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MSMEs As The Engine Of Inclusive Growth And Employment In India

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Abstract:

A research paper on "MSMEs as the Engine of Inclusive Growth and Employment in India" would analyze how the Micro, Small, and Medium Enterprises sector drives the nation's economy by generating widespread employment opportunities and fostering balanced, equitable development.

The MSME sector in India plays a pivotal role in driving inclusive economic growth and providing large-scale employment. By virtue of its vast number of micro, small, and medium enterprises spread across both rural and urban areas, MSMEs contribute significantly to GDP, exports, and job creation — bridging income and opportunity gaps across regions, classes, and demographics. This paper examines the scale, contribution, and implications of MSMEs for inclusive growth and employment, using latest available data, along with challenges and policy recommendations.

Introduction:

Inclusive growth refers to growth that is broad-based across sectors, regions, and social groups, enabling widespread participation in economic benefits. Employment generation and access to economic opportunities for diverse population segments (rural, urban, women, youth) are central to inclusive growth.

MSMEs perform multiple economic functions: they create jobs at low capital cost, generate local value chains, support large-firm manufacturing via ancillaries, and provide livelihoods for marginalized groups (women, rural households, tribal artisans). Their dispersed geography and labour-intensive nature make them particularly relevant for inclusive growth objectives. Policymakers have introduced registration platforms (Udyam), credit programmes (PMMY/MUDRA), and special schemes (PMEGP, RAMP, CLCS) to boost the sector

MSMEs — because of their low capital requirements and ability to operate in labour-intensive, decentralized, and resource-light modes — are uniquely positioned to deliver inclusive growth.

This paper analyses how MSMEs in India contribute to GDP, exports, employment, and social inclusion, supported by data and recent trends.

Definition & Classification of MSMEs in India:

MSMEs include micro, small, and medium enterprises. Enterprises are classified based on criteria such as investment in plant & machinery/equipment and turnover thresholds. The relative share of micro-enterprises remains

overwhelmingly large among MSMEs: micro enterprises constitute the vast majority of registered units.

This classification allows a broad base of entrepreneurs — from very small, informal units to medium-sized firms — to participate in the formal economy, thereby enhancing inclusivity. An MSME is defined based on its investment in plant and machinery or equipment and its annual turnover. In India the definition effective from 1st April 2025 is as follows-

New Classification of MSMEs

TYPE	INVESTMENT		TURNOVER	
	Current	Revised	Current	Revised
Micro Enterprise	Rs. 1 cr	Rs. 2.5 cr	Rs. 5 cr	Rs. 10 cr
Small Enterprise	Rs. 10 cr	Rs. 25 cr	Rs. 50 cr	Rs. 100 cr
Medium Enterprise	Rs. 50 cr	Rs. 125 cr	Rs. 250 cr	Rs. 500 cr

Scale of MSMEs: Number of Enterprises & Employment:

According to recent data, India has millions of registered MSMEs. For example, as of 2024, a count of over 54 million registered MSMEs was reported.

Employment contribution of MSMEs is substantial. One estimate indicates MSMEs employ a large fraction of India's workforce.

MSMEs operate across sectors — manufacturing, trade, services — which allows for diversified employment opportunities, including in rural and semi-urban areas.

Objective:

1. To investigate the role of Micro, Small and Medium Enterprises (MSMEs) in driving inclusive economic growth and generating employment in India, with specific reference to their contribution to GDP, employment, exports, and regional development.

Data & Methodology:

Primary Data Source: Ministry of MSME Dashboard (real-time indicators), snapshot as on 30-Nov-2025 (registrations by category, sector, gender; credit & scheme summaries).

Ministry of MSME annual reports & schemes documents (official), Annual Report 2023–24 and 2024–25.

Supplementary Sources: PIB press notes, IBEF, RBI and SIDBI reports for GDP, export and finance context. Independent surveys/analyses (ICRIER Annual Survey) for growth-rate specifics.

Methodology: Descriptive/statistical synthesis of official indicators (export share, counts/growth rates, employment estimates).

Two charts are produced for visual clarity:

Trend of MSME-related products' share in India's exports (2019–20 to 2023–24).

Bar chart showing growth rates for number of MSMEs and MSME employment (2023–24 vs 2022–23) based on ICRIER (reported growth rates).

Note on Data Consistency: Different official counts come from different sources (Udyam portal registrations, Census/surveys,

ministry compilations). For example, recent press notes place registered units at different levels at different times (Udyam portal counts vs Budget press release figures). Where possible I cite the primary official source; where multiple figures exist I note divergence.

Key Areas of Analysis in the Research Paper:

The paper would likely explore the following themes, drawing on data from sources like the Ministry of MSMEs Annual Reports, RBI Bulletins, and the Udyam portal:

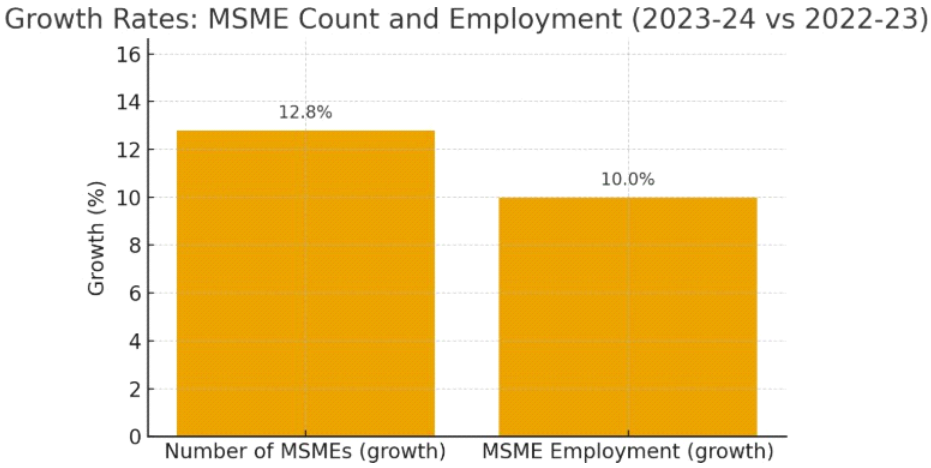
Employment Generation:

