Transform Rural India

IDinsight

State of Rural Entrepreneurship in India 2026



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Executive Summary

To achieve the Honourable Prime Minister's vision of Viksit Bharat, India needs to create approximately 7 to 8 million jobs each year until 2036. However, India is facing an employment challenge with limited job creation in large industries and underemployment in agriculture, where 46 percent of the workforce contributes only about one-fifth of national income. At the same time, rural India is emerging as an important source of demand. Rural monthly per-capita consumption expenditure grew by 9.2 percent in 2023–24, faster than the 8.3 percent increase in urban areas. India's large base of rural non-farm enterprises therefore presents an opportunity to create employment outside agriculture and enable rural economies to capture a greater share of the value generated by rising rural consumption.

This report examines the state of rural entrepreneurship in India in 2026 and explores the role of rural enterprises in creating jobs. It focuses on mini and nano rural enterprises, defined in this report as enterprises with investments of up to Rs 25 lakh. Using unit-level data from the Annual Survey of Unincorporated Sector Enterprises (ASUSE) 2025, the report estimates that India has around 43.1 million such enterprises. Of these, 41.8 million are nano enterprises with investments below Rs 5 lakh, while 1.2 million are mini enterprises with investments between Rs 5 lakh and Rs 25 lakh.

A defining characteristic of India's rural enterprise landscape is the dominance of own-account enterprises, defined as enterprises operated by owners alone or with unpaid family labour. There are around 40 million own-account enterprises, accounting for 93 percent of the total. In contrast, only 7 percent i.e. around 3 million enterprises are hired-worker enterprises employing at least one paid worker. Despite their small share, hired-worker enterprises employ 8.4 million hired workers.

The report examines what distinguishes own-account enterprises from hired-worker enterprises. Hired-worker enterprises have twice the value added per worker at Rs 1.88 lakh compared with Rs 0.99 lakh for own-account enterprises. In addition, their value added per establishment is around seven times higher, and they hold approximately six times the fixed assets. Hired-worker enterprises employ an average of 4.5 workers per establishment, creating wage income that can generate further demand within rural economies. These differences however do not imply a causal relationship between hiring employees and higher productivity. They indicate that enterprises that transition from self-employment to employing others look different from those that remain owner-operated.

The report also finds that hired-worker enterprises are more likely to have owners with higher educational attainment, and access to formal bank accounts, and computers. They are less likely to be women-owned or owned by members of Scheduled Castes and Scheduled Tribes. Women own around 28 percent of rural enterprises but only 1.1 percent of women-owned enterprises employ hired workers, compared with 9 percent of men-owned enterprises. These differences indicate that the barriers to enterprise growth may not only be financial. The barriers may also include unequal access to productive assets, technology, networks, and control over business decisions.

An Uneven Playing Field

Rural enterprises face challenges in accessing finance, markets, capabilities, and infrastructure. Only 11.8 percent of mini and nano rural enterprises have an outstanding loan, and only 4.6 percent borrow from a commercial bank. The Pradhan Mantri MUDRA Yojana has expanded the reach of collateral-free lending, but 78 percent of its loans are below Rs 50,000. Such small-ticket loans can help sustain self-employment, but they may be insufficient for enterprises seeking to invest in equipment, expand production, or hire workers. The challenge is not only to increase the volume of credit, but also to design financial products that help already existing enterprises scale.

Access to larger markets is another challenge. Only around 8.5 percent of rural enterprises manufacture under contract for a larger buyer and among these, 90 percent supply exclusively to a single buyer. Franchising accounts for only 0.1 percent of enterprises while direct exports are negligible. Even when small enterprises gain access to larger buyers, delayed payments constrain their ability to operate and grow. An estimated Rs 7-8 lakh crore is locked up in delayed payments to MSMEs, and public entities account for nearly 40 percent of the value of delayed payments owed to MSMEs. For small enterprises that already face high borrowing costs, delayed payments further reduce the working capital available for productive investment.

Entrepreneurs' skills and business capabilities are also important. However, the policy response cannot be limited to short classroom-based training. Policy support needs to focus on sustained capability building in bookkeeping, inventory management, production planning, financial management, customer engagement, and marketing. Similarly, digital adoption remains limited among smaller rural enterprises and around 30.9 percent of enterprises use the internet and 17.2 percent use internet banking, but only 3 percent use computers and 2.7 percent make online sales. Digital platforms can improve access to markets, but connectivity or onboarding alone is unlikely to transform enterprise outcomes. Digital commerce needs to be combined with aggregation, logistics, working capital, quality assurance, fulfilment systems, and business support.

Rural enterprises also lack access to the technological, physical, and institutional infrastructure required for modern production. Converting locally available products such as millets, honey, fruits, or spices into consumer-ready goods requires packaging, testing, FSSAI-compliant production, co-packing, cold chains, branding, and distribution. Much of this infrastructure remains concentrated in urban and industrial clusters. Hence, value added products like "millet energy-bar" are more likely to be developed in cities where this infrastructure is available than in the rural areas where the producers of raw materials like millets and honey are based.



A Modernisation Agenda: Segment and Aggregate

This report argues for differentiated support for selected growth-oriented own-account enterprises to enable them to scale, improve productivity, access larger markets, and recruit workers. Many own-account enterprises may be a response to limited wage employment or underemployment in agriculture and may not seek to become employer firms. The policy objective should therefore be to identify enterprises with the potential and intention to grow, while creating alternative pathways to scale for others to achieve scale.

For these growth-oriented enterprises, support should go beyond isolated loans or short training programmes. What is required is a package combining adequate capital, sustained business capability support, technology, market access, and shared production infrastructure. The precise package should depend on the constraints faced by each enterprise, rather than applying every intervention to every firm.

For small producers for whom hiring may not be possible, scale can be achieved through aggregation. Cooperatives, Farmer Producer Organisations, and producer companies can enable small enterprises to aggregate production, undertake value addition, share infrastructure, improve bargaining power, and access larger markets. However, creating collectives alone is not sufficient. Their sustainability depends on professional management, working capital, infrastructure, and reliable market linkages.

Five priorities emerge from this approach. First, enterprise policy should measure transitions to hired-worker enterprises and improvements in productivity rather than only the number of loans sanctioned, firms registered, or entrepreneurs trained. Second, enterprise support should be segmented, with intensive assistance for growth-oriented enterprises and aggregation for those that may benefit from collective scale. Third, standalone schemes for enterprise development should give way to packages that address multiple constraints together. Fourth, shared production and market infrastructure should be treated as a public good for small enterprises that cannot afford to access it independently. Finally, rural enterprise development requires coordination between the Union and state governments. The Union Government can shape the financial and regulatory architecture, while states can adapt interventions to local sectors, strengthen market linkages and coordinate delivery across programmes and institutions.

It is important to note that the evidence on enterprise development remains incomplete for several important questions. ASUSE provides a detailed picture of enterprises at a point in time but does not follow individual firms to show which survive, fail, grow, or transition from own-account to hired-worker status. Rigorous evidence also remains limited on whether FPO aggregation, digital commerce, and shared production infrastructure generate sustained gains in enterprise income, productivity, and employment. India needs a longitudinal rural-enterprise panel, or a tracking component added to ASUSE, to understand not only what growing enterprises look like but the pathways through which they grow.

India already has a large number of rural enterprises. The challenge is not to create more small enterprises but to enable those that already exist to become more productive, achieve scale, and create jobs. Even if a relatively small share of growth-oriented enterprises is able to invest, expand, and create employment, the effects on rural jobs and incomes could be significant. Rural enterprises cannot by themselves solve India's employment challenge. However, their close connection to local production and consumption makes them an important lever for creating jobs, raising rural incomes, and contributing to India's broader economic growth.


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Introduction:
Why Rural Enterprise, Why Now

This report is written for government policymakers, rural development practitioners, and researchers who are involved in rural enterprise development and committed to creating a level playing field for rural entrepreneurs. In this white paper, we argue that non-farm enterprises are among India's most under-used instruments for creating jobs and raising incomes, and that comprehensive, well-targeted policies to support rural enterprises could help tackle employment challenges that the country is grappling with. India is facing an employment challenge that neither agriculture nor large industry is able to resolve and India's roughly 43 million mini and nano enterprises already operating in rural India represent an opportunity to generate employment, raise incomes, and drive more inclusive growth.

This white paper focuses on two questions. First, what is the state of rural enterprise in 2026: how many enterprises are there, how productive are they, what challenges do they face, and why do so few grow to employ workers? Second, what would help rural enterprises sustain and create jobs?

Using ASUSE 2025, we distinguish between an own-account enterprise (OAE) which is run by the owner alone or with unpaid family labour, and a hired-worker enterprise (HWE) which employs at least one paid worker. Since 93 percent of rural enterprises are OAEs,[1] this paper argues that enabling growth-oriented enterprises to transition from OAEs to HWEs is critical for generating jobs, improving productivity and enhancing rural prosperity.

The Employment Challenge

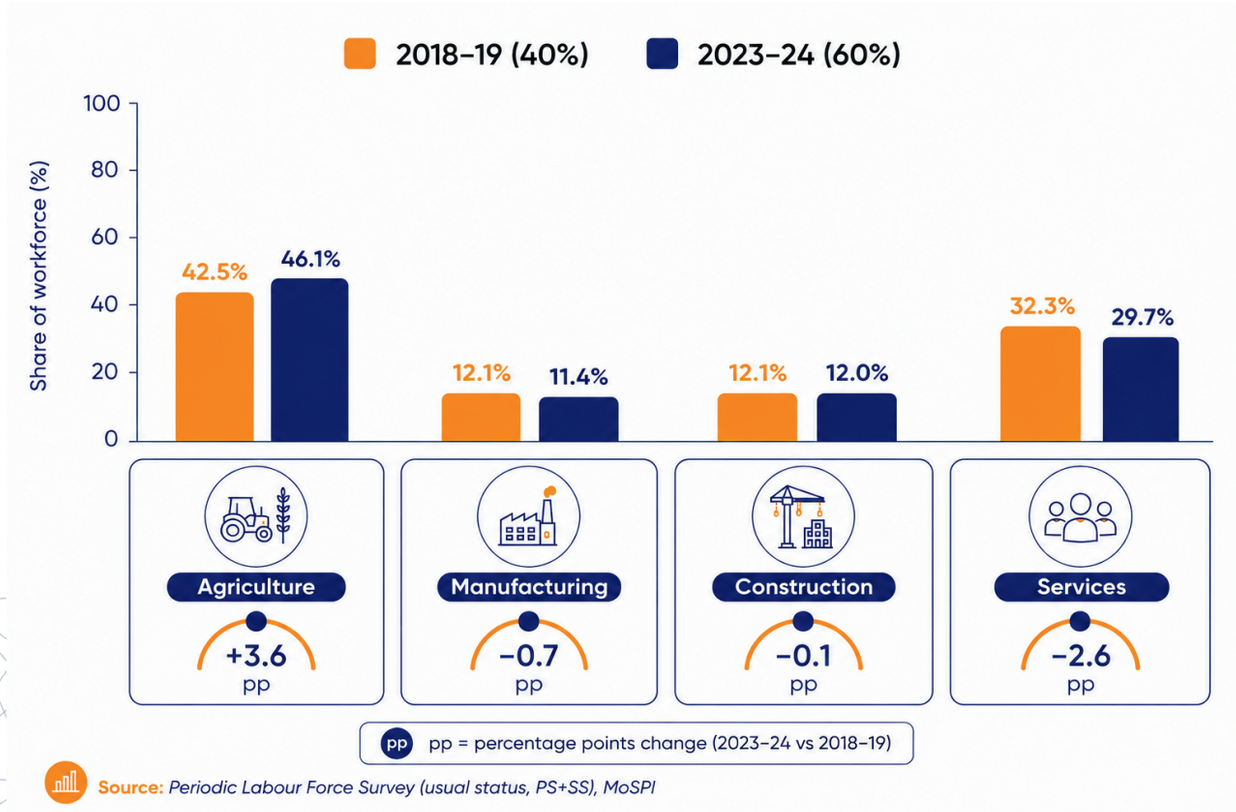
India is facing an acute employment challenge and the economy is not generating enough formal jobs to absorb the young people joining the labour force each year. According to the ILO, around 7-8 million young people will join the labor force each year over the next decade,[1] while AISHE estimates that 11 million young people graduated from higher education and diploma programs in 2023-24[2]. The transition from college/university graduation to employment remains a persistent challenge with graduate unemployment among 15–25-year-olds at 40% and 20% among 25–29-year-olds[3]. The Government of India estimates that India needs to create around 78.5 lakh non-farm jobs every year until 2036 to absorb the expanding workforce, rising female labour force participation, and movement of workers out of agriculture[4].

