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MSMEs in India: Growth, Transformation and Resilience in an Evolving Economic Landscape

2026





Bharat Ratna Sir M. Visvesvaraya

(15 September, 1860 - 14 April, 1962)

FIFTY FIVE YEARS AND COUNTING

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MVIRDC became a member of the World Trade Centers Association, New York, in 1971 and established the World Trade Center Mumbai, which is the first World Trade Center (WTC) in India. MVIRDC, having spearheaded the movement of World Trade Centers in India with the establishment of WTCs at Bhubaneswar, Goa and Jaipur, is assisting MSMEs in these regions through various Trade Research, Trade Promotion, Trade Infrastructure including Commercial Offices, Business Center, Trade Facilitation Services and Trade Education Programmes.

Foreword

India's aspiration to emerge as a Viksit Bharat by 2047 will be shaped by the strength and resilience of its MSME sector, which remains a key driver of employment, exports, and inclusive growth. The findings of this report present a realistic picture, while MSMEs continue to demonstrate adaptability, business confidence remains cautious due to persistent structural challenges such as access to finance, rising costs, delayed payments, and compliance complexities. In this growth journey.

Maharashtra stands at the forefront, with the capability to evolve into a \$1 trillion economy. Its strong industrial ecosystem, financial leadership through Mumbai, and diverse MSME base position it as a critical engine of national economic expansion.

Strengthening MSMEs in the state will therefore have a multiplier impact on India's overall growth trajectory. A key concern that emerges prominently is the issue of delayed payments, with an estimated 8–10 lakh crore locked in receivables across the MSME ecosystem.

This has a direct bearing on liquidity, working capital cycles, and the ability of enterprises to sustain and scale operations. Ensuring timely payments particularly from large corporates and public institutions can unlock significant capital, improve business confidence, and accelerate economic activity. Equally important is the need to enhance access to affordable and timely credit, especially for micro and small enterprises. Moving towards cash-flow-based lending, faster credit delivery systems, and collateral-light financing mechanisms will be essential in addressing the existing credit gap.

Alongside this, simplifying compliance frameworks, improving logistics efficiency, and supporting digital adoption will further strengthen MSME competitiveness. The survey underscores that the MSME sector is not uniform, different segments face different challenges. This calls for a targeted and differentiated policy approach, supported by effective implementation and continuous stakeholder engagement.

As we look ahead, empowering MSMEs is not merely an economic objective but a strategic necessity. By addressing key structural constraints and creating an enabling ecosystem, India can unlock the full potential of its enterprises. This will be instrumental in achieving the vision of a \$1 trillion Maharashtra and a strong, self-reliant, and globally competitive Viksit Bharat.



Dr. Vijay Kalantri

Chairman
MVIRDC World Trade Center Mumbai

Preface

The MSME sector continues to be the backbone of India's economic ecosystem, driving entrepreneurship, employment, and supply chain integration across industries. This report provides a timely and data-driven assessment of the sector's current sentiment, highlighting both its resilience and the structural challenges that continue to influence business confidence.

The findings indicate that while MSMEs have stabilized in the post-reform and evolving economic environment, their outlook remains cautious. Key concerns such as limited access to finance, rising input and compliance costs, and operational inefficiencies continue to affect decision-making, particularly for micro and small enterprises.

At the same time, the presence of a neutral and optimistic segment reflects underlying growth potential, provided the right enabling conditions are created. The report highlights the need for improving access to timely and affordable credit, especially through innovative financing models such as cash-flow-based lending and digital credit assessment frameworks. Bridging this gap will be essential to support business expansion, technology adoption, and competitiveness.

In addition, enhancing logistics efficiency, simplifying compliance procedures, and strengthening digital capabilities will play a crucial role in improving productivity and reducing cost pressures. The ongoing reforms in GST and Labour Codes present long-term opportunities; however, their effective implementation and ease of adoption at the enterprise level will be key to realizing tangible benefits.

From a regional perspective, Maharashtra remains a vital growth hub, with its MSME ecosystem playing a significant role in advancing the state's ambition of becoming a \$1 trillion economy. Strengthening enterprise capacity in the state will have a cascading impact on national economic progress. This report aims to contribute to a more informed and practical understanding of MSME challenges and opportunities.

It underscores the importance of targeted, implementation-focused interventions and continuous engagement between industry and policymakers. At World Trade Center Mumbai, we remain committed to facilitating dialogue, enabling global linkages, and supporting enterprises through knowledge, advocacy, and partnerships. We believe that with the right ecosystem support, MSMEs will continue to be a driving force in shaping a resilient and globally competitive Indian economy.



Priya Pansare

Director - Trade & Investment Promotion
MVIRDC World Trade Center Mumbai

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Introduction

Micro, Small and Medium Enterprises (MSMEs) are a critical pillar of India's economic structure, accounting for a significant share of employment generation, industrial output, exports, and regional development. The sector plays a particularly important role in absorbing labour, fostering entrepreneurship, and supporting supply chains across manufacturing, services, and trade. As India navigates a period of structural reform, cost realignments, and evolving market conditions, understanding the confidence and constraints of MSMEs has become increasingly important for policymakers, financial institutions, and industry stakeholders.

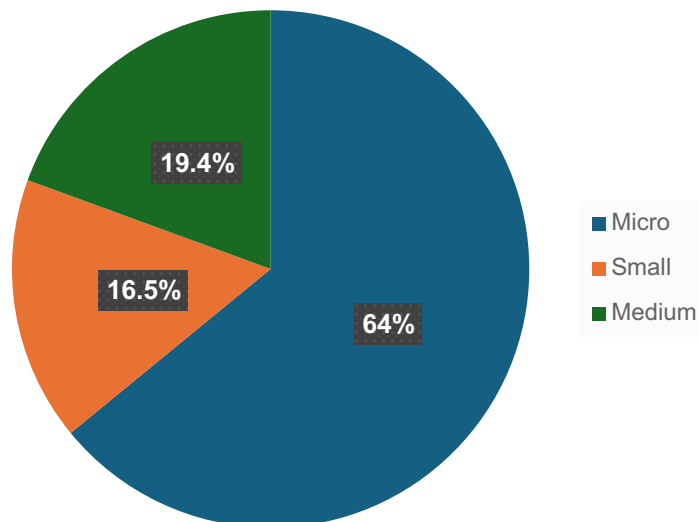
In this context, the MSME Business Confidence Survey, we conducted to assess prevailing business sentiment, near-term outlook, and operational challenges faced by enterprises across the country. The survey captures responses from 1,400 MSMEs, spanning micro, small, and medium enterprises across diverse sectors and geographies. It provides a forward-looking view of business expectations over the next six to twelve months, alongside insights into access to finance, regulatory reforms, cost pressures, logistics efficiency, and digital adoption. The survey is being conducted at a time when MSMEs are adjusting to multiple transitions. These include the ongoing rationalisation of the Goods and Services Tax (GST) framework, the anticipated implementation of new

Labour Codes, shifts in credit conditions, and rising adoption of digital tools in business operations. While several reform measures aim to improve ease of doing business and formalisation, their on-ground impact remains uneven, particularly for micro and small enterprises with limited administrative and financial capacity.

