



**Original Article**

**AN ANALYSIS OF THE ISSUES FACING THE INDIAN MSME SECTOR**

**Mr. Mane Sunil Shivaji**

*Assistant Professor*

*Arts and Commerce College, Madha*

**Manuscript ID:**

IJAAR-B130356

**ISSN: 2347-7075**

**Impact Factor – 8.141**

**Volume - 13**

**Issue - 3**

**January – February 2026**

**Pp. 350 - 355**

**Submitted:** 25 Jan.2026

**Revised:** 03 Feb. 2026

**Accepted:** 10 Feb. 2026

**Published:** 28 Feb. 2026

**Corresponding Author:**  
**Mr. Mane Sunil Shivaji**

Quick Response Code:



Website: <https://ijaar.co.in/>



DOI: 10.5281/zenodo.20322114

DOI Link:

<https://doi.org/10.5281/zenodo.20322114>



Creative Commons



**Abstract:**

*Micro, Small and Medium Enterprises (MSMEs) are the indispensable "growth engine" and structural backbone of today's modern economies and especially so in India, where it accounts for about 30% of the national GDP and almost 50% of all exports. This work focuses on the key socio-economic role of the MSME sector whilst identifying the intricate systems of hurdles that can affect its long-term sustainability. Despite a lot of government support, the sector is stifled due to a huge institutional credit gap - estimated at INR 25.8 trillion - which means a majority of entrepreneurs have to subsist on internal or informal funding. Additional operational constraints are lack of new technological adoption, poor physical infrastructure, and cumbersome regulatory frameworks that discourage formalization.*

*The research also investigates the consequences of the Covid-19 pandemic which lead to a severe disruption of the supply chain and a major collapse of the demand of consumers leading to a record low in business registration and employment. This crisis showed the critical need for the digital economy, with enterprises that did not adapt online being forced into permanent closure. Furthermore, the study draws attention to the issues of unique socio-legal problems confronted by women entrepreneurs facing restrictive social norms and the handloom sector which has to it the challenge of competing against cheap imports of machine-made goods in spite of the existence of legal safeguards like GI Act etc. The findings suggest that though relief packages like 'Atmanirbhar Bharat' and MUDRA scheme offer crucial short-term relief, for the future prosperity of MSMEs, regulations need to be simplified for compliance, incentives offered for digital adoption, and sound brand promotion strategies implemented to increase competitiveness on the global stage.*

**Keywords:** MSME, Literature review, GDP, Indian Economy, Issues.

**Creative Commons (CC BY-NC-SA 4.0)**

*This is an open access journal, and articles are distributed under the terms of the Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License (CC BY-NC-SA 4.0), which permits others to remix, adapt, and build upon the work non-commercially, provided that appropriate credit is given and that any new creations are licensed under identical terms.*

**How to cite this article:**

*Mr. Mane Sunil Shivaji. (2026). An Analysis Of The Issues Facing The Indian MSME Sector. International Journal of Advance and Applied Research, 13(3), 350 - 355. <https://doi.org/10.5281/zenodo.20322114>*

**Introduction:**

Micro, Small and Medium Enterprises (MSMEs) are basically acknowledged as the "growth engine" and the structural "backbone" of the Indian economy (Singh & Sharma, n.d.; Shallu,

2023). This segment plays a crucial role in socio-economic development and is currently made up of around 63.3 million units and the number of people working in this sector remains above 120 million (Singh & Sharma, n.d. & Singh & Daniel, 2017)



These enterprises make major contributions to the national prosperity, as about 30% of country GDP, 45% to 49.8% of the total exports have come from them (Shallu, 2023; Singh & Daniel, 2017). In July 2020, the government launched a new classification system on composite investments with the annual turnovers as the criteria, which removed the historical distinction between the manufacturing sector and service sector to promote the scaling of businesses (Singh & Sharma, n.d.; Shallu, 2023; Kumar & Gajakosh, 2021). Beyond these financial measures, MSMEs are a "seedbed" for entrepreneurship, through which many regional imbalances can be minimized by industrializing rural and underdeveloped areas (Singh & Sharma, n.d.; Singh & Daniel, 2017).

### **Literature Review:**

**1 Economic Importance and Classification:** The Micro, Small and Medium Enterprise (MSME) sector has been invariably defined in stream of literature as the "backbone" and the "growth engine" of the Indian economy. With an estimated 63.3 million units, the sector earns a livelihood for an estimated 120 million people. In addition to employment, these enterprises contribute about 30% to 33% of the total GDP of India and account for nearly 45% to 49.8% of national export. In the year 2020, there was a major shift in the regulatory scenario when the Indian government introduced a composite classification based on investment and turnover which virtually eliminated the distinction between manufacturing and service-based firms to ease scaling.

