. Similarly, the limit of medium unit was increased to Rs. 20 Crore of investment and Rs. 100 Crore of turnover. The Government of India on 01.06.2020 decided for further upward revision of the MSME Definition. For medium Enterprises, now it will be Rs. 50 Crore of investment and Rs. 250 Crore of turnover.

Table 1-Updated MSME definition and criteria in 2024

Type of Investment Enterprise	Investment	Turnover
Micro	1 crore	5 crores
Small	10 crores	50 crores
Medium	50 crores	250 crores

Source – Ministry of MSME, Government of India

## II. REVIEW OF LITERATURE

Srivastava (2020): The Micro, Small and Medium enterprises (MSME) sector is considered to be the most dynamic sector of Indian economy and acts as driving force for development. MSME helps in generation of Entrepreneurship and contributes to the second largest employment opportunities. MSME generates employment for about one hundred eleven million people and contributes in a significant way to the development of the Indian economy.

Dr. K. Vetrivel2 (2018): The labour intensity of the MSME sector is much higher than that of the enormous enterprises. In most of the economies, three fourth of the total employment is generated by MSME and also contribute to the major share of industrial production and exports.

Khan, W. (2020). "Understanding the Dynamics of Small-Scale Industries: A Case Study of Indian Context." In his article, Khan conducts a study to analyse the performance of MSMEs in terms of establishment, production, employment generation, and exports. The research findings indicate that the MSME sector significantly impacts industrializations in India. Moreover, the study highlights the substantial contribution of MSMEs to the growth and development of industrialization during the study period.

Anis Ali (2014): The MSME'S sector also attracts foreign investment and technology. The employment is more possible through the development of MSME'S. When the MSME are encouraged in the rural area, it reduces the migration of rural youth to the urban areas which helps in achieving balance growth of the economies and thus helps in employment

prospects. In turn customer expectations can also be satisfied.

### Objectives of the Study

- Provide an analysis of the present state of employment creation by the MSME sector within the Indian economy.
- To review the performance and opportunities of MSMEs.
- To examine the present condition and development of MSMEs in India.

## III. RESEARCH METHODOLOGY

The research relies on secondary data obtained from a range of sources, including annual reports from the MSME sector, publications by the Ministry of Micro, Small, and Medium Enterprises, academic journals, and reports from the Government of India. The gathered data has been organized into tables, and interpretations have been drawn in alignment with the objectives outlined above.

An Analysis of MSME Functions and Employment Status in the MSME Sector.

Table-1, As per Udyam registration portal, the number of MSMEs which are incorporated during last 5 years are as follows:

Year	Number of MSMEs
2017-18	1246027
2018-19	1016723
2019-20	1103970
2020-21	1841253
2021-22	2078882

Source

<https://pib.gov.in/PressReleasePage.aspx?PRID=1884735>

The table provides an overview of the number of Micro, Small, and Medium Enterprises (MSMEs) incorporated in India over the past five years, as reported by the Udyam registration portal. In the fiscal year 2017-18, 1,246,027 MSMEs were established, marking a strong start to the period. However, the following year, 2018-19, saw a decline in new registrations, with 1,016,723 MSMEs being incorporated, potentially reflecting economic

challenges or shifts in the business environment. The year 2019-20 showed a modest recovery, with 1,103,970 new MSMEs, indicating a slight resurgence in entrepreneurial activities.

A notable increase occurred in 2020-21, with 1,841,253 MSMEs being established. This significant rise may be linked to post-pandemic economic recovery efforts, government initiatives to support small businesses, and a growing focus on self-reliance. The trend continued upward in 2021-22, with a record 2,078,882 MSMEs being incorporated, the highest in the five-year period. This growth reflects the expanding role of MSMEs in the Indian economy, highlighting their importance in driving economic development, fostering entrepreneurship, and creating employment opportunities across the country.

Table-2: Estimated Number of MSMEs (Activity Wise)

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	114.14	82.50	196.65	31
Electricity*	0.03	0.01	0.03	0
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
All	324.88	309.00	633.88	100

\*Non-captive electricity generation and transmission  
Source- MSME Annual Report 2023-24

The table provides estimates of the number of MSMEs across various sectors including Manufacturing, Electricity, Trade, and Other Services. In the Manufacturing sector, rural areas had the highest number of MSMEs at 114.14, while urban areas had the lowest at 82.50, resulting in a total of 196.65 MSMEs and a sector share of 31%. In contrast, the Trade sector saw a greater contribution from urban areas, with 121.64 MSMEs, compared to 108.71 in rural areas, accounting for the highest sector share of 36%. For Other Services, rural areas reported 102 MSMEs, while urban areas had 104.85, contributing

to a share of 33%. The Electricity sector showed a decline in its number of MSMEs.