The findings indicate a sector that remains cautious but resilient. Business confidence levels are subdued, reflecting concerns around access to affordable finance, compliance burdens, and operating costs. At the same time, the presence of a substantial neutral and optimistic segment highlights underlying growth potential if structural constraints are effectively addressed. Variations in confidence and performance across enterprise sizes further underscore the need for differentiated policy approaches rather than a one-size-fits-all framework.

This report presents a comprehensive analysis of survey findings, structured across key dimensions affecting MSME performance and outlook. It aims to inform evidence-based policymaking, guide financial and institutional support mechanisms, and contribute to a more nuanced understanding of the evolving MSME landscape in India.

The bar graph shows the diversification of MSME's into Micro, Small and Medium Enterprises



The survey showed that a significant majority of respondents belong to the Micro enterprise category. Out of 1400 respondents, 64 percent identified their enterprises as Micro, reflecting the dominance of very small businesses within the MSME ecosystem in the country. Small enterprises account for 19.4 percent of the respondents, while medium enterprises represent 16.5 percent of the total sample.

As per the Government of India's revised MSME classification notified by the Ministry of Micro, Small and Medium Enterprises in July 2020, enterprises are categorized based on a combined criterion of investment in plant and machinery or equipment and annual turnover. A Micro enterprise is defined as one with investment up to 1 crore and turnover up to 5 crore. A Small enterprise has investment up to 10 crore and turnover up to 50 crore, while a medium enterprise is classified with investment up to 50 crore and turnover up to 250 crore. Both criteria must be met simultaneously, and if an enterprise exceeds either threshold, it is automatically moved to the next category.

This distribution highlights the structural nature of India's MSME sector, where micro enterprises form the backbone in terms of numbers. At the same time, the presence of small and medium enterprises together accounting for over one-third of respondents indicates a meaningful representation of growth-oriented firms that are transitioning toward higher scales of operation. The findings underline the importance of policy support tailored to micro enterprises, while also addressing the distinct needs of small and medium firms in areas such as access to finance, technology adoption, market access, and compliance.

While rating the overall business confidence for the next 6-12 months on scale of 1 to 5

The survey findings indicate that overall business confidence among MSMEs for the next 6–12 months remains subdued. Nearly half of the respondents (48.6%) rated their confidence at the lower end of the scale (1–2), reflecting concerns around business continuity, demand conditions, and cost pressures. A further 31.4% of respondents reported a neutral outlook, suggesting uncertainty rather than outright pessimism. In contrast, only 20% of MSMEs expressed high confidence (ratings 4–5), highlighting that optimism is limited and not yet widespread across the sector. The average confidence

Key Inhibitors of Business Growth



score of 2.5 out of 5, which lies below the neutral midpoint, reinforces the view that sentiment is currently cautious.

This cautious outlook appears to be influenced by a combination of structural and near-term challenges faced by MSMEs. Issues such as access to timely and affordable credit, rising input costs, delayed payments, and regulatory compliance continue to weigh on business expectations. While many enterprises have stabilized operations post-pandemic, uncertainty related to demand sustainability, global economic conditions, and inflationary pressures has constrained forward-looking confidence. The sizeable proportion of neutral responses also suggests that many MSMEs are adopting a “wait-and-watch” approach rather than committing to expansion or major investments in the immediate future. At the same time, recent policy signals and macroeconomic developments provide some grounds for cautious optimism. Continued government emphasis on MSME support, manufacturing growth, and capital expenditure, along with gradual improvements in credit flow and digital adoption, may help improve sentiment over the medium term. However, the current survey results indicate that these positive developments have not yet fully translated into stronger confidence at the enterprise level. Overall, the findings suggest that while the MSME sector is not in distress, confidence remains fragile and closely tied to how effectively policy measures and market conditions improve in the coming months.

Primary Factors Inhibiting Growth

4.1 Limited Access to Finance

Limited access to finance and credit remains the most significant inhibitor of MSME growth, with 56.1% of respondents identifying it as a key constraint. This finding is consistent with broader research conducted by the Reserve Bank of India, which has repeatedly pointed to a substantial credit gap in the MSME sector. Formal credit penetration in MSMEs is significantly lower than demand, partly due to risk perceptions among lenders, lack of sufficient collateral, and limited adoption of formal financial practices by many enterprises.

These financing challenges constrain working capital availability and investment capacity, forcing businesses to rely on informal sources or curtail expansion plans, thereby dampening overall growth prospects.

4.2 Delayed Payments and Buyer Behaviour [New Section]

Delayed payment from large corporate and government buyers emerged as a critical but often under-reported constraint for MSME growth. The survey findings reveal that a significant proportion of MSMEs — particularly those supplying to larger firms and public sector entities — experience payment delays well beyond the 45-day limit mandated under the MSMED Act 2006.

Payment Delay Duration	% of MSME Respondents	Impact on Cash Flow
Paid within 45 days (compliant)	22.4%	Manageable
46-90 days delay	38.6%	Moderate stress on working capital
91-180 days delay	27.3%	Severe cash flow disruption
More than 180 days	11.7%	Critical - forces informal borrowing

Nearly 40% of MSME respondents reported that unpaid invoices at any given time represent more than 20% of their annual revenue — effectively making MSMEs involuntary lenders to their own buyers. Awareness of the TReDS (Trade Receivables Discounting System) platform, designed specifically to address this problem,

remains low — only 31% of respondents were aware of TReDS and fewer than 12% had used it.

Policy Implication: Mandatory TReDS participation for large corporates and PSUs and stricter enforcement of the 45-day payment rule would directly address the single most pervasive liquidity drain on India's MSME sector.

4.3 Regulatory Compliance Burden

A significant proportion of respondents (42.4%) identified regulatory compliance burdens as a major inhibitor. MSMEs often operate in an environment characterised by multiple regulatory requirements spanning taxation, licensing, labour laws, and environmental standards. The administrative effort and cost associated with meeting these requirements can be disproportionate relative to their scale of operations, diverting time and resources away from core business functions.

Such compliance pressures not only increase operational costs but can also deter entrepreneurship and formalisation, weakening the competitive position of smaller firms relative to larger counterparts with greater compliance capacity.

4.4 Skilled Workforce Shortage

Insufficient skilled workforce was cited by 38.8% of respondents. This reflects structural challenges within labour markets where many MSMEs struggle to recruit or retain employees with the necessary technical skills, managerial capacities, or digital competencies. The shortage of skilled labour impacts productivity, innovation, and operational efficiency, limiting firms' ability to adopt new technologies or scale up processes. This constraint is further compounded by limited access to formal training and upskilling opportunities, particularly in semi-urban and rural clusters.