This is an important juncture in India's growth story towards Viksit Bharat 2047, as the country is approaching the peak of its demographic dividend, with the share of the working-age population expected to begin declining after 2030. India remains one of the fastest-growing major economies in the world but economic growth has not translated into sufficient job creation for people.

[1] Authors' analysis of ASUSE 2025 unit-level data. Unless noted, all ASUSE figures are the authors' weighted estimates.
[2] ILO & Institute for Human Development, India Employment Report 2024. All India Survey on Higher Education (AISHE) 2021-22, Ministry of Education.
[3] Ministry of Education. (2024). All India Survey on Higher Education (AISHE) 2023-24. Government of India.
[4] Azim Premji University. (2026). State of Working India 2026: Youth in the Labour Market. Centre for Sustainable Employment.
[5] Government of India, Ministry of Finance. (2024). Economic Survey 2023-24 (Ch. 8: Employment and Skill Development).

State of Working India 2023 report by Azim Premji University estimates the elasticity of non-agricultural employment to non-agricultural output growth to be 0.47 between 1990-2019 which is much lower than the average of 0.7 witnessed in other developing countries[1]. The report finds virtually no relationship between GDP growth and employment growth. An even greater concern in recent years is that India's structural transformation has reversed with agriculture's share of employment increasing from 42.5 percent in 2018-19 to 46.1 percent in 2023-24. The share of manufacturing employment remained flat at 11-12 percent during this period while that of services' declined. Another concerning aspect is that job growth has remained weak among India's largest non-financial firms. While in FY 2024 their profit increased by 22.3 percent their employment grew only by 1.5 percent[2]. India's largest IT companies are increasingly facing AI-related restructuring challenges and the jobs there have stagnated or reduced which could eventually affect consumption.[3] Looking forward, the AI-related challenge is likely to grow, potentially threatening many service-sector jobs that have been integral to India's growth story since the 1991 economic reforms.

Figure 1: Sector wise share of total workers



In the context of rapid technological change, slowing job creation in the services sector, limited jobs growth among large firms, and rapidly shrinking demographic dividend, the rural non-farm enterprises could become an important engine of job creation in India. This white paper adopts this perspective throughout.

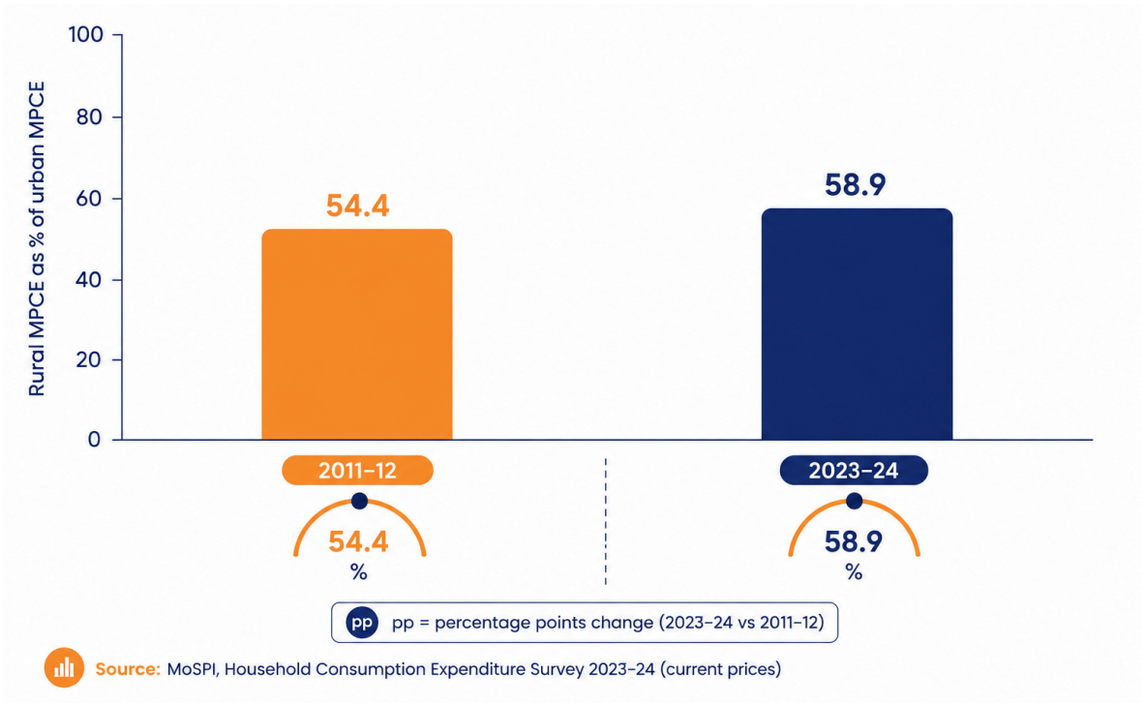
[1] Azim Premji University. (2023). State of Working India 2023. Centre for Sustainable Employment
[2] Government of India, Ministry of Finance. (2025). Economic Survey 2024-25 (Ch. 12: Employment and Skill Development)
[3] Shritama Bose, "AI job shock risks throttling India's consumption," Reuters Breakingviews, April 30, 2026.

Why Rural Enterprise Matters for Rural Consumption and Growth

In the decade from 2016 to 2025, agriculture and allied sectors registered an annual growth of 4.4 percent, higher than in previous decades. However, this growth was driven by growth in the livestock sector (7.1 percent) and fisheries (8.8 percent) with crops growing at 3.5 percent per annum. Overall, agriculture continues to exhibit low productivity by contributing nearly one-fifth of national income while employing 46 percent of India's workforce[1]. With large industries absent from rural India, and low productivity in the agriculture sector, rural non-farm enterprises become an important pathway through which rural income and productivity could rise. Historically, the expansion of the non-farm sector from 2004-05 to 2011-12 coincided with sharp decline in rural poverty[2].

Rural India is also emerging as an important demand base. Rural monthly per-capita consumption expenditure (MPCE) grew by 9.2 percent in 2023-24, faster than urban India's 8.3 percent, and rural MPCE has risen from 54.4 percent of the urban level in 2011-12 to 58.9 percent in 2023-24, narrowing the urban-rural gap from about 84 percent to 70 percent[3]. Factors such as remittances from migration to urban areas and direct cash transfers through various state and central government programs may have contributed to this increase in rural consumption growth.

Figure 2: Share of Rural Consumption to Urban



[1] Government of India, Ministry of Finance. (2026). Economic Survey 2025-26 (Ch. 6: Agriculture and Food Management).
[2] Shiba Shankar Pattayat & Jajati Keshari Parida & I. C. Awasthi, 2022. "Reducing Rural Poverty Through Non-farm Job Creation in India," The Indian Journal of Labour Economics, Springer;The Indian Society of Labour Economics (ISLE), vol. 65(1), pages 137-160, March.
[3]Ministry of Statistics and Programme Implementation. (2024). Household consumption expenditure survey: 2023-24 — Press note. National Statistical Office, Government of India.

This presents an opportunity if rural India is able to capture this increased consumption by providing goods and services created in rural areas by rural enterprises rather than allowing it to go to distant urban firms. One important mechanism to capture this is through hired-worker enterprises (HWE) which could further stimulate the rural economy by providing wage opportunities thus increasing household income and consumption[1]. The report finds that higher-income states such as Kerala, Tamil Nadu, Maharashtra, and Gujarat tend to have higher proportion of HWEs and higher rural MPCE compared to lower-income states such as Uttar Pradesh, Bihar, and Madhya Pradesh.

Transform Rural India (TRI) argues that India needs a productivity revolution to get out of this "low-equilibrium web" of low supply, low demand, low productivity, and low innovation. It identifies the expansion of HWEs within the rural enterprise ecosystem as a critical mechanism for increasing rural non-farm employment in India[2]. The TRI report also argues that manufacturing-oriented rural enterprises generate a "2–3x output impact because of denser backward and forward linkages."

Lastly, rural micro-enterprises are important because they provide essential services to the rural economy. For example, kirana shops account for a large share of FMCG sales while banking correspondents provide last-mile banking services to people. Strengthening rural enterprises also strengthens rural service delivery.



[1] Transform Rural India. (2025). Mass Flourishing: Mini and nano rural enterprises.
[2] Ibid.

The Rural Enterprise Landscape/State of Rural Entrepreneurship 2026

A. Defining the Segment: Mini and Nano Rural Enterprises

India's official definition of micro enterprises includes enterprises with investment of up to Rs 2.5 crore and turnover of up to Rs 10 crore. This is a very wide band and there is no official definition of smaller units within it, such as nano or mini, which make up most of the enterprises in rural India. There are several working definitions like Transform Rural India's investment bands definition which include investments between Rs 1-5 lakh for nano enterprises and between Rs 5–25 lakh for mini enterprises[1]. Kerala defines nano enterprises as those with fixed and working capital investments up to Rs 10 lakh[2]. A similar threshold was recommended by the Parliamentary Standing Committee on Industry for the nano enterprise category[3]. This report categorizes Nano units as those with investment of up to Rs 5 lakhs and Mini units with investment between Rs 5–25 lakh. These units are together labelled as mini-and-nano rural enterprises (MNREs).

Applying this classification to ASUSE data, the report finds that rural entrepreneurship in India is overwhelmingly a mini-and-nano phenomenon. India has around 43 million MNREs, of which 41.8 million are nano units and 1.2 million are mini units. Together, 43 million MNREs account for 99.8 percent of rural enterprises, while only around 0.1 million units have investment above ₹25 lakh. Hiring of employees in these enterprises also differs by this band. Among nano units, 94 percent are own-account enterprises and only 6 percent hire workers. However, among mini units, 64 percent are own-account enterprises and 36 percent hire workers indicating that hiring is considerably more common among enterprises with larger investments.

Table 1: Rural enterprises by investment band and hiring status

Segment	Number (million)	Share of rural units	Own-account	Hire ≥1 worker
Nano (≤Rs 5 lakh)	41.8	97.1%	93.9%	6.1%
Mini (Rs 5–25 lakh)	1.2	2.7%	63.9%	36.1%
MNRE (Nano + Mini)	43.0	99.8%	93.1%	6.9%
Above Rs 25 lakh	<0.1	0.2%	–	–
All rural establishments	**43.1**	100%	**92.9%**	**6.9%**

Source: Authors' analysis of ASUSE 2025

[1] Transform Rural India. (2025). Mass Flourishing: Mini and Nano Rural Enterprises
[2] Government of Kerala, Industries (B) Department. (2020). Scheme for Margin Money Grant to Nano Units [G.O.(Rt) No. 616/2020/ID
[3] Rajya Sabha Standing Committee on Industry. (2026). 333rd Report: Demands for Grants (2026-27), Ministry of MSME

Most of the MNREs are household-based, owner-run units. Of these, 65 percent enterprises are run by a male sole proprietor and 28 percent by a female sole proprietor. About 45 percent of MNREs operate from household premises, and 80 percent have a bank or post-office account. In terms of social group, 52 percent of the enterprises are run by owners from Other Backward Classes, 15 percent from Scheduled Castes, and 7 percent from Scheduled Tribes. Further, 48 percent of owners have completed secondary education or higher, and about 8 percent hold a vocational or technical qualification. Overall, the MNREs employ about 8.4 million hired workers of whom 6.7 million are men and 1.7 million are women. Lastly, 81 percent of MNREs have existed for more than three years indicating the survival of these units.

