

Regional Disparities and Growth Prospects of MSMEs in India: A Comparative Study of Uttar Pradesh and Tamil Nadu

Anjali Yadav¹, Prof. Madhurima^{2*}

¹Department of Applied Economics, University of Lucknow, India,

²Department of Applied Economics, University of Lucknow, India,

* Corresponding Author (e-mail: anjaliyadav1110999@gmail.com)

Received 22th April 2025; Accepted 19th May 2025; Published online 23 June 2025

Abstract

Micro, Small, and Medium Enterprises (MSMEs) are central to India's economic growth, regional development, and employment generation. In 2023–24, the sector included about 7.3 crore operational units, contributing 30% of GDP, 35–45% of manufacturing output, and 45–48% of exports, while employing over 110 million people. Despite this contribution, MSMEs show wide regional disparities due to variations in infrastructure, financial access, policy support, technology adoption, and market reach. This study uses a descriptive and comparative research design to examine MSME development in India, focusing on Uttar Pradesh and Tamil Nadu. Data from government reports, Udyam Registration, and academic sources are analyzed through descriptive statistics, comparative tables, and correlation methods. Results indicate a strong positive link between MSME registration and employment, with Uttar Pradesh experiencing rapid recent growth and Tamil Nadu demonstrating stable, mature sectoral performance. The findings highlight the importance of state-specific policies, improved financial support, and technology adoption to strengthen MSME competitiveness, create jobs, and promote inclusive regional development across India.

Keywords: MSMEs, Employment, Regional Disparities, Policy, Effectiveness, State-wise Analysis, Economic Development, Udyam Registration

JEL Code - L26; L53; O25; O43; R11; R58; J21; O17

1. Introduction:

Micro, Small, and Medium Enterprises (MSMEs) are a cornerstone of India's economy, driving industrial growth, entrepreneurship, and employment across urban and rural areas. As of 2023–

24, the sector comprises around 7.3 crore units, contributing nearly 30% of GDP, 35–45% of manufacturing output, and 45–48% of exports, while employing over 110 million people. MSMEs are diverse, spanning traditional crafts, agro-based units, manufacturing, and service enterprises, and their flexible structures allow quick adaptation to changing market conditions.

Despite their significance, MSME development varies widely across states due to differences in infrastructure, governance, finance, technology, and market access. States like Maharashtra, Gujarat, Karnataka, and Tamil Nadu have strong MSME ecosystems, while eastern and central states lag due to structural challenges. The Government of India has implemented programs such as MSE-CDP, CGTMSE, PMEGP, MUDRA, and PMFME, alongside state-specific initiatives, to enhance financial access, skill development, and technology adoption. However, challenges persist, including limited finance, low technological adoption, regulatory hurdles, market access barriers, and inconsistent policy implementation. A comparative analysis of MSME development across states can identify success factors in high-performing regions and barriers in lagging ones, offering insights for targeted policies. Strengthening MSMEs is vital for employment generation, reducing regional disparities, and supporting India's transition toward a knowledge-based and sustainable economy.

2. Literature Review:

Narayan (2024), in the paper titled *A Study on Growth and Opportunities for MSME in India*, explains that the MSME sector has evolved into a vibrant and dynamic part of the Indian economy over the past six decades. The study emphasizes that the sector contributes significantly to GDP, employment generation, total exports, achievement of the Sustainable Development Goals (SDGs), and overall economic development, effectively serving as the backbone of India's economy. It identifies innovation, government initiatives, technology adoption, and the entrepreneurial ecosystem as the key drivers of MSME growth. Similarly, Singh (2023) highlights the vital role of MSMEs in India's economic development, noting their contribution to GDP, exports, employment, and technological advancement. According to Singh, India has around 633.88 lakh MSMEs, evenly distributed between rural and urban areas, employing nearly 111 million people (MoSPI, 2015–16). The sector supports rural industrialization with low capital investment, complements large industries, and accounts for 40% of exports, 6.11% of manufacturing GDP, and 24.63% of services GDP.