4.5 Competitive Intensity and Operating Costs

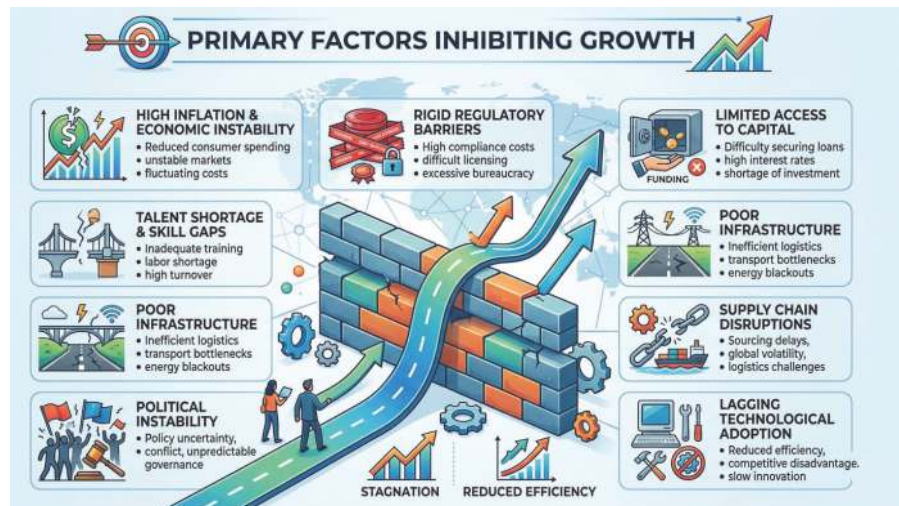
Competitive intensity and high operating costs were highlighted by 35.3% and 34.5% of respondents respectively. Many MSMEs operate in highly competitive markets with thin margins and limited differentiation. High operating costs — including energy, logistics, and

intermediate inputs — further compress margins. Other inhibiting factors such as market demand weakness (32.4%), inadequate infrastructure (21.6%), and supply chain disruptions (17.3%) add to the multi-dimensional constraint landscape.

4.6 Employment and Hiring Intentions

As a downstream indicator of overall business confidence, MSMEs were asked about their workforce plans for the next 6–12 months. The findings reveal a largely cautious hiring environment that directly reflects the subdued confidence and cost pressure findings reported earlier in this survey.

Only 18.3% of MSMEs plan to expand their workforce — a figure that is deeply concerning given that MSMEs are responsible for approximately 110 million jobs in India.



Nearly 37% of respondents indicate a freeze or reduction in hiring, driven primarily by rising wage and compliance costs, demand uncertainty, and the anticipated impact of the new Labour Codes. This finding underscores that policy support for MSME growth is not merely a business concern — it is a jobs and livelihoods imperative.

Growth Inhibitor	% Respondents Citing	Enterprise Most Affected
Limited access to finance	56.1%	Micro & Small
Regulatory compliance burden	42.4%	All sizes
Insufficient skilled workforce	38.8%	Small & Medium
Competitive intensity	35.3%	Small & Medium
High operating costs	34.5%	Micro & Small
Weak market demand	32.4%	All sizes
Inadequate infrastructure	21.6%	Micro (rural/semi-urban)
Supply chain disruptions	17.3%	Manufacturing MSMEs

Hiring Intention	% of Respondents	Key Driver
Plan to expand workforce	18.3%	New orders, export opportunities
Maintain current workforce	44.7%	Stability preference amid uncertainty
Freeze hiring	27.6%	Cost pressures, compliance costs
Likely to reduce workforce	9.4%	Declining orders, rising wage costs

On lines cost pressures that are impacting the business

Based on the responses, The borrowing costs and interest rates for businesses were identified as the most significant cost pressure, with 46.4% of respondents highlighting their impact. This reflects the broader effect of elevated interest rate environments on business financing, investment decisions, and cash flows. Labor costs followed closely, cited by 37.9% of respondents, underscoring ongoing challenges related to wages, talent availability, and workforce retention.

Compliance and regulatory costs were reported by 37.1% of businesses, indicating increasing administrative and regulatory burdens across sectors. Input and raw material costs, along with technology and digital infrastructure expenses, were each identified by 36.4% of respondents, suggesting persistent cost pressures linked to supply chains and digital transformation efforts. Meanwhile, energy and logistics costs affected 26.4% of respondents, reflecting some moderation compared to other cost factors. A relatively smaller share (12.9%) cited other costs, reinforcing that financial, labour, regulatory, and input-related expenses remain the dominant cost challenges for businesses.

Based on the responses, the access to working capital finance appears to be a mixed view, with businesses reporting varying degrees of ease and difficulty. A combined 47.4% of respondents rated access to working capital at the higher end of the scale, with 20.1% assigning a rating of 4 and 27.3% giving the highest rating of 5. This suggests that nearly half of the surveyed businesses can access working capital with relative ease, possibly reflecting established banking relationships, stronger balance sheets, or access to alternative financing channels.

At the same time, a significant proportion of respondents indicated moderate or constrained access to finance. 24.5% of businesses selected a neutral rating of 3, highlighting cautious or inconsistent access to working capital. Meanwhile, 28.1% of respondents reported difficulty in accessing finance, with 18% rating it as 2 and 10.1% rating it as 1. This points to persistent financing challenges, particularly for smaller firms, MSMEs, or businesses with limited collateral or credit history.

Overall, the findings indicate a divided financing landscape, where while a substantial segment of businesses experiences adequate access to working capital, a meaningful share continues to face barriers. These results underscore the need for targeted policy

interventions, improved credit availability, and tailored financial products to support firms facing capital constraints, especially in periods of tight monetary conditions.

High collateral requirements emerged as the most significant barrier to accessing formal credit, cited by 55.8% of respondents. This highlights the continued dependence of formal lending on asset-backed financing, which disproportionately affects MSMEs and younger firms with limited collateral. High interest rates were the second most prominent constraint, reported by 50.7% of businesses, reflecting the impact of tight monetary conditions on borrowing affordability.

Operational and procedural barriers also featured strongly. Stringent documentation requirements were cited by 44.2% of respondents, while lengthy approval processes affected 43.5%, indicating that administrative complexity and delays remain key deterrents to formal credit uptake. Additionally, 40.6% of respondents pointed to a lack of awareness about available credit schemes and products, suggesting gaps in outreach and financial literacy.

Structural credit constraints were relatively less prominent but still notable. Insufficient credit history was reported by 19.6% of respondents, while poor credit-worthiness affected 14.5%, underscoring challenges faced by first-time borrowers and smaller enterprises. Only 12.3% of respondents indicated that they faced no barriers and experienced easy access to credit, reinforcing the conclusion that formal financing remains difficult for most businesses.

Overall, the findings point to the need for collateral-light lending mechanisms, simplified documentation, faster approval timelines, and enhanced awareness of credit programs to improve access to formal finance, particularly for MSMEs.

When considered the impact of GST reforms on business

The survey asked MSMEs to rate the impact of the recent GST reforms introduced in 2025 on their businesses. Responses reveal a varied but cautious perception among enterprises. The largest share, 41.4% of respondents, selected a neutral rating, indicating that for many businesses, the immediate effects of the reforms have been moderate or unclear. Meanwhile, about 37% of respondents gave a low impact rating, suggesting that a significant portion of MSMEs have not yet experienced meaningful benefits or may be facing challenges in

adapting to the new regulations. On the more positive side, 15.7% rated the impact as moderately positive, and a smaller group of 5.7% rated it highly positive, reflecting early adopters or businesses that have seen tangible improvements.