Figure 3: Number of Rural Enterprises

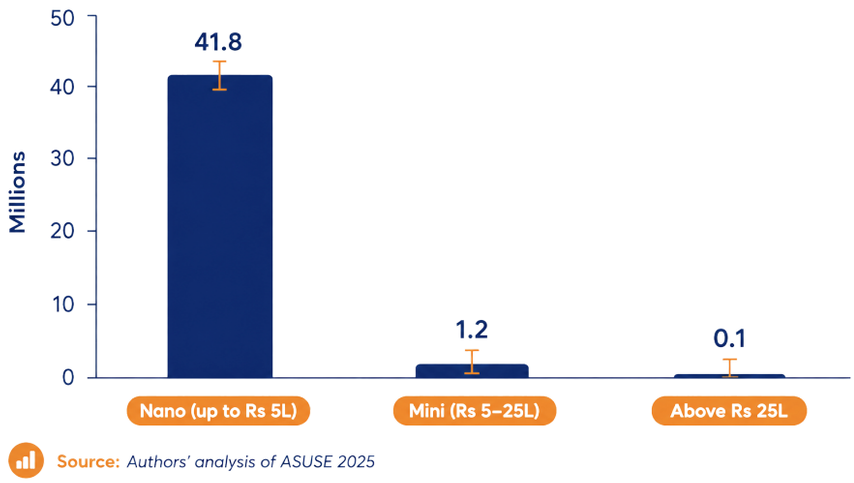
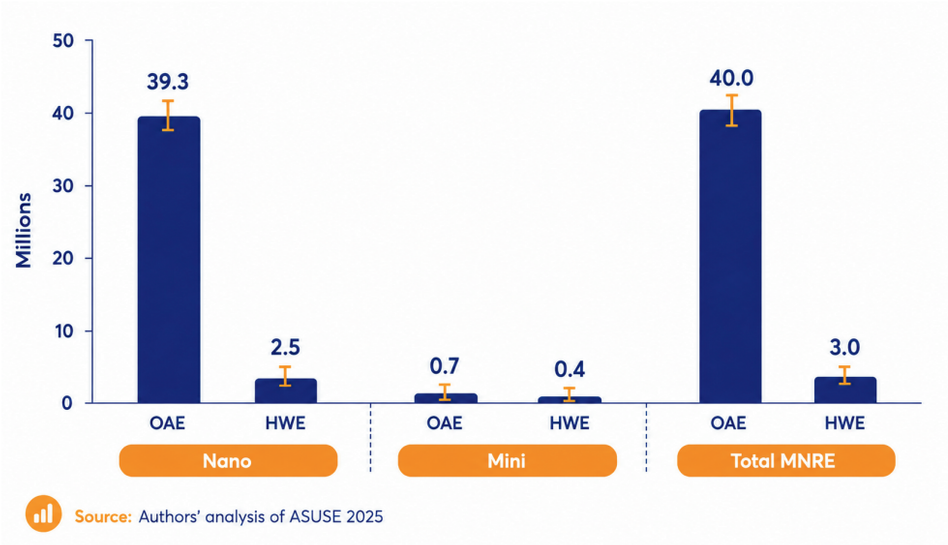


Figure 4: Composition of Rural Enterprises



Overall, this suggests that India has a very large number of small, household-based enterprises operating with limited capital and relying primarily on family labour. While only a minority employ hired workers, these enterprises collectively support millions of rural jobs. Their scale implies that even modest improvements in productivity and access to finance, technology, or markets could have economy-wide implications for rural incomes and employment.

Size and Trends of Rural Enterprises

Applying the classification mentioned in the previous section, India has 43 million mini-and-nano rural enterprises (MNREs), of which 40 million (93 percent) are own-account enterprises (OAEs) and about 3 million (7 percent) are HWEs employing at least one paid worker. By sector, 18 million (42 percent) enterprises are engaged in services, 13 million enterprises (30 percent) in manufacturing, and 12 million (28 percent) in trading.

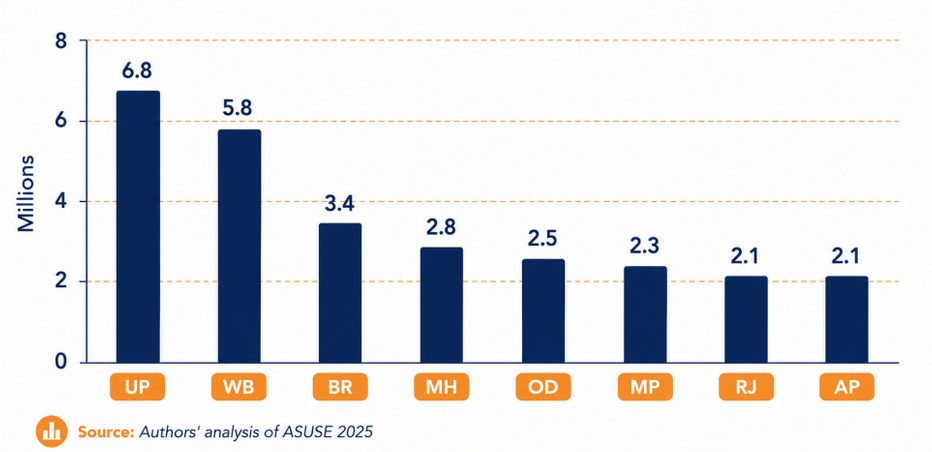
Table 2: Rural enterprises by sector

Sector	Units (million)	Share	OAEs	HWEs
Other services	18.0	42%	38.7%	3.3%
Manufacturing	13.0	30%	28.4%	1.7%
Trade	12.0	28%	25.8%	2.1%
All	43	100%	93.1%	6.9%

Source: *Authors' analysis of ASUSE 2025*

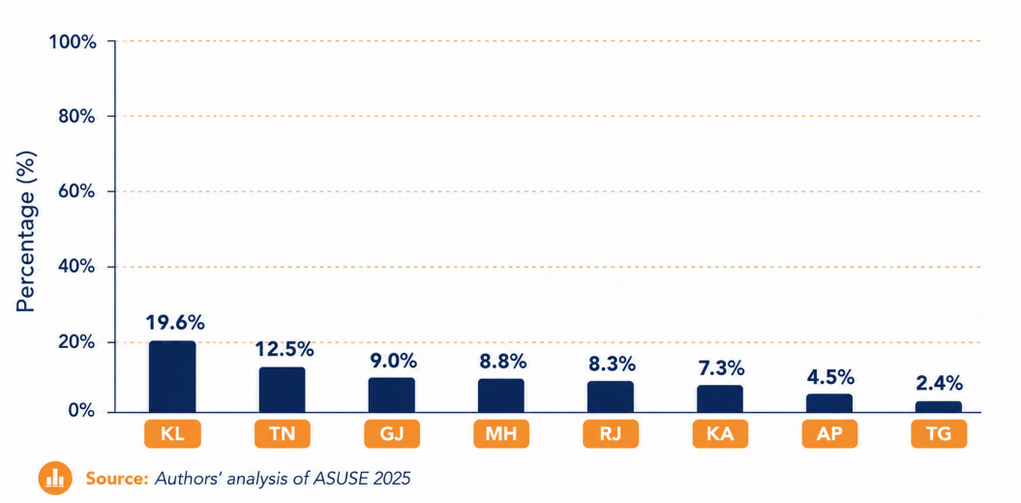
The distribution of rural enterprises varies across states. The largest states in terms of MNREs are Uttar Pradesh (6.8 million), West Bengal (5.8 million), Bihar (3.4 million), and Maharashtra (2.8 million). However, when HWEs are considered as a proportion of total MNREs, a different picture emerges. Kerala has the highest share of HWEs at 19.6 percent, followed by Tamil Nadu at 12.5 percent. Among the larger states, the share is lowest in Telangana at 2.4 percent and Andhra Pradesh at 4.5 percent. In Uttar Pradesh, Bihar, and Madhya Pradesh HWEs are 6.4 percent, 4.8 percent and 4.6 percent of total MNREs in the state, respectively. These differences suggest that enterprise ecosystems in some states may be more conducive to hiring workers, while much of rural India continues to be dominated by OAEs.

Figure 5: Rural Enterprises - Largest States



Source: *Authors' analysis of ASUSE 2025*

Figure 6: Percentage of HWEs in Select States



Source: *Authors' analysis of ASUSE 2025*

Looking at the formalisation within ASUSE data we find that around 33 percent of the rural units are registered under some Act. Separately, 19 percent of the MNREs hold some kind of state/trade/panchayat licence, 1.8 percent have GST registration, and 1.2 percent hold Udyam registration. These figures should be interpreted with caution as ASUSE asks two different questions, one pertaining to registration under any act and the other one related to licenses (with options like GST, Udyam registration and state/trade/panchayat licence).

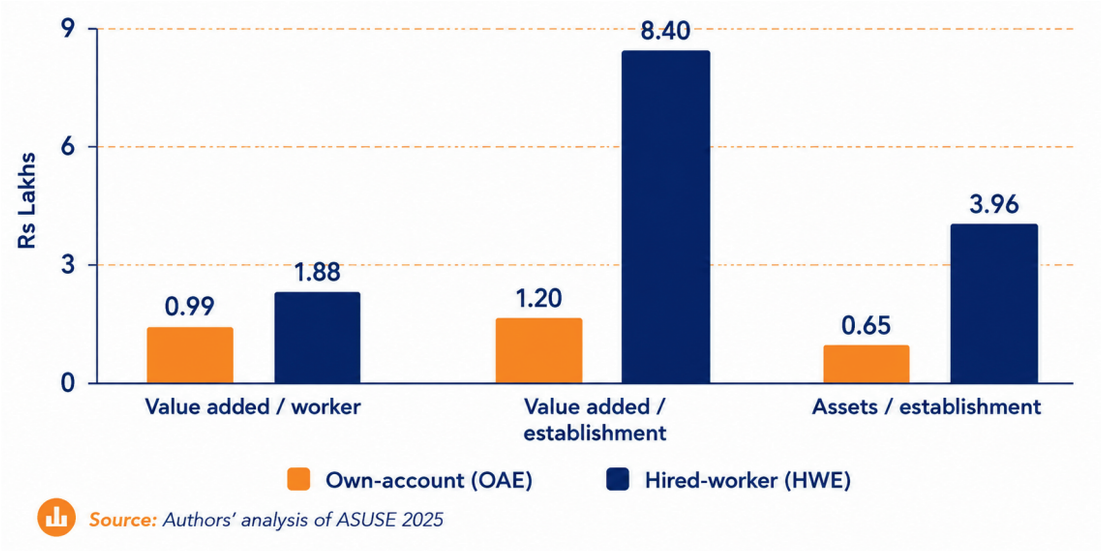
OAEs and HWEs differ sharply in their productivity and capital investments. Value added per worker is Rs 1.2 lakh across all rural enterprises compared with 1.8 lakh in urban enterprises. Within rural India, OAEs have lower productivity at Rs 1 lakh value added per worker compared with Rs 1.9 lakh value added per worker in HWEs. The difference is even more pronounced looking at value added per establishment. For OAEs the value added per establishment is Rs 1.2 lakh while for HWEs it is Rs 8.4 lakh per establishment - seven times higher. OAEs are asset-light, with Rs 0.65 lakh average assets per establishment compared with Rs 3.96 lakh for HWEs. By definition, OAEs do not employ hired workers whereas HWEs employ an average of 4.5 workers per establishment. Average annual pay per hired worker is Rs 1.2 lakh in rural areas compared with Rs 1.5 lakh in urban areas.

Table 3: Productivity and capital: own-account vs hired-worker (rural)

Measure	Own-account (OAE)	Hired-worker (HWE)	Urban (all)
Value added per worker	Rs 0.99 lakh	Rs 1.88 lakh	Rs 1.84 lakh
Value added per establishment	Rs 1.2 lakh	Rs 8.4 lakh	-
Fixed assets per establishment	Rs 0.65 lakh	Rs 3.96 lakh	-
Workers per establishment	1.2	4.5	-
Annual pay per hired worker	-	Rs 1.20 lakh	Rs 1.50 lakh

Source: *Authors' analysis of ASUSE 2025*

Figure 7: The productivity and assets jump from hiring



These findings suggest that the central challenge is not increasing the number of rural enterprises but enabling existing enterprises to transition from low-capital, owner-operated businesses into more productive employer enterprises capable of generating better jobs, higher incomes, and sustained local economic growth.

Women Owned Enterprises

Women-owned enterprises are important from both equity and economic growth perspectives. McKinsey estimates that closing gender gaps in economic participation could add roughly US$700-770 billion to India's annual GDP. Women account for roughly half of India's working-age population but contribute only around 17-18 percent of GDP[1], while accelerating women's entrepreneurship could create 150-170 million jobs by 2030[2].

ASUSE 2025 data show that around 28 percent of rural enterprises are women-owned and operated by female sole proprietors. Most of the women-owned units (65 percent) are concentrated in the manufacturing sector (mainly tailoring and bidi-making). Trading accounts for 15 percent while services account for 10 percent of women-owned enterprises. Women's ownership declines sharply with enterprise size from 29 percent ownership of nano units to about 1.5 percent ownership of mini units. The contrast between women-owned enterprises and men-owned enterprises paints a picture of low capital investment and productivity. Average productive assets in women-owned units are much lower at Rs 14,500 compared with Rs 1.2 lakh per unit in men-owned enterprises. This results in only a few women-owned achieving scale by recruiting paid employees. Only 1.1 percent of women-owned enterprises recruit employees (HWEs) compared to 9 percent of men-owned enterprises. Productivity of women-owned enterprises is low with value added per worker at Rs 54,000 compared to Rs 1.33 lakhs in men owned enterprises.

