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FINANCIAL PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA: A STUDY

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Abstract
Micro, Small, and Medium Enterprises (MSMEs) form a crucial pillar of the Indian economy, contributing approximately 30% to the country's Gross Domestic Product (GDP), 45–46% to total exports, and generating employment for over 110 million people across 63–73 million enterprises. Their diverse presence spans rural and urban regions, encompassing manufacturing, services, and trade, and playing a pivotal role in regional development, industrialization, and innovation. The analysis explores the sector's contributions to GDP, employment, exports, and entrepreneurship, while also identifying the structural challenges that constrain its potential. Key government initiatives, policy measures, and success stories are synthesized to provide a comprehensive understanding of the sector's trajectory. Inclusive and sustainable development for any economy plays an important role; it ensures equitable distribution of growth benefits across society. This paper examines the role of MSMEs in India's economic growth using secondary data from government reports, academic studies, industry publications, and reputable databases. According to the study findings, the Indian MSME Sector contributes to inclusive and sustainable growth by offering more revenues, ensuring regional development, and empowering marginalized groups.

Keywords: Financial growth, Gross Domestic Product, and MSMEs.

Introduction
In developing economies, micro, small, and medium-sized enterprises (MSMEs) are recognized as crucial drivers of economic growth and structural change. Research indicates that small and medium-sized enterprises significantly enhance job opportunities and productivity, particularly in developing regions, where they function as catalysts for development. (Ayyagari et al., 2007). In these countries, MSMEs are acknowledged as essential players in fostering economic growth, creating jobs, and facilitating structural transformation. Studies reveal that small and medium enterprises are vital for boosting employment and national productivity, especially in developing nations, where they act as engines of inclusive development.

Despite their critical role in the economy, MSMEs encounter both structural and financial challenges. Their growth potential is often restricted by limited access to formal credit, insufficient capital, and vulnerability to market risks. Research has demonstrated that financial constraints are among the most significant obstacles hindering the growth and productivity of small businesses in developing countries. (Ayyagari et al., 2007). Additionally, small enterprises have been negatively impacted by economic disruptions such as the COVID-19 pandemic and global financial crises, resulting in revenue fluctuations, operational disruptions, and liquidity shortages. (Bartik et al., n.d.). These identified challenges highlight the importance of examining the factors that influence the growth performance and financial sustainability of MSMEs.

Financial performance typically refers to profitability, revenue stability, and liquidity management, while growth performance includes sales turnover, job creation, and asset growth. Research on the expansion of small businesses highlights that performance is multifaceted, influenced by both internal strengths and external conditions. (Bruton et al., 2010). Current studies often focus on the effects of institutions, technology adoption, and financial factors in isolation, rather than integrating them into a region-specific framework. Institutional frameworks within organizations suggest that companies respond to pressures and incentives arising from regulations in their surroundings. In emerging economies, supportive institutional mechanisms such as credit guarantee programs, infrastructure development, regulatory ease, and skill enhancement are crucial for boosting the sustainability and competitiveness of MSMEs. Institutions play a vital role in minimizing uncertainty and structuring economic interactions by establishing formal and informal rules that govern market activities. Institutional theory offers a valuable lens for examining how regulatory, normative, and cognitive structures influence enterprise behavior and performance. (Bruton et al., 2010).

Financial Constraints and Access to Credit

The primary challenge that MSMEs continue to encounter is related to securing funding.(Rao, 2012) Identify several financial obstacles, including insufficient funds, challenges in obtaining external financing, elevated operational expenses, and struggles to cover labor costs. These limitations directly affect growth and sustainability. A comprehensive review of MSME finance literature from 1960 to 2020 reveals that financial constraints are a significant issue, particularly in developing countries (Chitsimran et al., 2020). The authors contend that banks view MSMEs as high-risk borrowers due to a lack of transparency, inadequate documentation, and minimal collateral. Information asymmetry and ineffective credit appraisal systems exacerbate financing gaps.

Likewise, (Kadian&Chahal, n.d.), through secondary data analysis from 2007–2016, discovered that while bank credit to MSMEs has risen over time, this increase has not kept pace with the sector's growth. High interest rates and stringent lending practices continue to hinder enterprise development. Recent empirical findings from South India support this claim.(Vijayalakshmi et al., 2025) indicate that limited access to timely and sufficient credit remains a major obstacle to SME growth, despite the existence of financial institutions and policy measures. The study emphasizes the need for customized credit programs and financial literacy to enhance credit accessibility. Overall, the literature suggests that merely having financial resources does not ensure growth; institutional efficiency and effective credit delivery systems are also vital.