MSMEs are the second-largest employer after agriculture, providing jobs to over 110 million people. The paper would detail how this sector employs a vast portion of both the rural (51%) and urban (49%) population, significantly reducing unemployment and poverty rates.

It would highlight the labor-intensive nature of MSMEs, which generate more employment opportunities per unit of capital invested compared to large industries, making them a crucial fit for a labor-surplus country like India.

Government statements place MSME employment in the tens of crores — figures cited in 2025 range roughly 25–30 crore depending on the source and metric used; the sector remains one of India's largest non-agricultural employers. (Examples: Budget/PIB mentions 25–28 crore, IBEF references ~29.8 crore).

Recent Survey/Analytical Results Show:



A 12.8% increase in the number of MSME units in 2023–24 vs 2022–23. A 10.0% increase in MSME employment in 2023–24 vs 2022–23.

(These growth rates are reported in the 2024–25/2025 analyses such as the ICRIER Annual Survey.)

Inclusive Growth and Regional Development:

The decentralized nature of MSMEs, with a large presence in Tier-2 and Tier-3 cities and rural areas, helps in addressing regional imbalances and preventing excessive urban migration.

The paper would examine how MSMEs promote entrepreneurship among diverse socio-economic groups, including women and marginalized communities (SC/ST/OBC), thereby ensuring a more equitable distribution of national income.

Scale + Local Presence: With millions of mostly micro firms, MSMEs are embedded in local economies, providing livelihoods

across regions and reducing urban migration pressure.

Labour Intensity: MSMEs are more labour-intensive than large firms, creating a broad base of jobs (skilled and unskilled). That supports inclusion if jobs are stable and remunerative.

Exports & Linkages: Nearly half of exports are MSME-linked — export demand supports manufacturing and services clusters across the country.

Export-share time series (2019–20 → 2023–24).

The share of MSME-related products in all-India exports shows:

2019–20: 49.75%
2020–21: 49.35%
2021–22: 45.03%
2022–23: 43.59%
2023–24: 45.73%.

This indicates that MSME-specified products consistently account for a large portion of India's merchandise exports, though the share dipped during 2021–23 and recovered partially in 2023–24. (Source: DGCIS data compiled in PIB).

Economic Contribution and Resilience:

Analysis of data showing MSMEs contributing roughly 30% to India's GDP and around 45% to total exports. (FY figures referenced by the Ministry in 2024–25/2025 statements).

The paper would assess the sector's remarkable resilience during economic shocks, such as the COVID-19 pandemic, where it demonstrated adaptability and played a role in the nation's economic recovery.

Recent registration drives (Udyam) and clearer PSL rules aim to formalise enterprises and expand access to credit — key to scaling productivity and formal employment.

Challenges and Policy Recommendations:

The paper would investigate persistent challenges faced by the sector, including limited access to formal credit and finance, infrastructure deficits, skill gaps, and complex regulatory frameworks.

It would evaluate government initiatives (e.g., Make in India, Digital India, Emergency Credit Line Guarantee Scheme - ECLGS) and propose policy recommendations to further strengthen the MSME ecosystem, such as easier loan access, infrastructure enhancements, and technology adoption support.

To strengthen MSMEs as an engine of inclusive growth:

Improve Data & Classification: Harmonise Udyam, census, and sectoral registries and publish reconciliation notes to eliminate ambiguity in counts and employment statistics. (Rationale: better targeting and evaluation.)

Enhance Credit Flow With Risk Sharing And Digital Underwriting: Expand credit guarantee schemes and use alternative credit scoring to bring informal micro-units into formal finance. Strengthen periodic monitoring of schemes like PMMY and Mudra for performance.

Scale Skilling & Technology Adoption: Expand NI-MSME and RAMP-style programmes focused on digital tools, production efficiency, and quality standards. Integrate apprenticeships and demand-linked vocational training.

Cluster & Value-Chain Support: Invest in cluster infrastructure (common facility centres, testing labs), and support market access programmes (ODOP, export promotion) to integrate MSMEs into higher-value global value chains

Ease of Doing Business and Compliance Simplification: Streamline documentation, lower compliance costs for micro firms, and expand digital single-window services.

Social Inclusion Focus: Tailor micro-enterprise programmes to support women entrepreneurs, tribal artisans, and rural micro-enterprises that can provide local full-time employment.

Expected Findings:

Research papers consistently find that MSMEs are indispensable to India's journey toward sustainable development and a $5 trillion economy. They conclude that targeted policy support and addressing key operational barriers are essential to unlock the sector's full potential in driving inclusive growth and job creation across the nation.

The MSME sector — large in numbers and deep in local reach — remains central to India’s strategy for inclusive growth and employment. Official 2025 data highlight impressive formalisation, strong female entrepreneurship presence, and substantial export linkages. Translating this into sustained, quality employment requires better access to finance, productivity upgrades, and policy focus on the micro segment’s constraints.

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