[1] The Power of Parity: Advancing Women's Equality in India; and McKinsey Global Institute. (2018)
[2] Bain & Company & Google. (2019). Powering the Economy with Her: Women Entrepreneurship in India

Access to credit remains a challenge and only 3.3 percent of women-owned enterprises have taken a loan as compared to 9.6 percent of men owned enterprises. Further 1.3 percent of the female owned firms borrow from formal institutions compared with 3.9 percent in male owners. A report by the International Finance Corporation notes that formal institutions meet only about 30 percent of the demand for finance in female owned enterprises, leaving a gap of 1.37 lakh crore[1]. Studies also indicate that female entrepreneurs face twice the rejection rate faced by men[2]. A lack of collateral, first time borrowers having thin credit history, and lender's perception of female enterprises as high risk are some of the barriers female owned enterprises face.

Policymakers have made efforts to increase women's access to credit. Under the Pradhan Mantri MUDRA Yojna, women hold 60 percent of loan accounts but received only 37.5 percent of the total amount disbursed[3]. While the overall average loan amount was Rs 1.02 lakh, women received an average of Rs 62,679, far below the overall average. The 333rd Report of the Parliamentary Standing Committee on Industry further notes that two key Union Budget 2025–26 announcements on credit provision remain unoperationalized nearly a year after their announcement: customised credit cards for micro enterprises, targeting 10 lakh enterprises in the first year, and term loans of up to Rs 2 crore for five lakh women and Scheduled Caste or Scheduled Tribe first-time entrepreneurs.[4] Policy interventions such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) have raised guarantee ceilings to address the tendency of commercial banks to favour larger units, as smaller loans can be costlier and riskier to service relative to their size.

Further, experimental evidence suggests that the apparent gender gap in returns to capital may be due to capital being diverted to male-owned enterprises within the same household. When women retain control over the capital, their returns are comparable to those of male-owned enterprises.[5] From a policy perspective, this implies that support for women's enterprises should extend beyond access to credit, with product design and support mechanisms that reinforce women's agency over business decisions and productive investments.

[1] International Finance Corporation, "Financial Inclusion for Women-owned MSMEs in India"
[2] Organisation for Economic Co-operation and Development (2023), "Bridging the Finance Gap for Women Entrepreneurs"; Observer Research Foundation analysis on women's loan rejection rates (about 19 percent for women against 8 percent for men).
[3] Press Information Bureau. (2026a, April). 11 years of Pradhan Mantri Mudra Yojana [Press release]. Ministry of Finance, Government of India.
[4] Rajya Sabha, Standing Committee on Industry, 333rd Report (Demands for Grants 2026-27, Ministry of MSME).
[5] Bernhardt, A., Field, E., Pande, R., Rigol, N. (2019), "Household Matters," American Economic Review: Insights, 1(2).

Figure 8: Women owned enterprises by Share, Sector and Size

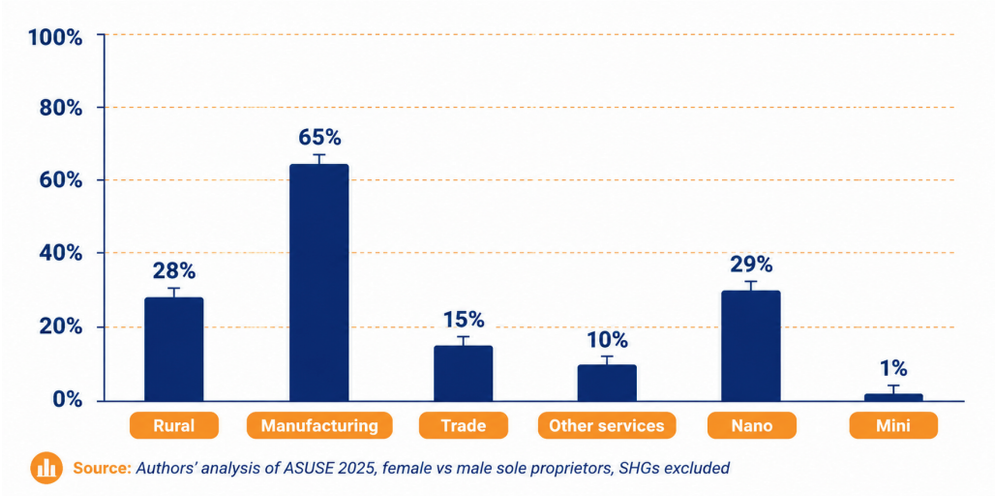


Figure 9: Women-owned vs Men-owned enterprises - Value and Assets

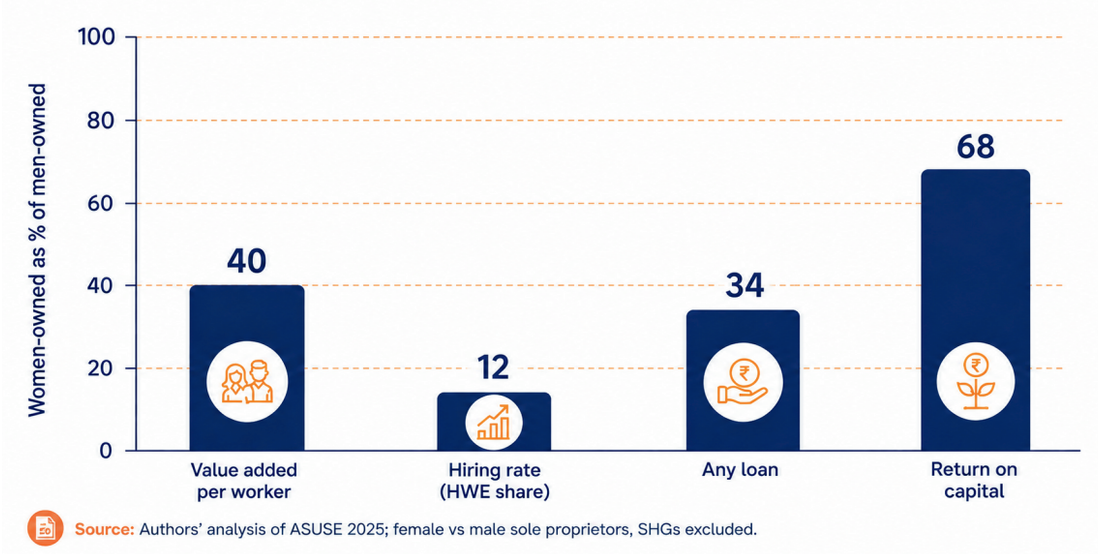
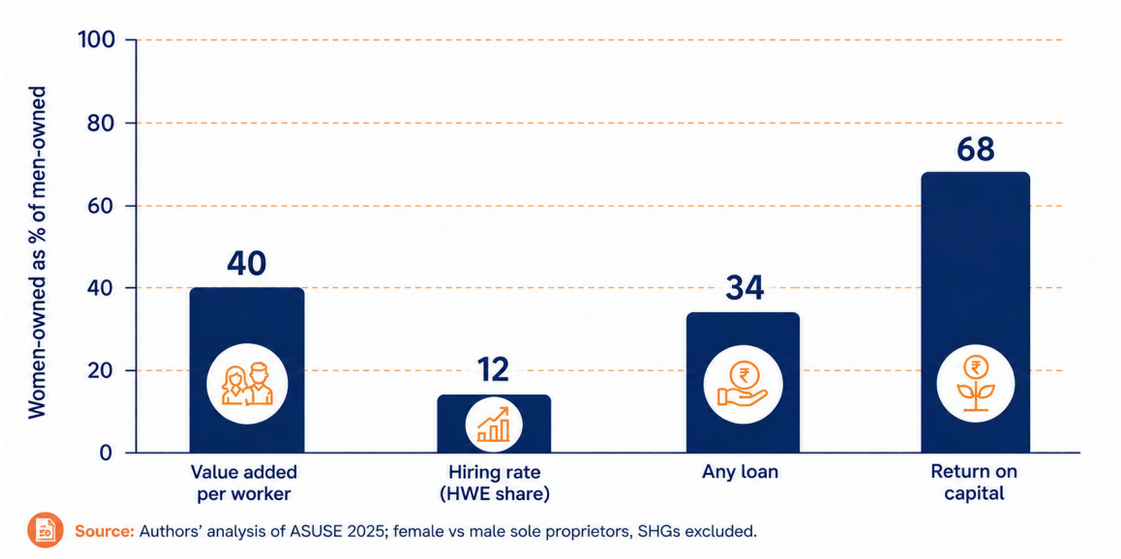


Figure 10: Women-owned enterprises relative to men-owned enterprises



From Solo to Employer: The Hiring Transition

This section explores what distinguishes enterprises that employ hired workers (HWE) from those that remain owner-operated (OAE). ASUSE 2025 shows that HWE owners perform better on key indicators associated with enterprise capability such as computer usage, educational attainment and access to formal banking. Around 17.3 percent of HWE owners use computers in their businesses, compared with 1.9 percent of OAE owners. HWE owners have higher levels of formal education compared to OAE owners with 65.6 percent having completed secondary education or above, compared with 43.5 percent of OAE owners. Similarly, HWE owners have better access to formal financial services with 92.2 percent having a bank account, compared with 79.1 percent of OAE owners. Another notable characteristic of HWE is that they are less often women-owned (4.1 percent compared with 29.6 percent) or SC/ST-owned (11.0 percent compared with 21.6 percent).

Research shows that Scheduled Caste and Scheduled Tribe entrepreneurs are under-represented in enterprise ownership, and that this cannot be explained by differences in access to capital access alone[1]. In the informal economy, hiring and credit operate through caste and kinship networks, which share information, trust, referrals, and finance within a group and are harder for those outside it to enter[2]. So the transition from solo enterprise to a hired-worker enterprise is therefore shaped by social position and networks, alongside capital and capability. Together, this indicates that transition from self-employment to employer enterprises is associated not only with greater access to human and financial capital but also with systemic barriers linked to gender and caste inequalities.

Table 4: Owners of hiring units differ from own-account owners

Owner/firm attribute	Own-account (OAE)	Hired-worker (HWE)
Uses a computer	1.9%	17.3%
Has a bank account	79.1%	92.2%
Secondary education or higher	43.5%	65.6%
Women-owned	29.6%	4.1%
SC/ST-owned	21.6%	11.0%
Operating >3 years	81.4%	82.4%

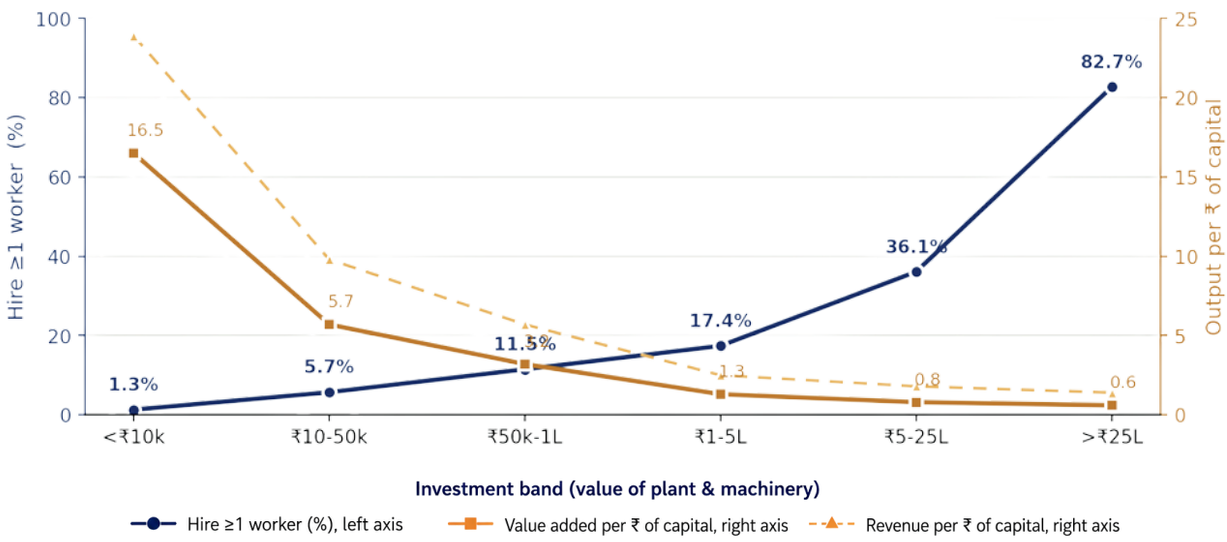
Source: Authors' analysis of ASUSE 2025

[1] Iyer, L., Khanna, T., & Varshney, A. (2013). Caste and entrepreneurship in India. Economic & Political Weekly, 48(6), 52–60.
[2] Munshi, K. (2014). Community networks and the process of development. Journal of Economic Perspectives, 28(4), 49–76. + De Neve, G. (2008). "We are all sondukarar (relatives)!": Kinship and its morality in an urban industry of Tamil Nadu, South India. Modern Asian Studies, 42(1), 211–246.