Sukthankar (2020), in the paper titled *Role of MSME Sector in India: An Empirical Study*, views MSMEs as incubators of entrepreneurship and innovation. The study notes that MSMEs produce approximately 6,000 products and contribute nearly 43% to India's total exports.

Using regression and correlation techniques, the author finds a direct link between the number of MSME units and employment generation, establishing a significant relationship between MSMEs and India's GDP. Similarly, Bera (2020) analyzes the growth of MSME clusters in India by constructing an Index of Cluster Development (ICD) based on five variables—employment, the number of enterprises, plant and machinery value, fixed assets, and gross production. The study reveals substantial regional disparities, with states like Tamil Nadu, Gujarat, and Kerala performing above the national average, while Odisha and Goa lag behind. The findings suggest that southern and western states are leading in cluster development, while most eastern states remain below the national benchmark, necessitating targeted policy interventions.

Kumar (2017) further examines the trends of MSMEs in India, underscoring their role in export and domestic production, operational flexibility, and low capital investment requirements. However, he observes that the overall contribution of MSMEs to GDP remains modest despite their growing importance in employment generation. The study highlights the government's efforts to collaborate with NGOs and agencies to strengthen policy implementation and promote sectoral development. Earlier, Pujar (2014) highlighted the critical role of MSMEs in fostering economic growth, rural development, poverty alleviation, and regional balance in India. According to his findings, MSMEs account for about 45% of manufacturing output and 40% of exports, employing nearly 595 lakh people across 261 lakh enterprises. The micro sector dominates the landscape, representing 94.94% of registered MSMEs and providing 70.19% of employment, with a larger concentration in urban areas compared to rural regions.

3. Objective of Study:

To compare MSME development in high-performing states (like Tamil Nadu) and rapidly growing states (like Uttar Pradesh) to understand regional disparities.

To analyze the relationship between the number of registered MSMEs and employment generation across Indian states.

4. Research Methodology:

The study uses a descriptive and comparative research design to examine MSME development across Indian states, focusing on trends, regional disparities, and challenges affecting growth and employment. It relies on secondary data from government reports, state economic surveys, Udyam Registration, and academic studies. Key variables include the number of MSMEs, employment generated, and implementation of central and state-level schemes like PMEGP. Data are analyzed using descriptive statistics, comparative tables, graphs, and correlation

techniques to identify high- and low-performing states and assess policy effectiveness. The methodology provides a systematic overview of MSME performance while acknowledging limitations of secondary data and unregistered enterprises, offering insights for policymakers and stakeholders to strengthen the sector.

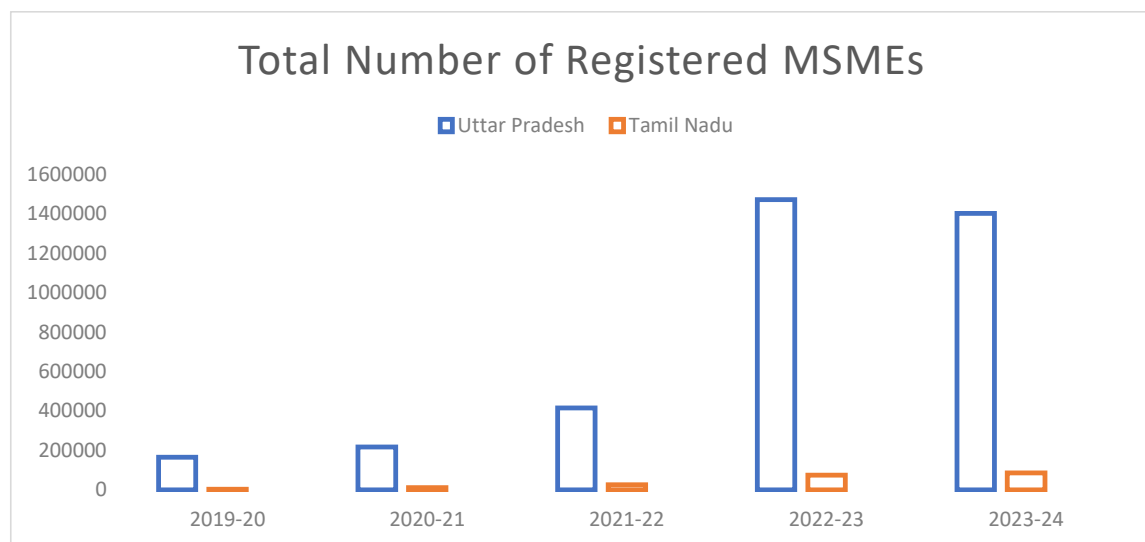
5. Comparative Study:

The study is based on the comparative analysis of Uttar Pradesh (UP) and Tamil Nadu, two prominent states with differing economic structures, to examine the relationship between the total number of registered MSMEs and the number of people employed in the sector. These two variables are selected to assess how MSME development translates into employment opportunities and economic impact across regions. By comparing these states, the study aims to highlight regional differences in MSME performance and provide insights into policy measures that could enhance employment through MSME growth.

Table 1: Total Number of Registered MSMEs

Year	Uttar Pradesh	Tamil Nadu
2019-20	166900	3436
2020-21	218038	12810
2021-22	414220	26865
2022-23	1471297	74255
2023-24	1400717	85543

Source: Annual Reports of MSME, year-wise



Source: Author's Creation

The data in Table 1 shows a strong upward trend in registered MSMEs for both Uttar Pradesh and Tamil Nadu from 2019-20 to 2023-24. Uttar Pradesh saw a sharp rise from 166,900 to over 1.4 million, especially between 2021-22 and 2022-23, likely due to government initiatives. Tamil Nadu grew steadily from 3,436 to 85,543 MSMEs, reflecting a more mature industrial base. While UP experienced a slight decline in the last year, Tamil Nadu's growth remained consistent, showing regional differences in MSME development.

Correlation Analysis:

	<i>Uttar Pradesh</i>	<i>Tamil Nadu</i>
Uttar Pradesh	1	
Tamil Nadu	0.984984	1

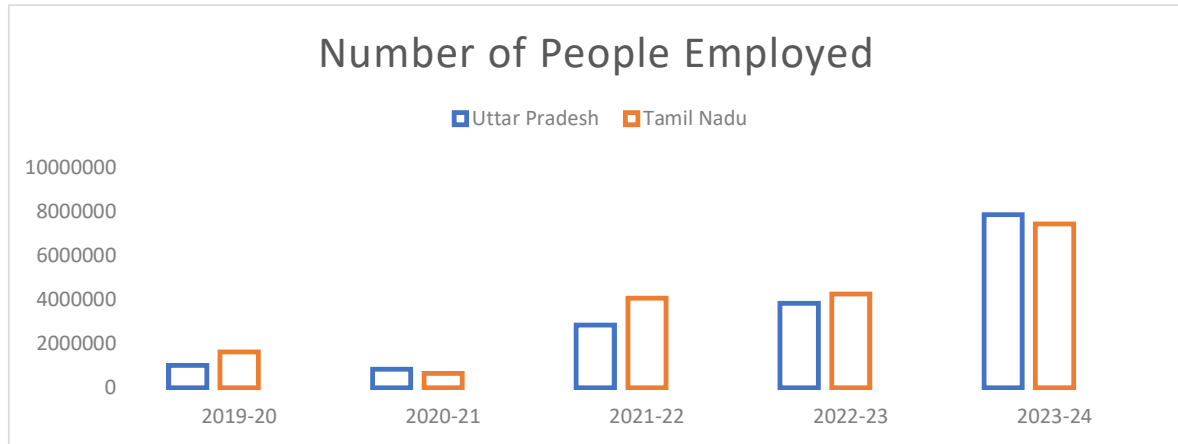
Source: Author's Creation

The table shows the correlation coefficient between the number of registered MSMEs and the number of people employed in Uttar Pradesh and Tamil Nadu. The correlation coefficient for Tamil Nadu and Uttar Pradesh is approximately 0.985, which indicates a very strong positive correlation between the two variables across these states. This means that as the number of registered MSMEs increases in either state, the number of people employed by these enterprises also increases significantly. A correlation value so close to 1 suggests that MSME growth plays a critical role in employment generation in both Uttar Pradesh and Tamil Nadu, reinforcing the sector's importance in supporting the regional economy and contributing to job creation.

Table 2: Number of People Employed

Year	Uttar Pradesh	Tamil Nadu
2019-20	1010631	1620008
2020-21	852254	656291
2021-22	2845383	4063575
2022-23	3836482	4252678
2023-24	7864727	7432812

Source: Annual Reports of MSME, Year-wise



Source: Author's Creation

