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GROWTH DYNAMICS OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

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ABSTRACT
Micro, Small and Medium Enterprises (MSMEs constitute a vital segment of the Indian economy, contributing significantly to employment generation, industrial output, and export growth. This study analyses the growth dynamics and structural changes of MSMEs in India over time, with a focus on enterprise expansion, employment trends, and sectoral composition. Using secondary data, the paper examines long-term trends in the number of enterprises, employment generation, and contribution to GDP and exports. The analysis reveals a substantial increase in the number of MSMEs and employment opportunities, driven primarily by micro enterprises. However, structural imbalances persist, with limited transition from micro to small and medium enterprises. The study further identifies key factors influencing MSME growth, including access to finance, government policy support, digitalisation, infrastructure, market access, and skill development. Despite significant policy initiatives and technological advancements, MSMEs continue to face challenges related to credit constraints, compliance burdens, and regional disparities. The paper concludes that sustained policy support, improved financial inclusion, and enhanced technological adoption are essential to ensure balanced and sustainable growth of the MSME sector in India.

KEYWORDS: *MSMEs, Growth Dynamics, Employment Generation, Digitalisation, Policy Support, India*

I. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play a decisive role in shaping the growth trajectory of the Indian economy by contributing significantly to output, employment generation, and regional development. Scholars widely acknowledge MSMEs as the backbone of developing economies due to their labour-intensive nature, low capital requirements, and capacity to foster entrepreneurial skills (Pandey & Chaudhary, 2024; Kukar & Mehta, 2025). In India, the MSME sector has emerged as a critical driver of inclusive growth by providing livelihood opportunities across rural and urban areas while promoting balanced industrial development (Antonyraj & Kumar, 2024; Behera et al., 2023). The growth dynamics of MSMEs in India have evolved considerably in the post-liberalisation period, influenced by economic reforms, globalization, and policy restructuring (Antonyraj & Kumar, 2024; Gupta & Manju Rani, 2024). Liberalisation measures introduced since the 1990s expanded market access, improved private sector participation, and enhanced the competitiveness of MSMEs, enabling them to integrate with domestic and global value chains (Saini & Maurya, 2024; Pandey & Chaudhary, 2024). However, growth within the sector has remained uneven, with micro enterprises dominating numerically while small and medium enterprises face scaling and sustainability challenges (Prashanti & Siddappa, 2024). Employment generation remains one of the most prominent contributions of MSMEs to the Indian economy. Studies indicate that MSMEs absorb a substantial portion of the workforce, particularly semi-skilled and unskilled labour, thereby supporting poverty reduction and social inclusion (Gupta & Manju Rani, 2024; Behera et al., 2023). The sector has also played a vital role in promoting women entrepreneurship and self-employment, especially in rural and semi-urban regions (Sonia & Yadav, 2025; Prashanti & Siddappa, 2024). In recent years, digitalisation has emerged as a transformative force shaping the growth dynamics of MSMEs in India. Adoption of digital payment systems, e-commerce platforms, and technology-enabled financial services has enhanced productivity, market outreach, and operational efficiency (Jone & Dhanalakshmi, 2024; Kukar & Mehta, 2025). Empirical studies suggest that digital transformation has improved access to formal credit and reduced information asymmetry for MSMEs, thereby strengthening their growth potential (Jone & Dhanalakshmi, 2024; Gupta, 2025). Government policy initiatives have significantly influenced MSME growth performance. Schemes related to credit facilitation, skill development, technology upgradation, and ease of doing business have aimed to address structural constraints faced by MSMEs (Gupta, 2025; Behera et al., 2023). Programs such as credit guarantee schemes, entrepreneurship development initiatives, and cluster-based development models have contributed to improved resilience and competitiveness of MSMEs (Saini & Maurya, 2024; Kukar & Mehta, 2025). Despite notable progress, the growth dynamics of MSMEs continue to be constrained by persistent challenges such as limited access to finance, delayed payments, infrastructural bottlenecks, and regulatory compliance burdens (Saini & Maurya, 2024; Behera et al., 2023). Regional disparities in MSME development further highlight the need for targeted policy interventions to

ensure balanced growth across states and sectors (Prashanti & Siddappa, 2024; Sonia & Yadav, 2025). Against this backdrop, an in-depth analysis of the growth dynamics of MSMEs in India becomes essential to understand the interaction between policy support, technological change, and enterprise performance. Examining these dynamics provides valuable insights for policymakers, researchers, and stakeholders seeking to enhance the sector's contribution to sustainable and inclusive economic development (Pandey & Chaudhary, 2024; Gupta, 2025).

II. OBJECTIVES OF THE STUDY

- To analyse the growth trends and structural changes of Micro, Small and Medium Enterprises (MSMEs) in India.
- To examine the key factors influencing the growth dynamics of MSMEs in India.