Analysis of ASUSE 2025 shows that capital investment is strongly associated with enterprise growth and that the likelihood of hiring workers increases with investment. Among enterprises with investments below ₹10,000 only 1.3 percent hire employees, while this proportion increases to 17.4 percent for an investment between ₹1 to 5 lakh and 82.7 percent for enterprises investing above 25 lakh. Interestingly, returns on capital falls as capital rises. Revenue and value added per rupee of capital decline from 23.9 and 16.5 for the investment under ₹10,000 to 1.4 and 0.6 for an investment above ₹25 lakh. This suggests that although enterprises require higher capital investments to create employment, they generate lower returns per rupee of capital as the investment increases.

Figure 11: Hiring rises with capital, but the smallest units earn the most per rupee

Rural enterprises by investment band. As invested capital rises, the hiring rate climbs from 1.3% to 82.7%, yet output per rupee of capital falls; the signature of a binding capital constraint on the smallest units.



Source: *Authors' analysis of ASUSE 2025*

Note: Dual axes: hiring rate (left) and returns to capital (right)

Beyond financial gaps, rural enterprises need supportive ecosystems to develop into employer enterprises. Capacity building through managerial training, access to wider markets, public support through policies have potential to fuel the transition into hiring enterprises. A field experiment with large textile firms in India showed intensive hands-on consulting training such as on quality control and defect tracking, machine maintenance schedules, inventory and raw-material management, production planning, and basic human-resource practices increased plant productivity by 17 percent and led firms to open additional plants in three years[1].

[1] Bloom, Eifert, Mahajan, McKenzie and Roberts (2013), "Does Management Matter? Evidence from India,"

The study also found that the firms didn't adopt these practices on their own because of the information gap, lack of knowledge among owners about best practice, and a lack of belief on these practices to matter. For MNREs, such a practical capacity building approach could improve its productivity and reach, enabling them to expand. Evidence suggests that generic classroom training which teach standard topics such as bookkeeping, marketing, and finance, produce only modest and often short-lived gains for existing firms[1]. A practical approach which builds a self-starting, forward-looking way of running a business, teaching owners to plan ahead, identify and pursue opportunities, and persist through setbacks , raised small-firm profits by 30 percent[2]. For women-owned enterprises, evidence shows that training that takes account of social norms is crucial. In a field study in Ahmedabad, a peer-based business training increased women's demand for loans and their income. The gains were concentrated among women from caste and religious groups whose social norms most restrict women's mobility[3]. Capability-building support may therefore be more effective when delivered through peer groups, particularly for women facing restrictive social norms.

Along with capacity building, access to markets with sufficient demand enables MNREs to grow. Many small rural firms are confined to saturated local markets. Between the late 1980s and 2010, most of the net growth in India's manufacturing employment came from tradable activities, including small unregistered units making goods that can be sold beyond their own locality[4]. Further, evidence points that dependence on a single contractor to sell goods and services tend to keep the establishment small and dependent[5]. This is significant because 90 percent of the firms operating under a contract depend on a single buyer.

In India, the government delivers non-financial support through cluster and artisan programmes, based on the premise that pooling enterprises and providing shared facilities, such as design help, testing equipment, storage, and marketing channels will create economies of scale. However, delivery and reach remain limited. A 2026 NITI Aayog review of eighteen central MSME schemes concluded that fragmented delivery across many overlapping schemes is a major constraint. The report recommended consolidating them, for example by folding the traditional-industries scheme into the wider cluster programme under one governance and funding structure, rationalising the various skilling schemes, and building a single marketing wing[6]. A consolidation of schemes may help mitigate disbursement delays and under-utilised budgets as noted by Rajya Sabha Committee on Industry. Therefore, a policy shift towards convergence and simplification of schemes, enabling shared facilities for economies of scale and access to market through digital market channels such as ONDC and public procurement, could therefore help enterprises achieve economies of scale and access larger markets. This would complement targeted support for finance and mentoring.

[1] McKenzie, David, and Christopher Woodruff. 2014. "What Are We Learning from Business Training and Entrepreneurship Evaluations around the Developing World?" The World Bank Research Observer, 29(1): 48–82

[2] Campos, F., Frese, M., Goldstein, M., Iacovone, L., Johnson, H. C., McKenzie, D., & Mensmann, M. (2017). Teaching personal initiative beats traditional training in boosting small business in West Africa. Science, 357(6357), 1287–1290.

[3] Field, E., Jayachandran, S., and Pande, R. (2010), "Do Traditional Institutions Constrain Female Entrepreneurship? A Field Experiment on Business Training in India," American Economic Review, 100(2): 125–129.

[4] Ghani, E., Kerr, W. R., & Segura, A. (2015). Informal Tradables and the Employment Growth of Indian Manufacturing (World Bank Policy Research Working Paper No. 7206)

[5] Basole, A., Basu, D., and Bhattacharya, R. (2015). "Determinants and Impacts of Subcontracting: Evidence from India's Unorganised Manufacturing Sector." International Review of Applied Economics, 29(3): 374-402.

[6] NITI Aayog (2026). Achieving Efficiencies in MSME Sector through Convergence of Schemes. Government of India.

The distinction between enterprises that employ hired workers from those that remain owner-operated raises a natural question: why do more than 90 percent of rural enterprises remain owner-operated? One plausible explanation is that self-employment serves as a coping response to absence of wage employment or under-employment in agriculture. For many households, this helps supplement agricultural income rather than entrepreneurship with a goal of expanding business and creating jobs. This distinction is important because policies designed to support subsistence self-employment may differ substantially from those required to help growth-oriented enterprises transition into employer firms.



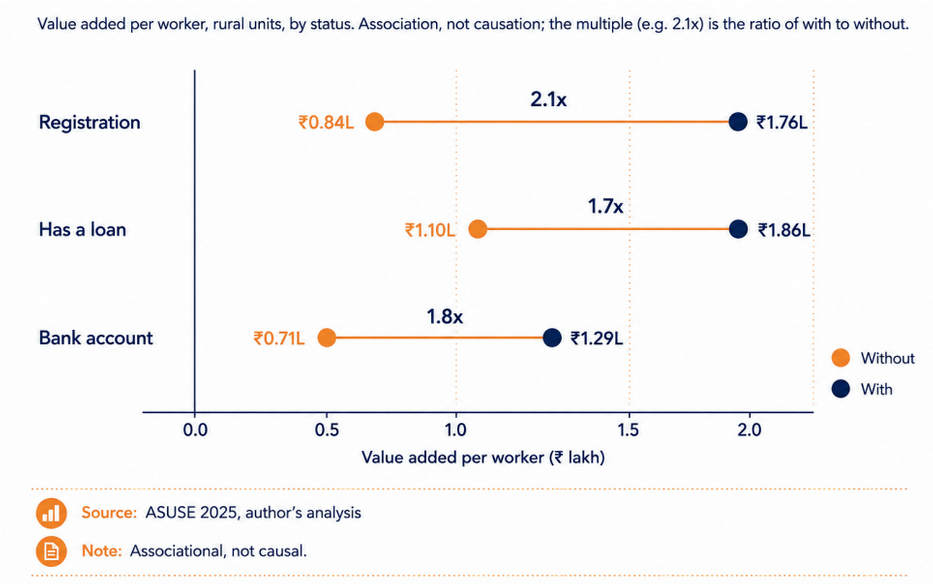
Barriers: What Holds Them Back

A useful starting point for understanding these barriers is to examine what enterprises themselves report in ASUSE 2025. About 20 percent of rural units report an operating problem. Among these, the most commonly reported is non-recovery of dues, followed by the availability and cost of credit, and then market connectivity and roads. The sections below delve deeper into the structural barriers that prevent rural enterprises from competing on an equal footing.

Access to Credit and Formalisation

Rural enterprises find it difficult to access formal credit. According to ASUSE 2025, about 11.8 percent of MNREs have outstanding loans, 7.5 percent borrow from institutional sources (commercial banks 4.6 percent), and 4.3 percent borrow only from non-institutional sources such as suppliers, family and moneylenders. Access to finance and formalisation of enterprises are strongly associated with higher productivity. Value added per worker is about Rs 1.86 lakh for enterprises with a loan against Rs 1.10 lakh without; and Rs 1.29 lakh for banked units against Rs 0.71 lakh for unbanked units.

Figure 12: Formal finance and registration go with higher productivity



The RBI Expert Committee estimated the sector's credit gap at Rs 20-25 lakh crore and recommended collateral-free loans of up to Rs 20 lakh and a shift to cash-flow-based lending (Expert Committee on MSMEs, 2019). Mechanisms for cash-flow based lending now exist through the Account Aggregator framework, the Open Credit Enablement Network (OCEN), invoice discounting on TReDS, and GST-linked lending (SIDBI, 2025). However, delivery of these schemes remains a challenge. The Rajya Sabha Standing Committee on Industry finds credit to the sector inadequate and reports that, although the credit-guarantee cover has been raised, institutional lenders still do not extend collateral-free loans to the smallest borrowers. The state can leverage the digital infrastructure and supervision to enable the enterprises to access collateral-free, cash-flow-based, and order-based loans to create more employment in the rural economy.

In this context, the government's flagship credit scheme, the Pradhan Mantri MUDRA Yojana offers an important case study of India's approach to financing rural enterprises. Launched in 2015, the scheme provides collateral-free loans of up to Rs 10 lakh for non-corporate and non-farm income-generating activities[1]. This loan limit of Rs 10 lakh was increased to Rs 20 lakh in 2024-25. The majority of PM MUDRA loans are very small with 78 percent loans below Rs 50,000 and only 2 percent loans above Rs 5 lakh[2]. Most loans are issued under the Shishu category and they average between Rs 19,500-37,000. As the labour economist Santosh Mehrotra notes, "with an average loan size of a little more than Rs 50,000, an individual cannot support himself with this measly amount, let alone employ others"[3].

Table 5: PM Mudra - Average loan size by category, FY2015-16 vs FY2024-25

Category	FY2015-16	FY2024-25
Shishu	₹19,411	₹37,403
Kishor	₹2,08,037	₹1,20,111
Tarun	₹7,67,555	₹8,46,313
Overall (all categories)	~₹38,000	~₹1,02,000

Source: DFS figures reported by Business Standard, 7 April 2025; overall average from PIB, April 2025.

The uneven playing field in access to credit is telling as large corporates borrow at roughly the rate of 8-9 percent per annum and highest-rated firms raise capital at 7 percent per annum via bond market, while micro and unsecured borrowers pay 22-28 percent[4]. The disparity extends beyond the cost of capital to access itself. Less than 40 percent of MSMEs access any credit through formal financial channels while the rest rely on informal sources.[5]

There is also a stark asymmetry in how the system treats failure. Between 2015 and 2024 banks wrote off Rs 12.3 lakh crores in loans. Most of these loans were owed by large corporations and wilful defaulters and only about 19 percent was recovered back by the banks. Fifty largest wilful defaulters alone owed banks Rs 87,000 crore[6]. Large borrowers are often offered loan restructuring, while small borrowers are by contrast asked for collateral for loans and face frequent rejections[7].