Table-3: Percentage Distribution of Enterprises in rural and urban areas (Male/Female ownership and category wise)

Sector	Male	Female	All
Rural	77.76	22.24	100
Urban	81.58	18.42	100
All	79.63	20.37	100

Source – MSME Annual Report 2023-24

In rural areas, male ownership of enterprises is predominant at 77.76%, while female ownership stands at 22.24%. In urban areas, the proportion of male-owned enterprises is higher at 81.58%, compared to 18.42% for female ownership. This indicates that the gender gap in enterprise ownership is more pronounced in urban areas than in rural areas. When considering both rural and urban areas together, male ownership accounts for 79.63% of enterprises, while female ownership makes up 20.37%. This overall distribution reflects the general trend of higher male ownership across both types of areas. The data underscores the persistent gender imbalance in enterprise ownership, with a clear majority of enterprises being male-owned across both rural and urban settings.

Employment Generation through MSMEs

Table-4, As per Udyam registration portal, the number of persons employed in the MSMEs which are incorporated during last 5 years are as follows:

Year	Number of Persons Employed
2017-18	7,770,469
2018-19	6,010,653
2019-20	6,622,941
2020-21	11,297,690
2021-22	13,118,896

Source - <https://pib.gov.in/PressReleasePage.aspx?PRID=1884735>

The table provides a year-wise breakdown of the number of persons employed in Micro, Small, and Medium Enterprises (MSMEs) that were incorporated

over the past five years, according to the Udyam registration portal.

In the fiscal year 2017-18, MSMEs employed approximately 7.77 million people. The following year, 2018-19, saw a decline in employment figures, with around 6.01 million people employed by newly incorporated MSMEs. This decrease could reflect various economic or sector-specific challenges faced during that period. In 2019-20, the employment numbers slightly rebounded to approximately 6.62 million. This modest increase suggests a gradual recovery in the sector’s ability to generate jobs. A significant surge in employment is observed in 2020-21, with the number of persons employed rising to about 11.3 million. This sharp increase may be attributed to economic recovery efforts, government initiatives, and increased entrepreneurial activity, possibly influenced by the need for resilience during the COVID-19 pandemic. The upward trend continued into 2021-22, with employment figures reaching approximately 13.1 million. This growth indicates a robust expansion of the MSME sector, highlighting its crucial role in job creation, especially during times of economic recovery and growth.

Overall, the table illustrates both the challenges and the growth trajectory of the MSME sector in India, with employment numbers fluctuating before rising sharply in the last two recorded years, demonstrating the sector’s increasing importance in the Indian economy.

Table 5- Estimated Employment in the MSME Sector (Activity Wise)

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Electricity*	0.06	0.02	0.07	0
Trade	160.64	226.54	226.54	35
Other Services	150.53	211.69	211.69	33
All	497.78	612.10	612.10	100

\*Non-captive electricity generation and transmission

Source-MSME Annual Report 2023-24

The table provides estimates of employment generated by MSMEs across different sectors, including Manufacturing, Electricity, Trade, and Other Services. The Trade sector recorded the highest employment generation, with a total of 387.18 jobs, of which 160.64 were in rural areas and 226.54 in urban areas, accounting for 35% of the overall share. The Other Services sector followed closely, generating 362.22 jobs, with 150.53 in rural areas and 211.69 in urban areas, making up 33% of the total employment—ranking it second in employment generation after Trade. The Manufacturing sector contributed to 360.41 jobs, with 186.56 in rural and 173.86 in urban areas, holding a 32% share of total employment. The Electricity sector, in contrast, showed the lowest level of employment generation compared to the other sectors.

Table-6: Distribution of Workers by Gender in Rural and Urban Areas

Sector	Female	Male	Total	Share (%)
Rural	137.50	360.15	497.78	45
Urban	127.42	484.54	612.10	55
Total	264.92	844.68	1109.89	100
Share (%)	24	76	100	

Source- MSME Annual Reports 2023-24

The table presents the distribution of workers by gender across rural and urban areas, highlighting both the absolute numbers and their percentage shares. In rural areas, the workforce comprises 137.50 million female workers and 360.15 million male workers, totalling 497.78 million, which accounts for 45% of the overall workforce. In urban areas, the workforce is larger, with 127.42 million female workers and 484.54 million male workers, summing up to 612.10 million workers, representing 55% of the total. Overall, the total workforce across both rural and urban areas stands at 1,109.89 million, with male workers making up 76% and female workers accounting for 24%. This data highlights a significant gender disparity in the workforce, with male workers dominating in both rural and urban settings.

## CONCLUSION

The available literature and data indicate that the MSME sector in India has experienced continuous growth over time, significantly contributing to employment opportunities for both rural and urban youth. This sector has played a key role in fostering entrepreneurship and promoting sustainable economic development across the nation. By utilizing domestically available natural resources, MSMEs have also supported balanced regional growth within the Indian economy. Moreover, data suggests that MSMEs create more jobs per unit than larger enterprises, highlighting the need for increased attention to further empower this sector. The future of MSMEs in India appears promising, as they are expected to generate even more employment opportunities, while also helping the government address broader macroeconomic challenges such as poverty, unequal growth, inflation, large budget deficits, and balance of payment issues.

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