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MSMEs as Drivers of Economic Growth in India: An Empirical Study

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Abstract

Micro, Small and Medium Enterprises (MSMEs) constitute a key pillar of the Indian economy by generating employment, promoting entrepreneurship, supporting industrial production, and fostering balanced regional development. This study, titled Role of MSMEs in the Indian Economy: A Study, examines the structural composition and growth patterns of MSMEs using Udyam registration data from 2022–23 to 2024–25. Based on secondary data, the analysis evaluates enterprise distribution across investment and turnover categories, growth trends, percentage changes, scaling behaviour, and structural concentration within the sector. The findings reveal that micro enterprises overwhelmingly dominate the lower investment and turnover segments, highlighting their significant contribution to grassroots economic activity. Although some intermediate categories exhibit temporary fluctuations, the increasing presence of enterprises in higher investment and turnover brackets indicates gradual business expansion and improved growth capacity. The study concludes that MSMEs continue to strengthen India's economic resilience while offering substantial opportunities for structural transformation, inclusive growth, and long-term sustainable development.

Keywords: *Micro, Small and Medium Enterprises (MSMEs); Economic Growth; Entrepreneurship Development; Udyam Registration; Sustainable Development*

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1. Introduction

Micro, Small and Medium Enterprises (MSMEs) constitute one of the most important pillars of the Indian economy by promoting entrepreneurship, generating employment, enhancing industrial production, and supporting inclusive economic development. The sector contributes significantly to Gross Domestic Product (GDP), exports, manufacturing output, and balanced regional development by creating opportunities for both rural and urban enterprises. MSMEs also strengthen domestic supply chains, encourage innovation, and improve economic resilience by enabling widespread participation in productive activities. Recognizing their strategic importance, the Government of India has introduced policy initiatives such as Udyam Registration, easier credit access, and digital support mechanisms to enhance enterprise competitiveness and sustainable growth (Ministry of Micro, Small and Medium Enterprises, 2024). The Udyam Registration framework classifies MSMEs according to investment and annual turnover, providing a comprehensive basis for evaluating enterprise size, operational performance, and growth potential. Investment reflects the productive capacity and capital strength of enterprises, whereas turnover indicates market performance and business expansion. Examining the distribution of enterprises across these categories helps assess structural concentration, scaling behaviour, and long-term economic progression within the MSME ecosystem (Bhanot & Gaikwad, 2024). A predominance of firms in lower investment and turnover brackets reflects strong entrepreneurial participation, while gradual movement toward higher categories indicates business expansion and improved economic capability, reinforcing the sector's contribution to sustainable economic development (Reserve Bank of India, 2024).

2. Background of Study

Micro, Small and Medium Enterprises (MSMEs) are widely acknowledged as engines of economic growth because they stimulate entrepreneurship, employment generation, innovation, and industrial diversification. In India, the sector contributes significantly to manufacturing, services, exports, and regional economic development while promoting inclusive growth through the participation of small entrepreneurs in formal economic activities. The increasing adoption of digital technologies, e-commerce platforms, and financial inclusion initiatives has further strengthened the competitiveness of MSMEs by improving productivity, market accessibility, and business resilience. MSMEs have become central to India's strategy for achieving sustainable economic development, employment creation, and enhanced global competitiveness in an evolving business environment (United Nations Industrial Development Organization, 2024). Such analysis is particularly relevant as India seeks to strengthen its manufacturing ecosystem, improve productivity, and achieve the objectives of sustainable industrialization under national development priorities. Therefore, the present study examines the structural distribution and growth dynamics of MSMEs during the period 2022–23 to 2024–25 to understand their evolving contribution to the Indian economy (Organisation for Economic Co-operation and Development, 2024).

3. Scope and Significance of Study

The present study examines the structural distribution and growth dynamics of Micro, Small and Medium Enterprises (MSMEs) in India by analyzing investment-wise and turnover-wise classifications under the Udyam Registration framework for the period 2022–23 to 2024–25. It evaluates enterprise concentration, percentage growth, scaling behaviour, and shifts across investment and turnover categories to understand the evolving contribution of MSMEs to India's economic development (International Finance Corporation, 2024). The high-end technologies such as artificial intelligence, machine learning, internet of things create multiple opportunities in terms of automation, integration, simplification for the industries (Gaikwad, 2024). The findings provide valuable insights for policymakers, researchers, financial institutions, and entrepreneurs by identifying growth trends, structural transformation, and areas requiring policy intervention. The study also contributes to the existing literature on MSME development by offering empirical evidence on enterprise formalization, business expansion, and sustainable industrial growth.