[1] Press Information Bureau. (2025, April). PMMY completes 10 glorious years. Government of India. https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=2119954.
[2] NITI Aayog. (2023). Impact assessment of Pradhan Mantri MUDRA Yojana. Government of India
[3] Mehrotra, S. (2018, May 14). Quoted in "Modi's MUDRA loan scheme and the job creation reality." The Wire. https://thewire.in/economy/modi-mudra-loan-scheme-job-creation-reality
[4] Reserve Bank of India. (2024). Weighted average lending rate on fresh rupee loans, December 2024. RBI Statistics; Reserve Bank of India. (2024, November 26). MSMEs - bridging the credit gap [Speech by Deputy Governor Swaminathan J.]
[5] Reserve Bank of India. (2019). Report of the Expert Committee on Micro, Small and Medium Enterprises (U.K. Sinha Committee).
[6] Reserve Bank of India data, as reported in Drishti IAS. (n.d.). Loan write-offs and NPA reduction in PSBs.
[7] Small Industries Development Bank of India. (2025). Understanding Indian MSME sector: Progress and challenges.

Access to Markets

Another key barrier holding rural enterprises back is weak access to larger markets. Rural enterprises mostly sell in local markets. According to ASUSE 2025, only around 8.5 percent of MNREs manufacture under contract for a larger buyer. Among these units, the buyer supplies equipment or design in 6.6 percent of cases. Of the units with manufacturing contracts, 90 percent of the units work with a single buyer highlighting their dependence on a single customer. A negligible number of firms are engaged in higher-value market channels like franchising (0.1 percent) and direct exports (near zero).

While on one hand MNREs struggle to access larger markets on the other hand large e-commerce and quick commerce platforms provide deep discounts using cheap capital for driving out competition[1]. This creates an uneven competitive environment that rural enterprises face in accessing and competing in markets.

Table 6: How rural enterprises reach markets

Indicator	Share of Units (%)
Works on contract	8.8%
Manufacturing on contract	8.5%
Buyer supplies equip/design	6.6%
Franchising	0.1%

Source: Authors' analysis of ASUSE 2025

Even when MSMEs have access to larger markets say through government procurement systems there are significant delays in payments which affects them by locking in productive capital. According to a report by Global Alliance for Mass Entrepreneurship's (GAME) an estimated 7 to 8 lakh crores is locked up due to payment delays and "the smallest businesses (up to Rs 5 crore revenue) face the longest payment delays, with an average debtor period more than double that of the next larger segment and almost triple that of the largest segment."[2] The government is itself a significant contributor and public entities, as government departments and PSUs account for nearly 40 percent of the value of delayed payments owed to MSMEs reported on the Samadhaan portal[3]. The report highlights the MSMED Act requirement that buyers make payment within 45 days, but concludes that delayed payments remain widespread and undermine MSME liquidity.

[1] Standing Committee on Finance. (2025). Evolving role of Competition Commission of India in the economy, particularly the digital landscape (25th Report, Eighteenth Lok Sabha; Chair: Bhartruhari Mahtab).Lok Sabha Secretariat, Government of India. https://sansad.in/getFile/lsscommittee/Finance/18_Finance_25.pdf; see also Bansal, A. (2025, August 14). Parliamentary report flags deep discounting in quick commerce, CCI says it has tools to act. MediaNama. https://www.medianama.com/2025/08/223-india-quick-commerce-predatory-pricing-cci/

[2] Global Alliance for Mass Entrepreneurship, FISME, & C2FO. (2024). MSME's Access to Finance and Timely Payments (Delayed Payments Report 3.0)

[3] Ibid.

The government introduced the Open Network for Digital Commerce (ONDC) with the ambition of democratising e-commerce across products and services. However, there is limited evidence on whether the program materially improves producer welfare. The Economic Survey 2024-25 reports over 7 lakh active sellers on ONDC network, and 7000 FPOs and 400 SHGs are onboarded on the network. However, reports suggests that only a few FPOs have been able to sell regularly[1]. The challenge remains one of scale, constrained by limited logistics, aggregation and formalisation support, as well as insufficient buyer demand. Reports suggest that retail orders on ONDC fell from 6.5 million in October 2024 to 4.6 million by February 2025 as buyer-app subsidies were sharply cut[2]. Further, the Parliament Standing Committee on Commerce flagged unresolved concerns about MSMEs' technical capacity to participate and the allocation of liability across the network[3]. Ground-level evidence from artisans and women's collectives corroborates the above; fewer than 1 percent of weavers sell online[4]; platform sales account for around 5 percent of total sales for SHGs in Bihar; Kudumbashree in Kerala onboarded 654 products on Amazon but fulfilled only 361 orders, worth Rs 1.3 lakh in total (LEAD/IWWAGE, 2023).

Additionally, India has sought to help small producers access markets by collectivising producers in producer groups, farmer producer organizations, and cooperatives. However, there is mixed evidence on the efficacy of these collectives. Success depends on commodities. For example, in milk, Gujarat Cooperative Milk Marketing Federation, which markets Amul, is one of leaders with 3.6 million member farmers and Rs 1 lakh crore turnover in 2025-26. By contrast, estimates from Tata-Cornell Institute reports that over 50 percent of farmer producer companies (FPCs) cease functioning after the initial government support has ended while only 23 percent of FPCs access credit[5]. These findings suggest that creating producer collectives alone is insufficient and that their long-term sustainability depends on access to markets, professional management, and finance.

[1]https://farm2exchange.blog/2024/06/04/challenges-and-solutions-for-fpos-engaging-in-online-business-on-ondc/
[2] Business Standard. (2025, March 27). Retail growth slows on ONDC as platform caps financial incentives.
[3] Department-related Parliamentary Standing Committee on Commerce (2022). Promotion and Regulation of E-Commerce in India. 102nd Report. Rajya Sabha Secretariat, June 2022.
[4] Gupta, P., & Modi, A. (2023). Indian artisans are still missing from e-commerce platforms. India Development Review.
[5] Tata-Cornell Institute for Agriculture and Nutrition. (2026). The State of Farmer Producer Organizations in India: Performance, Trends, and the Role of Gender.

Access to Skills, Technology and Enabling Infrastructure

Skills and human capital are as important as access to finance for businesses to succeed and scale. ASUSE 2025 shows a strong association between the educational attainment of enterprise owners and the likelihood of employing hired workers. Among enterprises whose owners are not literate, only 1.5 percent employ hired workers. However, this proportion rises with education to 15.5 percent among enterprises owned by graduates or individuals with higher qualifications. This highlights the importance of human capital but it should not be interpreted as implying that successful enterprises can only be run by educated individuals. Nor does it imply that expanding generic classroom-based training programmes is the appropriate policy response.

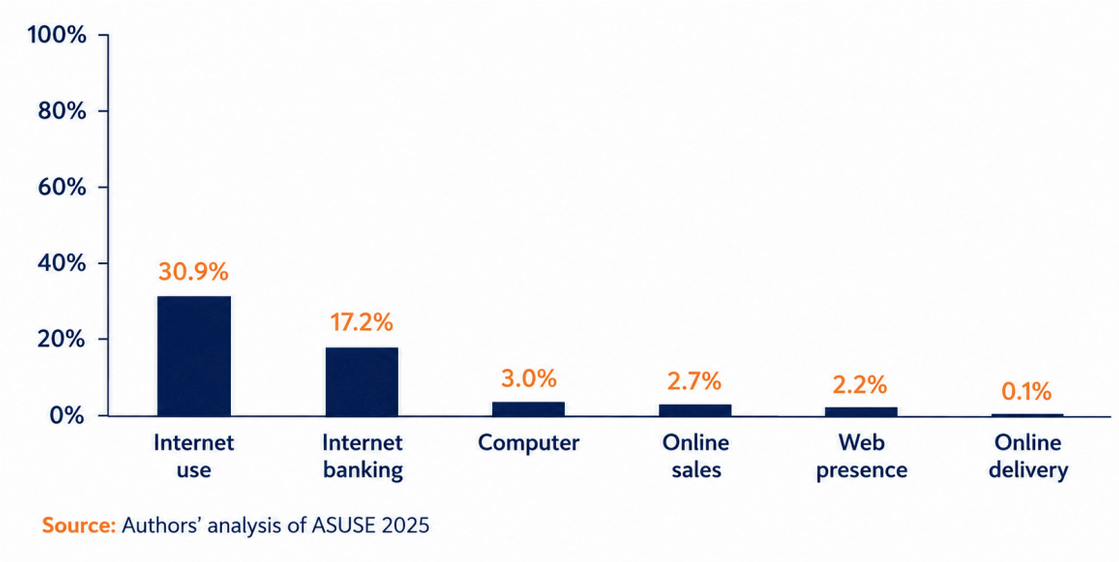
Instead, evidence suggests that management capability is an important determinant of enterprise performance. Experimental evidence from India suggests that, among large manufacturing firms, weak management practices remain widespread and significantly constrain productivity. When the randomly selected group of management of large textile companies was provided support related to management practices it led to an increase in productivity by 17 percent through improved quality and efficiency and reduced inventory[1]. Evidence from 20,000 small firms across seven developing countries including Bangladesh, Chile, Ghana, Kenya, Mexico, Nigeria and Sri Lanka, similarly show that, even among very small enterprises, differences in basic business practices explain a substantial share of differences in productivity and profits[2].

The key policy implication here is that enterprise support should move beyond one-off classroom training towards sustained capability-building around practical business functions such as bookkeeping, inventory management, customer engagement, financial planning, and marketing.

In addition to skills, digital adoption among rural enterprises remains limited. ASUSE 2025 shows that about 30.9 percent of MNREs use the internet and 17.2 percent use internet banking but only 3 percent use computers and just 2.7 percent make online sales. This gap is striking given widespread adoption of the UPI payment system in India[3]. The low level of online sales represents an opportunity for rural enterprises to access larger markets. However, realizing this opportunity will require more than digital connectivity. It must be complemented by investment in enterprise capabilities, logistics, fulfilment systems, and market linkages.

[1] Bloom, N., Eifert, B., Mahajan, A., McKenzie, D., & Roberts, J. (2013). Does management matter? Evidence from India. The Quarterly Journal of Economics, 128(1), 1–51.
[2] McKenzie, D., & Woodruff, C. (2017). Business practices in small firms in developing countries. Management Science, 63(9), 2967–2981.
[3] National Payments Corporation of India. (2025). UPI Product Statistics

Figure 13: Digital adoption among rural enterprises



Source: Authors' analysis of ASUSE 2025

Another important barrier is limited access to physical and institutional infrastructure that is an integral part of the modern production systems. A rural producer can grow the raw materials and possess the knowledge to make the product, but converting it into consumer-ready goods with a stable shelf life requires access to modern packaging facilities, scientific testing laboratories, compliance with FSSAI standards, cold-chain infrastructure, branding and distribution networks. Much of this infrastructure remains concentrated in urban and industrial clusters. As a result, value-added products like "millet energy-bars" are more likely to be developed in cities where there is access to co-packers, food testing laboratories, designers, and branding agencies, rather than in the rural areas where the producers of raw materials like millets and honey are based.

India processes only a small share of its agricultural produce. The Pradhan Mantri Formalisation of Micro Food Processing Enterprises (PMFME) scheme supports the growth and formalisation of micro food units across the country, including funding for shared packaging, branding and standardisation projects. However, a review of sanctioned projects shows that it sanctioned only 93 common-infrastructure and 27 branding projects were sanctioned, compared with about 1.44 lakh individual enterprise loans[1]. This suggests that the infrastructure required to enable value addition at scale remains inadequate in many rural areas.

[1] Press Information Bureau, Ministry of Food Processing Industries. (2025). Progress of the PMFME Scheme (PRID 2239684)

Levelling the Field: The Modernisation Agenda and State Delivery

In the previous section, we argued that rural enterprises are systematically constrained by limited access to credit, markets, skills, and enabling infrastructure. This chapter moves from diagnosis to solutions. It outlines a coherent agenda to support the transition of MNREs from own-account enterprises to hired-worker enterprises focusing on support that governments can provide. It then presents a targeting framework to prioritise enterprises with the highest growth potential, followed by a discussion of the roles of the union and state governments in building an enabling ecosystem. The section ends with a discussion of what works in enterprise promotion.

The Levers of a Level Field

Provide credit for transition, not just survival

The first lever following the discussion in Chapter 3 is enterprise financing. As discussed, the current credit architecture supports enterprise survival but not growth. The loan ticket size is extremely small and it should move beyond the sub ₹50,000 levels to allow for growth. The credit instrument design should treat the transition to becoming a hiring firm as the key goal. This requires cash-flow-based and collateral-free lending design specifically for mini and nano enterprises. It is important to reiterate that the capital is a major constraint but often not the only constraint. It is most effective when complemented with support in other areas such as market access, skills, technology and enabling infrastructure.

