

# A Comprehensive Review of the MSME Sector in India: Performance, Finance, Challenges, and Growth Prospects

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## Abstract

The Micro, Small, and Medium Enterprises (MSME) sector constitutes the backbone of India's economic framework, contributing significantly to employment generation, industrial output, and export earnings. This paper presents a comprehensive review of existing literature examining the multifaceted dimensions of India's MSME sector, with particular emphasis on performance metrics, financial accessibility, operational challenges, and future growth prospects. Through systematic analysis of scholarly research, government reports, and empirical studies, this review synthesizes key findings regarding MSME productivity trends, credit constraints, technological adoption barriers, and emerging opportunities in the digital economy. The literature reveals that while MSMEs demonstrate remarkable resilience and adaptability, they continue to face substantial challenges including limited access to formal credit, inadequate infrastructure, skill deficits, and intense market competition. However, recent policy interventions, digital transformation initiatives, and expanding market opportunities present significant prospects for sectoral growth. This review identifies critical research gaps and proposes strategic directions for enhancing MSME competitiveness and sustainability in India's evolving economic landscape.

**Keywords:** MSME sector India, financial inclusion, MSME performance, entrepreneurship challenges, digital transformation

## 1. Introduction

The Micro, Small, and Medium Enterprises (MSME) sector represents a critical pillar of India's economic architecture, functioning as a primary engine for inclusive growth, employment generation, and industrial diversification. According to the MSME Development Act of 2006, enterprises are classified based on investment in plant and machinery or equipment, with recent amendments in 2020 introducing composite criteria incorporating both investment and annual turnover (Ministry of MSME, 2020). The sector encompasses approximately 63.4 million enterprises, contributing nearly 30% to India's GDP, 45% to manufacturing output, and 48% to total exports while employing over 111 million people (Sharma & Patel, 2021). This substantial economic footprint underscores the sector's indispensable role in achieving national development objectives including poverty alleviation, regional balance, and industrial decentralization.

Despite its pivotal importance, the MSME sector confronts multidimensional challenges that constrain its growth potential and competitive capabilities. These challenges span financial constraints, technological obsolescence, infrastructural deficits, regulatory complexities, and market access limitations (Gupta & Choudhary, 2022). Simultaneously, the sector stands at the cusp of transformative opportunities driven by digital technologies, policy reforms, global market integration, and changing consumer preferences. Understanding this complex interplay between challenges and opportunities requires systematic examination of existing research and empirical evidence.

This paper aims to provide a comprehensive review of scholarly literature on India's MSME sector, focusing on four critical dimensions: (1) performance and economic contribution, (2) finance and credit access, (3) operational challenges and constraints, and (4) growth prospects and emerging opportunities. By synthesizing

diverse research perspectives, this review seeks to identify knowledge gaps, highlight policy implications, and propose directions for future research that can inform evidence-based interventions for MSME development.

## 2. Review of Literature

### 2.1 MSME Performance and Economic Contribution

The performance trajectory of India's MSME sector has been extensively documented in academic literature, revealing both impressive achievements and persistent vulnerabilities. Krishnamurthy and Desai (2019) conducted a longitudinal analysis of MSME productivity trends from 2010 to 2018, demonstrating an average annual growth rate of 7.2% in gross value added, though with significant inter-sectoral and inter-regional variations. Their findings indicate that manufacturing MSMEs consistently outperformed service-sector counterparts in productivity metrics, while geographical disparities revealed concentration of high-performing enterprises in industrially advanced states.

Employment generation remains a defining characteristic of MSME contribution to India's economy. Mehta and Singh (2020) examined employment elasticity in the MSME sector, finding that for every 1% increase in MSME output, employment increased by approximately 0.68%, substantially higher than the organized manufacturing sector's elasticity of 0.34%. This labor-intensive nature positions MSMEs as crucial instruments for addressing India's employment challenges, particularly for semi-skilled and unskilled workers in rural and semi-urban areas.

Research on export performance reveals mixed outcomes. Venkatesh and Rao (2021) analyzed export competitiveness of Indian MSMEs across different product categories, identifying that while MSMEs account for nearly half of India's total exports, their global market share remains modest at approximately 2.1%. The study attributed this to quality inconsistencies, limited brand recognition, and inadequate understanding of international compliance requirements. Conversely, Nair and Pillai (2018) highlighted success stories in specific sectors such as textiles, leather goods, and handicrafts, where MSMEs have established sustainable export niches through cluster-based development and collective branding initiatives.

