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Urban-rural divide in enterprises in India's MSME sector: Patterns, determinants, and policy implications

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Abstract

The Micro, Small and Medium Enterprises (MSME) sector forms the backbone of India's industrial and employment structure, demonstrating a nearly balanced rural-urban distribution but marked by disparities in scale, productivity, and gender participation. Using data from the MSME Annual Reports (2022-23; 2023-24) and related policy studies, this paper analyses the spatial and gender dynamics shaping the sector. Rural MSMEs account for 51% of total enterprises yet employ fewer workers (45%), reflecting their predominantly micro, informal, and subsistence-oriented nature. In contrast, urban MSMEs, supported by better infrastructure, market access, and financial linkages, generate 55% of employment and show greater diversification across enterprise sizes. Gender-wise analysis reveals persistent inequality—women own only 20.37% of MSMEs and constitute 24% of the workforce, with higher representation in rural micro units. Structural barrier, including limited access to credit, skills, and market, combined with social norms and safety concerns, constrain women's participation, particularly in urban areas. The study underscores the dual character of the MSME ecosystem. The rural enterprises act as instruments of livelihood resilience and urban ones as engines of growth. It concludes that region-specific, gender-responsive policies focusing on infrastructure, credit, and digital empowerment are critical for achieving inclusive and balanced MSME development in India.

Keywords: MSME, rural-urban divide, gender disparity, employment, entrepreneurship, India

Introductions

In emerging economies such as India, the Micro, Small and Medium Enterprises (MSME) sector, acts both as a catalyst for industrialisation and a vehicle for socio-economic empowerment. The MSME sector is characterised by a large number of micro-units, relatively low capital investment, and high labour intensity, making it inherently suited for employment generation. This sector has the capacity to stimulate grassroots entrepreneurship. Therefore, in India, the MSME sector can play a pivotal role in absorbing labour, enhancing regional development and promoting inclusive growth. This sector is particularly relevant given India's large rural population and the ongoing transition from agriculture to non-farm activities.

According to the Annual Report 2022-23 of the Ministry of Micro, Small and Medium Enterprises, India had about 6.33 crore MSMEs, which together provided employment to 11.10 crore persons as per the NSS 73rd Round (2015-16) estimates (Ministry of MSME, 2023) ^[4, 5]. Moreover, MSMEs contribute around 30% to India's GDP and nearly 45% of exports (Ministry of MSME, 2025). However, this sector reveals deep spatial inequalities, particularly between urban and rural India.

The urban-rural divide in enterprises is crucial for understanding inclusive development. While rural India houses a large share of MSMEs by number, these enterprises often operate at a micro-scale, with limited access to finance, skilled labour, and infrastructure. Urban MSMEs, on the other hand, tend to be better integrated into formal value chains, benefiting from proximity to markets, institutions, and support systems.

The objectives of the study are as follows

1. To study the pattern of enterprise ownership across urban and rural India within the MSME sector
2. To study differences in enterprise categories and employment between the two regions
3. To frame policy interventions which can strengthen rural entrepreneurship and reduce the divide

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The analysis relies on secondary cross-sectional data from official MSME publications, supplemented with scholarly and policy reports.

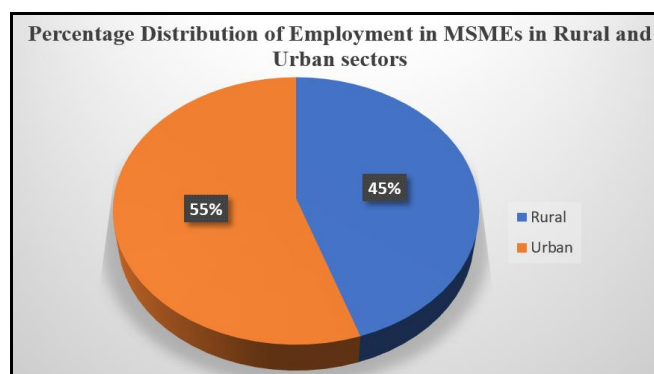
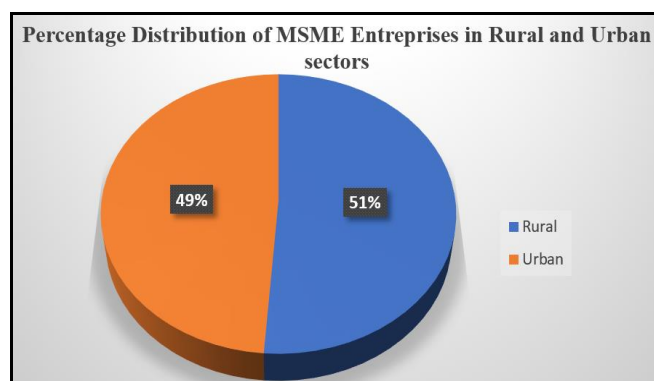
Rural-Urban and Gender Dynamics in India's MSME Sector