Packaging and value-addition as a public good

The second lever is to address barriers to packaging, testing, FSSAI-compliant production, and access to co-packing facilities in rural areas. These services often involve high fixed costs, minimum-order-quantity requirements that individual micro-enterprises cannot afford or they are mostly not available in the rural areas in the first place. As a result, rural producers are unable to produce market-ready value-added products.

Hence, it becomes really important that the government treats them as a public good and helps in providing access to small entrepreneurs. This can create positive externalities by lowering entry barriers for thousands of small enterprises. India has strong institutional foundations such as the Indian Institute of Packaging's labs and standards, Common Facility Centres established under SFURTI and the Micro and Small Enterprises-Cluster Development Programme (MSE-CDP) Common Facility Centres, PMFME incubation centres, and the design capabilities of institutions such as NIFT/NID. However, much of this infrastructure remains concentrated in urban areas and industrial clusters and is often not small-producer focussed. The government's own PMFME data confirm the gap as illustrated in the previous section. As illustrated in the previous chapter, the PMFME's implementation data confirms this gap, with limited investments in common infrastructure and branding compared with support for individual enterprises.

Aggregation and market access

Not every own-account enterprise will grow into a hired-worker enterprise. For a large number of small producers, especially those engaged in agriculture and allied activities, producer collectives provide a pathway to larger markets. Producer collectives enable small producers to aggregate output, access larger markets, reduce transaction costs, undertake value addition, and improve bargaining power without requiring each producer to independently build these capabilities. India has had some successful models like AMUL, but these have largely been concentrated in dairy cooperatives. Farmer Producer Organisations (FPOs) have tried to replicate this approach in other agricultural commodities. However the evidence of success remains limited with many FPOs struggling after initial government support ends. This highlights the importance of professional management, access to working capital, and strong market linkages for long-term sustainability.

Digital platforms provide another opportunity to improve market access. India has invested in public digital infrastructure through initiatives such as the Open Network for Digital Commerce (ONDC). The evidence suggests that digital platforms alone are unlikely to transform rural enterprises. Experimental evidence from China found little evidence that rural e-commerce increased rural producers' incomes or local employment[1]. In India, assessment of eNAM (agricultural e-market) suggests limited evidence providing remunerative prices to farmers[2]. As noted by handloom census 2019-20, online sales account for only 0.2 percent of total sales for handloom weavers[3]. It's not argued that digital commerce should be deprioritised. Rather, from a policy perspective digital platforms should be viewed as one component of a broader market-access ecosystem. Their impact is likely to be greatest when complemented with digital literacy, enterprise aggregation, logistics, quality certification, access to working capital, and business capability support. Public digital infrastructure such as ONDC should therefore be accompanied by complementary investments to genuine productivity gains.

[1] Couture, V., Faber, B., Gu, Y., & Liu, L. (2021). Connecting the countryside via e-commerce: Evidence from China. American Economic Review: Insights, 3(1), 35–50.
[2] Jayanth, R. S. S., Nair, S. R., & Thajudeen, T. (2022). Assessing the Impact of Agriculture Market Digitization on Farmers' Price Realization: The Case of Indian eNAM (IIM Kozhikode Working Paper No. 491).
[3] Office of the Development Commissioner for Handlooms, Ministry of Textiles. (2020). Fourth All India Handloom Census 2019-20. Government of India.

The Targeting Logic: Segment and Aggregate

This paper does not argue that all policy levers discussed above should be applied uniformly across all 43 million enterprises. Informal firms across developing countries, including India, tend to have low productivity and rarely transition to the formal economy[1]. Evidence from manufacturing plants in India also shows little growth in employment over their life cycle, indicating that not every enterprise will scale to hire workers[2]. Therefore, the principle should be to carefully segment enterprises and identify those with the highest potential to grow and create employment.

The first step in segmentation is to identify firms with high returns relative to their capital base. In our analysis, value added per rupee of total capital falls steeply as capital increases. The smallest firms, with less than Rs 25,000 in total capital, generate Rs 9.59 in value added for every Rs 1 of capital. This segment largely comprises own-account enterprises where value added includes the owner's imputed labour, inflating the returns due to a small capital base. However, the firms with capital between Rs 1 lakh and Rs 1 crore generate substantial returns and presents a strong case targeted for growth support.

Table 7: Value added per capital band

Total-capital band	Value added per rupee capital	Units
Total capital < Rs 25,000	9.59	4.09 mn
Total capital Rs 25,000-1L	1.75	9.43 mn
Total capital Rs 1-5L	0.55	20.23 mn
Total capital Rs 5-25L	0.28	7.30 mn
Total capital Rs 25L-1cr	0.20	0.75 mn
Total capital > Rs 1cr	0.11	0.14 mn

Source: Authors' own calculation using ASUSE 2025

While the above table demonstrates firms' efficiency, demand for their goods and services is also an important contributor to firm growth and employment. Evidence shows demand is a strong predictor of whether rural firms hire. Analysing weather-related swings in farm incomes across India, Santangelo (2019) finds that when local incomes fall, firms reduce production and employment[1] because the demand they face contracts.

[1] Santangelo, G. (2019). Firms and farms: The local effects of farm income on firms' demand (Cambridge Working Papers in Economics No. 1924)

Non-tradable local activities, such as food and beverage services, personal services, repair, and much of retail, serve local markets and translate rising rural incomes into local jobs, but their growth is limited by local demand. However, tradable activities such as garment making and processed food can reach markets beyond the village, including urban areas. This provides an opportunity to scale and hire although they face competition from formal and urban producers. E-commerce, which can connect rural producers of tradable goods to external demand, also exposes them to urban brands that may undercut them.

On return to capital alone, the highest-scoring rural activities are food and beverage services and personal services. However these cater to local demand and are less likely to scale. On the other hand, small manufacturing activities such as furniture and wood products, which generate roughly 0.81 to 0.59 rupees of value added per rupee of capital, have high returns and are highly tradable. A case in point for two of the largest activities by headcount, apparel manufacturing and retail trade, score lower at about 0.28 and 0.39, respectively. In rural India, between 2010 and 2015, retail grew in output but barely in jobs, whereas apparel grew strongly on both output and employment, with employment growing at close to 5 percent a year and output at double-digit rates[1]. Apparel is a crucial sector that employs a large number of women. It earns a moderate return on capital because competition keeps margins thin. This makes a case for treating apparel as a priority for jobs and equity, even though its return on capital is not the highest.



[1] Basole, A., & Chandy, V. (2019). Microenterprises in India: A multidimensional analysis. GAME & Azim Premji University

Table 8: Rural sectors by return, internet access, online sale, credit and size

Sector (NIC division)	Type	Return on capital	Internet access	Selling online	Institutional credit	Firms (mn)
Furniture	Tradable	0.81	25%	1.3%	2.2%	0.49
Personal services	Local	0.79	28%	2.0%	1.1%	1.73
Food & beverage service	Local	0.65	50%	4.3%	3.1%	1.79
Other manufacturing	Tradable	0.65	15%	1.5%	0.7%	0.47
Wood products	Tradable	0.59	14%	0.6%	1.2%	0.64
Land transport	Local	0.53	31%	1.6%	10.1%	4.55
Wholesale trade	Local	0.52	49%	6.5%	4.8%	0.63
Food products	Tradable	0.41	31%	2.9%	3.1%	1.35
Retail trade	Local	0.39	42%	3.7%	3.3%	10.80
Textiles	Tradable	0.29	15%	1.3%	1.0%	1.35
Wearing apparel	Tradable	0.28	21%	1.3%	0.9%	5.61
Repair services	Local	0.09	32%	3.2%	1.2%	1.04

Source: *Authors' analysis of ASUSE 2025*

Value added per worker in establishments that hire is about 2.6 times that of own-account units in the manufacturing sector[1]. The objective is therefore to enable firms to transition from solo enterprises to small employers. Much of the finance and subsidy is directed towards fixed assets, to buy machines, which can increase output without necessarily creating jobs. To support job creation, financing for working capital, through instruments such as financing against confirmed orders or procurement contracts could enable firms to take large orders and hire workers to raise the output.

For the remaining enterprises, the objective need not be individual firm expansion. Many subsistence enterprises can achieve scale through aggregation rather than hiring. Cooperatives, Farmer Producer Organisations (FPOs), producer companies, and cluster-based approaches enable small producers to access larger markets, reduce transaction costs, and undertake value addition collectively. This distinction between segmenting enterprises with growth potential and aggregating those that benefit from collective action provides the organising logic for the recommendations in this report. It also connects the different policy levers of finance, market access, shared infrastructure, and enterprise capability into a coherent modernisation agenda.

[1] Press Information Bureau, Ministry of Food Processing Industries. (2025). Progress of the PMFME Scheme (PRID 2239684)

Who Delivers: The Centre-State Division of Labour

Standalone interventions or one-off schemes rarely succeed in enterprise development because constraints often come bundled together. Entrepreneurs face multiple, interconnected barriers like limited access to finance, weak managerial capabilities, poor market linkages, inadequate infrastructure, delayed payments, and complex regulations. Addressing only one constraint is unlikely to generate sustained enterprise growth. Hence, coordinated action by the Union and state governments is required. The Union Government can provide the financial support, set the credit norms and lending standards, support in developing the last-mile public infrastructure, packaging and testing public goods, and enforce delayed-payment protections. States are the operational engines. They contextualize policies, convene different actors such as self-help-groups and cooperatives, create markets through procurement, and simplify regulations.

What Works, and What Does Not

Which interventions improve enterprise outcomes? Evidence suggests that effective support combines selecting growth-oriented enterprises, providing them adequate capital, business capability support, market access, technology, and infrastructure. What does not reliably generate sustained enterprise growth is the blanket provision of microcredit or short classroom-based business training. Across six randomised evaluations, microcredit produced modest rather than large effects on average, while brief training programmes generally changed too few business practices to produce sizable improvements in sales or profits[1]. By contrast, more intensive and targeted support-such as substantial capital for entrepreneurs selected for their growth potential, can increase firm survival, growth, and employment[2] [3]. This is corroborated by India's experience of multiple "expert committees" over the last two decades. From the Abid Hussain Committee (1997) through the U.K. Sinha RBI Committee (2019) to the Jayant Sinha Standing Committee (2022), the recommendations were similar: raise collateral-free limits, move to cash-flow lending, strengthen SIDBI, build clusters, extend social security[4]. The challenge is therefore not diagnosis, but implementation.

[1] Banerjee, A., Karlan, D., & Zinman, J. (2015). Six randomized evaluations of microcredit: Introduction and further steps. American Economic Journal: Applied Economics, 7(1), 1–21.
[2] McKenzie, D. (2017). Identifying and spurring high-growth entrepreneurship: Experimental evidence from a business plan competition. American Economic Review, 107(8), 2278–2307
[3] Hardy, M., & McCasland, J. (2023). Are small firms labor constrained? Experimental evidence from Ghana. American Economic Journal: Applied Economics, 15(2), 253–284.
[4] Standing Committee on Finance. (2022). Strengthening Credit Flows to the MSME Sector [Summary]. PRS Legislative Research.

Recommendations / Conclusion and Open Questions

India's 43 million mini and nano rural enterprises are overwhelmingly single-person own-account units operating with low levels of productivity and capital investment. However, they also represent an important opportunity for job creation at a time when industry and agriculture are unable to generate sufficient employment. The evidence presented in this report shows that hired-worker enterprises are twice as productive per worker, hold around six times the fixed assets, and create wage employment that generates further demand in the local economies. Enabling even a small proportion of own-account enterprises to transition into hired-worker enterprises, while helping the rest to achieve scale through aggregation could prove to be an important policy lever for generating jobs, raising rural incomes, and accelerating economic growth.

The State's objective should therefore be not only to create more enterprises but also to enable those that already exist to scale, become more productive and generate employment. This means creating conditions for growth-oriented OAEs transition into employer enterprises. For many other OAEs, individual hiring may not be appropriate and they could be scaled by collectivising similar enterprises into producer collectives, cooperatives and FPOs.

Five Priorities for a Rural Enterprise Modernisation Agenda

1. Making enterprise transition as the policy objective

India's enterprise policies have focussed on creating enterprises by extending small loans, registering firms, and providing training. These remain useful inputs, but they may not be the measures of success for enterprise promotion policies. With around 40 million rural OAEs already in existence, the policy challenge is to help growth-oriented enterprises increase productivity, access larger markets, and ultimately create employment. The transition from an OAE to an HWE is one marker of enterprise progress, along with other indicators such as productivity, revenue, and enterprise survival.