The GST reforms introduced in 2025 focused on simplifying compliance processes, rationalizing tax rates across sectors, and enhancing digital reporting mechanisms to reduce paperwork and improve transparency. These changes were designed to ease the tax burden on smaller enterprises, promote formalization, and create a more uniform tax structure nationwide. However, the survey results suggest that while these reforms hold promise, the benefits are still unevenly distributed or have not yet fully materialized for many MSMEs. Some businesses may be adjusting to updated filing systems or grappling with transitional challenges, which could explain the substantial neutral and low impact ratings.

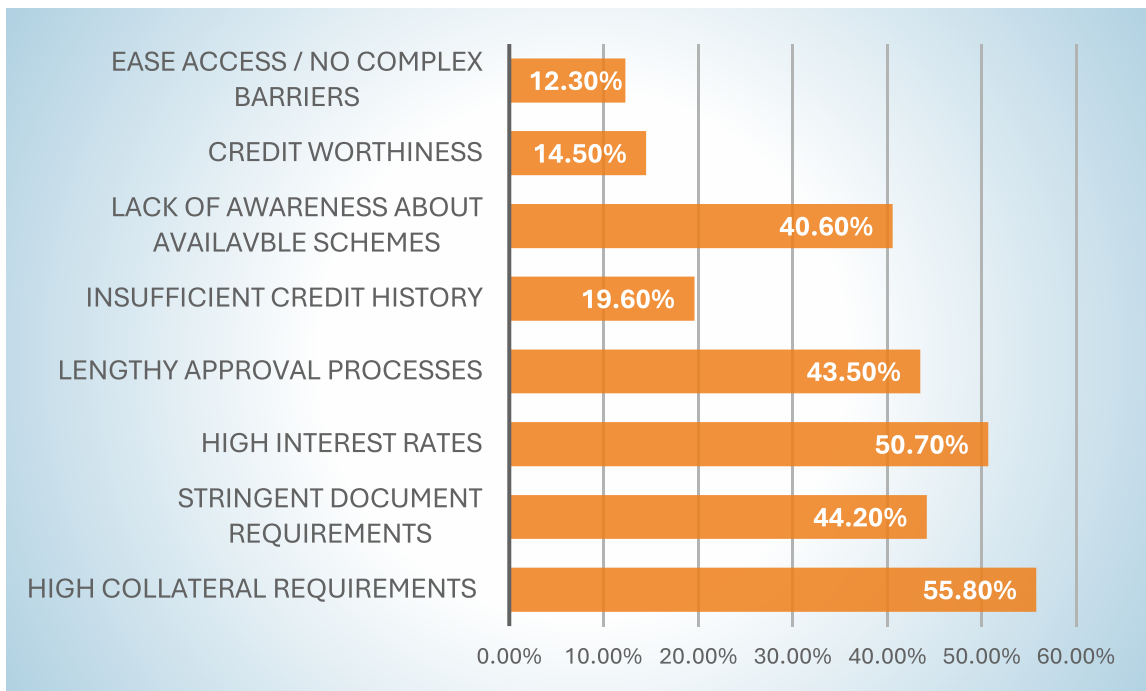
Overall, the findings highlight the need for continued support and capacity building to help MSMEs leverage the GST reforms effectively. Providing targeted training on compliance, simplifying digital interfaces further, and offering transition assistance could accelerate positive business outcomes. As the reforms mature and awareness grows, it is expected that a larger share of MSMEs will report favourable impacts, improving both tax compliance and business confidence.

On anticipating the new labour codes that which will impact the business operations

The Indian government’s consolidation of 29 central labour laws into four comprehensive Labour Codes between 2019 and 2020 marks a pivotal reform in India’s employment landscape. These codes the Code on Wages, Industrial Relations Code, Occupational Safety, Health and Working Conditions Code, and Social Security Code, aim to simplify and modernize a system that was previously fragmented and difficult for especially micro, small, and medium enterprises (MSMEs) to navigate. By unifying regulations, the government seeks to reduce redundancy, ease compliance requirements, and create a more transparent framework for employers and employees alike.

These reforms attempt to strike a balance between operational flexibility for businesses and stronger protection for workers. For instance, the new provisions allow greater autonomy for firms in matters like layoffs and retrenchments by raising approval thresholds, while maintaining essential worker protections, standardized wage policies, and safety measures. For MSMEs, this shift could result in more efficient workforce management, though it also brings added responsibility to comply with uniform standards.

Primary barriers to access formal credit



Insights from the survey conducted among MSMEs reflect this mixed outlook. When asked how they anticipated the new Labour Codes would impact their business operations, a plurality 43.2% of respondents rated the impact as moderate (rating 3 on a 5-point scale). Another 20.1% perceived somewhat lower impact, while 17.3% indicated a stronger effect (rating 4). A smaller segment, 12.2%, foresaw minimal change, and only 7.2% expected a very significant impact. This distribution suggests that most MSMEs recognize the reform as meaningful yet balanced, with many adopting a wait-and-see approach as they assess how implementation unfolds in practice.

The Code on Wages, in particular, brings clarity by setting a national floor minimum wage and emphasizing timely payment, long-standing issues in smaller enterprises. The Industrial Relations Code modernizes dispute resolution and encourages collective bargaining, potentially reducing industrial unrest and creating a more predictable labour environment. Likewise, enhanced provisions within the Occupational Safety, Health and Working Conditions Code and the Social Security Code expand safety and welfare protections, extending benefits to informal and gig-sector workers for the first time.

However, while these changes strengthen employee welfare, they also introduce initial compliance challenges for small businesses. MSMEs may need to invest in training, digital systems, or consultancy to align with new norms, a cost that could feel burdensome in the short term. Awareness and understanding of the codes also remain uneven; several respondents in the survey expressed uncertainty, reflecting a broader need for information and guidance.

To facilitate smoother adoption, the government has launched initiatives such as the Shram Suvidha Portal for unified compliance reporting and grievance redressal. Continued outreach through industry associations, digital training, and simplified compliance tools will be essential in helping MSMEs fully realize the benefits of these reforms.

In sum, the new Labour Codes represent a transformative step toward a more formalized, efficient, and equitable labour ecosystem. For MSMEs, successful adaptation will depend not only on regulatory preparedness but also on proactive engagement with the evolving compliance framework. The survey insights underscore that while initial apprehension exists, most MSMEs view these reforms as a constructive move—one that, with proper support and understanding, can enhance both

business resilience and worker welfare in the long term. Upon the building on the previous questions findings about the overall impact of the new Labour Codes, further insights were gathered on specific areas of concern among MSMEs regarding the new regulations. The data reveals that while many small enterprises view the reforms as a balanced development, particular components of implementation have elicited notable apprehension.

A clear majority of over 59% respondents identified wage structure changes as their top area of concern in the new labour codes. This aligns with responses in the earlier question, where many MSMEs anticipated moderate operational disruption. The introduction of a uniform national floor wage and the redefinition of wage components could significantly alter payroll systems and compliance processes. For smaller firms operating on tight margins, these adjustments may translate into increased administrative and financial strain, at least in the short term.

The second most cited concern, at 40.6%, was contract labour restrictions. This reflects apprehension about how new provisions could impact workforce flexibility, which is often vital for MSMEs that rely on contractual or seasonal employment to manage fluctuating demand. Closely following this, 37.5% of respondents expressed concerns over employee classification requirements, pointing to uncertainty about correctly categorizing workers under the new legal definitions a challenge that could affect compliance accuracy and cost predictability.