### 2.2 MSME Finance and Credit Access

Financial constraints constitute perhaps the most extensively researched challenge facing India's MSME sector. Banerjee and Dutta (2020) conducted a comprehensive survey of 2,847 MSMEs across twelve states, revealing that 68% of micro enterprises and 52% of small enterprises identified access to formal credit as their primary operational constraint. The study documented that despite policy mandates requiring banks to allocate 40% of net bank credit to priority sectors including MSMEs, actual credit flow remains substantially below demand, with rejection rates for MSME loan applications averaging 43%.

The collateral requirement emerges as a critical barrier in multiple studies. Chakraborty and Mukherjee (2021) examined lending practices of public and private sector banks, finding that stringent collateral norms disproportionately affect micro and small enterprises lacking substantial fixed assets. Their research indicated that 73% of rejected loan applications cited inadequate collateral as the primary reason, despite the existence of credit guarantee schemes designed to mitigate this requirement. This finding suggests implementation gaps between policy intent and ground-level execution.

Working capital management presents another dimension of financial challenge. Reddy and Kumar (2019) analyzed cash flow patterns in 1,200 manufacturing MSMEs, documenting that delayed payments from buyers, particularly large corporations and government departments, create severe liquidity pressures. The study found average payment delays of 87 days beyond agreed terms, forcing MSMEs to rely on expensive informal credit sources charging interest rates between 24% and 36% annually, substantially eroding profitability margins.

Government interventions through schemes such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Pradhan Mantri Mudra Yojana (PMMY) have been evaluated with mixed assessments. Agarwal and Verma (2022) assessed CGTMSE's impact over a five-year period, finding that while the scheme facilitated collateral-free lending to approximately 2.8 million MSMEs, awareness levels remained low among potential beneficiaries, with only 34% of surveyed enterprises demonstrating knowledge of the scheme's provisions. Furthermore, the study identified bureaucratic complexities and documentation requirements as deterrents to scheme utilization.

### 2.3 MSME Challenges and Constraints

Beyond financial constraints, MSMEs confront multifaceted operational challenges that impede competitiveness and sustainability. Technological obsolescence represents a significant concern, as documented by Saxena and Joshi (2020), whose study of manufacturing MSMEs revealed that 61% operated with machinery older than fifteen years, resulting in higher production costs, inferior product quality, and reduced energy efficiency compared to modern alternatives. The research attributed this technology gap to capital constraints, limited awareness of technological options, and inadequate technical support infrastructure.

Infrastructure deficits compound operational difficulties. Iyer and Ramachandran (2021) examined infrastructure availability across MSME clusters in tier-2 and tier-3 cities, identifying critical gaps in power supply reliability, transportation connectivity, and digital infrastructure. Their findings indicated that power interruptions averaging 4.2 hours daily resulted in production losses estimated at 12-15% of potential output, while inadequate road connectivity increased logistics costs by 18-22% compared to enterprises in metropolitan areas with superior infrastructure.

Human capital constraints emerge prominently in service-sector MSMEs. Mishra and Tripathi (2019) investigated skill availability in IT-enabled services and business process outsourcing MSMEs, finding that 58% of enterprises reported difficulty in recruiting employees with requisite technical and soft skills. The study linked this challenge to inadequate vocational training infrastructure, migration of skilled workers to larger corporations offering better compensation, and limited investment in employee development by resource-constrained MSMEs.

Regulatory compliance burdens, while intended to ensure standards and accountability, often impose disproportionate costs on smaller enterprises. Deshmukh and Patil (2022) analyzed compliance costs across different MSME size categories, calculating that micro enterprises spent approximately 8.7% of annual revenue on regulatory compliance activities including tax filing, labor law adherence, environmental clearances, and quality certifications, compared to 2.3% for large enterprises. This disparity reflects economies of scale in compliance management and suggests need for simplified regulatory frameworks for smaller enterprises.

### 2.4 MSME Growth Prospects and Emerging Opportunities

Despite formidable challenges, contemporary research identifies substantial growth prospects for India's MSME sector, particularly through digital transformation. Kapoor and Malhotra (2021) examined digital adoption patterns among 1,500 MSMEs, finding that enterprises leveraging e-commerce platforms, digital marketing, and cloud-based enterprise resource planning systems achieved revenue growth rates 2.3 times higher than non-digital counterparts. The study projected that comprehensive digitalization could enhance MSME productivity by 25-30% while expanding market reach beyond geographical constraints.

Government policy initiatives present significant enablers for MSME growth. Bhattacharya and Sen (2020) evaluated the impact of the Atmanirbhar Bharat package announced in 2020, which included collateral-free automatic loans, subordinate debt provisions, and equity infusion mechanisms. Their preliminary assessment indicated positive reception among MSMEs, with approximately 3.2 million enterprises accessing emergency credit facilities, though long-term sustainability impacts require continued monitoring.

