



Rebuilding India's MSMEs: Post-COVID Challenges, Government Support and the Path Toward Sustainable Growth

Dr. Rajeev Sijariya¹, Nancy Khaira², Dr. Yogesh Sharma³, Dr. Sandeep Agarwal⁴

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¹Professor, ABVSME, JNU & Principal Investigator Project "Triple Bottomline Approach for resilient recovery and resurgence amid COVID-19: An Eco-Socio-Psychological Framework for Bharat 5.0 in the New Normal.

²Research Assistant, ICSSR Project entitled "Triple Bottomline Approach for resilient recovery and resurgence amid COVID-19: An Eco-Socio-Psychological Framework for Bharat 5.0 in the New Normal ABVSME, JNU.

³Assistant Professor, Delhi Technical University, University of Delhi.

⁴Assistant Professor, Institute of Economics and Finance, Bundelkhand University, Jhansi.

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ABSTRACT

India's Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the national economy, significantly contributing to Gross Domestic Product (GDP), exports, and employment generation. However, the Coronavirus Disease 2019 (COVID-19) pandemic greatly disrupted their operations, causing financial instability, supply chain issues, and widespread job losses. This study comprehensively examines the impact of the pandemic on MSMEs and evaluates the effectiveness of governmental initiatives under the Atma Nirbhar Bharat Abhiyan (ANBA) and associated schemes, including the Emergency Credit Line Guarantee Scheme (ECLGS), Prime Minister's Employment Generation Programme (PMEGP), Scheme of Fund for Regeneration of Traditional Industries (SFURTI), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and the Fund of Funds for MSMEs. The research adopts a descriptive and analytical approach using secondary data obtained from governmental records, industry evaluations, and academic publications from 2019 to 2023. Findings suggest that while the ECLGS provided vital liquidity to over one crore MSMEs, the access to subordinate debt and equity investment initiatives was limited. The revised MSME classification and digital efforts such as Udyam Registration and E-market connections have enhanced sector formalization and market access. Nonetheless, ongoing difficulties persist in the areas of credit availability, digital skills, and sustained resilience. The study suggests a sustainable plan for MSME recovery via digital transformation, skill development, market diversification, and the incorporation of Industry 5.0 technologies.

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1. INTRODUCTION

India's Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the nation's economy, driving export, innovation, and job creation (Latianingsih et al., 2022). Their contributions to Gross Domestic Product (GDP) and alignment with the "Make in India" initiative are well-documented. However, the COVID-19 pandemic's disruptive impact on MSMEs,

particularly the effectiveness of government support initiatives like Atma Nirbhar Bharat Abhiyan, remains understudied (Sowmya & Paramashivaiah, 2020). India's Micro, Small, and Medium Enterprises (MSMEs) are not mere cogs in the economic machine; they are the very fuel that propels it forward (Mehta, 2021). These dynamic enterprises act as engines of export, driving the diversification and competitiveness of

India's trade landscape(Singh et al., 2023). Their unwavering commitment to innovation fosters technological advancements and fuels the entrepreneurial spirit of the nation(Kelkar & Ramachandran, 2023). Moreover, as significant contributors to Gross Domestic Product (GDP) and job creation, MSMEs align seamlessly with the national aspirations of the "Make in India" initiative(Setini et al., 2025).

However, the unprecedented storm of the COVID-19 pandemic fiercely challenged the resilience of these vibrant enterprises. Operational hurdles, financial strains, and a surge in unemployment threatened to extinguish the flames of MSME innovation and growth.

1.1 Impact of COVID-19 on MSMEs in India

The declaration of COVID-19 as a global pandemic by the World Health Organization triggered an unprecedented health and economic crisis that severely disrupted economies worldwide, including India. In response to the rapid spread of the virus, governments enforced strict containment measures such as lockdowns and social distancing, which, while essential for

public health, led to significant economic slowdowns(Hassan et al., n.d.). In India, one of the strictest nationwide lockdowns caused widespread disruption across sectors, particularly affecting Micro, Small, and Medium Enterprises (MSMEs), which form the backbone of the economy(Wang et al., 2021). The sudden halt in operations disrupted supply chains, reduced production, and caused a sharp decline in demand. According to the All-India Manufacturers' Organization, with over 75 million MSMEs operating prior to the pandemic, these enterprises often characterized by limited financial resilience were among the hardest hit, facing closures, layoffs, and acute liquidity constraints(Burlacu et al., 2020). Consequently, the downturn in MSME activity significantly contributed to rising unemployment, especially among informal workers and daily wage earners, thereby intensifying the socio-economic impact of the pandemic development.

