



# FINANCIAL PERFORMANCE ANALYSIS OF MSME SECTOR

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## ABSTRACT

*Small businesses are the backbone of every economy. In the business world, more attention is given to big businesses including reports made about their profit and loss data, their newest launches, the scandals they are involved in, etc. The broad objective of the paper is to assess the situation of the MSMEs sector in India. However, this paper highlights the following areas also Pre, during, and post COVID situation of MSME sector. The present research study is "Exploratory" in nature. It reflects the belief that this is a valid approach to theory development in a field where there is presently insufficient accepted theory to guide the research. Therefore, the major emphasis in such study is on the discovery of ideas and insight. The study is primarily based on secondary data.*

**KEYWORDS:** *Economy, Development, MSME*

## INTRODUCTION

SME development and India's economic expansion are both crucial for the country. More than 80 million people are employed by the 36 million-strong MSME sector. In addition to making up 45% of all manufactured output and 40% of all exports from the nation, the industry produces more than 6000 goods and contributes around 8% to GDP. The growth of the Indian economy has seen a significant contribution from SMEs. In emerging nations like India, SMEs are frequently referred to as the "Engine for Growth." The Micro Small and Medium Enterprise (MSME) Act of 2006 defines SMEs in the Indian industry. The majority of nations categorize SMEs according to the number of employees, while in emerging nations like India, it is done using investment ratios for machinery and plant. As stated in Table 1, SMEs in the MSME Act are separated based on investments in plants and machinery for both the manufacturing and service sectors. Table 1 below provides the definition of micro, small, and medium enterprises in accordance with the Micro Small and Medium Entrepreneurs Development (MSMED) Act of 2006.

After the nation's agriculture industry, the SME sector employed the second-largest workforce. This demonstrates how important SMEs are to the growth and development of a country. Manufacturing contributes more to SMEs than services do, with 45% of industrial production and 40% of all sector exports, etc. For semi-finished, unfinished, and auxiliary items, SMEs constitute a major source of supply for the majority of industrial industries. Over 8000 industrial goods are produced by the SME sector for both domestic and foreign markets.

**Table 1: Classification of Sectors**

<b>Manufacturing Sector</b>	
<b>Enterprises</b>	<b>Investment in plant and machinery</b>
Micro Enterprises	Does not exceed 25 Lakhs rupees
Small Enterprises	More than 25 Lakhs and does not exceed 5 Crores rupees
Medium Enterprises	More than 5 Crores and does not exceed 10 Crores rupees
<b>Service Sector</b>	
<b>Enterprises</b>	<b>Investment in Plant and Machinery</b>
Micro Enterprises	Does not exceed 10 Lakhs rupees
Small Enterprises	More than 10 Lakhs and does not exceed 2 Crores rupees
Medium Enterprises	More than 2 Crores and does not exceed 5 Crores rupees



When compared to the conclusion of the fiscal year 2006–2007, the number of units registered climbed to 31.2 million, according to the MSME ministry. By the end of 2020, there will likely be an increase of 40 million. Numerous organizations, groups, and programs have been launched by the Indian government to promote the growth of small and medium-sized businesses. The National Institute of Micro, Small, and Medium Enterprises (NI-MSME) is one of them with regard to the promotion, growth, and modernization of the SME sector. Small Industry Extension Training Institute (SIETI) was the initial name of the NI-MSME, which Central Industrial Extension Training Institute (CIETI) established in 1960. On July 1, 1962, NI-MSME (previously as SIETI) was registered under the Public Societies Registration Act 1 of 1350. NI-MSME is the first institution established in Andhra Pradesh to promote and develop entrepreneurs through the implementation of training programs, workshops, skill development programs, etc. NI-MSME offers training programs to executives from both domestic and foreign companies, as well as to current MSMEs and entrepreneurs.

