Harnessing India's Demographic Dividend through MSMEs: Employment Creation as the Growth Engine

K. Srinivas

Assistant Professor, Department of Economics, Government Degree College, Patancheru, Telangana

Abstract

India stands at a critical juncture in its demographic transition. The working-age population (20-59 years is projected to peak at nearly 59% by 2041, offering a limited window to translate this advantage into sustained economic growth. Micro, Small and Medium Enterprises (MSMEs), given their labor-intensive nature and geographical spread, are uniquely positioned to absorb this growing workforce and drive inclusive prosperity. This paper analyses MSME performance in India in terms of units, employment and investment trends from 2007-08 to 2015-16m and correlates it with demographic projections for 2021-2041, Using secondary data from MSME Annual Reports, Census, and Economic Survey projections, the study finds that employment in MSMEs has grown at a compound annual growth rate (CAGR) of 3.51%, significantly outpacing the 1.23% CAGR in investment. This underscores the sector's high employment elasticity, making it a strategic pillar for leveraging India's demographic dividend.

Keywords: MSMEs, employment generation, demographic dividend, inclusive growth, economic development.

1. Introduction

India is the second most populous country in the world next to China with an estimated population of 140 crore. The trend shows that India will be the largest populated country overtaking China with 146 crores in the next decade. It has emerged as the youngest nation, with an average age of 28 years and nearly 50% population under 25 years. With relatively higher proportion population in the working-age group, the demographic profile of India is undergoing historic shift with changes in structure and composition of its populations. This favorable shift is referred to as the demographic dividend.

However, the failure create adequate jobs to engage these millions of young people in productive and remunerative activities could turn this advantage into a demographic disaster. Indian agriculture has traditionally been the largest employment provider, despite persistent concerns about productivity and income levels. Yet, in recent years, agriculture is no longer absorbing the growing labor force; instead, it is shedding labor force due to mechanization, cost-driven practices, and market-oriented approaches.

In this context, the onus of absorbing the expanding workforce shifts to the industrial sector, which includes heavy, medium, small, and micro industries. Among these, the Micro, Small, and Medium Enterprises (MSMEs) segment holds the greatest potential to generate employment and leverage the demographic dividend. The crucial question, however, is whether

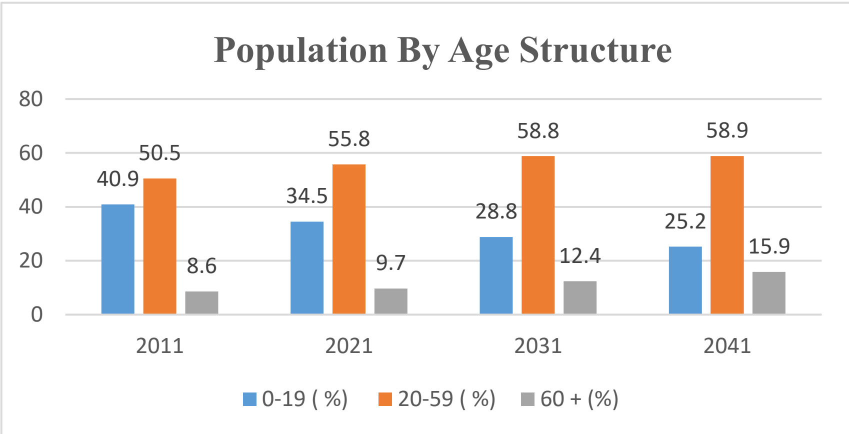
ISSN PRINT 2319 1775 Online 2320 7876
 Journal UGC CARE Listed (Group-I) Volume 10, Issue 04 2021

this sector is adequately equipped to meet such expectations. Against this backdrop, this paper examines the MSME sector in India in terms its growth, employment generation capacity, and challenges, with a view to identifying strategies for strengthening the sector to harness India's demographic dividend.

2. Demographic Trends and Employment Imperative:

According to Economic Survey 2018-19, India's population growth is slowing, the working-age population will continue to expand until 2041, particularly in States like Bihar, Uttar Pradesh, Madhya Pradesh, and Rajasthan. These states, still in the early stages of demographic transition, will contribute disproportionately to the labour force, even as southern and western states move towards population ageing.

The demographic scenario creates a dual challenge: aging-related policy planning in advanced states, and large-scale employment generation in lagging states. In both contexts MSMEs can play a transformative role.



(Source: Economic Survey, 2019-20)

The diagram shows the projected percentage distribution of population by age group (0-19, 20-59, and 60+) for period of 30 years during 2011-41. The 0-19 years age group declines sharply from 40.9% (2011) to 25.2% (2041), indicating a shrinking younger population while the 20–59 years age group increases initially from 50.5% to 58.9% by 2041, suggesting a temporarily larger working-age share. 60+ yearsage group nearly doubles from 8.6% to 15.9%, showing strong population ageing.

Understanding the Demographic Dividend

The demographic dividend refers to the economic growth potential that arises when the share of the working-age population (20–59 years) is larger compared to the dependent population (0–19 and 60+ years). A favorable age structure can boost productivity, savings, and investment — but only if there are jobs, skills, and infrastructure to absorb this workforce.