1.2 India's COVID-19 Economic Package for MSMEs & Revised Definition

The Indian Government announced a

Table 1: Impact of COVID-19 on Indian MSMEs

Impact Area	Effect on Indian MSMEs
Business Disruption	Prolonged lockdowns disrupted operations and supply chains.
Financial Strain	Cash flow problems and difficulty accessing credit.
Employment Crisis	Widespread layoffs and job losses in the MSME sector.
Economic Uncertainty	Uncertain economic environment and reduced consumer demand.
Government Support and Relief	Implementation of relief measures, but access challenges.

Source: Research Gate

Table 2: Revised Definintion of MSMEs

Enterprise Type	Manufacturing Sector	Service Sector
Micro	(Investment in Plant & Machinery) Up to INR 1 Crore (10 million Indian Rupees)	(Investment in Equipment) Up to INR 50 Lakh (5 million Indian Rupees)
Small	More than INR 1 Crore (10 million Indian Rupees) but does not exceed INR 10 Crores (100 million Indian Rupees)	More than INR 50 Lakh (5 million Indian Rupees) but does not exceed INR 5 Crores (50 million Indian Rupees)
Medium	More than INR 10 Crores (100 million Indian Rupees) but does not exceed INR 50 Crores (500 million Indian Rupees)	More than INR 5 Crores (50 million Indian Rupees) but does not exceed INR 25 Crores (250 million Indian Rupees)

Source: Website of MSME

comprehensive economic package to support MSMEs during the pandemic. One of the significant components of this package was the revision of the definition of MSMEs to broaden their eligibility for benefits and support.

2. Background

In the face of immense adversity, the Government of India rose to the challenge, unleashing a series of potent initiatives designed to fortify the MSME sector. The ANBA stimulus package, a beacon of hope amidst the crisis, provided much-needed financial support and revitalized entrepreneurial spirits. This research meticulously analyzes the impact of such initiatives, delving into specific programs like the ECLGS, the PMEGP, and the SFURTI (Dr. J. Suresh Kumar & Mrs. D. Shobana, 2023). Additionally, it explores the commendable efforts of government bodies like KVICD, Coir Board, and NSIC in bolstering the MSME ecosystem.

2.1 Key Features of India's MSME Economic Package

- a) *Collateral-Free Loans*: MSMEs were offered collateral-free loans under the ECLGS to help them meet operational expenses and restart production.
- b) *Subordinate Debt for Stressed MSMEs*: The Government introduced a scheme to provide subordinate debt for MSMEs with stressed accounts, offering much-needed relief.
- c) *Fund of Funds*: To boost equity funding, a Fund of Funds with a corpus of INR 10,000 crore was

established to support MSMEs' growth and expansion.

- d) *Global Tenders Barred*: MSMEs were protected from global tendering processes for government procurement of up to INR 200 crores, promoting domestic production.

2.2 MSME Collateral-Free Automatic Loan Scheme

The MSME Collateral-Free, Automatic Loan scheme was a crucial component of the economic package announced by the Indian Government to provide immediate relief to MSMEs facing financial distress during the pandemic (Mittal et al., 2024). The scheme had an outlay of Rs 3 lakh crore, making it one of the most significant components of the economic package. It was designed to benefit approximately 45 lakh MSMEs across the country (Rajan et al., 2023).

- a) *Collateral-Free Loans*: Under this scheme, eligible MSMEs could avail of collateral-free loans to meet their operational expenses, including payment of wages, rent, and other overheads. (Ahmad et al., 2024) The absence of collateral requirements made it more accessible to a broader range of MSMEs. Interest Rate Cap: Interest rates on these loans were capped to ensure affordability for MSMEs (Lishmah Dominic et al., 2024). This capped interest rate provided financial relief and reduced the burden of servicing high-cost loans during the pandemic.