4. Objective of Study

- To analyze the investment-wise distribution of MSMEs
- To examine the turnover-wise classification and growth trends
- To assess percentage changes across different investment and turnover ranges
- To compare scaling behaviour of enterprises
- To evaluate the structural concentration of MSMEs

5. Reviews of Literature

Harbir Singh and K. J. Kartik (2024) examined the competitiveness of Indian MSMEs in the context of the revised Udyam Registration framework and observed that formalization has significantly improved enterprise visibility, access to institutional finance, and participation in government support schemes. Their analysis revealed that although micro enterprises constitute the overwhelming majority of registered units, improvements in productivity, technology adoption, and access to markets are essential for enabling enterprises to scale into higher investment and turnover categories. The study emphasized that strengthening competitiveness through innovation, digital transformation, and policy reforms is fundamental for sustaining India's manufacturing and export growth. Small Industries Development Bank of India (2025) presented a comprehensive assessment of the Indian MSME ecosystem by highlighting that the sector contributes substantially to GDP, employment, exports, and entrepreneurial development. The report found that enterprise performance varies considerably across regions, sectors, and enterprise sizes, with digital adoption, financial inclusion, and market accessibility emerging as key determinants of growth. It further emphasized that localized policy interventions and improved credit penetration are necessary to enhance enterprise productivity and long-term sustainability.

Organization for Economic Co-operation and Development (2024) emphasized that the formalization of MSMEs through digital registration systems has enhanced transparency, tax compliance, and credit accessibility while strengthening enterprise resilience. The report noted that enterprises operating within formal institutional frameworks demonstrate greater investment capacity, improved financial performance, and stronger integration into domestic and global value chains. However, it also highlighted that technology adoption and financial inclusion remain uneven among smaller enterprises, requiring continued policy support. United Nations (2024), in the Global MSMEs Report 2024, recognized MSMEs as major contributors to inclusive economic development, innovation, sustainable industrialization, and employment worldwide. The report argued that digital transformation, environmental sustainability, and access to affordable finance are becoming increasingly important determinants of enterprise competitiveness. It recommended that governments strengthen institutional support, capacity building, and digital infrastructure to improve MSME productivity and resilience against global economic uncertainties.

6. Research Methodology

- **Research Design:** The study adopts a **descriptive and analytical research design**. It focuses on examining the investment-wise and turnover-wise distribution of MSMEs and analyzing growth trends over the period 2022–23 to 2024–25.
- **Sources of Data:** The study is based entirely on secondary data. The data relating to investment range and turnover range of MSMEs registered under Udyam have been collected from official government sources and published statistical reports.

- **Period of Study:** The analysis covers a **three-year period from 2022–23 to 2024–25**, enabling assessment of short-term growth trends and structural changes.

7. Discussion and Analysis

This section presents a systematic analysis of MSMEs based on nature of activity, enterprise category, ownership pattern, social group, investment range, and turnover range for the period 2022–23 to 2024–

25. The data has been organized in tabular form to examine structural distribution, percentage variations, growth trends, and scaling behaviour across different classifications. The analysis aims to identify concentration patterns and structural shifts within the MSME sector and to understand its evolving role in the Indian economy.

Distributions of Estimated MSME (Nature of Activity Wise)

Year	Manufacturing	Services	Trading
2022-23	72%	28%	00%
2023-24	31%	33%	36%
2024-25	20%	35%	45%

Source: MSME Annual Report

The above table depicts that between 2022–23 and 2023–24, the share of manufacturing units declined sharply from 72% to 31%, registering a decrease of 41 percentage points. It further declined to 20% in 2024–25, marking an additional fall of 11 percentage points. In contrast, the services sector increased from 28% to 33% (5 percentage point growth) and further to 35% (2 percentage point increase). Trading activities showed a significant rise from 0% in 2022–23 to 36% in 2023–24 and further to 45% in 2024–25. The structural shift from manufacturing towards trading and services indicates diversification of MSME activities and increasing preference for low-capital, quick-return business models. This reflects changing entrepreneurial patterns and market-driven adjustments within the MSME sector.

Distribution of Enterprises Category Wise

Year	Micro	Medium	Small
2022-23	96.37%	0.30%	3.33%
2023-24	99.47%	0.52%	0.01%
2024-25	98.6%	1.3%	0.1%

Source: MSME Annual Report

From the above table it is inferred, Micro enterprises increased from 96.37% in 2022–23 to 99.47% in 2023–24 (3.10 percentage point rise), followed by a slight correction to 98.6% in 2024–25 (0.87 percentage point decline). Small enterprises declined drastically from 3.33% to 0.01% (3.32 percentage point decrease) and slightly increased to 0.1% later. Medium enterprises increased from 0.30% to 0.52% (0.22 percentage point growth) and further to 1.3% (0.78 percentage point rise). The dominance of micro enterprises remains consistent, confirming that MSME growth is concentrated at the grassroots level. The gradual rise in medium enterprises indicates slow but positive upward mobility in enterprise scaling.