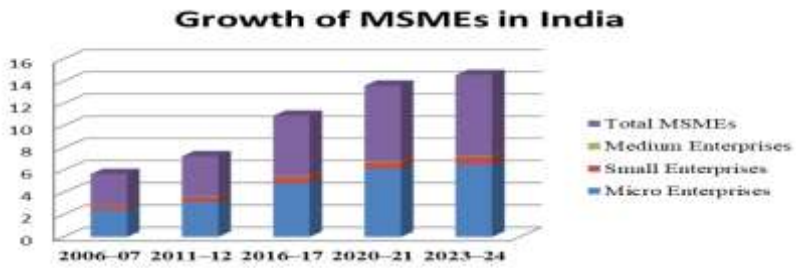
III. GROWTH TRENDS AND STRUCTURAL CHANGES OF MSMES IN INDIA

The MSME sector in India has undergone significant transformation over time, marked by rapid expansion in the number of enterprises, increasing employment generation, and notable structural shifts among micro, small, and medium units. Economic liberalisation, policy reforms, and digitalisation have collectively shaped these growth dynamics**.**

Table 1: Growth of MSMEs in India (Number of Enterprises)

Year	Micro Enterprises	Small Enterprises	Medium Enterprises	Total MSMEs
2006–07	2.45	0.33	0.05	2.83
2011–12	3.15	0.42	0.06	3.63
2016–17	4.80	0.58	0.07	5.45
2020–21	6.10	0.63	0.07	6.80
2023–24	6.50	0.70	0.08	7.28

(in crore units)



The table indicates a steady increase in the total number of MSMEs, particularly after 2016–17. Micro enterprises dominate the sector, accounting for more than 90% of total MSMEs, reflecting the low entry barriers and self-employment nature of the Indian economy. The marginal growth of medium enterprises highlights structural limitations in enterprise scaling.

Table 2: Employment Generated by MSMEs in India

Year	Micro	Small	Medium	Total Employment
2006–07	5.90	2.20	0.90	9.00
2011–12	7.20	2.60	1.10	10.90
2016–17	9.80	3.10	1.30	14.20
2020–21	12.50	3.60	1.50	17.60
2023–24	14.20	4.10	1.60	19.90

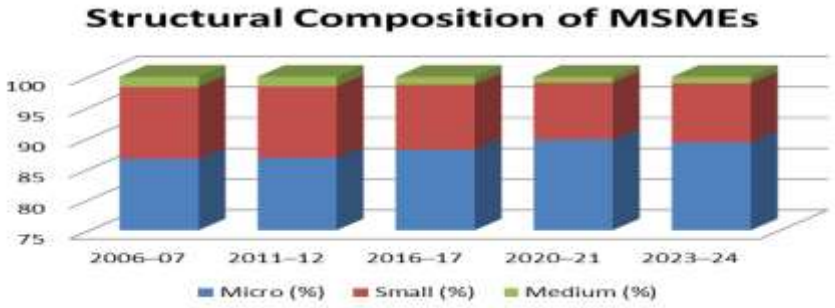
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Employment generation by MSMEs has increased consistently, with micro enterprises emerging as the largest employment providers. This confirms the labour-intensive nature of MSMEs and their importance in absorbing surplus workforce, especially in rural and semi-urban areas.

Table 3: Structural Composition of MSMEs by Enterprise Size (Percentage Share)

Year	Micro (%)	Small (%)	Medium (%)
2006–07	86.6	11.7	1.7
2011–12	86.8	11.6	1.6
2016–17	88.1	10.6	1.3
2020–21	89.7	9.3	1.0
2023–24	89.3	9.6	1.1

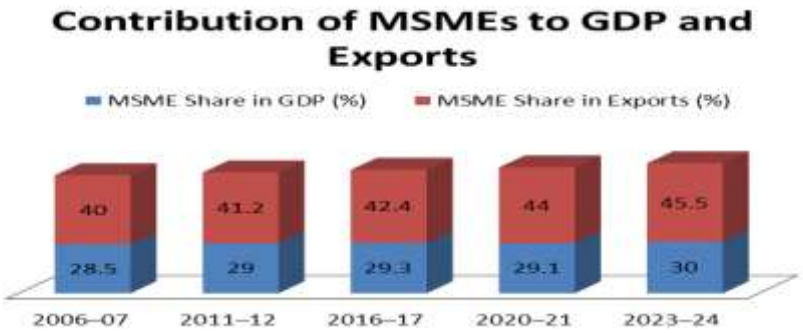


The structural composition reveals an increasing dominance of micro enterprises, while the relative share of small and medium enterprises has declined. This indicates challenges in enterprise graduation from micro to higher categories, often due to financial constraints, compliance burdens, and market access limitations.

Table 4: Contribution of MSMEs to GDP and Exports

Year	MSME Share in GDP (%)	MSME Share in Exports (%)
2006–07	28.5	40.0
2011–12	29.0	41.2
2016–17	29.3	42.4
2020–21	29.1	44.0
2023–24	30.0	45.5

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MSMEs have maintained a **stable and gradually increasing contribution to GDP and exports**, highlighting their resilience despite economic shocks. Export participation has strengthened due to global value chain integration and policy incentives. The growth trends of MSMEs in India demonstrate quantitative expansion, particularly in micro enterprises, alongside rising employment generation. However, structural changes reveal a persistent imbalance, with limited progression of enterprises from micro to small and medium categories. While policy reforms and digitalisation have improved formalisation and output contribution, challenges related to finance, technology, and scale continue to constrain balanced structural growth.