- b) *Loan Tenure and Moratorium*: The loans had a tenure of four years, providing flexibility for repayment. A moratorium period of 12 months on

Table 3: ECLGS Initiatives by the Government of India

ECLGS Initiative	Number of MSMEs Benefited
ECLGS	Approximately 1.19 crore MSMEs benefited (till Nov 2022). Government statement to Lok Sabha: "ECLGS benefitted nearly 1.2 crore MSMEs"
Guarantee Volume	Guarantees worth ₹3.61 lakh crore, supporting 1.19 crore borrowers (as of Jan 2023).
MSME Loan Accounts	14.6 lakh MSME accounts (98.3% in the micro/small category) were preserved from NPA classification. State Bank of India report—"14.6 lakh MSME accounts saved"
Subordinate Debt Scheme	Only 332 MSMEs benefited within first nine months, amounting to ₹38.5 crore. Financial Express report "9 months after launch... only this many MSMEs benefited"

source: Various Government Reports and Press Releases

Table 4: Key Features of the MSME Collateral-Free Automatic Loan Scheme

Sl. No.	Feature	Description
1.	Total Outlay	Rs 3 lakh crore
2.	Beneficiaries	Approximately 45 lakh MSMEs
3.	Collateral Requirement	Collateral-free loans
4.	Interest Rate Cap	Interest rates are capped to ensure affordability
5.	Loan Tenure	Four years
6.	Moratorium Period	12 months on principal repayment

principal repayment was offered, allowing MSMEs to stabilize their operations before beginning loan repayments (Baghel, 2023).

2.3 E-Market Linkages for MSMEs

The Indian government-initiated efforts to establish e-market linkages for MSMEs. This initiative aims to provide MSMEs with a digital platform to showcase their products and services, facilitating access to a broader customer base (Aarthi et al., 2023).

The Government has taken steps to ensure that all receivables of MSMEs from government departments and Public Sector Undertakings (PSUs) are cleared within 45 days (Amri et al., 2023). Timely payment of dues addresses the liquidity challenges faced by MSMEs, enabling them to meet operational expenses and invest in growth (Murugan & Natarajan, 2022). The e-market linkage and timely clearance of dues initiatives are pivotal in supporting the growth and stability of MSMEs. By providing expanded market access and financial security, these measures enable MSMEs to thrive, driving economic growth and job creation (Agustina et al., 2024).

2.4 Government initiatives to support the MSME sector following COVID-19

a) Atma Nirbhar Bharat Abhiyan (Self-Reliant India Scheme): ANBA or the Self-Reliant India Scheme of 2020, by the Government of India, has given a new definition for MSMEs (Rahayu et al., 2023). The Atma Nirbhar Package announced by the Government provides various kinds of assistance to the economy, including units in the MSME Sector (Mahmoud et al., 2024). Under Atmanirbhar Bharat, the Government announced a unique economic and comprehensive package of Rs. 20 Lakh crore for all the sections of society,

including Industries and MSMEs (Yadav et al., 2025). The Government allocated Rs. 20,000 crores for Subordinate Debt to assist MSMEs. It also introduced collateral-free automatic loans amounting to Rs. 3 lakh crores, benefiting businesses, particularly Mesquit Infusion (Purwaningtyas et al., 2025). A substantial equity infusion of Rs. 50,000 crore was directed through the MSME Fund of Funds to provide financial stability and opportunities for growth (Aziz et al., 2024). The Government revised the criteria for classifying MSMEs, making them more relevant to the evolving business landscape.

b) Udyam Registration: A simplified process for MSME registration through 'Udyam Registration' was implemented to streamline operations and reduce bureaucratic hurdles.

c) Global Tenders: To promote the participation of MSMEs in public procurement, the Government exempted them from participating in global tenders for procurements up to Rs. 200 crores.

d) PMEGP: Administered by the KVIC, this program aims to generate employment by providing subsidies through banks at the state level. Scheme of Fund for Regeneration of Traditional Industries

e) SFURTI: SFURTI focuses on strengthening traditional industries that utilize local resources, skills, and technologies.

f) ASPIRE: ASPIRE supports innovation in agro-industries and startups by establishing technology centres and incubation facilities.

g) ESDP: This program encourages individuals from various sections of society, including SC/ST, women, differently-abled, ex-servicemen, and those from economically disadvantaged backgrounds, to explore self-employment and entrepreneurship. CGTMSE provides collateral-free credit to the micro and small enterprise sector.

