



## Role of MSMEs in Employment Generation and Inclusive Economic Growth in India

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### ABSTRACT

The Micro, Small, and Medium Enterprises (MSME) sector has emerged as a key driver of India's economic development, significantly influencing employment generation, export performance, and inclusive growth. According to the Government of India's latest data, the MSME sector contributes around 30.1% of India's Gross Value Added (GVA) to GDP for FY 2022-23, highlighting its pivotal role in the national economy. The sector's broad outreach, especially in rural and semi-urban regions, underpins its capacity to absorb labour across diverse skill levels and supports socio-economic inclusion by providing livelihoods to vulnerable and marginalized populations. A vital aspect of the MSME impact is employment generation. Official registration data from the Udyam Registration Portal and Udyam Assist Platform show that approximately 29.77 crore individuals are employed in MSMEs as of 2025, making the sector the second-largest employer in India after agriculture. Beyond absolute numbers, global research institutions like the McKinsey Global Institute report that MSMEs contribute nearly 62% of total employment in India, underscoring their dominance in job creation compared with other sectors. The substantial employment share, especially among micro enterprises, which contribute the bulk of jobs, reflects the sector's labour-intensive nature and importance for equitable economic participation. MSMEs also play an instrumental role in foreign trade and economic resilience. The sector's contribution to exports grew impressively from ₹3.95 lakh crore in 2020-21 to ₹12.39 lakh crore in 2024-25, with exporting units increasing from about 52,849 to 1, 73,350 during the same period. MSMEs thus account for nearly 45-46% of India's total merchandise exports, reinforcing their integration into global value chains and enhancing foreign exchange earnings.

Government interventions have further amplified the sector's economic contributions. Initiatives such as the Udyam Registration Portal, Pradhan Mantri Mudra Yojana (PMMY), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and digital formalization efforts have improved access to finance, credit, and market opportunities for MSMEs. These schemes not only mitigate structural constraints but also promote formalization, skill development, and productivity enhancements critical for sustainable and inclusive growth outcomes. Despite these achievements, MSMEs face ongoing challenges including limited access to formal credit, technology adoption barriers, and regulatory compliance burdens. Addressing these constraints remains essential to unlocking the full potential of MSMEs as agents of broad-based economic growth and employment expansion in India.

*Keywords:* Micro, Small and Medium Enterprises (MSMEs), Employment Creation, Inclusive Economic Development, Government Policy Interventions.

## 1. INTRODUCTION

After years of colonization, we had lost everything; we were mere supplier of raw material and importer of raw material. We had lost our skills and trade. On the eve of independence we marched for a great India. India decided to revive the economy with the help of large industries and small industries. However, considering the situation of the economy, it was largely possible with the help of small industries. These small industries required less – capital, infrastructure and other resources. These small industries provided huge employment opportunities and made the nation self-reliant. These small industries helped a lot in demand generation and meeting their supply. This whole system created a new circle of economic activity and it also connected the last person of the country to the economy. Better standard of living, high employment, increased export, increased consumption and higher outputs were the result of small industries.

## 2. LITERATURE REVIEW

Singh (2025) found that Micro, small, and medium enterprises (MSMEs) are crucial to the Indian economy, contributing significantly to GDP growth at a rate of 30 percent in recent years. Despite a decline in their GDP share from 27.2% in 2020-21 to 29.2% in 2021-22, and a reduction in exports from 50% in 2020-21 to 43.6% in 2022-23 due to the COVID-19 pandemic, registered MSMEs continue to increase and generate employment. They play a pivotal role in equitable development across rural and urban areas, supported by government initiatives. This

combination of economic, social, and environmental considerations is vital for achieving sustainable development in India.

