

## Impact of Micro, Small, And Medium Enterprises Role on Employment Generation in India

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### ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are crucial drivers of economic growth, playing a pivotal role in creating job opportunities and addressing challenges such as unemployment, economic inequalities, and poverty within the country. Despite their seemingly modest scale, MSMEs significantly outpace the agricultural sector in terms of employment generation. In the context of India, the MSME segment is acknowledged as a primary catalyst for socio-economic development, making substantial contributions to the national GDP. Widely acknowledged as indispensable contributors to the Indian economy, Micro, Small, and Medium Enterprises (MSMEs) have a profound impact on both employment generation and the promotion of entrepreneurship. These enterprises, categorized as either manufacturing or service-oriented, are further distinguished by investment criteria. The MSME sector is integral to the economic and social progress of the nation, providing direct employment to a staggering 110 million individuals through an extensive network of approximately 633.88 lakh units. This study aims to scrutinize the role of the MSME sector in employment creation in India, utilizing a range of primary and secondary sources gathered from government reports and MSME publications.

**Key words:** Employment, MSMEs, Economic Growth, GDP

### I. INTRODUCTION

The acronym "MSME," denoting "Micro, Small and Medium Enterprises," constitutes a pivotal facet of the Indian economic landscape over a protracted period. This sector stands as a linchpin of employment within India, second only to the agricultural domain. Facilitating industrialization in rural and underdeveloped sectors, MSMEs have been instrumental in ameliorating regional imbalances. Furthermore, serving as ancillary entities to larger industries, they function as invaluable complements, significantly bolstering the nation's socio-economic fabric.

The Indian economy is substantially reliant on the MSME sector, which encompasses an expansive network exceeding 46 million units. This sector has engendered employment opportunities for a staggering 110.989 million individuals, manufacturing a diverse spectrum of over 7000 products. Notably, it contributes approximately 48% to the manufacturing output and 43% to exports. As the nation steers towards a trajectory of accelerated and inclusive growth, the salience of MSMEs escalates. With growth rates surpassing those observed in other sectors, MSMEs are integral to the realization of the envisioned objectives outlined in the National Manufacturing Policy (NMP). This policy ambitiously aims to augment the manufacturing sector's share in the GDP from 16% to 25% by the year 2024.

The micro, small, and medium-sized enterprises (MSMEs) in India have distinct advantages due to their scale. They have a high labor-capital ratio, shorter gestation period, and focus on smaller markets. Additionally, they require lower investments, which allows for better utilization of underutilized resources of capital and skills. This not only ensures a more equitable distribution of national income but also stimulates the growth of industrial entrepreneurship. The MSME sector in India is diverse in terms of enterprise size, the range of products and services offered, and technological levels. Serving as ancillary units to complement large industries, these enterprises substantially contribute to the country's socioeconomic development.

The Indian government has established the MSME program to support micro, small, and medium-sized enterprises in line with the MSMED Act of 2006. These enterprises are mainly involved in producing, manufacturing, processing, or preserving goods and commodities. This program provides a platform for innovative entrepreneurs to create exceptional products, which fosters healthy business competition and overall growth. MSMEs, working as ancillary units to large industries, play a crucial role in contributing significantly to the nation's socio-economic progress.

Recognizing the pivotal role played by the MSME sector in driving economic growth and generating employment opportunities, the Indian government has implemented various supportive measures. These include the expansion of the definition of 'Small Scale Industries' by elevating the investment ceiling for plants and machinery to INR One crore. Furthermore, trading activities have been brought under the purview of MSMEs through the MSMED Act of 2nd October 2006. As the second-largest employment provider in the country, the MSME sector represents a valuable avenue for achieving inclusive and widespread growth.

According to the annual report by the Government (2022-23), there are around 6,33.88 Lakhs MSMEs in India.

Table No – 1: Total Number of MSMEs in India (2022-23)

Activity Category	Estimated Number of Enterprises (in Lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.5	196.65	31
Trade	108.71	121.64	230.35	36
Other Services	102	104.85	206.85	33
All	324.88	309	633.88	100

Source: MSMEs annual report (2022-23).