**2 Systemic Challenges to Sustainability:** For all the role of MSMEs as a "seedbed" for entrepreneurship, there are chronic operational hurdles.

1. The Financial Credit Gap: A common theme throughout the sources is the huge institutional

"credit gap" that presently stands at INR 25.8 trillion. Only about 16% of MSMEs have access to timely and formal financing, leaving the majority to depend on high-interest informal financing or personal savings.

2. Technological and Infrastructural Deficit: Many of the units are got into the vicious cycle of low productivity as a result of using outdated technology, especially in the textile and metal fabrication industries. This is compounded by poor physical infrastructure in the specific form of inconsistent power and water supplies raising the cost of production and reducing global competitiveness.

3. Regulatory Burdens: Researchers cite complex labor regulations and the continuing stream of "red tape" as major hurdles discouraging small businesses from operating in the formal economy.

**3 Empowerment with MSMEs:** Women and Rural Development: MSMEs are coming to be seen as an engine for social change. Tiwari (2023) makes a case for the sector that is so crucial to women's empowerment and offers opportunities for financial independence and leadership that overturn traditional societal gender roles. However, women entrepreneurs still experience differences in wages based on gender and limitations in accessing professional networks. Similarly, MSMEs help in rural development by industrializing backward areas and controlling the problem of mass migration to urban centres.

**4 Legal Protection and the Handloom Crisis:** The traditional handloom industry, which employs about 40 lakh people, faces an existential threat from low-cost, machine-made imitations being imported from China and Malaysia. Mishra et al (2022) point to the fact that legal instruments such as the Geographical Indication (GI) Act of 1999 which was meant to preserve indigenous craftsmanship are frequently inadequate for the actual weavers. In many



instances, the middlemen and master weavers reap the economic benefits of registration while the primary producers remain in a state of "hunger and starvation".

**5 The Impact of the Novel coronavirus (Covid-19) and the Digital Pivot:** The fragility of the sector was exposed with the onset of the Covid-19 pandemic, where 73% of the MSMEs indicated that there was significant decline in orders and 60% of them were due to supply chain disruption. Place such as Uttarakhand witnessed registration and jobs rate touching an all-time low during the pandemic. In response, there is a growing consensus on the need of the "digital economy". While at pre-crisis level, only about 13% to 25% of MSMEs were digitally literate, the move towards online-payments and e-commerce has now been seen as a vital survival strategy in reaching global markets.

**6 Governmental Interventions:** To fight these problems, different initiatives have been taken by

the government like MUDRA Yojna for tiered credit, Udyam Portal for Simplified Registration, women entrepreneur specific "SAMARTH" campaign etc. While Aatma Nirbhar Bharat package gave collateral-free loans to troubled units, the scholars recommended that the long-term solution is incentivized adoption of digital and restructuring the tariff mechanism for raw materials.

#### **Objectives of the Study:**

1. To study the Concept of MSME.
2. To Understand Contribution of MSME Indian Economy.
3. To analyses various Issues faced by Indian MSME sector

#### **Concept of MSME:**

Ministry of MSME's the criteria for classification of enterprises are revising w.e.f. **1st April 2025**, The revised classification criteria are as follows:

<b>Classification</b>	<b>Micro</b>	<b>Small</b>	<b>Medium</b>
<b>Manufacturing Enterprises and Enterprises rendering Services</b>	Investment in Plant and Machinery or Equipment: Not more than Rs. 2.5 crore and Annual Turnover not more than Rs. 10 crore	Investment in Plant and Machinery or Equipment: Not more than Rs. 25 crore and Annual Turnover not more than Rs. 100 crore	Investment in Plant and Machinery or Equipment: Not more than Rs. 125 crore and Annual Turnover not more than Rs. 500 crore

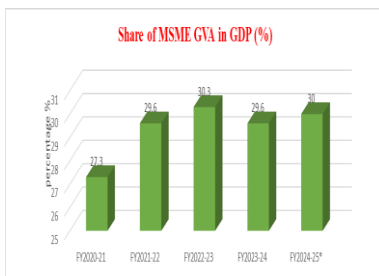
#### **Contribution of MSME in Indian Economy:**

The Micro, Small and Medium Enterprises (MSME) sector in India with over 6.5 crores of registered MSMEs, bring a significant amount of strength and resilience to the Indian economy. The sector is an important contributor to the economic growth, employment, manufacturing and exports of India. MSMEs is contributing a third in Gross Domestic Product (GDP) and also employing more than 29 crores 1 persons, thus laying emphasis on its importance for socio-economic development in the country. MSMEs have a dual role in the economy of maintaining traditional industries like manufacturing and being in the lead of innovation in the form of

startups. The traditional handicrafts and the village level enterprises would remain relevant by way of providing a sustainable livelihood for a majority of workforce. There is a need for expansion of the market for such enterprises through concerted efforts of the stakeholders. Several sectors like defence, pharmaceutical, auto-component, clean tech and deep tech industries along with labour intensive industries viz. leather, toy, food processing sectors etc can be the driver of MSME growth for achieving the vision of Viksit Bharat by 2047 with the support of the policy initiatives of the Government.