Social security contributions were flagged by 32.8% of respondents, underscoring anxiety about increased financial obligations linked to provident fund, gratuity, and insurance coverage. While these measures strengthen social protection for employees, they present additional recurring costs for smaller businesses. Similarly, 25.8% of respondents cited issues with grievance redressal procedures, possibly reflecting apprehension about the administrative complexities of formalized dispute resolution mechanisms.

Concerns about reskilling fund contributions 23.4% and workplace safety standards (14.1%) were comparatively lower but still notable. This suggests that while MSMEs generally support the principle of improved worker welfare and skill development, they remain cautious about the potential cost and compliance implications these might introduce.

The survey highlights that MSMEs largely view the labour reforms as a positive structural change but remain most

concerned about financial and procedural adjustments, particularly those tied to wage structures, contract labour, and classification norms. These findings emphasize the need for clearer implementation guidelines, phased compliance processes, and targeted government support especially digital tools and training to help MSMEs transition smoothly into the new regulatory framework.

Logistics and Supply Chain efficiency in India:

The assessment of logistics and supply chain efficiency in India reveals a largely moderate perception among respondents, indicating that while the system is functional, it has not yet reached optimal efficiency. A significant proportion of respondents, amounting to 43.2 percent, rated the overall efficiency at 3 on a five-point scale indicating neutrality. This midpoint evaluation suggests that improvements in infrastructure, policy reforms, and technology adoption have begun to yield results, but their impact remains uneven. At the same time, 35.2 percent of respondents rated efficiency below the average level, reflecting continued operational difficulties, particularly for micro, small, and medium enterprises (MSMEs). Only 21.6 percent of respondents perceived logistics efficiency to be on the higher side, highlighting that the benefits of recent reforms are currently concentrated among relatively better-resourced or more digitally mature firms. This distribution of responses indicates that India's logistics ecosystem is in a transitional phase, characterized by gradual improvement alongside persistent structural bottlenecks.

An analysis of the challenges affecting MSME operations further reinforces this observation. High logistics costs emerged as the most significant concern, with nearly one-third of respondents identifying it as a major operational challenge. Elevated logistics costs in India are largely attributed to factors such as heavy dependence on road transport, fragmented supply chains, multiple handling points, and fuel price volatility. For MSMEs, these costs directly erode profit margins and reduce competitiveness, particularly in price-sensitive domestic markets and export-oriented activities. High logistics expenses also limit the ability of small firms to scale operations or expand their market reach, making cost efficiency a critical determinant of business sustainability.

Interestingly, a substantial share of respondents reported that none of the listed factors posed a significant challenge to their operations. This perception can be linked to the diversity within the MSME sector itself. Firms

operating within localized supply chains, those serving regional markets, or businesses that rely on third-party logistics providers may experience fewer visible disruptions. Additionally, enterprises that have adopted digital tools for planning, tracking, and coordination are better positioned to manage logistics complexity, thereby perceiving fewer operational constraints. This variation highlights the uneven exposure of MSMEs to logistics inefficiencies across sectors and geographies.

Quality of logistics services was identified as another important concern influencing operational efficiency. Inconsistent service standards, delays, poor handling practices, and limited accountability among service providers continue to affect timely and reliable movement of goods. These challenges are particularly pronounced in regions where logistics services remain informal or poorly integrated. Closely related to this issue are last-mile delivery challenges and delays in customs clearance, which further compound inefficiencies. Last-mile delivery problems are especially relevant for MSMEs engaged in e-commerce or serving dispersed customer bases, while customs-related delays affect export-oriented firms by increasing lead times and uncertainty. Together, these issues reflect the need for not only infrastructure development but also improvements in coordination, process standardization, and service quality across the logistics value chain.

The level of digital adoption among respondents provides important insights into the evolving nature of MSME operations in India. The findings indicate that approximately 33.3 percent of respondents are moderately digitalized, suggesting partial integration of digital tools such as basic enterprise software, digital payment systems, or online compliance platforms. Over 17 percent of respondents reported being highly digitalized, with most operations supported by advanced digital systems for inventory management, logistics tracking, and data-driven decision-making. Notably, less than 5 percent of respondents indicated the absence of any digital systems, underscoring the widespread diffusion of digital technologies across Indian businesses. This trend reflects the growing recognition of digitalization as a critical enabler of operational efficiency and competitiveness.

Government interventions have played a pivotal role in accelerating both logistics reform and digital adoption in India. Over the past decade, policy initiatives aimed at infrastructure expansion, multimodal connectivity, and process simplification have sought to reduce logistics costs and enhance supply chain efficiency. Parallel efforts to promote digital governance, online compliance, and

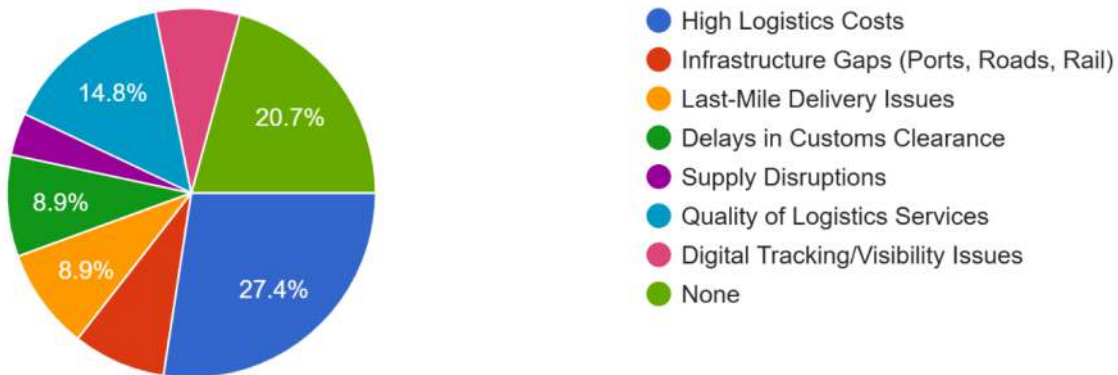
electronic documentation have lowered barriers to technology adoption, particularly for MSMEs. These measures have improved transparency, reduced transaction times, and enhanced visibility across supply chains. While the full impact of these interventions is still unfolding, their influence is evident in the declining proportion of firms operating without digital systems and the growing adoption of technology-enabled logistics solutions.

