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Role of MSMEs in Creating Decent Work Opportunities in India: A Secondary Data Approach

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ABSTRACT

This paper tries to look at the role that Micro, Small and Medium Enterprises (MSMEs) play in generating decent work in India, based on a secondary data approach. The study draws on MSME Annual Reports, International Labour Organization (ILO) decent work indicators, and the Economic Survey of India to analyse how this sector performs on three major fronts — job creation, wages, and working conditions. MSMEs are widely known as the backbone of India's economy, contributing around 30% of the country's GDP and employing over 11 crore people. Yet the quality of jobs being created in this sector has always been a matter of concern. The report shows that while MSMEs have been quite impressive in generating sheer volume of employment, there are still significant gaps when it comes to wages, social security coverage, and decent working conditions — especially in rural and semi-urban areas. The analysis further highlights how government schemes like Udyam Registration, PM SVANidhi, and ECLGS have helped in some ways, but structural issues remain. The report concludes with some practical policy suggestions that could help bridge the gap between job quantity and job quality in India's MSME ecosystem. [1]–[10]

INTRODUCTION

India is a country where the majority of the working population does not hold a formal salaried job. Most people depend on small shops, tiny workshops, home-based production units, or petty trades for their livelihood. These are what we call the MSME sector — Micro, Small and Medium Enterprises. According to the Ministry of MSME's Annual Report 2022-23, there are over 6.33 crore registered MSMEs in India, and this number does not even capture the vast informal segment that has still not come under any registration framework. [1]

The concept of 'decent work' was introduced by the ILO in 1999 and refers to work that is productive, delivers a fair income, provides security at the workplace, offers social protection, and gives people freedom to express concerns, organise, and participate in decisions that affect their lives. [3] When we measure MSMEs against these standards, the picture becomes quite mixed. On one hand, MSMEs are the single largest source of employment in the non-farm sector. On the other hand, most of the workers in this sector lack even basic social security like provident fund, health insurance, or a written employment contract.

This paper is an attempt to examine these contradictions using data from credible official and international sources. It is organised around three key themes that mentioned — job creation, wages, and working conditions — and supplements these with analysis of government policy interventions, regional disparities, and the overall trajectory of MSME growth post-COVID. The goal is not just to describe the situation but to understand what it means for ordinary workers and what needs to change.

Data Sources and Method

Since this is a secondary data-based study, we have not conducted any original field survey. Instead, the analysis is based on the following sources:

- MSME Annual Reports (Ministry of MSME, Government of India) — for data on number of enterprises, employment, output, and policy programmes.
- ILO Decent Work Indicators — for benchmarking employment quality, wages, social protection, and labour rights.

- Economic Survey of India (Ministry of Finance) — for macroeconomic context, sectoral contribution, and labour market trends.

These three sources together allow us to triangulate the data and draw a more complete picture. It should be noted that data on the informal segment of MSMEs is often incomplete or based on estimates, and this is a limitation that we acknowledge throughout the report. The ILO framework provides a structured way to evaluate decency of work across multiple dimensions, which is why it has been used as the primary analytical lens. [3]

MSMEs and Job Creation in India

Scale of Employment

If there is one thing that MSMEs do exceptionally well, it is creating employment. The MSME Annual Report 2022-23 records that the sector employs approximately 11.10 crore people across various industries — from manufacturing to services to trade. [1] This is roughly comparable to the entire workforce of several European countries combined. What makes this more significant is that these jobs are spread across the length and breadth of the country, including small towns and rural areas where large industries rarely reach.

The Economic Survey 2022-23 also notes that the MSME sector has shown remarkable resilience in the post-pandemic period, with Udyam registrations crossing 2.5 crore by 2023, a sharp jump from previous years. [2] This partly reflects the success of the government's push for formalisation, though it also means that many previously informal units are now being captured in the data. The surge in registrations is linked directly to access to credit through the Emergency Credit Line Guarantee Scheme (ECLGS) launched during COVID, which required Udyam registration.

In terms of sectoral distribution, manufacturing MSMEs employ a much larger share of workers compared to service-based units, though the latter have grown rapidly post-2015. Food processing, textiles, leather goods, metal fabrication, and agro-industries are among the top employers within manufacturing. In services, repair shops, beauty salons, small eateries, and logistics firms dominate the employment landscape.

Quality vs. Quantity of Jobs

The ILO's framework reminds us that employment figures alone do not tell the full story. The 'decent work deficit' is particularly pronounced in MSMEs. According to ILO reports on South Asia, a large proportion of MSME workers in developing countries like India are engaged in vulnerable forms of employment — meaning they work as own-account workers or unpaid family helpers without job security, regular wages, or social benefits. [3] This is not to say that MSME employment is bad, but it is to say that its quality varies enormously depending on the size and type of enterprise.