### MSMEs to Drive Economy:

India is home to a significant foundation of 7.9 million registered Micro, Small, and Medium Enterprises (MSMEs), which contribute to approximately 33% of the country's total GDP and generate about 120 million jobs in various industries and regions. This sector plays a crucial role in driving economic growth at the grassroots level and comprises small-scale entrepreneurs, including women, marginal entrepreneurs, and local artisans who are often overlooked. To support MSMEs, the government launched the Udyam Portal in 2020, which enables entrepreneurs to take advantage of the benefits provided by the Ministry of MSME and access priority sector lending from banks, thereby improving their Ease of Doing Business.

## II. LITERATURE REVIEW

MSMEs are the ideal target for research scholars to identify the core problems in the social sciences because they provide the largest employment in society. Some of them were presented here which provide various dimensions of MSME.

**Mahesh K.M. et al., (2022)** that Entrepreneurship Development is a weapon to eradicate the various socio-economic variables, unemployment, poverty, and overall achievement of economic growth.

**Meera Omkar Shetty et al. (2022)** observed that there is a necessity to promote women entrepreneurship. She also focuses on gender partnership in all lifestyles, particularly in economic development.

**Pujar, U (2014)** in his research paper that MSMEs are the key elements of the economy which drive the economy of the country. It has significant industrial production, which meets the demands of the society and creates the unmatched employment to any other industry. Today MSME's future MNC's.

**Khan, R., & Abdulla. (2019)** the SMEs sector to will develop only when it takes the government support and if it fully utilizes its potential. It is quite evident that, SME sector is quite essential for the smooth wellbeing of the economy of the nation.

**Nending, Koka et al. (2022)** observed that many factors are influencing the SSI units so the number of units is also decreasing day by day. The government needs to take sufficient measures to revive the MSME industry moreover he concluded that SSI is the stepping stones for the newbie's.

**Singh's (2022)** scholarly examination delved into the performance dynamics of the Small Scale Industry (SSI) in India, centering its focus on pivotal policy alterations that have unfolded novel opportunities within this sector. The investigation discerned noteworthy advancements within the SSI realm, encompassing an upswing in the number of SSI units, heightened production metrics, and augmented employment figures. Notably, the study posited a strategic recommendation, advocating for the cultivation of technology development and the reinforcement of financial infrastructure. Such measures, it was underscored, are imperative for not only fostering the continued growth of the SSI sector but also for achieving the envisioned growth targets.

**Srinivasan and Kunjangad (2019)** have illuminated a rapid and burgeoning role of small and medium enterprises (SMEs) within the industrial sector. Their work distinctly positions SMEs as a focal point for future growth, underlining the crucial importance of fostering this sector for the overall economic well-being of the nation. The literature surveyed above provides valuable insights into various dimensions, including the performance, growth trajectories, and challenges encountered by MSMEs in the Indian economy. This comprehensive exploration serves as a compelling impetus for advocating sustained and rigorous scholarly inquiry in this domain.

**Prasad, N. A. (2022)** found that the SSI Units plays an important role in the development of the economy. SSI encompasses vast scope activities like manufacturing, Services, retailing, financing construction, infrastructure etc.

**Fathima, J. S. (2020)** employed co-integration analysis to probe into the intricate causal relationships among diverse parameters of small and medium enterprises (SMEs). The variables under scrutiny encompassed SMEs' output, exports, employment, the numerical strength of SMEs, and their fixed investments. The analytical lens was extended to investigate these elements in conjunction with India's GDP, total exports, and overall employment (encompassing both public and private sectors) over the extensive temporal expanse spanning from 1973-74 to 2006-07. The research findings unveiled a discernible positive causality, particularly elucidating the influential relationship between SMEs' output and the trajectory of India's Gross Domestic Product (GDP).