Despite these positive developments, logistics costs remain a critical constraint on India’s supply chain competitiveness. High costs continue to limit MSME participation in national and global value chains and reduce their ability to compete with larger enterprises. However, the combination of targeted infrastructure investments, increasing digital maturity, and policy-

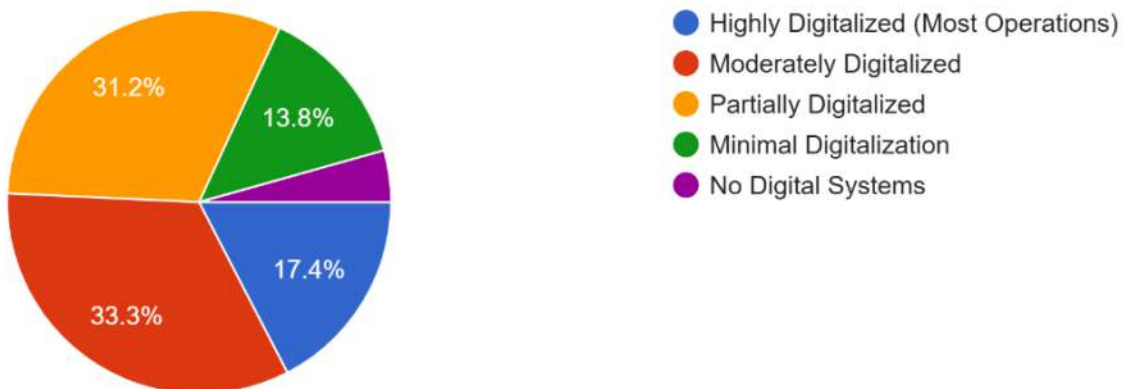
driven reforms is gradually reshaping the logistics landscape. As these initiatives mature and become more inclusive, they hold the potential to transform logistics from a structural bottleneck into a strategic advantage for Indian MSMEs.

In conclusion, the findings suggest that India’s logistics and supply chain ecosystem is undergoing a gradual but meaningful transformation. While current efficiency levels are perceived as moderate, persistent challenges related to cost, service quality, and last-mile connectivity continue to affect MSME performance. At the same time, rising digital adoption and sustained government interventions indicate strong momentum toward a more integrated, efficient, and resilient logistics framework. Addressing existing gaps while deepening digital and infrastructural integration will be crucial in enhancing the long-term competitiveness of India’s supply chains.

Supply chains affecting the operations of MSME's



Level of Digital Adoption by MSME'S



Policy Matrix

Policy Area	Key Issue Identified	Recommended Action	Target Segment	Implementing Stakeholders	Expected Outcome
Access to Finance	High dependence on collateral; uneven credit access	Expand collateral-free lending via enhanced Credit Guarantee schemes and cash-flow-based assessment	Micro & Small Enterprises	Ministry of MSME, RBI, SIDBI, Banks, NBFCs, FinTech lenders	Improved credit penetration; reduced exclusion
Cost of Borrowing	High interest rates affecting margins	Interest subvention for priority MSME segments; promote competitive digital lending	Micro & Small	Ministry of Finance, RBI	Lower borrowing costs; improved liquidity
Working Capital	Delays in loan approvals and disbursements	Time-bound credit approval norms; digital tracking of MSME loan applications	All MSMEs	RBI, Banks, SIDBI	Faster access to working capital
Compliance Burden	Complex GST filings and documentation	Simplified GST returns, reduced filing frequency for micro enterprises	Micro Enterprises	GST Council, CBIC	Lower compliance cost; higher voluntary compliance
Digital Compliance	Low capacity to use digital platforms	Assisted compliance models via CSCs, industry bodies, and MSME facilitation centres	Micro & Small	Ministry of MSME, State Govts, Industry Associations	Increased compliance accuracy; reduced errors
GST Reforms	Neutral to low perceived benefits	Pre-filled returns, faster input tax credit refunds, MSME helpdesks	Micro & Small	GST Council, CBIC	Improved GST experience; working capital relief
Labour Codes Implementation	Uncertainty on wages, contracts, and classification	Phased rollout with MSME-specific guidance notes and FAQs	All MSMEs	Ministry of Labour, State Govts	Reduced uncertainty; smoother adoption
Labour Compliance Costs	Fear of rising wage and compliance costs	Threshold-based compliance relaxation for micro enterprises	Micro Enterprises	Ministry of Labour	Cost containment; job retention

Policy Area	Key Issue Identified	Recommended Action	Target Segment	Implementing Stakeholders	Expected Outcome
Skills Shortage	Mismatch between skills supply and MSME needs	MSME-led apprenticeship incentives; sector-specific skilling programs	Small & Medium	Ministry of Skill Development, MSME Ministry	Improved productivity; employability
Technology Adoption	Nearly 50% MSMEs with low/no digital adoption	Subsidised access to ERP, accounting, and compliance software	Micro & Small	Ministry of MSME, MeitY	Higher productivity; formalisation gains
Digital Capacity Building	Limited digital skills among owners/workers	Hands-on digital training through clusters and industry bodies	Micro & Small	MSME Ministry, NSDC, Industry Associations	Sustainable digital adoption
Logistics Costs	High transport and last-mile costs	MSME-focused logistics hubs; shared warehousing facilities	Manufacturing MSMEs	Ministry of Commerce, State Govts	Reduced logistics costs; better market access
Export Logistics	Customs and shipment delays	Single-window digital export clearance for MSMEs	Export-oriented MSMEs	DGFT, Customs, Commerce Ministry	Faster turnaround; export growth
Supply Chain Visibility	Poor coordination for small firms	Promote digital supply-chain platforms for MSMEs	Small & Medium	DPIIT, Private Platforms	Better inventory & demand management
Data-Driven Policymaking	Lack of real-time MSME feedback	Institutionalise periodic MSME confidence and pulse surveys	All MSMEs	Ministry of MSME, RBI, Think Tanks	Responsive, evidence-based policy
Reform Monitoring	Uneven impact of GST & Labour reforms	MSME Reform Impact Review Cell with industry representation	All MSMEs	Central & State Govts	Faster course correction
Cluster Development	Fragmented support delivery	Integrated MSME cluster-based support (finance, skilling, tech)	Cluster-based MSMEs	Ministry of MSME, State Govts	Economies of scale; resilience
Trust & Predictability	Policy uncertainty affecting confidence	Advance guidance, stable timelines, and consultation	All MSMEs	Central & State Govts	Improved business confidence

Sectoral Breakdown - Manufacturing vs Services vs Trade

One of the most important dimensions of MSME analysis that is often overlooked is the significant variation in challenges, confidence, and capacity across different sectors. The current survey, with its 1,400 respondents distributed across manufacturing, services, and trading MSMEs, provides an opportunity to examine these differences with clarity.

Manufacturing MSMEs show the lowest confidence scores and are most severely affected by input cost inflation, logistics disruptions, and collateral-based credit barriers. They are the most exposed to global supply chain shocks including the ongoing Middle East geopolitical tensions and Red Sea shipping disruptions.

Services MSMEs show relatively higher confidence,

greater hiring intent, and stronger digital adoption but face the most acute skilled workforce shortage. Their credit challenges are often rooted in lack of physical collateral rather than business viability.

Trading MSMEs face the tightest margins due to competitive intensity and are significantly exposed to logistics cost increases. Their low digital adoption and investment intentions suggest a sector at risk of falling behind in the modernisation journey. It is to be taken to understanding that a uniform MSME policy cannot serve manufacturing, services, and trading enterprises equally. Sector-differentiated credit products, skills programmes, and logistics solutions are essential for effective policy impact.