h) *PMMY*: PMMY, launched in 2015, promotes entrepreneurship and self-employment by disbursing loans, with a significant portion allocated during the financial year 2020-21.

i) *CLCS-TUS*: This scheme supports technology upgradation and provides capital subsidies to MSMEs.

j) *Champions Portal*: An online portal initiated by the Prime Minister, offering a one-stop solution for various MSME Ministry services, including grievance redressal and support.

k) *Samadhan Portal*: The Ministry of MSME

launched the SAMADHAAN portal, allowing Micro and Small Enterprises to directly report cases of delayed payments by Central Ministries, Departments, CPSEs, State Governments, and other buyers. These concerted efforts demonstrate the Government's commitment to revitalizing the MSME sector, fostering economic growth, and promoting self-reliance in India in the wake of the COVID-19 pandemic.

2.5 Long-Term Plan for the MSME Sector's Sustainability After COVID-19.

Strengthening the resilience and growth

Table 5: Government bodies' actions for bolstering the MSME sector after COVID-19

A. KVIC	
■	Setting up Community Kitchens to provide food packets to migrants
■	Distribution of food packets in Delhi, Jammu, Nagpur, Bengaluru, Thane, Palghar, Jaipur
■	Coimbatore, Patna, Varanasi, Cuttack, and Hyderabad.
■	Release of Rs 1000 per month to each registered artisan from the Artisan Welfare Fund Trust.
B. COIR Board	
■	Coir Association (COCOMANS) Pollachi and Coir Board members provided all vegetables and food to the public and coir workers in Coimbatore districts.
■	Coir Board employees raised Rs 4 lakhs for donating to the PM Cares relief fund.
C. NSIC Board	
■	MSMEs availing Raw Material Assistance against Bank Guarantee before 01/03/2020 allowed a moratorium of 03 months for repayment of outstanding dues.
■	Accounts of MSMEs to be frozen to avoid outstanding in the books in cases where the outstanding is going to touch 99.99% of the BG value.

Source: Various government Reports

Table 6: Schemes and their fund Allocations

Scheme / Initiative	Details / Allocation Sources (Citable)
Atma Nirbhar Bharat Abhiyan	Announced a ₹20 lakh crore package (2020) with a specific MSME focus. Ministry of Finance (2020)
ECLGS (Collateral-Free Loans)	₹3 lakh crore outlay; ₹45 lakh MSMEs benefited. Ministry of MSME (2020)
Subordinate Debt Scheme	₹20,000 crore support for stressed MSMEs.
Fund of Funds	₹10,000 crore corpus to support MSME expansion and stock exchange listing.
PMEGP (Employment Generation)	Subsidy-based scheme; lakhs of micro-enterprises funded annually.
SFURTI	Strengthening local and rural industries through cluster-based development.
(Traditional Industry Support)	
CGTMSE (Credit Guarantee)	Provides collateral-free credit support to micro and small enterprises, Credit Guarantee Fund Trust for MSME.
Udyam Registration	Simplified online registration; 96 lakh+ MSMEs registered by 2022.
Digital Initiatives	Champions Portal, Samadhan Portal, and E-Market linkages were introduced for grievance redressal. (Bhavan, n.d.)

Source: Various Government Reports

of MSMEs in the post-pandemic era requires a multi-dimensional strategy centered on digital transformation, financial access, skill development, and institutional support (Gupta et al., 2020). Promoting digital literacy and encouraging adoption of e-commerce and digital marketing can significantly enhance market reach and competitiveness, while improved access to finance through credit facilitation, alternative funding sources, and financial literacy programs can address liquidity constraints (Tallat et al., n.d.).

Continuous skill upgradation and entrepreneurship education are essential to align the workforce with evolving technological demands and foster innovation. Additionally, market and product diversification, along with resilient supply chain practices such as local sourcing and efficient inventory management, can reduce vulnerability to external shocks. Regulatory reforms aimed at easing compliance, coupled with incentives for research and development, innovation clusters, and sustainability initiatives, can further strengthen MSME capabilities (Processes & 2023, n.d.).

Collaboration through industry associations, networking platforms, and consistent government policy support enhances knowledge sharing and stability, while resilience planning, data-driven decision-making, and CSR initiatives contribute to long-term sustainability. Furthermore, policies like the “Smart Industrial Village” approach can promote decentralized and inclusive economic development, reducing regional disparities and preventing large-scale migration, thereby ensuring balanced and sustainable growth of the MSME sector. Promoting “Swadeshi” Ideology via Policy & Strategy Drafting, price advantage incentive for import substitution, and indigenous product development.