Gender wise distribution of ownership of MSME

Year	Male	Female	Others
2022-23	81%	19%	0%
2023-24	76%	24%	0%
2024-25	70.8%	28.8%	0.4%

Source: MSME Annual Report

The table shows that male ownership declined from 81% in 2022–23 to 76% in 2023–24 (5 percentage point decrease) and further to 70.8% in 2024–25 (5.2 percentage point decline). Female ownership increased from 19% to 24% (5 percentage point growth) and further to 28.8% (4.8 percentage point growth). Ownership under "others" category marginally increased to 0.4% in 2024–25. The steady rise in female entrepreneurship reflects improved inclusivity, access to finance, and empowerment initiatives. The data indicates progressive gender diversification in MSME ownership.

Distribution of enterprises by social group of Owner

Year	SC	ST	OBC	Others
2022-23	7.12%	2.29%	2.92%	60.83%
2023-24	12.45%	4.10%	49.72%	33.74%
2024-25	10.5%	3.3%	31.0%	55.2%

Source: MSME Annual Report

It is inferred from the table that SC participation increased from 7.12% to 12.45% (5.33 percentage point growth) before declining slightly to 10.5%. ST participation rose from 2.29% to 4.10% (1.81 percentage point growth) and slightly declined to 3.3%. OBC ownership showed a sharp increase from 2.92% to 49.72% (46.8 percentage point rise) before moderating to 31%. The "Others" category declined from 60.83% to 33.74% (27.09 percentage point drop) and later increased to 55.2%. The fluctuations indicate shifting entrepreneurial representation across social groups. The increase in SC/ST participation suggests improved access to MSME registration and support mechanisms, contributing to inclusive economic participation.

Investment range of MSMEs as per Udayam

Investment Range		2022-23	2023-24	2024-25
< 5 Lakh	Micro	1,99,56,718	2,23,11.519	2,95,40,452
	Medium	13,577	6,154	7,604
	Small	2,96,423	1,85,800	2,24,121
5+ to 25 lakh	Micro	15,26,582	15,24,827	17,36,366
	Medium	11,245	7,846	10,014
	Small	2,55,894	1,76,960	2,11,341
25+ to 50 lakh	Micro	2,94,889	2,29,971	2,55,824
	Medium	8,516	5,779	7,641
	Small	1,06,551	66,400	81,621
50+ to 1 cr	Micro	1,51,161	1,01,819	1,13,307
	Medium	9,909	6,004	7,737
	Small	92,568	48,858	59,275

1cr+ to 5 cr	Micro	0	0	5
	Medium	0	13,042	16,350
	Small	0	1,21,700	1,42,149
5cr+ to 10 cr	Micro	0	0	1
	Medium	0	4,900	5,910
	Small	0	12,533	14,275
10cr+ to 50 cr	Micro	0	0	0
	Medium	0	11,973	13,757
	Small	0	0	0

Source: MSME Annual Report

The table depict that in the below ₹5 lakh category, micro enterprises grew by 11.79% in 2023–24 and sharply by 32.42% in 2024–25, indicating strong expansion at the lowest investment level. Small and medium enterprises initially declined (37.32% and 54.68% respectively) but showed recovery in 2024–25, suggesting temporary adjustments. In the ₹5 lakh to ₹25 lakh range, micro enterprises remained stable with marginal decline (0.11%) followed by 13.21% growth. Small and medium enterprises declined in 2023–24 but recovered moderately in 2024–25, reflecting restructuring within this bracket. For the ₹25 lakh to ₹50 lakh and ₹50 lakh to ₹1 crore categories, all segments experienced notable declines in 2023–24 (ranging between 22%–47%) followed by recovery in 2024–25 (around 11%–32%). This indicates volatility in mid-level investment enterprises. In the above ₹1 crore ranges, enterprise presence emerged or expanded in 2023–24 and continued growing in 2024–25. Medium enterprises recorded growth between 14%–25%, while small enterprises also increased steadily, showing gradual upward mobility. The data clearly shows strong concentration and rapid growth in the lowest investment bracket, while mid and higher ranges exhibit short-term fluctuations with gradual recovery. This suggests that MSME growth is primarily grassroots-driven, with slow but steady scaling toward higher investment levels under Udyam registration.