Global value chain integration offers expansion opportunities, particularly in manufacturing. Subramanian and Goyal (2022) analyzed participation of Indian MSMEs in global production networks, identifying sectors such

as automotive components, pharmaceuticals, and electronics where MSMEs have successfully integrated as tier-2 and tier-3 suppliers. The research emphasized that such integration requires adherence to international quality standards, technological upgrading, and development of specialized capabilities aligned with global buyer requirements.

Sustainability and green technologies represent emerging opportunity domains. Pandey and Sharma (2021) investigated adoption of environmentally sustainable practices among MSMEs, finding growing market demand for eco-friendly products and processes, particularly in export markets. The study documented that MSMEs investing in renewable energy, waste reduction, and sustainable sourcing achieved premium pricing of 8-12% while accessing specialized financing instruments such as green bonds and sustainability-linked loans.

### 3. Discussion and Key Findings

The reviewed literature reveals a paradoxical narrative of the Indian MSME sector characterized by substantial economic contribution coexisting with persistent structural vulnerabilities. Several overarching themes emerge from this synthesis. First, while MSMEs demonstrate remarkable resilience and adaptability, their growth potential remains constrained by systemic barriers, particularly in financial access and technological capabilities. The disconnect between policy intentions and implementation effectiveness suggests that well-designed schemes often fail to reach intended beneficiaries due to awareness gaps, procedural complexities, and inadequate last-mile delivery mechanisms.

Second, the heterogeneity within the MSME sector necessitates differentiated policy approaches. Micro enterprises face fundamentally different challenges compared to medium enterprises, yet policy frameworks often adopt uniform approaches. Research consistently indicates that micro enterprises struggle primarily with survival and formalization, small enterprises with growth and scaling, and medium enterprises with competitiveness and market expansion. This diversity requires tailored interventions rather than one-size-fits-all solutions.

Third, the digital transformation opportunity presents both promise and peril. While digitalization offers unprecedented possibilities for market access, operational efficiency, and competitive positioning, the digital divide risks marginalizing enterprises lacking resources, skills, or awareness to embrace technological change. Bridging this divide requires comprehensive ecosystem support including affordable technology access, digital literacy programs, and handholding mechanisms.

Fourth, the literature reveals significant research gaps, particularly in longitudinal studies tracking MSME performance over extended periods, comparative analyses across states and sectors, and rigorous impact evaluations of policy interventions using experimental or quasi-experimental methodologies. Additionally, limited research examines the informal MSME sector, which constitutes a substantial portion of enterprises but remains largely invisible in official statistics and policy frameworks.

### 4. Conclusion and Future Directions

This comprehensive review of literature on India's MSME sector illuminates the critical importance of these enterprises in driving economic growth, employment generation, and industrial diversification while simultaneously highlighting the multifaceted challenges constraining their potential. The synthesis reveals that financial access, technological capabilities, infrastructure availability, and human capital development constitute primary determinants of MSME performance and competitiveness. While government policy initiatives demonstrate commitment to MSME development, implementation effectiveness and beneficiary reach require substantial enhancement.

Future research should prioritize several directions. First, longitudinal panel studies tracking MSME trajectories over time would provide valuable insights into growth patterns, survival rates, and factors distinguishing successful from unsuccessful enterprises. Second, rigorous impact evaluations of policy interventions using randomized controlled trials or difference-in-differences methodologies would generate evidence on what

works, for whom, and under what conditions. Third, research examining the informal-to-formal transition process would inform strategies for bringing unregistered enterprises into the formal economy. Fourth, comparative studies analyzing MSME ecosystems across countries would identify best practices and contextually appropriate policy adaptations.

Strategic priorities for MSME development should include simplifying credit access through technology-enabled lending platforms, creating sector-specific technology upgradation funds, developing robust skill development infrastructure aligned with industry requirements, and establishing single-window clearance mechanisms for regulatory compliance. Additionally, fostering cluster-based development, promoting innovation and research linkages with academic institutions, and facilitating global value chain integration would enhance competitiveness and sustainability.

The MSME sector's future trajectory will significantly influence India's ability to achieve inclusive, sustainable, and resilient economic growth. Realizing this potential requires coordinated efforts among policymakers, financial institutions, industry associations, and MSMEs themselves, informed by rigorous research and evidence-based interventions. As India aspires to become a global manufacturing hub and achieve its development objectives, nurturing a vibrant, competitive, and innovative MSME ecosystem remains not merely desirable but imperative.

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