Price Advantage incentive is a percentage additional advantage on the price of a product to an Indian supplier compared with the cost of import for a particular product. (Vasani & Abdulkareem, 2024) To stimulate local investment in the manufacturing segment through promotion schemes and incentives so that India

becomes a manufacturing hub (Sankaran, 2022).

3. OBJECTIVES

To study the drivers and impediments of technological adoption by MSMEs and prepare for future jobs in Industry 5.0.

- a. To study the challenges MSMEs face with respect to technology adoption.
- b. To examine the impact of Industry 5.0 on the job market paradigm.

The objectives of the study are centered on understanding the role of technology in shaping the future of Micro, Small, and Medium Enterprises (MSMEs) in the era of Industry 5.0 (Telagawathi et al., 2022). The research aims to study the key drivers and impediments influencing technological adoption by MSMEs, with a focus on how these enterprises can prepare themselves for the evolving demands of future jobs (Meher & Panda, 2024).

It further seeks to explore the challenges MSMEs encounter in adopting advanced technologies, ranging from financial constraints and lack of skilled manpower to infrastructural and policy-related barriers (Supramono et al., 2025).

In addition, the study intends to examine the impact of Industry 5.0 on the job market paradigm, analysing how human-machine collaboration, automation, and innovation are likely to reshape employment opportunities and skill requirements in the MSME sector (Hartomo & Arthur, 2024).

4. RESEARCH METHODOLOGY

This study adopts a descriptive research design, relying entirely on secondary sources of data to understand the impact of COVID-19 on India's Micro, Small, and Medium Enterprises (MSMEs) and to evaluate the effectiveness of government interventions.

The analysis combines both quantitative data (numerical indicators such as GDP contribution, employment generation, credit disbursal, and loan coverage) and qualitative data (policy frameworks, government guidelines, and expert reports).

Table 7: Research Overview

Component	Details
Research Design	Descriptive and analytical research design using secondary data; focus on COVID-19 impact and government interventions for MSMEs. CII (2020), FICCI (2020), MSME Ministry Reports (2020)
Nature of Data	Quantitative (GDP %, employment numbers, credit outlay, loan coverage, scheme allocations) + Qualitative (policies, guidelines, scholarly work). RBI (2020), MSME Annual Report (2021-22), World Bank (2022)
Data Sources	Government policy documents, industry surveys, press releases, and peer-reviewed journals. Ministry of Finance (2020), MSME Ministry (2020), AIMO (2020), Singh et al. (2023)
Population of Study	75 million+ MSMEs in India (pre-COVID estimates). AIMO Survey (2020), MSME Annual Report (2019-20)
Sample Frame	No primary survey; analysis based on national-level secondary datasets covering the entire MSME sector. Ministry of MSME Reports (2019-22)
Variables Considered	GDP contribution of MSMEs - Employment generated (millions) - Export share - Govt. relief outlays (₹ lakh crore) - Scheme-wise beneficiaries (ECLGS, PMEGP, SFURTI, CGTMSE, Fund of Funds) - Unemployment rates FICCI (2020), CII (2020), RBI (2020), MSME Ministry (2020), MENA Report (2022)
Tools of Analysis	Comparative analysis (Pre-COVID vs Post-COVID MSMEs) - Tabulation of schemes and benefits - Descriptive statistics (percentages, ratios, growth rates) - Policy impact evaluation CII (2020), MSME Resilience Report (2021), Roy et al. (2020)
Period of Study	2019 (baseline, pre-COVID) – 2023 (post-COVID government interventions). MSME Ministry Reports (2019–2023)
Scope of Study	Indian MSMEs only; focus on economic, financial, and policy impact of COVID-19; evaluation of sustainability strategies (Digitalization, Swadeshi). Ministry of MSME (2020), World Bank (2022), Singh et al. (2023)
Limitations of the Study	The study depends exclusively on secondary data, as field surveys and primary interviews were not feasible during the pandemic. Data on unorganized and micro-level MSMEs remain fragmented and under reported. Findings are restricted to the Indian context, though insights may apply to global MSMEs.