Negi and Kumar (2024) highlighted that Micro, Small, and Medium Enterprises (MSMEs) in India are rapidly growing and significantly contributing to the GDP, generating job opportunities. The government is promoting MSME growth through partnerships with NGOs, agencies, and universities. However, challenges persist, including limited technological awareness and low-cost credit access, as less than 50% of MSMEs' fixed assets are bank-funded. Initiatives like the Champions portal and the Raising and Accelerating MSME Performance program have been introduced to support this sector. Major governmental actions include the Rs. 5 lakh crore Emergency Credit Line Guarantee Scheme and equity infusion through the MSME Self-Reliant India Fund. The inclusion of Retail and Wholesale trades as MSMEs indicates strong support for the sector's potential in future economic development.

Sethi and Verma (2018) explained that MSMEs (Micro, Small and Medium Enterprises) are a crucial element of India's economy, providing significant employment and contributing to exports. They account for 40 to 50 percent of the country's total exports and 30 percent of GDP, employing approximately 844.62 lakh men and 264.93 lakh women. While many MSMEs, particularly in Northern and Northeastern regions like Manipur and Meghalaya, perform well, there is a need for technological advancement and increased capital to enhance their size and overall economic impact.

Objectives of the study:

- To evaluate the role of MSMEs in employment generation.
- To evaluate the role of MSMEs in inclusive economic growth in India.

### 3. RESEARCH METHODOLOGY

The study is descriptive in nature, and it is based on secondary data already published in the public domain. Data has been collected from Journals, Articles, press releases, and Website and from some other sources.

**MSME:** The term MSME is the short form of Micro, Small and Medium Enterprises. These have been categorized on the basis of investment in plant & machinery and annual turnover of the enterprise.

<b>Enterprise</b>	<b>Investment in Plant &amp; Machinery or Equipment</b>	<b>Annual Turnover</b>
Micro	Up to 2.5 Crore	Up to 10 Crore
Small	Up to 25 Crore	Up to 100 Crore
Medium	Up to 125 Crore	Up to 500 Crore

Table 1. MSME investment in plant & machinery  
Source: Revised Classification applicable w.e.f 1st April 2025. Ministry of MSME.

### 3.1 Contribution of MSMEs in Employment Generation

MSMEs are the backbone of the Indian economy as they generate a huge amount of employment. They create employment for all areas, including rural areas as well.

<b>S. No.</b>	<b>Financial Year</b>	<b>Estimated Employment Generation</b>
1	2021-2022	8,25,752
2	2022-2023	6,81,366
3	2023-2024	7,12,944
4	2024-2025	4,77,664
5	2025-2026*	3,94,144
Total		31,34,880

Table 2. MSME in Employment Generation  
Source: Performance Smartboard, Ministry of Micro, Small & Medium Enterprises FY 2025-26 data up to 19-01-2026

The Ministry of Micro, Small & Medium Enterprises presents a performance smart board highlighting various achievements of MSMEs. The Ministry has provided employment generation data for MSMEs from the financial year 2021-2022 to the current financial year (2025-26). The sector has consistently generated employment for the economy. Over the past 5 financial years, it has generated a significant number of jobs, totalling 31, and 34,880. This data shows that, on average, MSMEs generate 6, 26,976 jobs per year.

## Factsheet of Udyam Assist Platform (UAP)

Facts Dated : 13 Feb 2026 10:30:00 AM

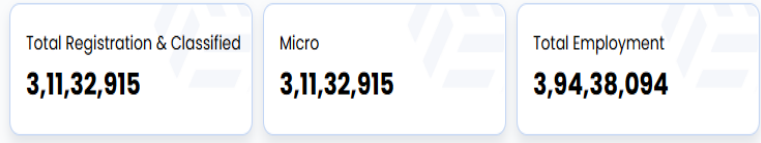


Figure 1. Udyam Factsheet

Source: Udyam Assist Platform, Ministry of Micro, Small & Medium Enterprises

Udyam assist portal also shows that MSMEs have generated approximately 4 crore employment, which is a huge number. The micro industry, which requires the least investment, contributes the most in terms of employment. It has generated a total of 3, 11, 32,915 employment, which is approximately 79% of total employment generated by the MSME sector.