IV. KEY FACTORS INFLUENCING THE GROWTH DYNAMICS OF MSMES IN INDIA

The growth performance of Micro, Small and Medium Enterprises (MSMEs) in India is shaped by a combination of economic, financial, technological, institutional, and socio-regional factors. These determinants influence enterprise formation, expansion, productivity, and long-term sustainability.

1. Access to Finance

Limited access to timely and affordable credit remains one of the most critical constraints affecting MSME growth. Many MSMEs rely on informal sources of finance due to collateral requirements, high interest rates, and procedural complexities in formal lending. Although government-backed credit guarantee schemes and micro-finance initiatives have improved outreach, the credit gap continues to restrict capacity expansion and technological upgrading.

2. Government Policies and Institutional Support

Policy initiatives such as MSME development schemes, ease-of-doing-business reforms, and entrepreneurship promotion programs significantly influence MSME growth. Measures related to credit facilitation, tax reforms, and business formalisation have enhanced sectoral resilience. However, uneven implementation and limited awareness among enterprises reduce the effectiveness of policy interventions.

3. Digitalisation and Technological Adoption

Digital technologies play an increasingly important role in enhancing MSME productivity and market access. Adoption of digital payments, e-commerce platforms, and fintech solutions has reduced transaction costs and improved financial inclusion. MSMEs that adopt technology tend to demonstrate higher growth rates, while digitally lagging enterprises face competitive disadvantages.

4. Infrastructure Availability

Inadequate physical infrastructure—such as power supply, transport connectivity, and logistics facilities—negatively affects MSME growth, particularly in rural and semi-urban areas. Poor infrastructure raises production costs, reduces efficiency, and limits access to broader markets, thereby constraining competitiveness.

5. Market Access and Demand Conditions

Access to domestic and international markets significantly influences MSME expansion. Integration with supply chains, participation in export markets, and access to public procurement platforms enhance growth opportunities. MSMEs with limited marketing capabilities or weak linkages face demand volatility and reduced revenue potential.

6. Skill Development and Human Capital

Availability of skilled labour and managerial expertise is essential for MSME competitiveness. Skill shortages, low productivity levels, and limited training opportunities restrict innovation and efficiency. Enterprises investing in skill development demonstrate better adaptability to changing market conditions.

7. Regulatory Environment and Compliance Burden

Complex regulatory frameworks, multiple registrations, and compliance costs pose challenges for MSMEs, especially micro enterprises. While reforms have simplified procedures, compliance-related uncertainties still discourage enterprise scaling and formalisation.

8. Innovation and Entrepreneurship
Innovation capacity, product differentiation, and entrepreneurial orientation directly impact MSME growth. MSMEs engaged in innovation activities exhibit higher productivity and market resilience. However, limited access to research, finance, and technology constrains innovation-driven growth.

9. Regional Disparities
Growth dynamics vary significantly across states and regions due to differences in infrastructure, policy implementation, industrial ecosystems, and market access. MSMEs in industrial clusters and developed regions tend to grow faster than those in backward areas.

10. External Economic Conditions
Macroeconomic stability, global trade dynamics, and economic shocks influence MSME growth. Events such as economic downturns, supply chain disruptions, and global crises disproportionately affect MSMEs due to their limited financial buffers.

The growth dynamics of MSMEs in India are driven by access to finance, policy support, digitalisation, infrastructure, market linkages, and human capital development. Addressing structural constraints while strengthening institutional and technological support is essential to ensure sustainable and inclusive MSME growth.

V. CONCLUSION

The analysis of growth trends and structural changes of MSMEs in India highlights the sector's crucial role in promoting economic growth, employment generation, and inclusive development. Over time, the MSME sector has experienced substantial expansion in terms of the number of enterprises and employment opportunities, reflecting its importance as a labour-intensive and entrepreneurial segment of the economy. Micro enterprises dominate the sector, underscoring their role in self-employment and income generation, particularly in rural and semi-urban areas. However, the structural composition of MSMEs reveals persistent challenges, notably the limited progression of enterprises from micro to small and medium categories. This imbalance indicates constraints related to access to finance, technology, infrastructure, and regulatory compliance. While government initiatives and digitalisation have improved formalisation, market access, and operational efficiency, their impact has been uneven across regions and enterprise sizes. The study also underscores that factors such as financial accessibility, policy effectiveness, technological adoption, human capital development, and market integration significantly influence MSME growth dynamics. Addressing these constraints through targeted policy interventions, improved credit delivery mechanisms, skill development programmes, and infrastructure investment is critical for strengthening MSME competitiveness. In conclusion, ensuring the long-term sustainability and balanced growth of MSMEs requires a holistic approach that integrates financial inclusion, technological innovation, institutional support, and regional development. Strengthening these areas will enable MSMEs to enhance their contribution to India's economic development and global competitiveness.

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