Rural-Urban Structure of MSMEs: The MSME sector in India shows a nearly balanced rural-urban distribution, with 51% of enterprises located in rural areas and 49% in urban regions. However, employment is more concentrated in urban MSMEs (55.2%), reflecting their larger scale and productivity. This disparity is largely attributed to superior infrastructure, access to markets, financial institutions, and technological resources in cities, which enable urban enterprises to operate more efficiently and employ a larger workforce. In contrast, rural MSMEs are mostly micro and informal units, often family-run and subsistence-oriented, generating fewer jobs per enterprise due to limited capital, market access, and technological capacity.

Table 1: Number of Enterprises and employment level in MSMEs in India (Rural-Urban Divide)

Sector	Enterprises (lakh)	Share (%)	Employment (lakh)	Share (%)
Rural	324.88	51.2	497.78	44.8
Urban	309	48.8	612.1	55.2
Total	633.88	100	1,109.89	100

Annual Report 2022-23, Ministry of Micro, Small & Medium Enterprises. Government of India.



Rural India accounts for 324.88 lakh MSMEs, with micro units overwhelmingly dominating the landscape (324.09 lakh). Small and medium enterprises are almost negligible in rural areas. They constitute less than 1% of the total. This structure highlights the prevalence of subsistence-level entrepreneurship, often family-based, informal, and linked to traditional or agro-allied sectors such as food processing, textiles, and handicrafts. Limited access to formal finance,

infrastructure bottlenecks, and low technological adoption constrain these enterprises from scaling up. Kapoor, Zutshi, & Anand (2025) ^[2] emphasizes that the entrepreneurial ecosystem in rural regions is shaped largely by necessity rather than opportunity, where self-employment acts as a survival mechanism in the absence of alternative livelihood options.

In contrast, the urban MSME segment, comprising 309 lakh enterprises, demonstrates a more diversified and growth-oriented structure. While micro enterprises still predominate (306.43 lakh), the share of small (2.53 lakh) and medium (0.04 lakh) units is notably higher than in rural India. This reflects stronger linkages with organized industries, access to skilled labour, and integration into supply chains. Urban MSMEs also benefit from proximity to financial institutions, technological hubs, and policy support systems such as industrial clusters, incubation centres, and startup networks. These conditions enable a transition from micro to small enterprise levels, facilitating innovation and higher productivity.

Employment distribution further reinforces this spatial differentiation. The MSME sector as a whole provides employment to 1,109.89 lakh persons, with urban areas accounting for 55% of the total. Rural MSMEs employ 497.78 lakh individuals, whereas urban ones employ 612.10 lakh. While the numerical difference appears modest, it is significant in terms of quality and density of employment. In rural areas, 98.3% of employment is concentrated in micro enterprises, suggesting limited opportunities for high-value or formal jobs. Urban employment, though still micro-dominated (95.88%), exhibits greater diversity. The small enterprises account for 3.93% of jobs and medium ones 0.19%. It reflects an upward employment mobility pattern though to a small extent.

This pattern illustrates a structural dualism within India's MSME ecosystem. Rural MSMEs function primarily as instruments of employment generation and social inclusion, absorbing surplus labour from agriculture and supporting rural livelihoods. Urban MSMEs, on the other hand, serve as engines of growth, innovation, and industrial linkages. They are more capital-intensive, technologically advanced, and productivity-driven.