### **STATEMENT OF THE PROBLEM AND ITS SIGNIFICANCE**

Small businesses are the backbone of every economy. In the business world, more attention is given to big businesses including reports made about their profit and loss data, their newest launches, the scandals they are involved in, etc. During the covid era, we have seen the emergence of new small businesses operating online and making purchasing easier for us during the lockdown. These small businesses have successfully survived the post-covid era and are now thriving in the market economy. The reason that small businesses are thriving is due to the support consumers are showering them with as we recognize the benefits these small businesses offer. Customers are wholeheartedly enjoying the personal services these small businesses offer and satisfying their every need and want. Small businesses show more flexibility in exploring new trends and introducing new innovations in the market economy than bigger firms and companies. According to reports, small businesses are leading the way in creating more new patents than already existing big firms and adding to the growing innovation in the country. This helps to diversify the marketplace and gives customers new options to satisfy their needs. Small businesses add to the local economies as they help create job opportunities and bring in revenue. The taxes paid to and by these small businesses help grow the communities by making improvements such as making more schools, green places, public transport, and health care. Small businesses account for the majority of industrial units in an economy like India. More than 95% of the units nowadays are made up of this. The contribution of small industries accounts for over 40% of all industrial units. A little more than 45% of all exports from India go to small firms. There is a lot of labor produced by small firms. They provide persons residing in rural and semi-urban areas with several career alternatives. In any economy, small enterprises contribute to reducing unemployment. They mostly perform this important function in a nation like India. India has a sizable labor force, and the Indian government supports the growth of labor-intensive small businesses. Small enterprises are supported by the government through a number of initiatives and low-interest loans. The Indian economy places small companies second in terms of employment after agriculture. Small firms are able to create the most job possibilities per unit of invested capital when compared to many large corporations. As a result, small businesses are now the second largest employer in the economy. The region's development is crucial to the overall development of the nation. Any location or locality that has small companies established benefits from an improvement in the residents' standard of living and income. Businesses increase workers' exposure to overseas markets, manufacturing size, and state evolution in general.

In hindsight, we can say these small businesses are the 'Unsung heroes of market economies.' Alas! Running these small businesses is a double-edged sword. Recent reports state that 86% of small businesses are facing economic challenges. As discussed above, small businesses help grow a country's economy significantly although their contribution does not match big firms and companies. In the covid era, if there is anything our market has learned is that all businesses no matter how small or big are important for the growth and survival of the market economy during pandemics. Thus, it is imperative to shed light on small businesses' challenges in the market economy.

### **OBJECTIVES OF STUDY**

The broad objective of the paper is to assess the situation of the MSMEs sector in India. However, this paper highlights the following areas also:

1. Pre, during, and post COVID situation of MSME sector.
2. Key challenges faced by the MSMEs sector
3. Data Analysis
4. Govt. initiatives to revitalize the MSMEs sector

### **RESEARCH METHODOLOGY**

The present research study is "Exploratory" in nature. It reflects the belief that this is a valid approach to theory development in a field where there is presently insufficient accepted theory to guide the research. Therefore, the



major emphasis in such study is on the discovery of ideas and insight. The study is primarily based on secondary data.

### **Pre, During and Post COVID-19 situation of MSMEs**

#### **• PRE-COVID 19**

Before the COVID-19 turmoil, the MSME sector was showing sluggish growth because of a series of issues, including lack of financial backing inadequate infrastructure, a lack of cutting-edge technology, etc. However, the Goods & Services Tax (GST) and the process of demonetization (in 2016) have caused even more difficulties (2017) and have added their share to the problem. Smaller issues used have a greater impact on MSMEs because the majority of their workforces e comprised of unskilled workers in rural areas, and a health crisis like this further jeopardized their viability and sustainability.

Since 2000, when Indian banks and NBFCs began extending quick loans and credit for investments which further led to a credit bubble in the industry, which caused the market's focus to shift away from large-scale financial investments in the real estate industry and several housing developments established in a marketplace.

Moving forward to the 2008 global financial crisis leads a decline in world trade thus leading to a decrease in their exports. The result of this global financial crisis was seen in the MSME sector and the state which was adversely affect affected However, from 2012, India witnessed an upward trend in its GDP growth rate and became one of the fastest-growing economies.

Around this period, the NBFCs and banking sector injected huge funds into real states but unfortunately, this real estate bubble burst, and NPAs, consumers, and financial institution attitude decreased, which decreased investment and lending to small businesses which were in need of credit. India's GDP growth rate fell after demonetization in 2016 and the implementation of GST in 2017. 8.17% to 7.17%, this trend persisted, and in 2018 the GDP growth rate fell even more.