Graph No. 1.1 Proportion of MSME GVA of GDP (%)



### Issues faced by Indian MSME sector:

#### 1 Problems of Financial and Credit Accessibility:

The most pervasive obstacle that is identified across the literature is the "credit gap" and the difficulty to get institutional finance.

1. **The Funding Gap:** It is estimated that there is a huge INR 25.8 trillion credit gap in India, with only 16% percent of MSMEs succeed in getting timely finance from external sources (Singh & Sharma, n.d.).
2. **Procedural Hurdles:** Hurdles often face borrowers during long and formalistic loan procedures and are obliged to produce in-depth documentation to prove their creditworthiness (Singh & Daniel, 2017).
3. **Collateral Constraints:** Many small scale industries do not have high value collateral, and hence the banks are reluctant or "bogged down in red tape," which is to prevent the practical implementation of government relief schemes (Singh & Sharma, n.d.; Shallu, 2023).

#### 2 Technological Stagnation and Infrastructural Defects:

Lack of modernization, poor physical facilities, etc. raise the cost of production to a great extent for the small units.

1. **Obsolete Technology:** A lot of MSMEs, especially in the textiles and fabricated metal industry, are still running on outdated production methods leading to a weakening of their position to compete in a high tech world

market (Singh & Sharma, n.d.; Singh & Daniel, 2017).

2. **Infrastructure Gaps:** There continues to be frequent disruptions in the power and water supplies (Singh & Daniel, 2017). In specific areas such as Uttarakhand, non-functional internet connectivity, decent transportation and legitimate warehousing still posing as a challenge to growth (Kumar & Gajakosh, 2021).
3. **Low Digital Literacy:** With the move towards a digital economy, many entrepreneurs are not well-versed in to leverage digital tools. For example, in some region only 13% to 25% of MSMEs are considered digitally literate (Fridayani et al, 2021, Shallu, 2023).

#### 3 Regulatory and Managerial Impediments:

MSMEs find it difficult to cope with the administrative burden of "red tape" and lack of formal training.

1. **Complex Legal Frameworks:** Onerous tax compliance and intricate labor laws create an environment where small firms have a difficult time remaining compliant, and as a result, even leading them to close down completely (Singh & Sharma, n.d.; Singh & Daniel, 2017).
2. **Managerial Gaps:** Significant deficiency in formal managerial skills and awareness about quality in the owners chokes these businesses from expanding at a valuable rate (Singh & Sharma, n.d.; Shallu, 2023).
3. **Lack of Formalization:** High percentage of MSMEs not registered - approx. 86% in manufacturing - which once again widens the credit gap, being unable to avail GST-linked benefits (Shallu, 2023).

#### 4 Global Competition and Vulnerability of Markets:

Globalization has brought some challenges that small local units are often not well equipped to manage.



1. MNC Domination: MSMEs face "fierce competition" from MNCs which possess superior technology, improved marketing skills, and cheaper costs of production (Shallu, 2023; Singh & Daniel, 2017).
2. The Handloom Crisis: The traditional sectors such as handlooms are under existential threats from the cheap, machine-made copies that have been imported from countries such as China and Malaysia (Mishra et al., 2022). Furthermore, financial benefits are often not passed on to actual weavers as they still depend on exploitative middlemen and "master weavers" (Mishra et al., 2022).

**5 Specific Problems of Gender and Social Challenges:** Women entrepreneurs face unique system barriers to limit their professional power.

1. Social Norms: Deep-rooted gender biases and cultural norms frequently limit women's engagement in the workforce and their access to leadership positions (Tiwari, 2023).
2. Resource Access Women-led MSMEs often fall victim to discriminatory lending and a dire shortage 50% of female ambassadors or supportive networks for those in a male-dominated industry (Tiwari, 2023).

**6 Post-Pandemic Impact (COVID-19):** The pandemic acted as a severe disruptor and exposed the fragility of the sector.

1. Operational Collapse: During the peak of the Covid-19 pandemic, there was a huge decline in revenue for MSMEs (up to 84% in some regions), causing massive layoffs and breakdowns in the supply chains (Fridayani et al. 2021; Kumar & Gajakosh, 2021).
2. Labor Migration: Mass migration of labor during lockdowns resulted in a huge shortage of skilled labor when the operations were trying to resume (Singh & Sharma, n.d.; Kumar & Gajakosh, 2021).