**Maria Antonyraj et al., (2023)** examined a meticulous exploration of the causal dynamics existing among three pivotal variables: Gross Domestic Product (GDP), Small Scale Industry (SSI) output, and SSI exports. The scholarly inquiry also encompassed a meticulous comparative analysis of performance indicators pertaining to SSIs, contrasting the periods pre and post-liberalization. Notably, the findings brought to light a discernable decline in the annual average growth rates across various parameters of SSIs during the nineties in contrast to the preceding pre-reform years. Intriguingly, the study unearthed a noteworthy absence of any discernible lead-lag causal relationship among exports, production in the small-scale sector, and the overarching GDP of the Indian economy.

**Jarwal, D. (2020)** observed that the Women are the most successful entrepreneur, can run any type of business enterprises having managerial skills provided a conducive business environment is created. It is in the hands of the government to assist the women with different types of schemes to empower themselves. In today's world, entrepreneurs are the backbone of the economic activities.

**Ramesha M C. (2021)** concluded that the SC/ST entrepreneurs are facing lot of financial funding problems and they rely on borrowed funds. Loan sanction and disbursement of loan usually took a very long time. In his research paper, he highlighted the issues and problems of Dalit entrepreneurs.

**Prateek Chaturvedi et al. (2015)** highlighted the comprehensive examination of the intricate dynamics shaping the small-scale industries (SSI) sector in the context of globalization and domestic reforms. The nuanced findings unveiled a discernible negative impact on key facets such as unit growth, employment figures, output, and export volumes within the small industry realm. Despite these challenges, the research astutely recognized that policy adjustments have concurrently ushered in fresh opportunities and expanded markets for the sector. As a strategic prescription for the future, the researchers advocated a deliberate emphasis on technology development and the reinforcement of financial infrastructure. They contended that such strategic initiatives are imperative for enhancing the international competitiveness of the Indian small industry. Ultimately, this proactive approach was posited as a means to not only contribute significantly to national income but also to foster increased employment opportunities.

**Richa Shelly et al. (2020)** observed that in the current era of globalization, small and medium enterprises (SMEs) and micro enterprises must contend with heightened competition. To succeed, they must focus on enhancing their management practices, marketing strategies, product diversification, infrastructure development, and technological capabilities. Additionally, new SMEs may need to relocate from slower-growth regions to areas of greater growth and forge strategic partnerships with entrepreneurs from neighboring countries. A comprehensive industry data bank is also essential to provide guidance for prospective entrepreneurs and foreign investors.

### III. OBJECTIVES OF THE STUDY

1. To examine the role of MSME sector in creating employment in the country
2. To analyze the development trend in MSME's in terms of number of units established and employment generated over the period under study.
3. To study the distribution of MSME organizations all over the country during the study period.
4. To study the Male and Women employees distribution in the MSME's

### IV. RESEARCH METHODOLOGY

The study utilized both primary and secondary data sources. The secondary data was gathered from the Government of India's Ministry of Small and Medium Enterprises website, as well as the Final Report of the Fifth Census MSME sector 2022-23, which highlights the role of the MSME sector in India. The results were obtained using the SPSS 23.0 version. The primary data were collected from the sample of 132 MSMEs scattered in Andhra Pradesh using convenient sampling techniques.

$H_0$ : There is no statistically significant impact of the performance of the MSMEs on employment generation.

$H_1$ : There is a statistically significant impact of the performance of the MSMEs on employment generation.

### V. RESULTS & DISCUSSIONS

Table-1 clarifies the distribution of the study sample across demographic factors, showing that the sample consisted of (132) MSMEs.

