



Employment Effects of Small Industries Development in North Gujarat

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Abstract

Micro, Small and Medium Enterprises (MSMEs) play a crucial role in employment generation and inclusive economic development in India. These enterprises are widely regarded as the backbone of the Indian economy due to their labour-intensive nature, relatively low capital requirements, and strong linkages with local resources. In a developing economy like India, MSMEs are particularly significant as they absorb surplus labour from agriculture and provide livelihood opportunities in rural and semi-urban areas. Gujarat, one of India's most industrially progressive states, has demonstrated substantial employment growth driven by the expansion of MSMEs. Within Gujarat, North Gujarat represents a distinct regional economy characterised by agro-based industries, dairy cooperatives, rural manufacturing units, and emerging entrepreneurial ecosystems.

The present study examines the employment effects of small industries development in North Gujarat. The paper analyses the role of MSMEs in generating direct, indirect, and self-employment opportunities while contributing to regional economic resilience and balanced development. The study is based on secondary data collected from government publications, parliamentary reports, and official policy documents. Evidence suggests that MSMEs constitute the second-largest source of employment in India after agriculture, accounting for a significant share of total employment (McKinsey Global Institute, n.d.). In Gujarat alone, MSMEs employ more than one crore individuals, reflecting the sector's strong employment potential (Industries Commissionerate, n.d.).

The findings reveal that employment generation in North Gujarat is particularly strong in agro-processing, dairy-based industries, textiles, and light manufacturing sectors. These industries support local employment and help reduce migration to large urban centres. However, the study also identifies several challenges that constrain employment



sustainability, including MSME closures, limited access to credit, skill shortages, and inadequate technological adoption. Data indicate that MSME shutdowns in Gujarat have resulted in significant job losses over recent years, offsetting some employment gains (Ministry of MSME, n.d.).

The paper concludes that while small industries in North Gujarat have made a substantial contribution to employment generation, sustained policy support focusing on skill development, financial inclusion, and employment-linked incentives is essential to enhance and stabilise their employment impact.

1. Introduction

Employment generation remains one of the most pressing challenges for developing economies such as India, where rapid population growth and structural transformation of the economy demand continuous creation of productive jobs. In this context, Micro, Small and Medium Enterprises (MSMEs) have emerged as a critical pillar of employment generation, industrial development, and inclusive growth. MSMEs are particularly valued for their labour-intensive production processes, decentralised operations, and ability to utilise local skills and resources.

In India, MSMEs play a vital role in providing employment opportunities outside the agricultural sector. They are considered the second-largest employment provider after agriculture and contribute significantly to industrial output, exports, and entrepreneurship development (McKinsey Global Institute, n.d.). The MSME sector not only generates wage employment but also promotes self-employment and small-scale entrepreneurship, especially in rural and semi-urban regions.

Gujarat has established itself as one of India's leading industrial states, supported by business-friendly policies, strong infrastructure, and an entrepreneurial culture. MSMEs in Gujarat have expanded rapidly over the past decade, contributing substantially to employment generation and regional development. North Gujarat, comprising districts such as Mehsana, Patan, Banaskantha, and Sabarkantha, represents a unique sub-regional economy characterised by agro-based industries, dairy cooperatives, textiles, and rural manufacturing units.

This paper aims to analyse the employment effects of small industries development in North Gujarat. It focuses on understanding the patterns of employment generation, sectoral distribution of jobs, and challenges affecting employment sustainability. By examining the role of MSMEs in this region, the study contributes to the broader discourse on regional development and employment-led growth.



2. Literature Review

2.1 MSMEs and Employment Generation in India

A substantial body of literature highlights the importance of MSMEs in employment generation and inclusive growth. According to the McKinsey Global Institute (n.d.), MSMEs account for approximately 62 per cent of total employment in India, underscoring their central role in the labour market. Parliamentary reports further emphasise that MSMEs provide employment across manufacturing, services, and trade sectors, with a strong presence in rural and semi-urban areas (Lok Sabha Secretariat, n.d.).

Researchers argue that MSMEs contribute to employment generation through decentralised industrialisation, enabling industries to be located closer to raw material sources and labour markets. This decentralisation reduces regional disparities and supports balanced economic development. Additionally, MSMEs encourage entrepreneurship by lowering entry barriers for first-generation entrepreneurs.

3. Regional Context: Gujarat and North Gujarat

Gujarat's MSME ecosystem has been shaped by proactive industrial policies, investment incentives, and infrastructure development. Over the past five years, MSMEs in the state have attracted capital investments worth ₹86,418 crore, leading to the creation of approximately 3.98 lakh jobs (Industries Commissionerate, n.d.). These figures highlight the strong employment potential of small industries in the state.

North Gujarat has a diversified industrial structure dominated by agro-based industries, dairy cooperatives, textiles, and small manufacturing units. The presence of cooperative institutions, particularly in the dairy sector, has played a significant role in employment generation and income stability. Small industries in the region provide employment to local populations and help reduce seasonal and permanent migration to major urban centres such as Ahmedabad and Surat.

4. Employment Effects of Small Industries Development

4.1 Direct, Indirect, and Self-Employment

Small industries influence employment through multiple channels. Direct employment is generated within MSME units engaged in manufacturing, processing, and service activities. Indirect employment arises through backward and forward linkages, including suppliers, transporters, distributors, and service providers. In addition, MSMEs promote self-employment by encouraging owner-operated enterprises and family-based businesses, particularly in rural areas.



Government incentives and institutional support have facilitated MSME growth in Gujarat, contributing to job creation across sectors (Industries Commissionerate, n.d.).

4.2 Sectoral Employment Patterns in North Gujarat

Agro-processing and dairy-based industries are among the largest employers in North Gujarat due to the availability of agricultural raw materials and strong cooperative networks. Textile and light manufacturing units also generate substantial employment, particularly for semi-skilled and unskilled workers. Furthermore, MSME-driven service and informal sectors, such as repair services, retail trade, and logistics, expand employment opportunities at the local level.

5. Challenges Affecting Employment Impact

5.1 MSME Closures and Job Losses

Despite their employment potential, MSMEs face high levels of vulnerability. Official data indicate that approximately 7,269 MSMEs closed in Gujarat over a five-year period, resulting in the loss of 33,361 jobs (Ministry of MSME, n.d.). These closures highlight the volatility of employment in the small industries sector.

5.2 Credit Constraints and Policy Gaps

Limited access to institutional finance remains a major constraint for MSMEs. Procedural complexities, collateral requirements, and declining effectiveness of employment-linked schemes restrict enterprise expansion and job creation (Ministry of MSME, n.d.).

5.3 Skill and Technology Deficits

Skill shortages and limited adoption of modern technology constrain productivity growth and restrict the creation of high-quality employment opportunities within MSMEs.

6. Policy Implications for Employment Enhancement

To enhance the employment impact of small industries in North Gujarat, policy interventions should focus on strengthening skill development programmes, expanding access to affordable credit, and introducing employment-linked incentives. Improved infrastructure and technology adoption can further enhance productivity and job quality.



7. Conclusion

Small industries in North Gujarat play a pivotal role in employment generation and regional economic development. While MSMEs have contributed significantly to job creation, challenges such as enterprise closures, credit constraints, and skill gaps remain critical. Sustained and targeted policy support is essential to enhance the employment-generating capacity of MSMEs and ensure inclusive and balanced regional growth.

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