Source: Team Compilation

5. DATA ANALYSIS**5.1 Economic Contribution**

Interpretation: The economic significance

of the MSME sector in India is underscored by its multi-dimensional contribution to growth and trade. According to the Ministry of MSME Annual

Table 8: Economic Contribution (MSME Statistics)

Indicator	Statistics
MSME Share in GDP	Contribute around 30% of India's GDP (FY 2021-22).
Share in Exports	Account for 45–48% of India's total exports.
Share in Industrial Output	Nearly 37% of India's manufacturing output.
Number of MSMEs	About 63.4 million (6.34 crore) enterprises, 99% of which are micro units.
Export Product Share	Dominant in textiles, leather, gems & jewellery, handicrafts, and auto components.
Sectoral Spread	Manufacturing: 36% - Trade: 33% - Services: 31%

Source: Various reports of the Government

Report (2021–22), the sector contributes nearly 30 percent of India's Gross Domestic Product (GDP), reflecting its pivotal role in driving inclusive economic development and sustaining domestic value chains. In external trade, MSMEs are equally critical, accounting for approximately 45–48 percent of India's total exports as reported by the Directorate General of Foreign Trade (2022).

This export orientation is largely concentrated in high-employment generating industries such as textiles, leather, gems and jewellery, handicrafts, and auto components, sectors that not only provide foreign exchange earnings but also embody India's competitive advantage in global markets. From the perspective of industrial output, MSMEs contribute nearly 37 percent of total manufacturing production (CII, 2020; MSME Annual Report, 2021–22), a figure that illustrates their strong linkages with larger enterprises as suppliers and subcontractors.

In terms of scale, India is home to approximately 63.4 million MSMEs, as estimated by the NSSO 73rd Round (2015–16) and updated in the MSME Ministry's 2021–22 report. Strikingly, nearly 99 percent of these units are micro-enterprises, emphasizing the fragmented and small-scale nature of the sector. This micro-dominance highlights both the sector's grassroots inclusivity and its vulnerability, given that micro-units often face barriers in accessing finance, technology, and markets. Sectoral distribution

data from the Ministry of MSME further reveal that MSMEs are diversified across manufacturing (36 percent), trade (33 percent), and services (31 percent), thereby contributing not only to industrial production but also to retail, distribution, and service-based economic activity.

Together, these indicators highlight MSMEs as a cornerstone of India's economy, while also pointing to the dual challenge of scaling micro-units into higher-value categories and sustaining global competitiveness.

5.2 Comparison Employment Wise

Interpretation: The employment trajectory of India's MSME sector over the past decade reflects both resilience and volatility. The pre-COVID estimate from the 73rd NSSO round (2015–16) placed employment at approximately 111.2 million workers in unincorporated non-farm establishments, a figure that remained consistent at about 111 million in 2019–20, just before the pandemic.

However, the nationwide lockdowns in 2020 severely disrupted MSME operations, with government records indicating that 63,248 jobs were lost in Udyam-registered enterprises between July 2020 and July 2022, while broader surveys suggested that the true figure was several million higher across informal units. Signs of recovery became evident in FY22, when the sector added 10.31 million new jobs, marking a 16 percent growth in employment. By FY23, employment stabilized at 109.6 million, nearly

Table 9: Pre-Post Covid Era

Period / Event	Employment Figures	Sector
1. Pre-COVID Estimate (2015-16)	111.2 million workers	Unincorporated non-farm establishments
2. Pre-Pandemic Baseline (2019–20)	111 million workers	MSME sector
3. Lockdown Period (July 2020–July 2022)	63,248 jobs lost	Udyam-registered MSMEs
4. Fy22 Employment Growth	+10.31 million jobs	MSME sector
5. Recovery by Fy23	109.6 million jobs (near baseline)	ASUSE data
6. Mid-Post Pandemic (May 2024)	190.9 million jobs (incl. women, informal)	Udyam portal & surveys
7. Early Post-Pandemic (July 2024)	205.1 million jobs (20.51 crore)	Udyam Portal

Source: Various Research Reports

reaching the pre-pandemic baseline, thereby demonstrating the sector's inherent resilience despite structural fragilities. Interestingly, post-pandemic Udyam registration data presents a different narrative, recording 190.9 million jobs in May 2024 and a further rise to 205.1 million jobs by July 2024. While these figures suggest a dramatic expansion, they are better understood as the outcome of accelerated formalization and digitization of MSME records, rather than a literal doubling of employment in such a short period. This employment timeline highlights the importance of distinguishing between statistical improvements due to registration drives and the actual ground-level recovery of livelihoods.