Year	0-19 (%)	20-59 (%)	60 + (%)	Dependency Ratio
2011	40.9	50.5	8.6	98.4
2021	34.5	55.8	9.7	79.3

ISSN PRINT 2319 1775 Online 2320 7876
 Journal UGC CARE Listed (Group-I) Volume 10, Issue 04 2021

2031	28.8	58.8	12.4	70.1
2041	25.2	58.9	15.9	69.6

Dependency ratio= (0-19+60+) (20-59) X100

The above table reveals the phase-wise transition in India's demographic profile between 2011 and 2041. During the period 2011-41, the working-age share rises from 50.5% to 55.8%, while that of 0-19 and 60+ declines from 40.9 % to 25.2% and 8.6% to 15.9% respectively. As a result, the dependency ratio falls consistently from 98.4 to 69.6. During the first ten-year period 2011-21, India moves into the demographic dividend window i.e., more worker per dependent. During the next decade 2021-31, India enters the golden decade with continuous fall in dependency ration from 79.3 to 7.1. The dependency ratio will not fall thereafter in the next decade 2031-41 indicating the end of the demographic dividend window and start of population ageing challenges.

The demographic profile between 2011 and 2041 reveals a clear transition through the phases of the demographic dividend, offering both opportunities and challenges for economic growth. In 2011, the working-age population (20-59 years) stood 50.5% of the total, with high dependency ration of about 98 dependents per 100 workers. Over the next decade, this share rose to 55.8% in 2021, while the dependency ratio fell sharply to around 79, indicating that a smaller proportion of the population was dependent on each worker. This shift makes the deepening of India's demographic dividend window, where the potential for productivity gains, savings, and investment is at the strongest. The period from 2021-31 represents the likely peak of this dividend, with the working-age share projected to reach 58.8% and the dependency ratio dropping to around 70 – and age structure highly favorable for rapid economic growth if matched by job creation, skill development, and productive employment. However, beyond 2031, while the working- age population remains almost stable, the population aged 60 and above is expected to grow rapidly from 12.4% in 2031 to 15.9% by 2041, signaling the gradual end of the dividend phase and the onset of ageing-related challenges. This demographic shift underscores the urgency for India to capitalize by expanding employment opportunities, enhancing skills to meet technological demands, ensuring regional balance in harnessing youth potential, and preparing social securing systems for an ageing population. Failure to act decisively could see the demographic advantage turn into demographic burden.

3. MSME Sector Performance in Employment creation

Year	Total Working Enterprises	Employment in Lakhs	Investment (in Crore)
2007-08	377.36	842	9,20,459.84
2008-09	393.7	880.84	9,77,114.72
2009-10	410.8	921.79	10,38,546.80
2010-11	428.73	965.15	11,05,934.09
2011-12	447.64	1011.69	11,82,757.64
2012-13	467.64	1061.4	12,68,763.67
2013-14	488.46	1114.29	13,63,700.54

2014-15	510.57	1171.32	14,71,912.94
2015-16	633.88	1109.89	10,14,761.10

The table reveals that from 2007-08 to 2015-16, the total number of working enterprises in India's MSME sector grew at an impressive annual compound growth rate (ACGR) of 6.70%, indicating strong entrepreneurial expansion over the period. Employment generation increased at a moderate ACGR of 3.51%, reflecting steady job creation. Investment levels, however, recorded only a modest 1.23%, CAGR.

India's MSME sector demonstrates a noteworthy pattern: employment grew at a CAGR of 3.51%, significantly outpacing the 1.23% CAGR in investment. This indicates that MSMEs have been able to generate jobs at a relatively high rate even which comparatively modest growth in capital infusion, underscoring their strong employment potential. The data suggests that the sector is characterized by labor-intensive operations, where incremental increases in investment translate into proportionally higher gains in employment. This efficiency in job creation makes MSMEs a vital driver of inclusive growth particularly in a developing economy where employment generation is a policy priority. However, a slower growth in investment signals the need for enhanced financial support, technological upgradation, and infrastructure development to sustain and amplify this employment potential while improving productivity and competitiveness.

4. MSME as a Driver of Inclusive Growth

The MSME sector is one of the most powerful vehicles for inclusive growth in India due to its inherent capacity for large-scale job creation in the shortest possible time with low gestation period. MSME contribute not only to employment generation but also to regional equity and social inclusion. The National Sample Survey reports that socially disadvantaged groups own over 66% of MSMEs, and women entrepreneurs account for more than 20% total ownership. The sector is evenly distributed between rural and urban areas, helping to reduce regional disparities and migration pressures.

MSMEs can absorb a significant workforce, including semi-skilled and unskilled labor, and provide opportunities in both urban and rural areas. The sector's high employment elasticity – evidenced by a 3.51% CAGR in jobs against only 1.23% growth in investment- positions it as a strategic instrument for maximizing the demographic dividend. With 68.84% of the India's population residing in rural India, MSME serve as driver of rural entrepreneurship, offering remunerative employment to millions of young population. Women entrepreneurs own around 20% of MSMEs in India. This sector's flexible and informal nature provides an accessible platform for women to engage in economic activity and contribute to household and national income.