Table-1: the distribution of the sample of the study according to demographic variables

Variables		Frequency	Percentage
Gender	Male	113	85.61%
	Female	19	14.39%
	Total	132	100.00%
Age	$\leq 35$	23	17.42%
	35 – 45	46	34.85%
	45 – 55	37	28.03%
	$\geq 55$	26	19.70%
	Total	132	100.00%
Business Experience	Less than 5	27	20.45%
	5-10 years	48	36.36%
	11-15 years	32	24.24%
	16-20 years	13	9.85%
	More than 20 years	12	9.09%
	Total	132	100.00%
MSMEs	Micro	78	59.09%
	Small	33	25.00%
	Medium	21	15.91%
	Total	132	100.00%

Source: Primary Data

The above table (Table 1) presents the demographic and business-related characteristics of a sample population. The gender distribution shows that 85.61% of the respondents identify as male, while 14.39% are female. The age distribution is fairly even across different age groups, with the largest cohort falling within the age range of 35 to 45 years, accounting for 34.85%, followed by those aged 45 to 55 (28.03%). Business experience is also a critical factor in understanding the context of the respondents. The majority of participants have business experience ranging from 5 to 15 years, with the highest proportion (36.36%) falling within the 5-10 years category. In terms of the types of enterprises represented in the data, micro-enterprises constitute the majority, accounting for 59.09% of all respondents. Small enterprises make up 25.00%, while medium-sized enterprises account for 15.91%.

**Table No -2: Distribution of Enterprises Category Wise (Numbers in lakh)**

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309	49
All	630.52	3.31	0.05	633.88	100

Source: MSME Annual Report 2022-23.

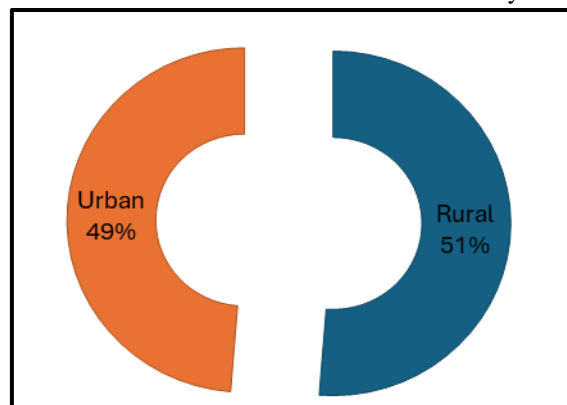
The presented table, derived from the MSME Annual Report 2022-23, delineates the distribution of enterprises based on their size categories (Micro, Small, Medium) in both rural and urban sectors. This comprehensive breakdown is instrumental in understanding the nuanced dynamics of the MSME landscape, shedding light on the prevalence of enterprises in different size brackets across diverse geographic settings.

In the rural sector, the preeminent observation is the dominance of micro-enterprises, numbering 324.09 lakh, constituting 51% of the total enterprises in this sector. This underscores the substantial presence of small-scale businesses in rural areas, likely reflecting a reliance on local and community-based economic activities. Small and medium enterprises in the rural sector, although numerically smaller, play a vital role in the economic fabric of rural communities.

Conversely, the urban sector portrays a more diversified enterprise landscape. Micro-enterprises continue to hold a significant share, totaling 306.43 lakh and comprising 49% of the urban sector's enterprises. Notably, the urban sector exhibits a comparatively higher number of small and medium enterprises, numbering 2.53 lakh and 0.04 lakh, respectively. This diversity in enterprise sizes within urban areas suggests a more intricate economic structure with a mix of small, medium, and micro-enterprises contributing to the urban economic milieu.

On a macro scale, when considering both rural and urban sectors collectively, micro-enterprises remain predominant, totalling 630.52 lakh and constituting 100% of the enterprises. Small and medium enterprises, though numerically smaller, contribute to the overall enterprise landscape, with shares of 3.31 lakh (0.52%) and 0.05 lakh (0.01%) respectively. This amalgamation of rural and urban data underscores the overarching prevalence of micro-enterprises in the MSME sector.

Figure No: 1: Percentage share of rural and urban MSMEs in the country

**Table No-3: MSME Sector – Employment estimation**

Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
All	497.78	612.1	1109.89	100

Source: MSME Annual Report 2022-23.

The provided table, sourced from the MSME Annual Report 2022-23, delineates the estimated employment figures within the Micro, Small, and Medium Enterprises (MSME) sector across various broad activity categories, with a specific focus on rural and urban distinctions. The data, presented in lakh units, sheds light on the employment dynamics and the proportional contribution of each activity type to the overall MSME sector employment.