Indicator	Manufacturing MSMEs	Services MSMEs	Trading MSMEs
Share of survey respondents	38.4%	34.7%	26.9%
Average confidence score (out of 5)	2.3	2.8	2.4
Top growth inhibitor	Input costs & logistics	Skilled workforce shortage	Competition & margins
Primary credit barrier	Collateral requirements	Lack of credit history	High interest rates
Digital adoption (high/very high)	19.4%	31.7%	14.8%
Affected by Red Sea / logistics disruption	High — 68.4%	Low — 12.3%	Moderate — 41.7%

Conclusion

The MSME Survey provides a comprehensive and timely assessment of the state of India's Micro, Small and Medium Enterprise sector at a moment of economic transition and policy recalibration. Drawing on responses from 1,400 enterprises across sizes, sectors, and regions, the survey captures not only current business sentiment but also deeper structural dynamics shaping MSME performance, resilience, and growth potential. The findings present a nuanced picture: one of subdued confidence and persistent constraints, tempered by adaptability, gradual formalisation, and latent optimism linked to reform outcomes and digital transformation.

At its core, the survey reveals that India's MSME sector is neither in crisis nor in full recovery. Instead, it occupies an intermediate space marked by caution, selective resilience, and uneven capacity to respond to changing economic conditions. The average business confidence score of 2.5 out of 5 reflects this reality. While a significant proportion of enterprises report low confidence regarding their six- to twelve-month outlook, an equally important segment remains neutral or optimistic, signalling that the sector's challenges are not insurmountable but structural in nature. This distinction is critical for policy design, as it suggests that targeted interventions can meaningfully alter outcomes.

One of the most important insights emerging from the survey is the centrality of enterprise size in determining both experience and expectations. Micro enterprises, which constitute nearly two-thirds of respondents, face fundamentally different constraints compared to small and medium firms. For micro enterprises, survival, liquidity management, and regulatory navigation dominate concerns.

Their limited access to formal finance, weaker bargaining power in supply chains, and constrained administrative capacity make them particularly sensitive to compliance costs, interest rate movements, and demand volatility. In contrast, small and medium enterprises, while not immune to these pressures, are more focused on scaling challenges, market competition, skills availability, and technology adoption. This divergence reinforces the need to move beyond a monolithic understanding of the MSME sector.

Access to finance emerges unequivocally as the most binding constraint across the MSME spectrum. Despite



years of policy emphasis on financial inclusion, credit guarantee schemes, and priority sector lending, the survey underscores the persistence of structural barriers to formal credit. Collateral requirements remain the most frequently cited obstacle, followed closely by high interest rates, documentation complexity, and delays in loan processing.

These issues are not merely operational inefficiencies; they reflect a deeper misalignment between traditional banking risk frameworks and the realities of MSME business models. Cash-flow volatility, informal customer relationships, and limited asset bases continue to exclude a large share of enterprises from affordable finance.

At the same time, the survey reveals a bifurcated credit landscape. Nearly half of respondents report relatively easy access to working capital, typically due to established banking relationships, better documentation, or larger scale of operations. This suggests that the problem is not a universal absence of credit but rather unequal access shaped by formality, size, and financial history. Addressing this divide will require not only expanding credit volumes but rethinking credit assessment methodologies, leveraging transaction data, and scaling collateral-light lending mechanisms that better reflect MSME risk profiles.

Cost pressures constitute another major theme of the survey, though their composition has evolved over time. Borrowing costs now represent the most significant operational burden for MSMEs, reflecting tighter monetary conditions and higher risk premiums. Labour and compliance-related costs follow closely, particularly in anticipation of changes under the new Labour Codes.

Input and technology costs also feature prominently, highlighting the challenges MSMEs face in upgrading processes while maintaining competitiveness. Notably, energy and logistics costs, while still relevant, appear to have moderated relative to earlier periods, suggesting partial gains from infrastructure improvements and supply-side adjustments.

The survey's findings on regulatory reforms present a mixed but instructive picture. The Goods and Services Tax, now well into its second decade of implementation and subject to ongoing rationalisation, continues to evoke largely neutral to mildly negative perceptions among MSMEs. While simplification measures introduced in recent years have reduced some procedural burdens, many enterprises particularly micro and small firms still struggle with compliance complexity, digital filing requirements, and working capital lock-in due to delayed input tax credit refunds. The relatively low share of respondents reporting a positive GST impact highlights



the gap between policy intent and on-ground experience. Similarly, the anticipated implementation of the new Labour Codes generates . Most MSMEs expect a moderate impact, reflecting both uncertainty and a wait-and-watch approach. Concerns around wage restructuring, contract flexibility, worker classification, and social security obligations dominate perceptions. These concerns are not necessarily rooted in opposition to worker protection but in fears of cost escalation, compliance ambiguity, and enforcement unpredictability. The survey suggests that the success of labour reforms for MSMEs will depend less on legislative design and more on implementation clarity, phased rollout, and accessible guidance.

Logistics and supply chain efficiency represent another critical dimension of MSME competitiveness. While a plurality of respondents rate current efficiency as neutral, more than one-third report poor performance, with cost pressures emerging as the dominant issue. Heavy

reliance on road transport, last-mile delivery bottlenecks, and delays in customs and interstate movement continue to erode margins, particularly for MSMEs engaged in manufacturing, exports, and e-commerce. The survey highlights a clear differentiation between digitally enabled firms and others, with the former demonstrating better supply chain visibility, coordination, and resilience. This reinforces the role of digital adoption as a cross-cutting enabler rather than a standalone objective.

Digital adoption itself remains uneven and incomplete across the sector. Despite sustained government efforts to promote digitisation through platforms for payments, compliance, procurement, and lending nearly half of surveyed MSMEs report low or no digital adoption. High adoption remains concentrated among a small segment of firms, typically larger, urban, or export-oriented. For the majority, barriers include cost, skills gaps, lack of awareness, and apprehension about technology complexity. This digital divide has far-reaching implications, as it affects not only productivity but access to finance, compliance efficiency, market reach, and resilience to shocks.

Taken together, these findings point to a central conclusion: the challenges facing India's MSME sector are no longer primarily about entry into the formal economy, but about effective participation within it. Formalisation has expanded significantly over the past decade, yet many enterprises remain functionally constrained by systems and frameworks not fully adapted to their scale and capabilities. The result is a form of partial inclusion, where MSMEs bear the costs of formality without consistently realising its benefits.

Importantly, the survey also reveals significant heterogeneity within the MSME sector, both in terms of constraints and capacity. This heterogeneity is a strength if acknowledged and addressed appropriately. A uniform policy approach risks either overwhelming micro enterprises or under-serving growth-oriented small and medium firms. Differentiation by size, sector, geography, and maturity must therefore become a guiding principle of MSME policy.

From a macroeconomic perspective, the subdued confidence reflected in the survey carries implications for employment, investment, and supply chain stability. MSMEs are major employers, particularly in labour-intensive sectors. Prolonged caution in hiring and investment decisions can dampen job creation and slow the diffusion of growth benefits. At the same time, MSMEs' role as suppliers to larger firms means that their constraints can propagate through value chains,



affecting competitiveness and resilience at a broader level. Supporting MSME confidence is therefore not merely a sectoral concern but a macroeconomic imperative.

The survey's findings also underscore the importance of predictability and trust in shaping business sentiment. Many of the reported challenges credit access, compliance burden, regulatory reform impacts are exacerbated by uncertainty rather than absolute cost alone. Clear communication, stable policy signals, and transparent implementation can significantly influence MSME perceptions, even in the absence of immediate financial relief. This highlights the role of governance quality alongside fiscal and financial measures.