Turnover range of MSME as per Udyam

Investment Range		2022-23	2023-24	2024-25
< 10 Lakh	Micro	1,48,61,198	1,69,70,484	2,22,26,001
	Medium	5,888	1,541	1,027
	Small	53,323	13,928	12,211
10+ to 25 lakh	Micro	33,35,859	37,07,550	48,77,019
	Medium	216	189	213
	Small	6,152	0	4,222
25+ to 50 lakh	Micro	13,74,013	15,58,511	21,72,694
	Medium	172	110	125

	Small	6,642	0	3,504
50+ to 1 Crore	Micro	8,90,064	7,93,481	9,93,712
	Medium	255	111	126
	Small	12,526	3,835	5,715
1+ to 2 Crore	Micro	7,31,395	5,83,984	7,04,847
	Medium	406	0	259
	Small	27,852	3,105	13,387
2+ to 5 Crore	Micro	6,89,185	5,54,126	6,71,676
	Medium	917	377	459
	Small	1,00,897	5,126	30,644
5+ to 25 Crore	Micro	0	0	5
	Medium	0	2013	2,535
	Small	0	4,80,799	5,78,695
25+ to 50 Crore	Micro	0	0	0
	Medium	0	1,793	2,205
	Small	0	69,476	84,404
50Cr+ to 100Cr	Micro	0	0	1
	Medium	0	32,336	40,774
	Small	0	0	0
100Cr+ to 250Cr	Micro	0	0	0
	Medium	0	17,026	21,290
	Small	0	0	0

Source: MSME Annual Report

The table shows that in the below ₹10 lakh turnover category, micro enterprises grew steadily by 14.19% in 2023–24 and sharply by 30.97% in 2024–25, indicating strong expansion at the lowest turnover level. However, medium enterprises declined by 73.82% and 33.36% respectively, while small enterprises fell drastically in 2023–24 before stabilizing. In the ₹10–25 lakh and ₹25–50 lakh ranges, micro enterprises showed consistent growth (around 11–39%), reflecting improving revenue capacity. Medium enterprises fluctuated moderately, while small enterprises showed sharp declines in 2023–24 with partial recovery in 2024–25. In the ₹50 lakh to ₹5 crore ranges, micro enterprises experienced decline in 2023–24 (about 11–20%) but recovered in 2024–25 (around 21–26%). Small enterprises showed significant contraction in 2023–24 followed by noticeable recovery, indicating temporary adjustment in turnover classification. In the above ₹5 crore turnover categories, enterprise presence emerged strongly from 2023–24 onwards. Medium enterprises recorded steady growth (around 13–26%) in 2024–25, while small enterprises also increased substantially in higher turnover brackets. The data shows strong concentration and rapid growth in lower turnover segments, especially among micro enterprises. Mid-level turnover categories experienced temporary declines followed by recovery, while higher turnover brackets indicate gradual upward movement and scaling of enterprises under Udyam registration.

8. Finding of Study

- The analysis reveals a strong concentration of MSMEs in lower investment and turnover brackets, particularly in the below ₹5 lakh investment and below ₹10 lakh turnover categories. Micro enterprises dominate these segments throughout the study period.
- There is a consistent growth trend in micro enterprises, especially in the lowest investment and turnover ranges, indicating increasing grassroots entrepreneurship and formal registration under Udyam.
- Mid-level investment and turnover categories show temporary declines in 2023–24 followed by recovery in 2024–25, suggesting structural adjustments or reclassification within the MSME sector.
- Enterprises in higher investment and turnover brackets (above ₹1 crore and ₹5 crore ranges) have gradually emerged and expanded, reflecting slow but steady scaling and upward mobility.
- The overall pattern indicates a bottom-heavy MSME structure, where the majority of enterprises operate at small scale, with limited but growing transition toward higher categories.

9. Conclusion

Micro, Small, and Medium Enterprises (MSMEs) continue to serve as a vital pillar of India's economic growth by significantly contributing to employment generation, industrial production, exports, entrepreneurship, and balanced regional development. The empirical findings of this study indicate that MSMEs play a transformative role in fostering inclusive and sustainable economic progress despite facing persistent challenges related to access to finance, technological adoption, market competitiveness, infrastructure, and regulatory compliance. Recent government initiatives, digital transformation, and policy reforms have strengthened the resilience and productivity of the sector, enabling MSMEs to integrate into national and global value chains. However, realizing the full potential of MSMEs requires sustained policy support, enhanced financial inclusion, digital capacity building, innovation-driven business models, skill development, and improved institutional collaboration. Strengthening these dimensions will not only improve the competitiveness of MSMEs but also accelerate India's progress towards achieving higher economic growth, employment creation, self-reliance, and the vision of *Viksit Bharat 2047*. Therefore, policymakers, financial institutions, industry stakeholders, and entrepreneurs must work collaboratively to create a robust MSME ecosystem capable of driving long-term, inclusive, and sustainable national development.

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