The data on MSME employment in Uttar Pradesh and Tamil Nadu from 2019-20 to 2023-24 shows an initial decline in 2020-21 due to the COVID-19 pandemic, followed by a strong recovery. UP's employment grew sharply from 2.8 million in 2021-22 to 7.8 million in 2023-24, surpassing Tamil Nadu's growth, which rose from 4.06 million to 7.43 million in the same period. This indicates UP's recent focus on expanding MSMEs and job creation, while Tamil Nadu's earlier higher employment reflects a more mature MSME sector.

Correlation Analysis:

	<i>Uttar Pradesh</i>	<i>Tamil Nadu</i>
Uttar Pradesh	1	
Tamil Nadu	0.974252	1

Source: Author's Creation

The table presents the correlation coefficient between the number of registered MSMEs and the number of people employed in Uttar Pradesh and Tamil Nadu. The correlation between Uttar Pradesh and itself is naturally 1, indicating a perfect relationship. More importantly, the correlation coefficient between Uttar Pradesh and Tamil Nadu is approximately 0.974, which shows a very strong positive correlation. This implies that the trends in MSME development and employment generation in Uttar Pradesh are closely aligned with those in Tamil Nadu over the observed period. Such a high correlation suggests that similar factors—such as government policies, economic conditions, and industry dynamics—may be influencing the MSME sector and employment generation in both states, despite differences in their industrial structures or regional characteristics. This strong relationship highlights that growth patterns in MSME registration and employment in one state tend to reflect similar patterns in the other,

emphasizing the important role of MSMEs in driving employment across different regions of India.

6. Findings:

The analysis shows a clear upward trend in MSME growth and employment in both Uttar Pradesh (UP) and Tamil Nadu from 2019-20 to 2023-24. UP experienced rapid growth in registered MSMEs, increasing from 166,900 to over 1.4 million, along with a sharp rise in employment from 2.84 million to 7.86 million, reflecting the impact of effective government policies and initiatives. Tamil Nadu, meanwhile, saw steady growth in MSME registration (from 3,436 to 85,543) and maintained consistently high employment levels (from 4.06 million to 7.43 million), indicating a more established and efficient MSME sector. Correlation analysis shows a very strong positive relationship (0.974–0.985) between MSME registration and employment in both states, confirming that MSME growth significantly contributes to job creation. The findings highlight regional differences, with UP focusing on rapid expansion and employment, while Tamil Nadu emphasizes productivity and technology adoption. These insights underline the importance of state-level policies and economic conditions in driving MSME development and employment, suggesting that region-specific strategies are essential to sustain growth across India.