Since its July 1, 2020, debut, the Udyam portal, which provides MSMEs with a free, paperless, and self-declared registration process, has amassed a database of over 3.80 crore units. However, there are more than 2.72 crore units in the database of the Udyam Assist Portal, which was introduced on January 11, 2023, to assist informal microenterprises and provide them access to official benefits like Priority Sector Lending. Together, these 6.5 crore MSME firms have created jobs for 28 crore individuals thus far. Over the past five years, the number of MSME units has expanded fifteen fold. Eighty percent of the 80.33 lakh people who were helped to find work were in rural areas by the Prime Minister Employment Generation Programme (PMEGP), a significant credit-linked subsidy program designed to create self-employment opportunities through the establishment of micro-enterprises in the non-farm sector. Since its creation, the Credit Guarantee Fund Trust for Micro and Small Enterprises has authorized over 1.18 crore credit guarantees totaling Rs. 9.80 lakh crore under the loan Guarantee Scheme (CGS). In the most recent fiscal year 2024–2025 alone, a record Rs. 3 lakh crore worth of loan guarantees were provided. By 2029, the Credit Guarantee Scheme would have three times as many beneficiaries. Under CGS, women entrepreneurs and SC/ST entrepreneurs receive special privileges.

(MSME Sector Accounts for 30.1% of India's GDP, 35.4% of Manufacturing and 45.73% of Exports in the Country: Union Minister for MSME, n.d.).

Indian Brand Equity Foundation also highlighted a report by the McKinsey Global Institute (MGI) which pointed out that MSMEs comprises 62% employment of the workforce, which is huge considering the population of India.

### 3.2 Role of MSMEs in Inclusive Growth in India

MSMEs have also contributed to the growth of the Indian economy. GDP of an economy can be termed as an important indicator of growth, as it includes the domestic production in an economy. MSMEs are continuously contributing to the nation’s growth. In the case of India, MSMEs are the second-highest contributor to the economy.

Percentage of contribution of MSMEs	Area of contribution
30.1%	India’s GDP
35.4%	Manufacturing
45.73%	Export

Table 3. MSME Growth in India  
Source: PIB

India is marching toward “Viksit Bharat”, which it aims to achieve by 2047. India is also highlighting the importance of the manufacturing sector, which would meet both domestic and foreign market demands. With a substantial proportion of 35.4%, the following data makes it abundantly evident that MSMEs play a vital role in the nation’s manufacturing industry (MSME Sector Accounts for 30.1% of India’s GDP, 35.4% of Manufacturing and 45.73% of Exports in the Country: Union Minister for MSME, n.d.).

Year	Share of Export of MSMEs
2021-22	45.03%
2022-23	43.59%
2023-24	45.73%

Table 4. Year-wise Share of Export of MSMEs  
Source: PIB

An examination of MSMEs' exports by year reveals that they contribute an average of 44.78%, which is a noteworthy percentage. COVID-19 affected 2021–2022, but it also made a substantial contribution to total exports.

Year	Number of MSMEs Registered
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2020-21	28,38,249
2021-22	51,35,906
2022-23	85,65,154
2023-24	2,49,12,943
2024-25 (Till 31-07-2024)	63,40,557
<b>Total</b>	<b>4,77,92,809</b>

Table 5. Number of MSMEs Registered on Udyam Registration Portal and Udyam Assist Platform  
Source: PIB

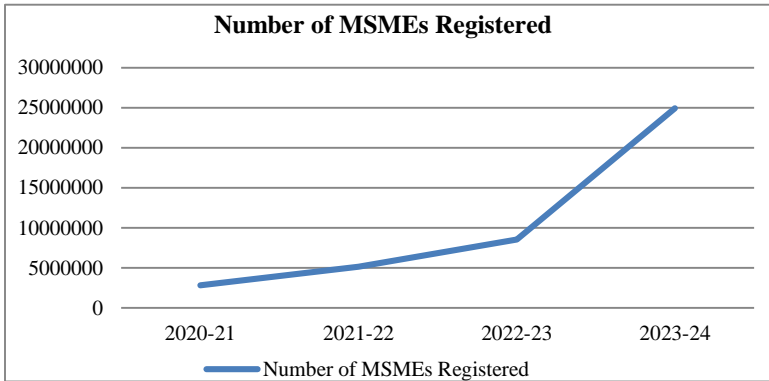


Figure 2. Number of MSMEs Registered on Udyam Registration Portal and Udyam Assist Platform  
Source: PIB

MSMEs are consistently opening doors for the Indian economy to expand. We can observe the growing trend of MSMEs registering. It demonstrates a notable rise in registrations every year.