According to the MSME Annual Report (2022-23), policy initiatives such as the Prime Minister's Employment Generation Programme (PMEGP) and Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE) have attempted to bridge these gaps by enhancing credit access and formalization. However, persistent challenges in the form of inadequate infrastructure, low digital penetration, and limited marketing support in rural regions, continue to constrain equitable growth.

Therefore, while the near-equal numerical distribution of enterprises suggests balanced entrepreneurship across India, the underlying disparities in enterprise size, employment intensity, and growth potential underline the need for differentiated policy approaches. Strengthening rural MSMEs through infrastructure investment, skill development, and digitalization can enhance their scalability and competitiveness. Meanwhile, sustaining urban MSMEs' innovation and productivity requires continued support in technology upgrading, ease of doing business, and export facilitation.

In essence, the Indian MSME sector reflects both inclusivity and inequality—where rural enterprises embody livelihood

resilience and urban ones represent growth dynamism. Addressing this duality through region-specific policy interventions will be crucial for fostering balanced

economic development and achieving the MSME sector's full potential as a pillar of India's industrial and employment structure.

Table 2: Distribution of MSME Enterprises Category wise in lakhs

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

Annual Report 2022-23, Ministry of Micro, Small & Medium Enterprises. Government of India.

Table 3: Percentage Distribution of MSME Enterprises category wise

Sector	Micro	Small	Medium	Total
Rural	99.757	0.240	0.003	100
Urban	99.168	0.819	0.013	100

Calculated from data from Annual Report 2022-23, Ministry of Micro, Small & Medium Enterprises. Government of India.

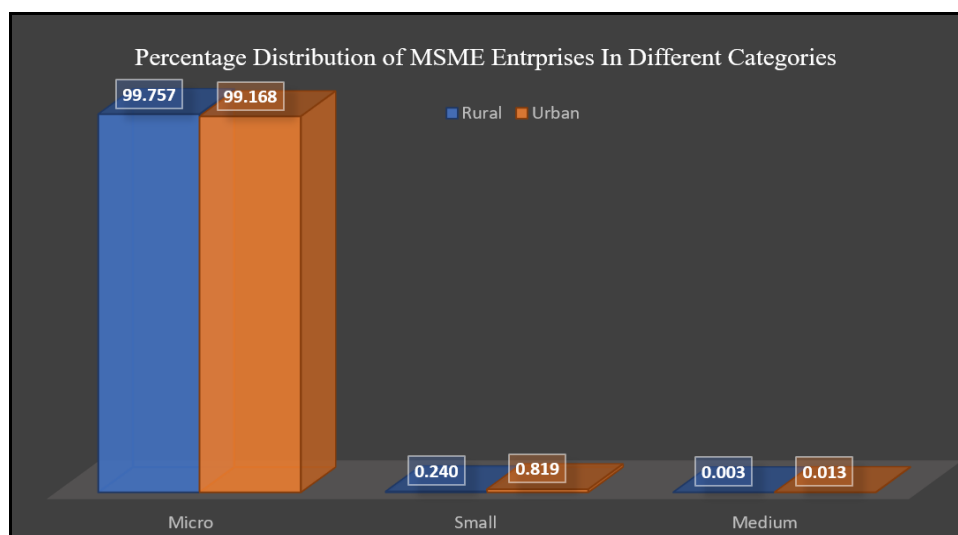


Table 4: Distribution of Employment Level in MSMEs category wise (in Lakhs)