**Manufacturing:** The Manufacturing sector emerges as a substantial contributor to MSME sector employment, providing jobs for a total of 360.41 lakh individuals. Notably, the employment distribution is relatively balanced between rural and urban areas, with 186.56 lakh employed in rural settings and 173.86 lakh in urban areas. This parity underscores the widespread nature of manufacturing activities across diverse geographical landscapes, constituting 32% of the total MSME sector employment.

**Trade:** Trade, as a significant component of the MSME sector, employs a substantial workforce of 387.18 lakh individuals. Urban areas take the lead in trade-related employment, with 226.54 lakh individuals, surpassing the 160.64 lakh employed in rural areas. The trade sector's overall contribution to MSME employment stands at 35%, highlighting its prominence as a pivotal source of livelihood for a considerable portion of the workforce.

**Other Services:** The category of Other Services encompasses a varied range of activities and provides employment to 362.22 lakh individuals within the MSME sector. Urban areas exhibit a higher employment share in this category, employing 211.69 lakh individuals compared to the 150.53 lakh employed in rural areas. Other Services contribute 33% to the total MSME employment, underscoring its significance in generating job opportunities.

**Electricity:** While the Electricity category makes a modest contribution to employment, it provides jobs for a limited number of individuals, totaling 0.07 lakh. This category is predominantly urban-centric, with urban areas employing 0.02 lakh individuals compared to the 0.06 lakh employed in rural areas. Despite its nominal share, this category plays a role in the overall employment landscape within the MSME sector.

**Overall Employment in MSME Sector:** Summing across all activity categories, the MSME sector provides employment for a total of 1109.89 lakh individuals. The employment distribution reflects a balance between rural and urban areas, with rural employment accounting for 497.78 lakh and urban employment for 612.10 lakh. This comprehensive overview underscores the diverse activities within the MSME sector collectively sustaining a significant portion of the overall workforce.

Figure No: 3: MSME Sector – Employment estimation

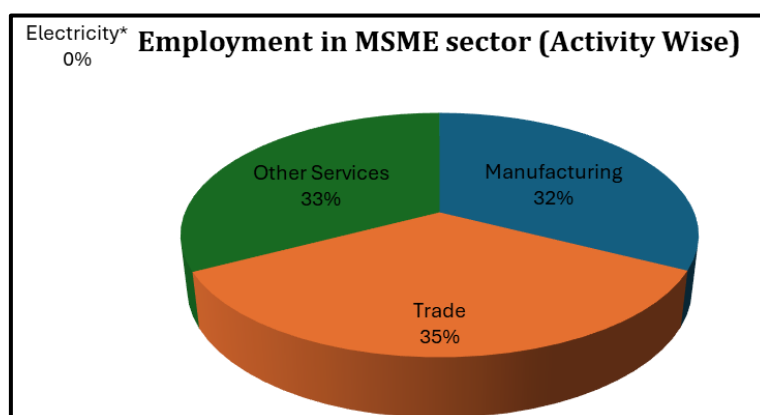


Table No-4: Employment distribution in Urban and Rural Areas

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.3	7.88	0.6	497.78	45
Urban	586.88	24.06	1.16	612.1	55
All	1076.2	31.95	1.75	1109.9	100

Source: MSME Annual Report 2022-23.