5. Challenges Facing MSMEs

Despite their potential, MSMEs face persistent challenges: lack of finance, raw material, technology, infrastructure, marketing, and skilled labor. Limited access to timely, affordable credit, due to lack of collateral and perceived high risk by bankers, often forcesMSMEs to depend on informal sources such as non-financial institutions and money lenders. MSMEs face stiff completion from large industries in procuring quality raw material at competitive price, and higher input costs directly increase the final price of their products. Obsolete technology continues to hinder productivity as low adoption of modern methods is constrained by both inadequate technical know-how and financial limitations.

Many MSME units are mostly located in areas with insufficient infrastructure, including irregular power supply, inadequate water facilities, and poor road connectivity, with delays in improvement often caused by bureaucratic procedures. Weak branding, poor market linkages, and limited managerial capacity further reduce marketing efficiency of MSMEs. Ironically, despite India's abundant unemployed workforce, MSMEs face a shortage of skilled labour, restricting their ability to grow and compete effectively.

6. Way Forward

At this critical juncture of harnessing demographic dividend, India must implement effective solutions to strengthen MSME sector so it can expand and generate employment opportunities, thereby realizing the full potential of its demographic advantages. Institutional sources of finance must be enhanced to ensure the timely and affordable flow of credit to MSMEs at competitive rates. Central and state governments must design industrial policies that minimize bureaucratic delays and remain responsive to the dynamic business environment in which MSMEs operate. Infrastructure development – both upgrading the existing facilities and creating new ones, particularly in power supply and transport in rural and semi-urban areas-will significantly reduce logistics cost and improve competitiveness.

Large-scale alignment of education and training curricula with industry skill requirements is essential to address the labour market gaps. Young entrepreneurs should be encouraged to establish start-upsthrough a supportive ecosystem, backed by comprehensive institutional assistance. Furthermore, promoting research and innovation in the MSME sector with a focus on integrating indigenous technologies, will provide pragmatic, context specific solutions and reduce dependence on costly ultra-modern imported technologies.

Conclusion

India's demographic dividend offers a unique time-bounded economic opportunity. MSMEs with their proven ability to generate employment at low capital costs, are pivotal to converting this advantage into inclusive and sustained growth. By addressing structural bottlenecks and aligning MSME development with demographic realities, India can ensure that millions entering the workforce each year are productively employed, securing both economic and social gains.

References:

1. Chandrasekhar, C.P. "The 'Demographic Dividend' and Young India's Economic Future." Economic and Political Weekly, vol. 41, no. 49, 2006, pp. 5055–64.
2. Garcia-Teruel and Martinez-Solano (2007), "Effects of working capital management on SME profitability" International Journal of Managerial Finance, ISSN 1743-9132, April, 2007
3. James, K. S. "Glorifying Malthus: Current Debate on 'Demographic Dividend' in India." *Economic and Political Weekly*, vol. 43, no. 25, 2008, pp. 63–69.

4. “SMEs in India: The Challenges Ahead” Economic Times Feb. 3, 2009
5. Desai S. The Other Half of the Demographic Dividend. Econ Polit Wkly. 2010 Oct 2;45(40):12-14. PMID: 22740720; PMCID: PMC3381360.
6. Raheman, Afza, Qayyum and Bodla (2010) “Working Capital Management of Firms’ Profitability: Dynamic Panel Data Analysis of Manufactured Firms” Scientific Research, 2010
7. Shekhar Aiyar and Ashoka Mody. “The Demographic Dividend: Evidence from the Indian States” Working Paper, International Monetary Fund, Feb, 2011.
8. K. Vasanth Majumdar M.K. Krishna (2012) Innovative Strategies for Micro, Small & Medium Enterprises, Inter disciplinary Journal of Contemporary Research in Business
9. Export – Import Bank of India 2012; Strategic Development of MSMEs: Coparison of Policy Framework and Institutional support systems in India and select countries.
10. Mehrotra, S. 2014. *India’s skills challenge:* Reforming vocational education and training to harness the demographic dividend. Oxford University Press.
11. R.B. Bhagat, 2014, “The Opportunities and Challenges of Demographic Dividend in India” Jharkhand Journal of Development and Management Studies, vol. 12, No.4, 2014, pp.6099-6113.
12. Gargi Bhattacharya and Sushik Kr. Haldar, (2015) “Does demographic dividend yield economic dividend? India, a case study”, Economic Bulletin, Volu. 35, Issue 2, pages 1274-1291.
13. Report of the Committee set up by Ministry of Finance Govt., of India to examine the financial architecture of the MSME sector, February 2015. http://msme.gov.in/writeReadData/DocumentFile/2015_02_MSME_Committee_report_Feb_2015.
14. Economic Survey, 2019-20 “India’s Demography at 2040: Planning Public Good Provision for the 21st Century” Chapter 7. Government of India, 2020.