7. Challenges:

Despite their significance, MSMEs face several challenges that limit their potential, and these constraints vary across states due to differences in infrastructure, industrialization, policy implementation, and market dynamics. In Uttar Pradesh, MSMEs struggle primarily with limited access to finance, as many enterprises find it difficult to secure institutional credit owing to inadequate collateral and complex loan procedures. In addition, inadequate infrastructure in the form of poor connectivity, frequent power shortages, and limited industrial clusters continues to hinder operational efficiency. Another major barrier is low technological adoption, with most enterprises relying on outdated machinery and traditional production methods, which significantly affects their competitiveness in both domestic and international markets. The shortage of skilled manpower and vocational training also limits productivity, particularly in modern manufacturing processes. Furthermore, complex licensing procedures and regulatory compliance requirements increase operational costs and slow down the pace of business growth. Tamil Nadu's MSME sector faces a different set of challenges shaped by its industrially advanced ecosystem. High competition from large-scale domestic industries as well as cheaper imports reduces the market share of small enterprises. Rising input costs,

particularly due to fluctuations in raw material prices and energy expenses, further erode profit margins. A persistent innovation gap, marked by limited investment in research and development, restricts product diversification and technology-driven growth. Export-oriented MSMEs encounter difficulties in meeting international quality standards and navigating complex export documentation processes, which pose significant barriers to global market access. Moreover, many enterprises, especially in sectors like textiles and handicrafts, remain dependent on seasonal demand, leading to irregular cash flow patterns and financial instability

8. Discussion:

The comparative analysis of MSME development in Uttar Pradesh (UP) and Tamil Nadu highlights key trends, regional differences, and the effects of policy measures on employment generation. The total number of registered MSMEs in both states increased significantly between 2019-20 and 2023-24. Uttar Pradesh experienced a rapid surge from 166,900 to over 1.4 million MSMEs, especially between 2021-22 and 2022-23, reflecting strong government support, streamlined registration processes, and initiatives to promote MSMEs. Tamil Nadu, on the other hand, showed steady growth from 3,436 to 85,543 MSMEs, reflecting a mature industrial ecosystem with consistent sectoral expansion. This contrast highlights the regional variation in MSME development, with UP leading in absolute numbers while Tamil Nadu maintains stability. Employment trends mirror the growth in registered MSMEs. Both states saw a decline in 2020-21 due to the economic impact of the COVID-19 pandemic, with UP falling to 852,254 employees and Tamil Nadu to 656,291. From 2021-22 onwards, employment increased sharply, reaching 7.86 million in UP and 7.43 million in Tamil Nadu by 2023-24. This indicates that UP's recent expansion of MSMEs has significantly enhanced job creation, while Tamil Nadu's early higher employment levels suggest a more established and productive MSME sector. Correlation analysis reinforces these observations. The correlation coefficient between registered MSMEs and employment is very high—0.985 for MSME growth and 0.974 for employment—indicating a strong positive relationship. This confirms that the growth in the number of MSMEs directly contributes to increased employment in both states. Moreover, the strong correlation between UP and Tamil Nadu implies that similar factors, such as policy support, economic conditions, and industrial infrastructure, influence MSME development and employment trends across different regions. The study highlights the critical role of MSMEs in generating employment, promoting regional economic development, and reducing disparities. While Uttar Pradesh demonstrates rapid recent growth fuelled by policy measures, Tamil Nadu reflects sustained and efficient MSME development, emphasizing the need for

state-specific strategies to strengthen MSME performance and employment outcomes across India.

9. Conclusion:

The study highlights the significant role of MSMEs in driving employment and economic development across Indian states. The comparative analysis of Uttar Pradesh and Tamil Nadu reveals regional disparities, with UP showing rapid recent growth in registered MSMEs and employment, while Tamil Nadu demonstrates stable and productive sectoral development. Correlation analysis confirms a strong positive relationship between MSME growth and employment generation, emphasizing the sector's contribution to regional economies. These findings underscore the importance of tailored state-level policies, technology adoption, and financial support to strengthen MSMEs and maximize their impact on job creation and economic growth in India.