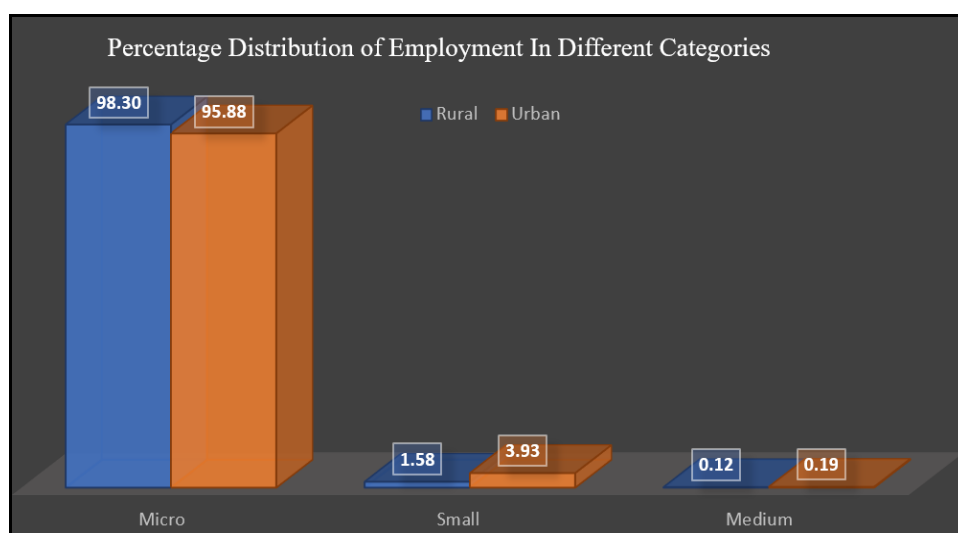
Sector	Employment (lakh)	Micro	Small	Medium	Share (%)
Rural	497.78	489.3	7.88	0.6	45
Urban	612.1	586.88	24.06	1.16	55
Total	1,109.89	1076.19	31.95	1.75	100

Annual Report 2022-23, Ministry of Micro, Small & Medium Enterprises. Government of India.

Table 5: Percentage distribution of Employment in MSMEs categories wise

Sector	Micro	Small	Medium	Total
Rural	98.30	1.58	0.12	100
Urban	95.88	3.93	0.19	100

Calculated from data in Annual Report 2022-23, Ministry of Micro, Small & Medium Enterprises. Government of India.



Gender Dimensions in MSMEs

Any assessment of the rural-urban divide remains incomplete without examining gender dynamics. Women's participation is crucial to inclusive economic growth, particularly in India, where they represent nearly half the population. Therefore, this study also incorporates gender-wise data on MSME ownership and employment to provide a deeper and more balanced understanding of sectoral realities.

Table 6: Percentage Distribution of MSME Enterprises in rural and urban areas (Male/Female Ownership)

Sector	Male	Female	All
Rural	77.76	22.24	100
Urban	81.58	18.42	100
Total	79.63	20.37	100

Annual Report 2022-23, Ministry of Micro, Small & Medium Enterprises. Government of India.

Table 7: Percentage distribution of MSME enterprises owned by Male/Female Entrepreneurs category wise

Category	Male	Female	All
Micro	79.56	20.44	100
Small	94.74	5.26	100
Medium	97.33	2.67	100
Total	79.63	20.37	100

Annual Report 2022-23, Ministry of Micro, Small & Medium Enterprises. Government of India.

Table 8: Distribution of Employment in MSME Enterprises by gender in rural & urban areas

Sector	Employment (lakh)	Male	Female	% age of males	% age of females
Rural	497.78	360.15	137.5	72.4	27.6
Urban	612.1	484.54	127.42	79.2	20.8
Total	1,109.89	884.68	264.92	76	24

Annual Report 2022-23, Ministry of Micro, Small & Medium Enterprises. Government of India.

The gender composition in India's Micro, Small and Medium Enterprises (MSME) sector reveals persistent disparities in both employment and ownership, despite gradual progress in women's participation. Rural MSMEs employ 360.15 lakh men and 137.5 lakh women, while urban MSMEs employ 484.54 lakh men and 127.42 lakh women, showing that men dominate both contexts (Ministry of MSME, 2023) ^[4, 5]. Although urban areas provide better infrastructure and market access, the proportion of women employed is relatively lower. A Study attributes this to competitive labour markets, and safety and time-constraint issues that deter their participation in entrepreneurial or industrial work (Kapoor, Zutshi, & Anand, 2025) ^[2]. Furthermore, cultural expectations related to caregiving and unpaid domestic labour disproportionately restrict women's ability to engage in formal sector employment, particularly in urban centres.