5.3 Employment Contribution

Employment generation is one of the most critical contributions of the MSME sector to the Indian economy. According to the MSME Annual Report (2019–20) and survey findings of the All-India Manufacturers' Organisation (AIMO, 2020), the sector provides jobs to approximately 111

million people (11.1 crore), making it the second-largest source of non-farm employment after agriculture. In terms of its industry share, MSMEs employ nearly 40 percent of India's workforce in manufacturing and services (World Bank, 2022; Ministry of MSME, 2021), thereby forming the backbone of industrial employment and sustaining millions of livelihoods across supply chains.

The distribution of employment across geographies also demonstrates the inclusive nature of the sector. Data from the NSSO 73rd Round (2015–16), corroborated by the MSME Ministry (2021–22), reveals that 51 percent of MSME employment is located in rural areas, while the remaining 49 percent is in urban regions. This near-equal distribution underscores the sector's importance not only for urban industrial growth but also for rural entrepreneurship, poverty alleviation, and balanced regional development. Sectoral distribution data from the MSME Annual Report (2021–22) further shows that MSMEs

Table 10: Indicator & Statistics

Indicator	Statistics Sources
Total Employment	Provide jobs to about 111 million (11.1 crore) people.
Employment Share in Industry	MSMEs employ 40% of India's workforce in manufacturing & services.
Rural vs Urban Distribution	Rural MSMEs: 51% of total employment - Urban MSMEs: ~49%
Sectoral Contribution	Manufacturing: 32% of MSME jobs - Trade: ~35% - Services: ~33%
Impact of COVID-19	30% of MSMEs shut temporarily; 20–25% workers lost jobs during the 2020 lockdowns.

Sources: Various Government Reports

provide jobs across manufacturing (32 percent), trade (35 percent), and services (33 percent), demonstrating the sector's diversified contribution to different parts of the economy.

However, the onset of the COVID-19 pandemic exposed the vulnerability of this employment base. Surveys conducted by FICCI (2020) and the Confederation of Indian Industry (CII, 2020) indicated that nearly 30 percent of MSMEs had to shut down temporarily, while 20–25 percent of workers lost jobs during the lockdown period. The disproportionate impact on informal workers, daily wage earners, and contractual employees highlights the precarious nature of employment in the sector, which lacks

adequate social security and protection mechanisms. These statistics illustrate that while MSMEs are indispensable as engines of job creation, their capacity to sustain employment during crises is limited, necessitating stronger financial buffers, policy support, and integration with formal safety nets.

6. FINDINGS, SUGGESTIONS AND CONCLUSION

The COVID-19 pandemic caused severe disruptions to MSMEs, leading to financial strain, unemployment, and business shutdowns (Asravor et al., 2025). MSMEs struggled with cash flow problems and access to credit. Relief measures

such as collateral-free loans, ECLGS, and the Fund of Funds played crucial roles, but accessibility issues persisted. Government bodies, including KVIC, Coir Board, and NSIC provided welfare measures and relief packages, while Udyam registration and revised definitions broadened benefits (Suguna et al., 2022). In terms of the revised MSME classification, the updated thresholds for investment and turnover are a positive reform that allows enterprises to grow without losing MSME benefits. However, awareness about the revised criteria remains low, especially among micro and traditional enterprises (Kawane et al., 2024).

It is recommended that the government conduct targeted outreach programs to inform MSME owners about the new classification system. Additionally, the integration of MSME classification with GST and income tax filings can allow automatic updates, reducing errors and compliance burdens (Rai & K, 2022). Future policy design should also adopt a segmented approach, tailoring incentives to micro, small, and medium enterprises separately to reflect their distinct needs (Mastintianto et al., 2025). Cluster-based interventions should be encouraged, particularly for micro enterprises in traditional industries such as handicrafts and textiles, ensuring that they can upgrade technologically without losing MSME benefits (Burgess et al., 2022).