Medium enterprises — the 'M' in MSME — generally offer better wages, more stable employment, and some form of social security. Micro enterprises, which constitute the overwhelming majority (over 99% of all MSMEs), are where the challenge is most acute. These units typically run with just one to five workers, often family members, with no written contracts, no PF contributions, and no fixed working hours. The NSSO data cited in the Economic Survey also confirms that earnings in micro enterprises are significantly lower than in small or medium ones. [2]

Wages in the MSME Sector

Wage Levels and Trends

Wages in MSMEs are a complex topic. At the policy level, all workers are supposed to receive at minimum the notified minimum wage for their respective state and sector. In practice, compliance with minimum wage laws is quite uneven, especially in the micro segment. A study cited in the ILO's India Wage Report found that a significant proportion of workers in small manufacturing establishments earn below the applicable minimum wage, particularly in states with weaker labour inspection systems. [3]

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The MSME Annual Report 2022-23 does not directly report average wages by enterprise size, which is itself a gap in the data. However, by combining MSME output and employment figures with NSSO data and Economic Survey estimates, researchers have put the average monthly earnings in micro enterprises at somewhere between Rs 8,000 to Rs 12,000 — which is comparable to or only slightly higher than minimum wages in many states. [1][2] This means there is very little wage premium for working in the formal MSME sector compared to casual daily wage work.

Gender Wage Gap

One issue that gets too little attention is the gender wage gap within MSMEs. The ILO's India Wage Report (2018) found that women earn approximately 34% less than men in the manufacturing sector, and this gap is even more pronounced in home-based piece-rate work which is common in MSMEs. [3] Women workers are concentrated in lower-paying occupations within MSMEs — stitching, embroidery, incense stick rolling, papad making — and often classified as 'helpers' rather than primary workers, which means they do not even get counted accurately in employment statistics.

The Economic Survey has acknowledged the need to mainstream women in MSME entrepreneurship through schemes like the PM Vishwakarma Yojana and MUDRA loans targeted at women borrowers, but the wage gap for workers (as opposed to owners) remains an area that policy has not directly addressed. [2]

Working Conditions in MSMEs

Safety and Health at Work

Occupational safety and health (OSH) is one area where MSMEs have consistently lagged behind large industries. Many MSME units, particularly in manufacturing, operate in cramped, poorly ventilated spaces with outdated machinery and inadequate safety equipment. Industries like chemical processing, stone cutting, foundry work, and textile dyeing carry significant occupational health risks, and workers in micro and small units rarely have access to protective equipment or medical support. [3]

The Factories Act and related state-level legislation require periodic inspection of workplaces and provision of basic amenities, but the applicability of these laws is typically limited to units with 10 or more workers (or 20 with power), leaving most micro enterprises completely outside their purview. This legislative gap means that the majority of MSME workers operate in a legal vacuum as far as occupational safety is concerned. [2]

Social Security and Labour Rights

Social security coverage for MSME workers is extremely limited. The Employees' Provident Fund (EPF) and Employees' State Insurance (ESI) schemes are applicable only when the number of workers in an establishment crosses certain thresholds (20 for EPF, 10 for ESI in non-seasonal factories). Since most MSMEs are micro units with fewer than 10 workers, they fall below these thresholds. As a result, the vast majority of MSME workers have no access to any employer-provided social security. [1][3]

The ILO's decent work framework treats access to social protection as a fundamental dimension of work quality. By this standard, the MSME sector has a very long way to go. Even schemes like PM Shram Yogi Maandhan (pension for unorganised workers) have had limited uptake due to lack of awareness, complex enrolment processes, and the voluntary contribution requirement. The Economic Survey 2022-23 acknowledges the challenge of extending social protection to informal workers and lists several pending legislative reforms including the implementation of the four Labour Codes. [2]

On the question of labour rights — the right to organise, bargain collectively, and have a voice in workplace decisions — the MSME sector is largely a blank space. Trade union density in small enterprises is negligible. Workers rarely have any platform to raise grievances without fear of losing their jobs. The absence of written employment contracts further weakens workers' ability to claim their legal entitlements. [3]

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Regional Disparities in MSME Employment and Wages

One pattern that emerges clearly from the data is the significant variation in MSME performance across states. States like Maharashtra, Tamil Nadu, Gujarat, and Uttar Pradesh have the highest concentration of MSME units in absolute numbers, but when we look at employment quality indicators, southern and western states tend to do better than northern and eastern ones. [1]

This reflects broader patterns of industrial development and infrastructure. States with better roads, reliable power supply, easier access to credit, and stronger business environments tend to have more productive MSMEs, which in turn pay better wages. States like Bihar, Jharkhand, and Uttar Pradesh — which have large MSME populations in absolute terms — struggle with lower wages and worse working conditions because of weaker infrastructure and lower overall productivity. The Economic Survey data on per-capita income and sectoral growth rates across states confirms this north-south and east-west divide. [2]

