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MSMEs in India: The Unfinished Agenda

India is a diverse country full of nuances, and its so-called "MSME" sector is no exception to this quirky tapestry. India's Micro, Small and Medium Enterprises commonly known as "MSMEs" are routinely described as the backbone of the economy. The phrase appears with such frequency that it risks becoming a cliché. The MSME sector is a no-nonsense contributor to the economy, accounting for around 30 percent of India's GDP and more than 45 percent of exports, prominent source of employment. These numbers are impressive, but they can sometimes obscure the fact that MSMEs are not a homogeneous category.

Identity Crisis-India's MSME sector is as diverse as the country itself. A neighbourhood tailoring unit, a tiny fruit-juice shop around the corner, makeshift chai wallahs, seasonal Diwali diya stalls, temple enterprises, count less ancillary manufacturing units supplying intricate components to large industries, and a technology-enabled software firm in service sector with multinational clientel seem worlds apart. Yet under India's MSME framework, all are classified using the same two criteria: annual turnover and investment. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 groups these vastly different enterprises into the MSME category based solely on these measures.

Under the current definition, a micro enterprise has turnover not exceeding ₹10 crore and investment in plant, machinery, or equipment of up to ₹2.5 crore. A small enterprise has turnover of up to ₹100 crore and investment of up to ₹25 crore, while a medium enterprise can have turnover of up to ₹500 crore and investment of up to ₹125 crore. This broad classification often masks important differences in their needs, constraints and growth trajectories.It fails to identify the nano enterprise sector. Micro enterprises are estimated to form more than 90% of the MSME sector and nano enterprises having turnover less than Rs 1 crore form 99% of the micro sector.

Many recent reports advocate the need to reclassify the MSME sector to recognize the nano enterprise segment. They are too large to qualify for many poverty-oriented interventions and too small to attract the attention of formal financial institutions. As a result, they occupy a policy blind spot. A more nuanced classification of MSMEs that explicitly recognizesthese nano enterprises would allow policymakers to design targeted interventions rather than relying on one-size-fits-all solutions.

The Missing She-preneur Women's micro and nano businesses in India are often dismissed as less productive.From a Western perspective, both in academic literature and public policy, both in literature and policy, women's entrepreneurship is often perceived as a uniform and homogeneous landscape. However, in India, women often initiate, own and manage businesses, but legally, the businesses are owned by men. This is because they believe that bureaucratic procedures will be easier to navigate if the business is registered under a man's name. Typically, due to gender disparity in property ownership, and gender bias in credit availability, women-led businesses are not necessarily 'owned ' by women on record. Another overlooked reality in India is that many women actively support family-run businesses without ever being recognised as entrepreneurs. For example, a woman may manage a tea stall in the afternoon while her husband rushes off to his part-time job, or a mother may drop her children at school and then spend the rest of the day helping run her husband's software firm. These women are never counted as entrepreneurs even though they bear the joint responsibility of the enterprise.

To Formalise or Not to Formalise? - Over the past decade, India has made significant progress through digital public infrastructure. Platforms such as Udyam and GST have simplified registration and compliance procedures. Yet formalisation is not merely a technical registration process. It is ultimately a business decision.

Our recent research found that entrepreneurs are more likely to formalise when they can clearly perceive tangible benefits.Registration for its own sake is rarely sufficient motivation. If business owners do not see improvements in access to markets, finance, customers or government support, many prefer to continue operating informally. India operates within a distinctive social and economic ecosystem where community networks play a central role in business operations. These networks provide not only credit but also customers, suppliers, labour and information. For many entrepreneurs, informal finance is not simply a last resort. It is often faster, more flexible and better aligned with the realities of small business operations.

This creates a paradox. Many entrepreneurs remain disconnected from formal institutions while being deeply embedded in informal support systems. Understanding this reality is essential if policymakers wish to improve financial inclusion. Simply replicating models developed in Western economies may not produce the desired outcomes in the Indian context.Concerns about paperwork, compliance burdens and time costs further reinforce this hesitation.

Leveraging GST Reforms to tackle cash flow problems- At the recent National Conclave on "Next-Gen GST and the Road to Viksit Bharat @ 2047" organised at Gokhale Institute in collaboration with ICSSR, the industry participants pointed out that compliance requirements often place disproportionate burdens on small proprietorships where a single individual manages sales, operations, accounting and customer relationships simultaneously.

In this context, the panel proposed that integrating the Goods and Services Tax Network (GSTN) with payment systems operated through the National Payments Corporation of India (NPCI) could significantly reduce compliance burdens. Automated tax calculation, reconciliation and payment linked directly to transactions would simplify processes for small enterprises. Such integration could also improve transparency around payments and help address the chronic problem of delayed payments to MSMEs.

Linking GST data with existing provisions that mandate timely payments to MSMEs could further strengthen cash flow management across the sector. For small businesses, timely payment is often more valuable than access to additional credit.

Recreating the narrative - The future of India's MSME sector requires a shift in thinking. The challenge is not merely about introducing more schemes or expanding credit. It is about recognising diversity within the sector, understanding the role of informal networks, and designing institutions that work with entrepreneurial realities rather than against them.

India's entrepreneurial landscape is far more complex than standard classifications and Western frameworks can capture. If we genuinely wish to unlock the growth potential of MSMEs, we must begin by recognisingthese nuances that remain hidden in plain sight. The unfinished agenda is not simply about supporting MSMEs. It is about understanding who they really are.

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