Research Objectives

1. To study the importance of the Micro, Small and Medium Enterprises in Indian Economy.
2. To analyse the financial performance of MSMEs in India.

Methodology

The present paper is highlighted on only secondary sources data. The data were collected from the MSMEs Annual reports, research papers and articles, and dailies. This paper focus on performance of Micro, Small and Medium Enterprises in India during the period from 2021-22 to 2025-26 financial years based on availability of the data.

Analysis of Budget Estimates and Actual Expenditure (2021–22 to 2025–26)

The table presents the Budget Estimates (BE)and Actual Expenditure (AE) for the financial years 2021–22 to 2025–26. It indicates the government's planned expenditure and the actual amount spent during each financial year.

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Table 1: Budget Allocation for MSMEs in India

S.No	Financial Year	Budget Estimates	Actual Expenditure
1	2021-22	15699.65	15160.47
2	2022-23	23628.73	23583.90
3	2023-24	22138.01	22.094.17
4	2024-25	17306.70	9700.35
5	2025-26	12095.98	7998.98*

Source: MSME report 2025-26
*Expenditure as on 20-01-2026

Year-wise Analysis

The table reveals that, in 2021-22 the budget estimate was ₹15,699.65 crore, while the actual expenditure amounted to ₹15,160.47 crore, representing 96.57% of the budget allocation. The difference of ₹539.18 crore indicates efficient utilization of the allocated funds, with only a small portion remaining unspent. While 2022-23 Budget allocation increased significantly to ₹23,628.73 crore, and actual expenditure reached ₹23,583.90 crore, achieving an impressive 99.81% utilization. The minimal gap of ₹44.83 crore reflects excellent financial planning and implementation. And further discloses that in 2023-24 budget estimate declined slightly to ₹22,138.01 crore, actual expenditure remained high at ₹22,094.17 crore, resulting in 99.80% budget utilization. The negligible difference of ₹43.84 crore demonstrates continued fiscal discipline and effective execution of planned activities.

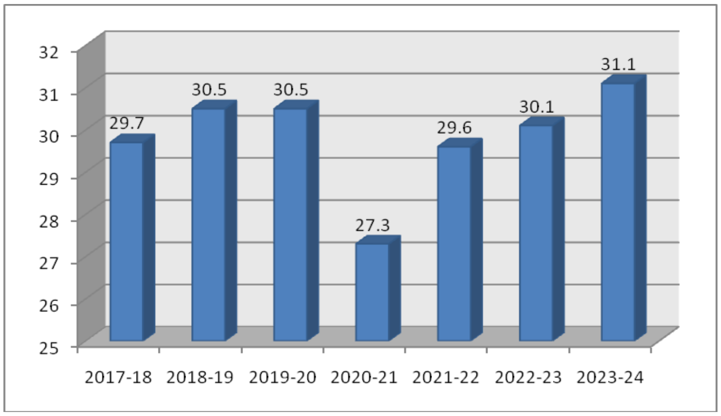
It is found from the table data that the budget estimate fell to ₹17,306.70 crore, while actual expenditure dropped sharply to ₹9,700.35 crore, representing only 56.05% of the allocated budget. The large gap of ₹7,606.35 crore suggests substantial underutilization, which may be due to delays in project implementation, revised spending priorities, administrative constraints, or the fact that expenditure data may not represent the full financial year of 2024-25.The budget estimate further decreased to ₹12,095.98 crore, with actual expenditure reported at ₹7,998.98 crore, corresponding to 66.13% utilization. The shortfall of ₹4,097.00 crore is relatively lower than the previous year but still indicates that a considerable portion of the allocated budget had not yet been spent. Since the figures are marked as provisional (*), expenditure is expected to increase as the financial year 2025-26 progresses.