Enterprise	2020-21	2021-22	2022-23
Micro	16828.98	25185.58	29876.65
Small	33857.2	44183.78	45086.99
Medium	37694.06	49918.77	50562.10
<b>Total</b>	<b>88380.2</b>	<b>119288</b>	<b>125525.8</b>

Table 6. Export by Registered MSMEs (in USD Million)  
Source: DGCIS, Kolkata

MSMEs are clearly the backbone of the Indian economy. They support exports, industry, and eventually India's gross domestic product. It is evident that they actively support the economy. Additionally, it is evident that they are contributing more too all facets of the economy each

year. Export by MSMEs is also showing an increasing trend, which is a positive sign for the economy.

The major contribution in the export is from Medium enterprises even after their number is very low, they are almost negligible in combined registered number, but even then they are contributing most.

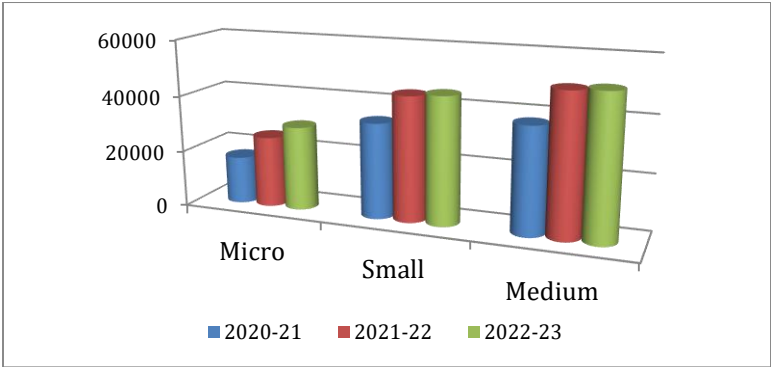


Figure 3. Number of MSMEs Registered on Udyam Registration Portal and Udyam Assist Platform  
Source: DGCIS, Kolkata

From above graph we can easily identify that Medium enterprises are showing a positive sign. Small Industries are also catching very well as they are also showing a growing year by year trend and the difference between Medium and Small is not huge. In year 2020-21, export by Medium enterprises was roughly 11% more than the Small enterprises and in year 2021-22 it was roughly 13%, which doesn't translate a significant difference. The gap dropped to about 12% in 2022-2023, which translates to an average of 12% over the course of three years. This is not a significant difference. If we consider Micro Enterprises, they have maximum registration but their nature is such that they are more comfortable and focused in fulfilling local demand rather than international. Still they found a comfortable way to export and they are contributing handsomely in export. Micro Enterprises also shows an increasing export trend and their year on year growth is more than that of Medium Enterprises. There was a significant jump in year 2021-22. The overall scenario of MSMEs in case of export is very much positive and promising. Over the years, all three categories of businesses have shown a good tendency.

#### 4. CONCLUSION

We can easily infer that MSMEs are making a substantial contribution to the country after doing a comprehensive research and analysis of the data. They are creating the conditions for the economy and eventually the country to flourish steadily and continuously. MSMEs are the country's second-largest employer after the agriculture sector, offering citizens a plethora of work options. Data indicates that this industry offers job opportunities to a substantial number of people, roughly 30 crores. We cannot fathom its significance or support. MSMEs are also making a substantial contribution to the inclusive growth of the Indian economy. They account for around 30% of the GDP, 35% of manufacturing, and 45% of exports. This kind of contribution is important and cannot be disregarded. They are making contributions in all significant and pertinent areas. The enormous number of MSMEs that are registered further demonstrates the significance of their function.

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