This requires a new way of designing and monitoring programs. Indicators like the number of loans sanctioned, entrepreneurs trained, or enterprises registered can measure programme reach, but they do not tell whether the enterprises have actually grown. Enterprise development programmes should track outcomes such as productive investment, value added, access to new markets, sustained revenues, and creation and retention of paid employment.

2. Segmentation: intensive support for growth-oriented enterprises, aggregation for the rest

Enterprise development policy should not attempt to apply the same intervention across all 43 million rural enterprises. Enterprises differ in their capabilities and potential to grow. Using ASUSE 2025, this report argues that a tentative segment of OAEs could be drawn based on returns to capital. The government should aim to provide more intensive support to these enterprises to increase investment, productivity, and hiring. The proposed criteria are indicative and could be adapted by states according to local economic conditions and context.

3. Replacing standalone schemes with a package of enterprise support

The evidence suggests that the constraints facing rural enterprises are varied and often come bundled together. An entrepreneur may simultaneously face challenges related to inadequate capital, weak managerial capability, lack of access to testing or packaging, difficulties accessing markets, and poor logistics. Addressing one challenge while ignoring the others may not generate sustained enterprise growth.

Enterprise support should therefore move from isolated interventions towards a package combining finance, business capability support, access to markets, technology, and production infrastructure. This does not mean that every enterprise needs every type of support. Instead, the support should be based on a diagnosis of the constraints that may prevent an enterprise from growing.

4. Infrastructure as a public good

A level playing field requires more than credit. Rural enterprises often lack access to services that larger firms take for granted such as quality testing, packaging, product design, production facilities, co-packing, cold chains, logistics, digital market infrastructure, and professional business services. Small rural enterprises cannot economically build or access these capabilities because of high costs and small scale.

The government has an important role in making such infrastructure available to rural enterprises on a shared basis. India has institutions and schemes that can provide these services, but the access remains fragmented and concentrated in urban areas and industrial centres. The policy priority should therefore focus on making existing institutions and infrastructure more accessible to rural enterprises. The same principle applies to digital infrastructure. Digital platforms can lower transaction costs and improve access to markets, but they are unlikely to deliver significant gains unless they are accompanied by logistics, aggregation, quality assurance, working capital, and enterprise capability support.

5. Align centre and state roles

First, India lacks good evidence on enterprise dynamics:

ASUSE is a repeated cross-sectional survey and therefore shows what OAEs and HWEs look like at a point in time. It does not, however, show how individual enterprises evolve, which enterprises survive, which fail, which grow, or how enterprises make the transition from an OAE to an HWE. For policy decisions related to enterprise transition, this is an evidence gap that needs to be plugged.

Second, the growth-oriented segment needs to be validated:

The identification criteria in this report should not be treated as definitive. These criteria need to be validated through pilots to assess whether the enterprises identified using these characteristics will invest, increase productivity, access larger markets, and hire workers.

Third, the evidence base is uneven across policy instruments:

There is reasonably strong evidence on interventions related to finance and business capability. However, rigorous evidence remains limited on whether interventions such as FPO aggregation, digital commerce, and shared production infrastructure lead to sustained increases in enterprise income, productivity, and employment.

Finally, there is limited understanding on local economic ecosystems

The large differences in HWE prevalence across states could be attributed to local economic ecosystems, but there is limited understanding of how local factors enable enterprise transition. A similar gap exists in our understanding of women-owned enterprises and other groups that remain underrepresented among HWEs. Emerging technological changes, particularly AI, introduce further questions such as whether they will raise the productivity of small rural enterprises, create new markets and services, or intensify competition from larger firms.

Addressing some of these evidence gaps will require longitudinal data on how enterprises evolve. India needs a longitudinal enterprise panel, or a tracking component added to ASUSE, that follows rural enterprises over time to understand survival, investment, productivity, hiring, and transitions between OAEs and HWEs. Such a panel would allow policymakers to understand not only what growing firms look like, but also the pathways through which they grow.

Conclusion

India has a large number of small rural enterprises. The challenge is not simply to create more enterprises but to enable those that already exist to become more productive and achieve scale. For a segment of OAEs, this means transitioning into employer enterprises. For others, scale may be achieved through aggregation. Both pathways, however, require a more level playing field in terms of access to capital, capabilities, markets, and infrastructure.

The sheer number of rural enterprises makes this an important economic opportunity. Even if a relatively small share of the 43 million mini and nano enterprises across rural India is able to invest, scale and create employment, the effects on rural jobs and incomes could be significant. Rural enterprises cannot solve India's employment challenge alone. However, they are closely connected to the local production and consumption ecosystems and remain an important lever for creating jobs in rural India and contributing to India's broader economic growth.



Appendix

Appendix A: References

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Appendix B - Data and Methodology Note

This report draws chiefly on unit-level data from the Annual Survey of Unincorporated Sector Enterprises (ASUSE) 2023-24, conducted by the Ministry of Statistics and Programme Implementation (MoSPI). ASUSE covers unincorporated (non-corporate, non-agricultural) establishments in manufacturing, trade, and other services. Figures attributed to "authors' analysis" are weighted estimates from the unit records; they are descriptive and associational, not causal. ASUSE is a repeated cross-section: it describes enterprises at a point in time and cannot track how individual firms grow, survive, or transition between OAE and HWE. State estimates are most reliable for larger states.

Key definitions:

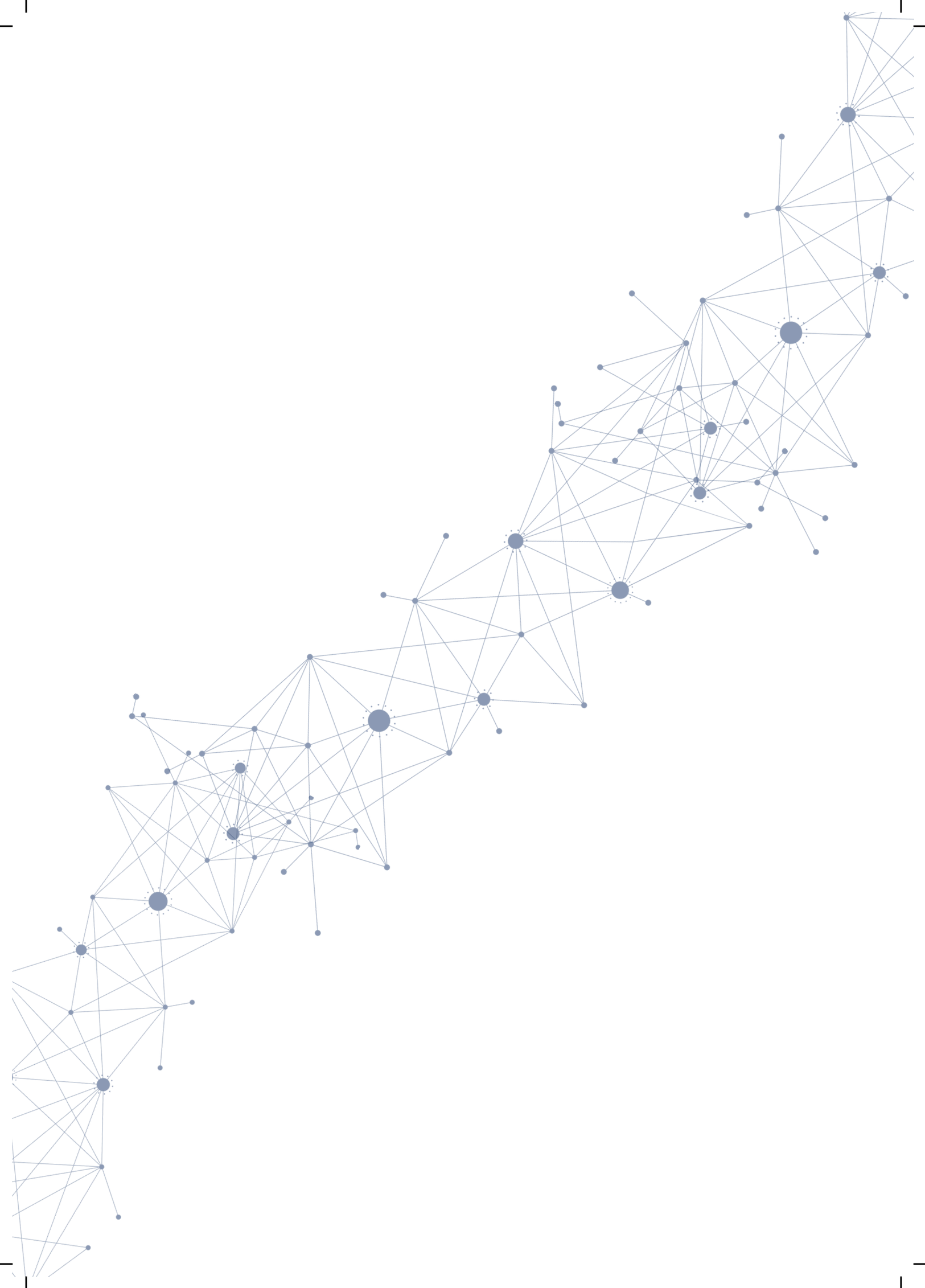
- **Own-account enterprise (OAE):** run by the owner alone or with unpaid family labour, with no hired workers.
- **Hired-worker enterprise (HWE):** employs at least one paid worker.
- **Mini and nano rural enterprises (MNRE):** nano = investment up to Rs 5 lakh, mini = Rs 5–25 lakh (investment is the market value of plant and machinery, transport, software, ICT and tools, per the MSME definition; it excludes land, buildings and furniture).
- **Value added (GVA):** annualised. Women-/men-owned: female/male sole proprietors, excluding self-help groups and partnerships. All figures are rural unless stated otherwise.

Appendix C — Glossary

Term	Meaning
ASUSE	Annual Survey of Unincorporated Sector Enterprises (MoSPI).
OAE / HWE	Own-account enterprise (owner-run, no hired workers) / Hired-worker enterprise (≥1 paid worker).
MNRE; nano; mini	Mini and nano rural enterprise (investment ≤ Rs25 lakh); nano ≤ Rs 5 lakh; mini Rs 5–25 lakh.
MPCE	Monthly per capita consumption expenditure (HCES).
GVA / value added per worker	Gross value added; value added divided by number of workers.
PLFS / HCES	Periodic Labour Force Survey / Household Consumption Expenditure Survey (MoSPI).
FPO / FPC	Farmer Producer Organisation / Farmer Producer Company.
ONDC	Open Network for Digital Commerce.
PMMY	Pradhan Mantri MUDRA Yojana; categories *Shishu* (≤ Rs 50,000), Kishor (Rs 50,000–5 lakh), Tarun (Rs 5–10 lakh, raised to Rs 20 lakh in 2024–25).
PMFME	Pradhan Mantri Formalisation of Micro Food Processing Enterprises.
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises.
SFURTI / MSE-CDP	Scheme of Fund for Regeneration of Traditional Industries / Micro & Small Enterprises–Cluster Development Programme.
eNAM	(Electronic) National Agriculture Market.
Udyam	MSME registration portal.
MSEFC / MSME Samadhaan	Micro & Small Enterprises Facilitation Council / delayed-payment monitoring portal.

Appendix D - State-level rural-enterprise scorecard

State	Enterprises (mn)	HWE share (%)	Registered (%)	Internet use (%)	Value added/worker (₹ lakh)
Uttar Pradesh	6.8	6.4	22.5	14.7	1.05
West Bengal	5.8	4.7	25.1	19.5	0.94
Bihar	3.4	4.8	21.3	23.4	1.19
Maharashtra	2.8	8.8	47.7	49.0	1.38
Odisha	2.5	7.2	23.8	22.4	0.78
Madhya Pradesh	2.3	4.6	20.4	32.0	0.88
Rajasthan	2.1	8.3	21.0	55.4	1.37
Andhra Pradesh	2.1	4.5	38.0	24.6	1.31
Tamil Nadu	2.0	12.5	55.1	36.5	1.51
Karnataka	1.9	7.3	52.4	40.4	1.35
Telangana	1.6	2.4	37.7	30.2	1.21
Jharkhand	1.6	8.0	27.3	31.6	1.13
Gujarat	1.4	9.0	31.4	40.1	1.38
Kerala	1.2	19.6	66.8	33.0	1.82
Assam	1.1	7.7	63.1	62.3	1.36



Transform Rural India

IDinsight