Table 2: Share of MSMEGVA in All India GDP

Year	Share of MSMEGVA in All India GDP (in%)
2017-18	29.7
2018-19	30.5
2019-20	30.5
2020-21	27.3
2021-22	29.6
2022-23	30.1
2023-24	31.1
2024-25	(NA) Not yet officially released
2025-26	(NA) Not yet officially released

Source: Annual Report of Ministry of MSMEs,2026

The information presented in the table above illustrates that MSMEs play a vital role in contributing significantly to India’s GDP, emphasizing their critical position in the national economy. In the fiscal year 2017–18, the MSME Gross Value Added (GVA) accounted for 29.7%, which rose to 30.5% in 2018–19 and held steady at 30.5% in 2019–20, indicating consistent growth and resilience within the sector. However, a notable decline occurred in 2020–21, with the share falling to 27.3%, primarily due to the negative effects of the COVID-19 pandemic, lockdown measures, and disruptions in production and supply chains. This drop highlights the susceptibility of MSMEs to economic disturbances. The sector demonstrated a robust recovery in the following years, with the share increasing to 29.6% in 2021–22 and further advancing to 30.1% in 2022–23. This rebound showcases the success of government support initiatives, policy reforms, and enhanced financial aid directed towards MSMEs. In summary, the overall trend indicates that despite facing temporary challenges, MSMEs continue to be a fundamental component of India’s economic development, contributing nearly one-third of the nation’s GDP.



The table indicates that the MSME sector has remained one of the most important contributors to India's economy**,** accounting for around one-third of the country's Gross Value Added (GVA)and about one-fourth of Gross Domestic Product (GDP) throughout the period. Although the sector experienced temporary setbacks during the COVID-19 pandemic, it recovered strongly in the subsequent years. These trends are reflected in the Ministry of MSME's annual reports and National Accounts data.

Table 3 Contribution of MSMEs to Country’s Economy at Current Price

Financial Year	MSME GVA	Growth (%)	Total GVA	MSME Share in GVA (%)	Total GDP	MSME Share in GDP (%)
2013–14	33,89,922	12.23	1,03,63,153	32.71	1,12,33,522	30.20
2014–15	37,04,956	9.29	1,15,04,279	32.21	1,24,67,959	29.70
2015–16	40,25,595	8.65	1,25,66,646	32.03	1,37,64,037	29.20
2016–17	44,05,753	9.44	1,38,41,591	31.83	1,52,53,714	28.90
2017–18	48,10,826	9.19	1,53,63,916	31.31	1,70,90,042	28.15
2018–19	52,13,559	8.37	1,71,03,359	30.48	1,89,71,237	27.48
2019–20	53,96,492	3.51	1,79,75,601	30.02	2,00,74,856	26.88
2020–21	50,37,546	–6.65	1,77,15,601	28.44	1,98,00,914	25.44
2021–22	62,12,294	23.33	2,05,53,527	30.22	2,36,64,637	26.25
2022–23	69,27,910	11.52	2,35,48,271	29.42	2,69,49,646	25.71
2023–24	78,08,046	12.71	2,67,16,724	29.23	3,03,92,446	25.69

Source: Annual Report of Ministry of MSMEs, 2025

Continuous Growth in MSME Gross Value Added (GVA)

1. MSME GVA at current prices increased from ₹33.90 lakh crore in 2013–14 to ₹78.08 lakh crore in 2023–24.
2. This represents an increase of approximately 130% over the eleven-year period.
3. The sustained rise indicates that MSMEs have expanded their production, value addition, and business activities despite economic fluctuations.

Stable Contribution to National GVA

1. The MSME share in total GVA remained above 30% during 2013–14 to 2019–20, ranging from 32.71% to 30.02%.
2. During 2020–21, the share declined to 28.44% due to the COVID-19 pandemic, which disrupted production, supply chains, and market demand.
3. The share recovered to 30.22% in 2021–22, before stabilizing at around 29.2–29.4% during 2022–23 and 2023–24.
4. This stability demonstrates that MSMEs continue to generate nearly one-third of India's total value added, highlighting their structural importance in the economy.

Contribution to GDP

1. MSMEs contributed 30.20% of GDP in 2013–14.
2. Their GDP share gradually declined to 26.88% in 2019–20 as the overall economy expanded more rapidly in some large-scale sectors.
3. The pandemic reduced the contribution further to 25.44% in 2020–21.
4. The sector rebounded to 26.25% in 2021–22 and remained relatively stable at 25.69–25.71% during 2022–23 and 2023–24.
5. Despite this modest decline in percentage terms, the absolute contribution to GDP increased substantially, reflecting overall economic growth.