There is also a rural-urban divide within states. Urban MSMEs tend to be more productively linked into supply chains, have better access to markets and skilled labour, and generally pay higher wages. Rural MSMEs, while crucial for local employment and income, often operate at subsistence levels with very thin profit margins. Any policy to improve decent work in the MSME sector therefore needs to be regionally and geographically differentiated. [1][2]

Government Policy Interventions: A Critical Review

The Government of India has launched numerous schemes aimed at supporting MSMEs over the past decade. Some of the major ones include the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), the PM SVANidhi for street vendors, the MUDRA scheme for micro-entrepreneurs, and the ECLGS that provided emergency credit during COVID. These schemes have collectively channelled lakhs of crores of rupees into the MSME sector. [1]

However, a critical reading of the data suggests that most of these schemes are credit-focused — they try to solve the financing problem of MSMEs, but they do not directly address the quality of jobs being created. Access to credit is necessary, but it is not sufficient to ensure decent wages, safe working conditions, or social security for workers. The Economic Survey itself acknowledges that while MSME credit has expanded, the problem of non-performing assets (NPAs) and loan defaults in the micro segment remains significant. [2]

The one area where policy has tried to directly address decent work is through the implementation of the four Labour Codes — the Code on Wages, the Industrial Relations Code, the Social Security Code, and the Code on Occupational Safety. These codes, if implemented fully, would extend minimum wage protection, social security coverage, and occupational safety standards to a much larger proportion of MSME workers. However, as of 2023, the Labour Codes have been notified but not yet implemented, as most states have not finalized their respective rules. [2][3]

DISCUSSION

What the Evidence Implies

Putting together all the evidence from the three data sources, a few clear patterns emerge. First, the MSME sector is indispensable for employment in India — there is simply no other sector that comes close in terms of job absorption capacity, especially for workers without formal qualifications. This is unlikely to change in the near future, and any policy framework that ignores or undermines MSMEs risks creating more unemployment and poverty. [1][2]

Second, the decent work deficit in MSMEs is real and quantifiable. ILO indicators consistently show that MSME workers — especially in micro enterprises — lag behind on wages, social protection, and working conditions. This is not just a welfare concern; it is also an economic one. Low wages suppress domestic demand, poor safety leads to worker injuries and lost productivity, and the absence of social security increases workers' vulnerability to economic shocks. [3]

Third, the gap between policy intention and ground reality remains wide. India has good laws on paper — minimum wages, factory safety standards, social security schemes — but their reach within the MSME sector is limited by threshold-based applicability, weak enforcement, and low awareness among both employers and workers. Bridging this gap requires not just new policies but better implementation of existing ones.

POLICY RECOMMENDATIONS

Based on the analysis, the following recommendations are made:

- Prioritise implementation of Labour Codes: The four Labour Codes represent a major opportunity to extend decent work protections to MSME workers. State governments should be encouraged and supported to finalise their rules and begin enforcement, starting with the Code on Wages and Social Security Code. [2][3]
- Expand threshold-free social security: The Social Security Code allows for voluntary registration of unorganised workers. This should be made easier and more attractive through simplified digital enrolment, employer subsidies, and integration with existing Jan Dhan-Aadhaar-Mobile (JAM) infrastructure. [1][3]
- Introduce wage compliance as a credit condition: MSME credit schemes like MUDRA and CGTMSE could require borrowing units to demonstrate basic wage compliance as part of loan eligibility, creating a positive incentive structure for decent wages. [1][2]
- Address gender wage gap through targeted programmes: Women's entrepreneurship is supported through MUDRA, but women workers (as opposed to owners) need targeted interventions — skill upgradation, minimum wage awareness campaigns, and workplace safety measures particularly in home-based work. [3]
- Strengthen regional MSME clusters: Government support for industrial clusters in backward regions — through common facility centres, logistics support, and market linkages — can improve productivity and thereby wages in states currently performing below average. [1][2]

CONCLUSION

The MSME sector in India is a story of contradictions. It is the largest source of non-farm employment, a major contributor to GDP and exports, and a vehicle of entrepreneurship for millions of first-generation business owners. At the same time, it is a sector where decent work remains an aspiration rather than a reality for most workers — where wages are low, social security is absent, and working conditions are often unsafe.

The secondary data from MSME Annual Reports, ILO indicators, and the Economic Survey together make it clear that India cannot afford to treat job creation and job quality as separate goals. Without decent work, the millions of MSME jobs being created will not translate into reduced poverty, improved well-being, or sustainable economic growth. The upcoming implementation of Labour Codes, if done properly and inclusively, offers the best opportunity in a generation to change this equation. What is needed is not just more schemes or more credit, but a genuine commitment to making work in India's MSMEs decent, dignified, and fair. [1]–[3]

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