**Conclusion:**

1. In conclusion, the Micro, Small, and Medium Enterprises (MSME) sector is the indispensable "backbone" and "growth engine" of the Indian economy, through which socio-economic progress is getting pushed by massive employment generation along with the industrial diversification. The sector's contribution is statistically undeniable, it is responsible for some 30% of the national GDP and almost half of all exports. However, the move towards a fully self-reliant (Atmanirbhar) nation is suffering from a series of deep-rooted systemic vulnerabilities presently.

2. The main challenge is still a huge institutional credit gap - estimated at INR 25.8 trillion - which compels a vast majority of entrepreneurs to rely on internal savings or informal high-interest loans because of the bureaucratic 'red tape' and stringent collateral agreements. Furthermore, the sector is affected by technological stagnation and infrastructural deficit, especially in rural areas where unreliable power and water supply effects production efficiency. The pandemic caused by the Covid-19 virus was a fantastic devastator in exposing these vulnerabilities by experiencing record low of business registration and employment and a critical digital literacy challenges among small-scale owners.

3. Legal and social thinking In addition, legal and social thinking shows that frameworks such as the Geographical Indication (GI) Act and schemes such as SAMARTH attempted to protect traditional artisans and empower women, in the practical implementation, it was unable to circumvent the influence of exploitative middlemen or surmount restrictive social mores. In order to ensure the sustainability of MSMEs in the long term, multiple-faceted approach is needed. This has to include incentivizing digital adoption, streamlining the



regulatory compliance to facilitate "Ease of Doing Business" and implementing sector-specific legal safeguards to protect indigenous crafts from global competition. Ultimately, if the government and financial institutions can be successful in bridging the credit gap and creating a more inclusive technological ecosystem, the MSME sector will remain the main vehicle of India's future economic resilience and global competitiveness.

### References:

1. Bipin Kumar, & Gajakosh, A. R. (2021). MSMEs issues and prospectus of Uttarakhand: A conceptual investigation with special reference to COVID-19. *Small Enterprises Development, Management & Extension Journal (SEDEME)*, 48(3), 299–310. <https://doi.org/10.1177/09708464211029240>
2. Das, P. (2017). Micro, small and medium enterprises (MSME) in India: Opportunities, issues and challenges. *Great Lakes Herald*, 11(1). Great Lakes Institute of Management.
3. Fridayani, H. D., Iqbal, M., Chiang, L., Pratama, M. A., & Atmojo, M. E. (2021). Opportunities and challenges of digital economy for micro, small, and medium enterprises facing pandemic COVID-19 in Indonesia: A case study. In *Advances in Economics, Business and Management Research (Vol. 209)*. Atlantis Press. <https://doi.org/10.2991/aebmr.k.220303.030>
4. Government of India, Ministry of Micro, Small and Medium Enterprises. (2024). Annual report 2024–25. Government of India.
5. Jain, V., & Jain, A. (2012). A study and scope of SMEs in Uttarakhand and problems faced by them. *Asian Journal of Business and Economics*, 2(2), 1–13.
6. Jaswal, S. S. (2014). Problems and prospects of micro, small and medium enterprises (MSMEs) in India. *International Journal of Innovative Research and Studies*, 3(5), 140–161.
7. Mishra, A., Mohapatra, C. K., Pattnaik, P. K., & Satpathy, S. P. (2022). Issues and challenges of the Indian handloom sector: A legal perspective. *Rupkatha Journal on Interdisciplinary Studies in Humanities*, 14(3). *Rupkatha Journal*. <https://doi.org/10.21659/rupkatha.v14n3.XX>
8. Nadaf, R., & Kadakol, A. M. (2017). A study of major problems, prospects and performance aspects of MSMEs in India. *International Journal of Business, Management and Allied Sciences*, 4(4), 177–184.
9. Shallu. (2023). A study on some key aspects of Indian MSME sector. *International Journal of Creative Research Thoughts*, 11(5). IJCRT Publication.
10. Singh, A., & Sharma, N. (2023). A study on MSME and its challenges for sustainability in India. *International Journal of Creative Research Thoughts*, 11(7). IJCRT Publication.
11. Singh, N., & Daniel, S. P. (2017). MSME sector: Challenges and opportunities. *International Journal of Business and Management Invention*, 6(9), 28–31.
12. Tiwari, V. (2023). MSME: Issues and challenges of empowerment of women in India. *International Journal of Engineering Applied Sciences and Technology*, 8(4), 149–156. IJEAST Publications.

Website:

1. <https://msme.gov.in/>

2. <https://www.ijcrt.org/>

3.

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2035073>