Growth Pattern

1. Between 2013–14 and 2018–19, annual MSME GVA growth remained healthy, averaging 8–12%.
2. Growth slowed to 3.51% in 2019–20, reflecting weaker domestic demand before the pandemic.
3. In 2020–21, MSME GVA contracted by 6.65%, the only negative growth during the study period.
4. Recovery was exceptionally strong in 2021–22, with GVA growing by 23.33%, supported by economic reopening, government stimulus, improved exports, and formalization through digital initiatives.
5. Growth remained robust at 11.52% in 2022–23 and 12.71% in 2023–24, indicating sustained recovery and resilience.

Economic Significance

The analysis demonstrates that MSMEs continue to:

1. Contribute around 29–33% of India's Gross Value Added;
2. Contribute about one-fourth of the national GDP;
3. Serve as a major driver of industrial production, employment generation, entrepreneurship, exports, and balanced regional development; and

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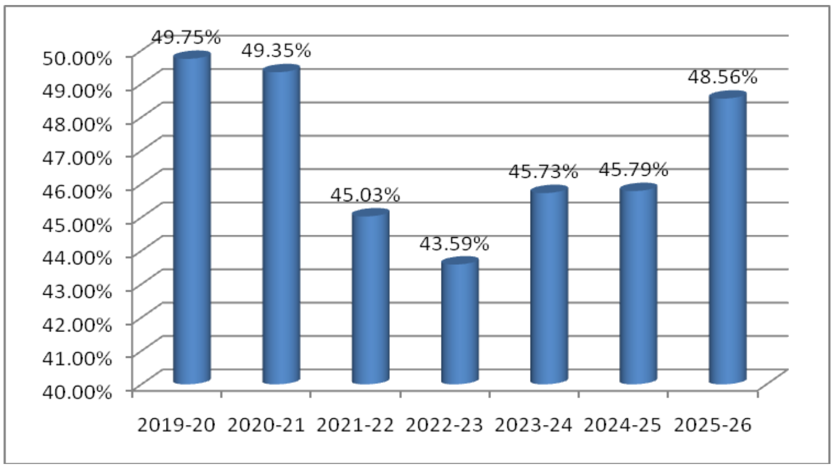
4. Remain resilient despite shocks such as the COVID-19 pandemic, aided by policy measures including the revised MSME definition, Udyam Registration, Emergency Credit Line Guarantee Scheme (ECLGS), RAMP, digitalization, and expanded access to finance

Table 4: Percentage Share of Export of MSME related Products in All India Export

Year	% share of Export of MSME related Products in All India Export
2019-20	49.75%
2020-21	49.35%
2021-22	45.03%
2022-23	43.59%
2023-24	45.73%
2024-25	45.79%
2025-26	48.56%

Source: Ministry of MSMEs, PIB



The table illustrates the contribution of MSME-related products to India's overall exports over a span of six years. MSMEs have consistently accounted for approximately 44–50% of India's total exports, underscoring their vital role in fostering international trade and boosting foreign exchange earnings. In the fiscal year 2019–20, MSME-related products made up 49.75% of total exports, demonstrating robust export performance before the onset of the COVID-19 pandemic. A minor decrease is noted in 2020–21 (49.35%), followed by a more pronounced drop in 2021–22 (45.03%) and 2022–23 (43.59%), which reflects the repercussions of the COVID-19 pandemic, supply chain disruptions, and diminished global demand. The share saw a slight recovery to 45.73% in 2023–24, 45.79% in 2024–25, and 48.56% in 2025-26 indicating that MSMEs are regaining their export strength and adjusting to evolving market conditions.

Findings

1. Budget estimates increased sharply from₹15,699.65 crore in 2021–22 to ₹23,628.73 crore in 2022–23, before gradually declining over the subsequent years.
2. Actual expenditure closely matched the budget estimates during 2021–22 to 2023–24**,** with utilization rates consistently exceeding 96%**,** indicating sound budget management.

3. A significant decline in expenditure utilization occurred in 2024–25, when only 56.05% of the budget was utilized.
4. The 2025–26 provisional data shows some improvement in utilization **(**66.13%**)** compared to the previous year, though expenditure remains substantially below the budget estimate.
5. Overall, the data suggests high efficiency in budget execution during the first three years, followed by considerable underutilization in the last two years, likely due to ongoing implementation, revised fiscal priorities, or the provisional nature of the expenditure figures.

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