Looking ahead, the survey suggests several broad directions for strengthening the MSME ecosystem. First, financial architecture must evolve to reflect MSME realities. This includes expanding credit guarantee coverage, promoting cash-flow-based lending, leveraging digital transaction data, and encouraging competition among lenders to reduce borrowing costs. Equally important is improving the speed and predictability of credit delivery, as delays can be as damaging as denial.

Second, compliance systems must be simplified not only in form but in experience. Digital platforms should reduce friction rather than shift administrative burden onto enterprises. For micro firms in particular, reduced filing frequency, pre-filled returns, and assisted compliance models could significantly ease pressure. Capacity-building should accompany digitisation to ensure that technology adoption translates into tangible benefits.

Third, skills development must be aligned more closely with MSME needs. Skills shortages reported in the survey reflect both technical gaps and mismatches between training programs and enterprise requirements. Greater involvement of MSMEs in skill design, incentives for in-

house training, and flexible apprenticeship models could help address this constraint while improving employment outcomes.

Fourth, logistics and infrastructure interventions must explicitly incorporate MSME perspectives. Large-scale infrastructure projects yield benefits, but targeted solutions such as MSME logistics hubs, shared warehousing, and affordable last-mile services can have a more immediate and direct impact. For exporting MSMEs, simplified customs procedures and integrated digital logistics platforms could substantially improve competitiveness.

Fifth, digital adoption must be treated as an enabler of inclusion rather than an end in itself. Subsidised access to basic digital tools, standardised low-cost enterprise software, and sector-specific digital solutions can help bridge the adoption gap. Importantly, trust-building and user support are as critical as financial incentives in encouraging uptake.

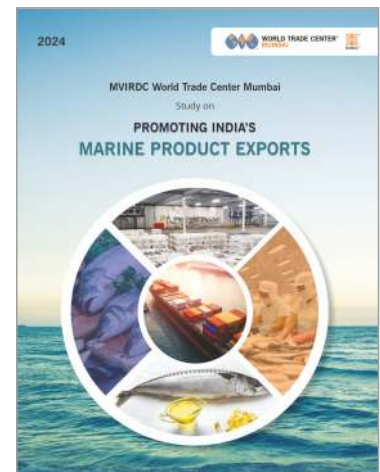
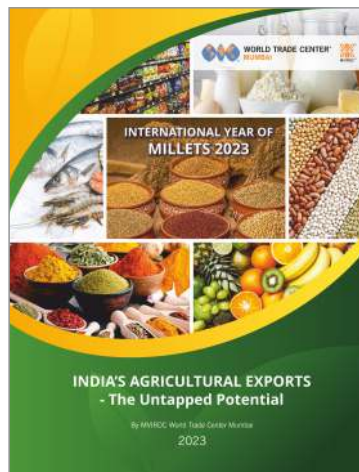
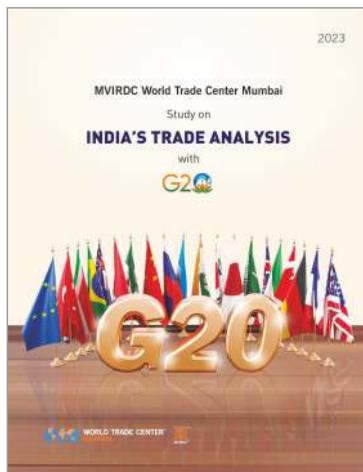
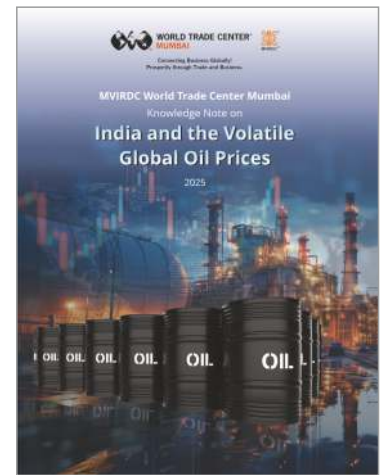
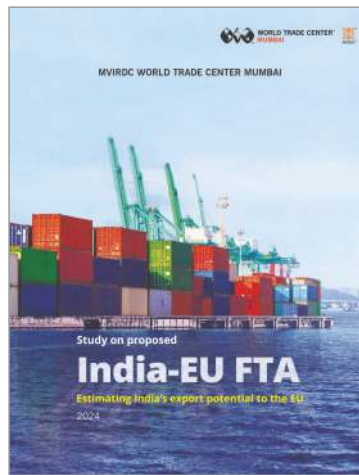
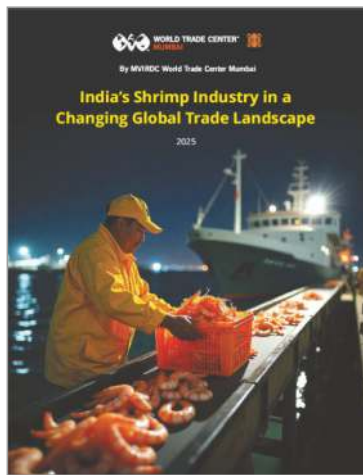
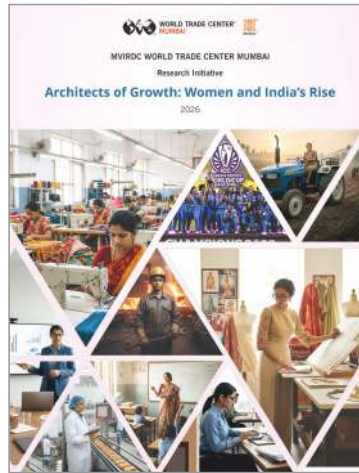
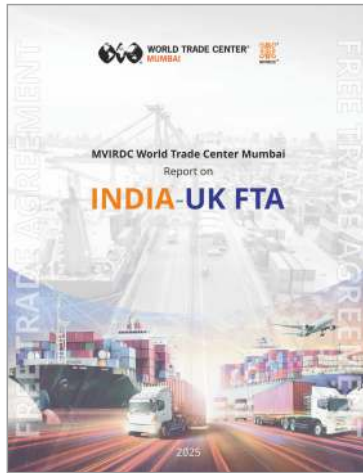
Finally, regulatory reforms such as GST rationalisation and Labour Code implementation should be continuously monitored through MSME feedback loops. Early identification of pain points, adaptive adjustments, and phased compliance requirements can prevent reform fatigue and build confidence. The survey demonstrates that MSMEs are not inherently resistant to reform; rather, they seek clarity, fairness, and proportionality.

In conclusion, MSME Business Confidence Survey paints a picture of a sector at a crossroads. The foundations for growth entrepreneurial energy, market opportunities, policy attention, and digital infrastructure are present. Yet persistent structural constraints continue to weigh on confidence and limit potential. The path forward lies not in isolated interventions but in a coherent, MSME-centric ecosystem that aligns finance, regulation, technology, and skills with the realities of enterprise life.

If addressed thoughtfully, the challenges highlighted in this report can become catalysts for a more resilient, productive, and inclusive MSME sector. Doing so will not only strengthen individual enterprises but also enhance India's broader economic dynamism, employment generation, and long-term growth trajectory.

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