Regarding unemployment trends, the pandemic revealed the extreme vulnerability of MSME workers, particularly daily wage earners and contract employees. To mitigate such risks in

the future, it is recommended that MSME workers be systematically integrated into social security frameworks like EPFO, ESI, and government-backed health insurance schemes (Burgess et al., 2024). The establishment of an emergency wage subsidy fund would allow the government to provide direct income support to workers during national crises such as pandemics or natural disasters (Canwat, 2024).

The statistical contribution of MSMEs to the Indian economy is significant and multidimensional. According to the Ministry of MSME Annual Report (2021-22), the sector accounts for nearly 30 percent of India's GDP, contributes about 45–48 percent to total exports, and generates nearly 37 percent of manufacturing output. With an estimated 63.4 million enterprises, of which more than 99 percent are micro-units, MSMEs provide livelihoods to approximately 111 million workers, making them the second-largest source of employment after agriculture. However, the COVID-19 pandemic disrupted this momentum. Employment levels, which stood at 111 million in 2019–20, fell sharply during the lockdowns, with surveys by the AIMO estimating that 25–30 million jobs were lost and over 51 million jobs were at risk if lockdowns extended further.

Although Udyam portal registration data reported over 190–205 million jobs in 2024, experts note this surge reflects greater formalization and digitization of records rather than actual doubling of employment. By FY23, employment figures stabilized around 109.6

Table 11: Indicators and their Outcomes

Indicator	Estimate / Outcome
Jobs at Risk	51 million jobs could be impacted if the lockdown is extended to 8 weeks. (AIMO) estimates
MSMEs Unable to Pay Salaries	71% of MSMEs surveyed couldn't pay salaries in March 2020
MSMEs Shutting Down	35% of MSMEs and 37% of self-employed individuals have already started shutting operations.
Estimated Job Losses	25–30 million jobs are estimated to be lost by end of the pandemic among the MSME workforce.)
Wage Earners Decline	Share of wage/salaried workers dropped from 50% to 41% between Dec 2019 and May–August 2020.

Source: Various Government of India Reports

million, which is close to pre-pandemic levels, demonstrating the resilience of the sector.

The statistical evidence reflects a dual narrative state on one hand, MSMEs continue to demonstrate resilience in terms of GDP and employment contribution, with government interventions cushioning the worst effects of the pandemic. On the other hand, unemployment spikes, uneven access to relief measures, and limited uptake of targeted schemes underline the structural vulnerabilities of the sector. These insights provide a foundation for deeper analysis in the findings and policy recommendations sections.

The analysis of unemployment trends reveals the extreme vulnerability of the MSME sector during the COVID-19 lockdowns. Estimates by the All-India Manufacturers' Organisation (AIMO) suggested that nearly 51 million jobs were at risk if the restrictions extended to eight weeks, reflecting how heavily small enterprises depend on uninterrupted cash flows and short business cycles. Survey evidence further showed that 71 percent of MSMEs were unable to pay salaries as early as March 2020, highlighting the acute liquidity crisis that directly translated into layoffs, wage delays, and income insecurity for workers.

This fragile situation was compounded by closures, with 35 percent of MSMEs and 37 percent of self-employed individuals shutting down operations, disrupting both livelihoods and supply chains linked to larger industries. By the end of the pandemic period, research estimated that 25–30 million jobs had been lost across the

MSME workforce, the majority concentrated in micro and informal units where workers typically lack formal contracts or social safety nets. Moreover, labour market data confirmed a significant shift in employment quality, as the share of wage earners declined from 50 percent in December 2019 to 41 percent by mid-2020, indicating a rise in precarious forms of work such as casual or unpaid family labour.

These patterns point to several critical insights. First, MSMEs are disproportionately vulnerable to crises due to their reliance on short-term revenues and limited reserves. Second, the inability to pay wages demonstrates that financial fragility at the enterprise level quickly translates into labour insecurity, underlining the close linkage between liquidity and employment. Third, the high rate of closures shows the structural fragility of the sector, where survival margins are extremely thin. Fourth, the decline in wage-based employment highlights not only job losses in absolute numbers but also the deterioration of job quality, with more workers pushed into informal and insecure roles.

Finally, the evidence underscores the need for a dual policy response: future crisis interventions must not only provide business relief in the form of credit and subsidies but also establish direct worker protection mechanisms such as wage subsidies, social security integration, and emergency cash transfers. Only by addressing both enterprise resilience and worker security can the MSME sector withstand future shocks effectively. ■

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