The table, derived from the MSME Annual Report 2022-23, delineates the distribution of employment within the Micro, Small, and Medium Enterprises (MSME) sector, distinctly categorizing figures for rural and urban areas. In rural regions, micro-enterprises emerge as a significant source of employment, providing jobs for 489.3 lakh individuals. Small enterprises contribute to the rural employment landscape with 7.88 lakh jobs, while medium enterprises play a modest role, employing 0.6 lakh individuals. The cumulative rural employment across all enterprise categories amounts to 497.78 lakh individuals, constituting 45% of the total MSME sector employment. This emphasizes the substantial role of micro and small enterprises in sustaining rural livelihoods. Conversely, in urban areas, micro-enterprises employ 586.88 lakh individuals, signifying a substantial urban workforce within this enterprise category. Small enterprises contribute significantly to urban employment, providing jobs for 24.06 lakh individuals, while medium enterprises play a noticeable role with 1.16 lakh employed individuals. The cumulative urban employment across all enterprise categories is 612.1 lakh individuals, representing 55% of the total MSME sector employment. This urban employment distribution underscores the diversity and scale of opportunities provided by MSMEs in urban settings. On an overall scale, micro-enterprises contribute to a total employment of 1076.2 lakh individuals, underscoring their pivotal role in the aggregate employment landscape. Small enterprises provide jobs for 31.95 lakh individuals across both rural and urban areas, while medium enterprises employ 1.75 lakh individuals in total. The total employment within the MSME sector amounts to 1109.9 lakh individuals, portraying the collective contribution of micro, small, and medium enterprises to the overall employment scenario.

Figure No: 4: Percentage Share of Rural and Urban MSMEs in the Country

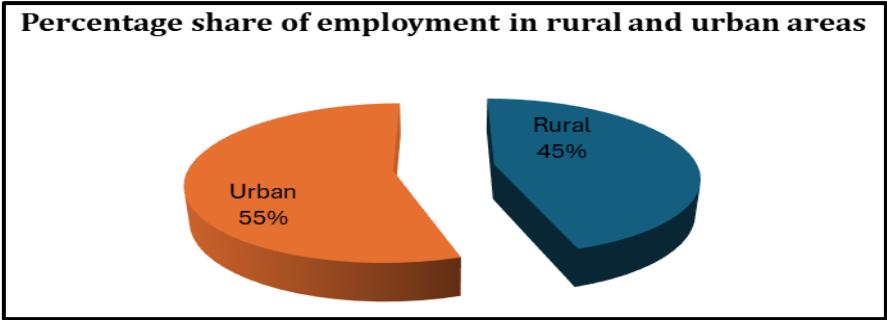


Table No - 5: Sectoral distribution of workers in Male and Female Category (in Lakh)

Sector	Female	Male	Total	Share (%)
Rural	137.5	360.15	497.78	45
Urban	127.42	484.54	612.1	55
Total	264.92	844.68	1109.89	100

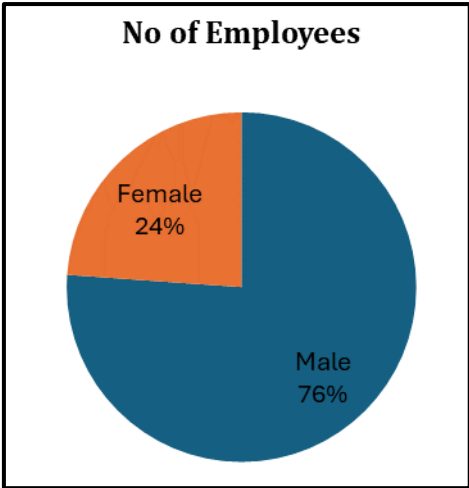
Source: MSME Annual Report 2022-23.

The data presented in Table No. 5, sourced from the MSME Annual Report 2022-23, illuminates the sectoral distribution of workers in the Micro, Small, and Medium Enterprises (MSME) sector, categorized by gender—Male and Female. In rural areas, the employment landscape reflects a substantial gender imbalance, with 137.5 lakh female workers, compared to a larger male workforce of 360.15 lakh. The total rural workforce amounts to 497.78 lakh individuals, constituting 45% of the overall MSME sector employment. This rural scenario signals a pronounced gender gap, prompting consideration for targeted initiatives aimed at addressing the disparities and promoting gender inclusivity in rural MSME employment. Shifting to urban areas, a parallel gender pattern emerges. Female workers contribute significantly with 127.42 lakh employed individuals, yet the male workforce in urban settings markedly surpasses them, totalling 484.54 lakh individuals. The aggregate urban workforce reaches 612.1 lakh individuals, constituting 55% of the total MSME sector

employment. This urban gender distribution mirrors the rural landscape, emphasizing the persistent gender gap within the MSME workforce across diverse geographical contexts.