According to the MSME Annual Report 2022-23 (Ministry of MSME, 2023) ^[4, 5], women constitute 27.6% of the workforce in rural MSMEs and 20.8% in urban MSMEs, resulting in an overall female share of about 24% nationwide. This significant gender gap reflects structural barriers such as limited access to education, skill training and financial resources. In addition to this the social norms restrict women's mobility and participation in formal economic activities. While rural areas show a marginally higher share of female employment, this primarily reflects engagement in low-paying or informal roles rather than in managerial or ownership capacities.

The participation of women in India's Micro, Small, and Medium Enterprises (MSME) sector reveals a significant disparity too. This seems to be shaped by structural, social, and institutional factors. Data from the Ministry of MSME (2023) ^[4, 5] show that women constitute a relatively larger proportion of the workforce, primarily in micro and informal enterprises.

In rural India, women's employment is often driven by economic necessity and the predominance of informal work

arrangements such as family-based enterprises, handicrafts, and agricultural-linked activities. These occupations, though low-paying and unregistered, provide accessible employment avenues within close proximity to home. Conversely, in urban areas, the opportunity cost of employment for women is higher. Households with greater male employment and income levels reduce the compulsion for women to engage in paid work, leading to lower female labour force participation.

Another major factor is safety and mobility constraints in urban centres. Inadequate transportation, workplace harassment risks, and the absence of secure working environments discourage women from pursuing jobs or enterprise opportunities. This, coupled with the long commuting time in urban areas, creates a deterrent to participation in industrial or entrepreneurial work (Tayal & Paul, 2022) ^[6].

Cultural and social norms also play a decisive role. Gender expectations regarding domestic responsibilities and caregiving continue to restrict urban women's ability to balance professional and family life. While rural women often combine household duties with income-generating activities within their community, urban employment typically requires full-time commitment. Many women find this incompatible with unpaid care work.

Additionally, there exists a mismatch between skills and employment opportunities. Urban MSMEs tend to be more technology-and service-oriented, requiring higher levels of technical or managerial expertise. Women, particularly from non-technical backgrounds, often lack access to such training and networks. This skill gap prevents their integration into larger or growth-oriented enterprises, limiting their role to micro-level ventures.

Enterprise ownership data mirrors these employment disparities. Overall, women own only 20.37% of MSME enterprises, with rural areas showing slightly higher female ownership (22.24%) compared to urban regions (18.42%) (Ministry of MSME, 2024). This difference may be

attributed to the prevalence of home-based and traditional ventures in rural areas which are often supported by microcredit and self-help groups. However, women's presence diminishes significantly as enterprise size increases. Women own 20.44% of micro, 5.26% of small, and only 2.67% of medium enterprises. The sharp decline across enterprise categories highlights systemic challenges such as inadequate access to formal credit, limited market linkages, and social perceptions that discourage women from expanding beyond micro-level operations. These constraints, widely recognized in studies on women entrepreneurship in India, collectively restrict the potential of women-owned MSMEs despite growing policy support. As a result, women entrepreneurs remain concentrated in small-scale, low-capital ventures that limit income generation and employment creation.

Overall, the lower participation of women in urban MSMEs is not solely a reflection of fewer opportunities but rather the outcome of intertwined socio-economic factors-informal rural engagement, opportunity costs, safety concerns, social norms, and a persistent skill divide. Addressing these disparities requires gender-responsive MSME policies focused on improving credit access, providing vocational and managerial training, and ensuring safe working conditions for women entrepreneurs and employees alike (Ministry of MSME, 2023)^[4, 5].

Policy efforts have sought to address these disparities. The Udyam Registration Portal has simplified enterprise registration, encouraging more women-led MSMEs, while schemes like PM Mudra Yojana and Stand-Up India have expanded access to collateral-free loans. Yet, women's ownership in larger enterprises and their workforce participation remain limited, pointing to the need for targeted interventions-such as improved access to finance, entrepreneurship mentoring, digital literacy, and market integration.

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