



International Journal of Research Publication and Reviews

Journal Homepage: www.ijrpr.com ISSN 2582-7421

The Growth of Small Scale Industries in India

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ABSTRACT

Small Scale Industries (SSIs) have played an important role in the industrialisation and economic development of India. Although the terminology and classification of small-scale enterprises have evolved over time, the sector continues to occupy an important position within the Micro, Small and Medium Enterprises (MSME) framework. Small enterprises contribute to employment generation, entrepreneurship development, manufacturing activity, exports and regional industrialisation. The present study examines the growth and changing importance of small-scale industries in India using secondary data obtained from government publications, Economic Surveys, Ministry of MSME reports and published research studies. The study finds that the small-enterprise sector has gradually moved from a protected, employment-oriented sector towards a more competitive and technology-oriented MSME ecosystem. Recent policy initiatives have emphasised formalisation, access to finance, digitalisation, technology adoption, infrastructure, skill development and market access. At the same time, access to institutional finance, technology, skilled labour, markets and timely payments continue to influence the growth of small enterprises. The study concludes that sustained growth of small-scale industries requires an integrated approach combining finance, technology, infrastructure, skills and market linkages.

Keywords: Small Scale Industries, MSMEs, Industrial Growth, Employment, Entrepreneurship, Manufacturing, India.

1. Introduction

Industrialisation is an important component of economic development. In a developing economy such as India, industrial development is not confined to large-scale industries. Small enterprises have historically provided an important base for employment generation, entrepreneurship and decentralised industrial development.

The small-scale industrial sector emerged as a major component of India's industrial policy after Independence. The sector received considerable policy support through credit facilities, reservations, subsidies, industrial estates, training programmes and marketing assistance. Over time, economic reforms and globalisation changed the operating environment of small enterprises. Competition increased, but opportunities for exports, technological upgrading and integration into larger supply chains also expanded.

The present MSME framework recognises micro, small and medium enterprises according to investment and turnover. From 1 April 2025, the revised classification increased the investment and turnover thresholds, enabling enterprises to grow while retaining MSME status. ([MSME](#))

The Economic Survey 2024–25 identified MSMEs as an important part of India's industrial development and emphasised reforms, competitiveness, technology adoption and integration with supply chains.

2. Review of Literature

Anderson (1982) examined the importance of small industries in developing countries and highlighted their contribution to employment and industrial development.

Little, Mazumdar and Page (1987) examined employment and productivity characteristics of small-scale industries in developing economies and discussed the relationship between enterprise size, productivity and employment.

Tyler (1988) analysed the growth of small-size enterprises in India and questioned whether quantitative growth necessarily resulted in improvements in efficiency, innovation and social objectives. ([ScienceDirect](#))

Mazumdar (1991) examined the role of small firms in Indian manufacturing and demonstrated that the relative presence of small firms varied according to industry characteristics and economies of scale.

Bairagya, Bhattacharya and Bhattacharjee (2020) found that access to credit has a positive effect on the earnings of self-employed businesses in India. ([ScienceDirect](#))

Gunjati and Adake examined innovation among Indian SMEs and observed that technological and innovation capabilities are important for improving the competitiveness and growth prospects of small enterprises. ([ScienceDirect](#))

The literature therefore indicates that the growth of small enterprises depends not merely on their numerical expansion but also on productivity, access to finance, innovation, technology and markets.

3. Objectives of the Study

1. To examine the growth of small-scale industries in India.
2. To study the contribution of small enterprises to manufacturing and economic activity.
3. To examine the changing policy environment affecting small enterprises.
4. To identify major factors influencing their growth.
5. To suggest measures for sustainable growth of small enterprises.

4. Methodology

The study is based entirely on **secondary data**.

Data and information have been collected from:

- Ministry of MSME, Government of India
- Economic Survey of India
- NITI Aayog reports
- Ministry of Statistics and Programme Implementation
- RBI publications
- Published research articles and academic literature

The study adopts a **descriptive and analytical research design**. Trend analysis and comparative interpretation have been used to understand the development of the small-enterprise sector.

5. Results and Discussion

5.1 Expansion of the MSME ecosystem

The Government of India reported that the MSME sector had more than **6.30 crore enterprises** by the end of 2024, illustrating the enormous scale of the sector. The Ministry also identifies credit, technology, infrastructure, skills and market assistance as major areas of policy intervention. ([Press Information Bureau](#))

The growth of the sector demonstrates the importance of entrepreneurship beyond large industrial centres.

5.2 Contribution to GDP

Official data indicate that MSME Gross Value Added constituted approximately **29.1% of India's GDP in 2021–22**. MSME manufacturing output represented approximately **36.2% of total manufacturing output** in the same year. ([Press Information Bureau](#))

These figures demonstrate that small and medium enterprises are not merely supplementary economic units but important contributors to India's productive capacity.

5.3 Contribution to exports

MSME-related products accounted for approximately **43.6% of India's exports in 2022–23**, according to Government of India data. ([Press Information Bureau](#))

This indicates increasing integration of smaller enterprises with domestic and international markets.

5.4 Employment generation

One of the major advantages of small enterprises is their relatively labour-intensive nature. They require comparatively smaller amounts of capital for generating employment and can operate in smaller towns and rural areas.

Therefore, small enterprises contribute not only to production but also to livelihood generation and regional economic development.

5.5 Digitalisation and technological change

Digital platforms have created new opportunities for small enterprises in marketing, payments, procurement and supply-chain management.

Research using World Bank Enterprise Survey data covering 9,024 Indian MSME firms found a relationship between digital adoption and indicators such as sales growth, employment and labour productivity. ([ScienceDirect](#))

Thus, digitalisation is becoming an important component of small-enterprise competitiveness.

5.6 Major constraints

Despite considerable growth, small enterprises continue to face:

- Limited access to affordable finance
- Delayed payments
- Technology gaps
- Inadequate managerial capabilities
- Skilled labour shortages
- Marketing constraints
- Infrastructure limitations
- Difficulty in entering international markets

The Government's RAMP programme specifically identifies credit, technology, markets, infrastructure and delayed payments among important MSME constraints. ([MSME RAMP Portal](#))

6. Conclusion

Small Scale Industries have undergone significant transformation in India. From a protected industrial sector focused primarily on employment and decentralisation, the sector has evolved into a diverse MSME ecosystem connected to manufacturing, services, exports and digital markets.

The evidence indicates that MSMEs make substantial contributions to GDP, manufacturing output, exports and employment. However, numerical expansion alone cannot ensure sustainable industrial development. Productivity, innovation, technology, finance and market access are equally important.

The future growth of small enterprises therefore depends on improving access to institutional finance, encouraging technology adoption, strengthening industrial clusters, developing skills, reducing payment delays and improving market connectivity. A coordinated policy approach can enable small enterprises to become more productive, competitive and resilient.

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