On a holistic scale, the MSME sector employs 264.92 lakh female workers, forming a substantial but comparatively smaller share of the total workforce. Conversely, male workers dominate the MSME sector, constituting 844.68 lakh individuals. The comprehensive MSME sector workforce amounts to 1109.89 lakh individuals, with male workers holding a significant majority. This overarching gender distribution underscores the imperative for strategic interventions and policies that address gender imbalances, fostering a more inclusive and equitable workforce within the MSME sector.

Figure No: 5: Distribution of workers in Male and Female Category



Results which related to the hypotheses of the study

The primary hypothesis is that performance of MSMEs does not have a statistically significant effect on employment generation.

Multi-linear regression was performed in a stepwise fashion to examine the connection between dependent and independent variables to test the study's hypotheses.

Table No -6: Performance of MSMEs to Employment generation

Step	Independent variables	$\beta$	t	Statistically significant	R	R square	F	Statistically significant
1	Performance of MSMEs	0.38	9.13	0.00	0.78	0.61	76.39	0.00

Source: primary data

Table No. 6, sourced from primary data, provides a statistical overview of the relationship between the performance of Micro, Small, and Medium Enterprises (MSMEs) and their impact on employment generation. This regression analysis yields insights into the magnitude and significance of the association between the designated independent variable, "Performance of MSMEs," and the dependent variable, employment generation.

The coefficient estimate ( $\beta$ ) of 0.38 suggests a positive relationship between MSME performance and employment generation. This implies that, on average, a one-unit increase in MSME performance corresponds to a 0.38-unit increase in employment. The statistically significant t-statistic of 9.13 further underscores the robustness of this relationship, providing confidence in the reliability of the estimated coefficient.

The p-value associated with the regression is noteworthy, registering at 0.00 and indicating a high level of statistical significance. This underscores the validity of the assertion that the performance of MSMEs is a critical factor influencing employment generation. The coefficient of determination (R) is 0.78, denoting that approximately 78% of the variability in employment generation can be explained by the performance of MSMEs. This high R value attests to the considerable explanatory power of the model.



Moreover, the R square value of 0.61 signifies that 61% of the variability in employment generation is directly accounted for by the performance of MSMEs. This proportion provides valuable insights into the magnitude of impact that MSME performance holds over the dependent variable.

The F-statistic, with a value of 76.39, is statistically significant at the 0.05 level, suggesting that the overall model is apt for explaining the relationship between MSME performance and employment generation. The associated p-value of 0.00 reinforces the notion that the model is a meaningful and robust representation of the observed data

## VI. CONCLUSION

In summary, the study strongly underscores the crucial role played by Micro, Small, and Medium Enterprises (MSMEs) in driving economic development, with a particular emphasis on their remarkable contribution to employment generation. The undeniable link between MSMEs and employment is a cornerstone of their impact on the socio-economic fabric of the country. These enterprises emerge as powerful engines of job creation, providing a substantial number of employment opportunities that have far-reaching implications.

The inherent ability of MSMEs to generate employment has a cascading effect on poverty alleviation and the enhancement of socio-economic variables. Employment is not just a statistic; it is the lifeline that enables individuals to lead more secure and fulfilling lives. MSMEs, by acting as prolific job creators, become catalysts for positive change, elevating the living standards of communities and contributing to the overall economic growth.

Entrepreneurs, as the risk-takers in the MSME sector, play a pivotal role in converting challenges into opportunities, resulting in the creation of diverse jobs across various sectors. This study conclusively establishes that the MSME sector, through its profound impact on employment, is a linchpin in shaping the economic landscape of the nation. Therefore, recognizing, nurturing, and supporting MSMEs becomes not just a policy imperative but a strategic necessity for fostering sustained economic development and ensuring a brighter future for the workforce.

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