10. Practical Implications

The findings of this study provide important insights for policymakers, industry associations, and MSME stakeholders. First, they highlight the need for state-specific policy interventions tailored to local challenges—such as improving credit accessibility and infrastructure in Uttar Pradesh, and strengthening innovation and export facilitation mechanisms in Tamil Nadu. Second, the study underscores the importance of capacity building and skill development programs to bridge the labor gap, particularly in technologically advanced sectors. Third, greater emphasis on digitalization, financial inclusion, and cluster-based development can enhance competitiveness and efficiency across states. Finally, the results can guide banks, financial institutions, and incubators in designing more inclusive financial products, mentorship programs, and technology adoption initiatives to strengthen MSME growth and employment generation.

11. Limitations of the Study

While this study offers useful insights, certain limitations must be acknowledged. The analysis relies primarily on secondary data from government reports, Udyam Registration, and academic studies, which may not fully capture the informal and unregistered MSME sector. The focus on only two states—Uttar Pradesh and Tamil Nadu—limits the generalizability of findings to other regions of India with different socio-economic and industrial contexts. In addition, the descriptive and comparative research design, though informative, does not incorporate advanced econometric modeling that could provide stronger causal inferences.

Time constraints also restricted the use of longitudinal data, which could have better reflected changes in policy effectiveness over time.

12. Future Research Directions

Future studies can expand this research by adopting a broader cross-state comparative framework to include additional states with varying levels of industrial development. Incorporating primary survey data from MSME owners, workers, and policy implementers would enrich the analysis by capturing ground-level challenges more accurately. Researchers could also apply econometric and spatial analysis techniques to measure the causal relationship between policy interventions, MSME performance, and regional disparities. Moreover, future work may examine the role of digital transformation, green technologies, and international trade integration in reshaping MSME growth trajectories. A longitudinal approach assessing policy impacts before and after specific government initiatives (such as Atmanirbhar Bharat and Digital India) would further enhance the robustness of findings and provide actionable insights for both policymakers and entrepreneurs.

13. Authors' Contribution

Anjali Yadav (Research Scholar, Department of Applied Economics, Faculty of Commerce, University of Lucknow) conceptualized the study, conducted the literature review, collected and analyzed the data, and prepared the initial draft of the manuscript.

Prof. Madhurima (Department of Applied Economics, Faculty of Commerce, University of Lucknow) provided overall supervision, guided the research design, validated the analysis, and contributed to reviewing and refining the final version of the manuscript.

14. References

1. Annual Reports of MSME, Govt. of India, Ministry of Micro, Small, and Medium Enterprises, www.msme.gov.in
2. Bera, S. (2020). *Cluster development in the MSME sector: State-wise analysis in India*. *Journal of Entrepreneurship and Development*, 12(3), 45–60.
3. Enhancing MSMEs Competitiveness in India — NITI Aayog (2025). This paper examines challenges in sectors like automotive, pharmaceuticals, textiles, food processing; focuses on cluster-based strategies.
4. “How Indian MSMEs Are Adapting and Thriving in a Post-FY2025 Environment” — SSRN (2025).
5. Kumar, V. (2017). Trends and contributions of MSMEs in India: Employment and GDP analysis. *Journal of Industrial Policy and Management*, 9(4), 56–70.

6. Kumar, M. (2023). *Innovation and technology adoption in SMEs: Impact on the Indian economy*. *International Journal of Business and Management Studies*, 15(1), 78–92.
7. MSME Market Presence and Competitiveness in a Global Economy (2024). Focuses on export-related issues, standards, documentation, competition from imports, global supply chain pressures.
8. Pujar, U. (2014). MSMEs and employment generation in India: A study of micro, small, and medium enterprises. *Indian Journal of Economic Development*, 10(1), 23–38.
9. Singh, M. (2023). *Role of MSMEs in the development of the Indian economy*. *Economic Affairs Review*, 28(2), 102–115.
10. Shivanand, N. (2024). *Growth and opportunities for MSMEs in India*. *International Journal of Economic Research*, 31(1), 65–80.
11. Sukthankar, A. (2020). Role of MSME sector in India: An empirical study. *Journal of Small Business and Entrepreneurship*, 33(2), 14–29.