These changes caused a short to medium-term liquidity crunch in the economy and the worst hit was cash-dependent. This liquidity crunch affected MSMEs largely, they were finding difficulty in arranging credit for their working capital requirements. Then in 2019, the MSME sector was hit by COVID-19.

#### **• During COVID 19**

Owing to the size, scope of operations, lack of adequate financial and administrative resources, and most significantly, their inability to handle something so unanticipated, MSME businesses are the most vulnerable in the age of the COVID-19 epidemic. Perhaps they are not capable of overcoming challenges that are imposed upon them, and it is challenging for them to survive even during times of prosperity.

The lockdown that the government imposed during COVID-19 caused a significant loss of jobs in the MSME sector, which further decreased the household's income. Due to the lockdown's restrictions on people's mobility and the need that they work from home, the economy was first affected by shocks to the labor supply. Workers would not be able to work from home in a vast number of occupations, especially manufacturing and conventional services. Second, demand shocks result in workers losing their wages, salaries, and income as a result of losing their jobs or businesses being unable to pay their employees.

The state of the economy during COVID-19 created an ideal environment for bringing about change without encountering resistance from specific interest groups. The prevailing definitions of MSMEs that used only investment were widely believed to have discouraged the size expansion of small enterprises. Approximately 30 percent of MSMEs started a business website or enabled e-commerce functionality since the lockdown started owing to the COVID-19 pandemic. More than 50 percent of MSMEs surveyed used video conferencing tools and WhatsApp to keep business running during these turbulent times. They were able to offer e-commerce functionality and it helped them to improve their revenue generation. MSMEs in retail and educational services, increase in revenue contribution from e-commerce was 53 percent and 65 percent respectively.

#### **• Post COVID 19**

The strike of COVID-19 was at a time when the Indian economy was already facing a lot of factors like a contraction in demand, continuous decline in GDP, the government facing budget issues, etc. These factors thus have adversely affected the Indian economy as already discussed above.

Post-COVID 19 faced a lot of challenges due to the following factors: -

1. Closure of national and state border global supply chain of raw material and finished goods
2. Limitation of demand and supply only up to spending on essential goods and services
3. Stoppage of economic activity, loss of income for enterprises, and migrant workers without pay is impacted

Due to the shutdown, Indian MSMEs, who rely heavily on the import of machinery, raw materials, and other commodities from China and other nations, saw a lack of raw materials and an increase in costs after the lockdown. Also, many migrant laborers were still in their hometowns and were unwilling to come back due to the fear of traveling back again without food and water to their former hometowns if COVID was to strike again. This led to MSMEs facing a scarcity in skilled or unskilled labor classes and if available then at a higher price which increased



the cost of production ultimately threat to survival. The economic conditions after the Covid 19 hit also generated a financial crunch for MSMEs.

It's clear from above that Covid-19 has created an abundance of problems for the MSME sector in India related to the crisis of supply, demand, & labor. Due to MSMEs' 30% to 35% contribution to India's GDP, chances for economic growth & GDP growth rate are also at risk, making the sustainability of the MSMEs sector in that country a concern.

### Challenges faced by the MSME sector

- lack of timely and appropriate credit availability
- High credit costs
- Collateral requirements
- restricted access to equity financing
- obtaining raw materials at a competitive price
- Problems with storage, designing, packaging, and product display
- Lack of access to global markets
- Facilities with inadequate infrastructures, such as those for power, water, roads, etc.
- Lack of access to contemporary technologies and low levels of technology
- Lack of qualified labor for marketing, services, manufacturing, etc.
- multiple labor rules and difficult compliance processes.

### Government Schemes

The Indian economy is thought to be supported by its Micro Small and Medium Enterprises (MSME) sector. Due to its high labor requirements, it benefits the economy by maintaining employment at comparably lower turnover rates. India's large population requires ample resources in terms of employment opportunities for sustenance - a need that is well fulfilled by this sector. With a moderate gestation period, MSMEs facilitate a growth cycle through entrepreneurship whilst focusing on a smaller market. Given that India's economy is expanding, this sector offers untapped potential that, if used, will lead to encouraging growth. This is corroborated by the 18.5% increase in MSMEs in India between 2019 and 2020. The sector is being strengthened by ongoing efforts in the form of legislative initiatives and financial assistance programs. These efforts have received widespread recognition, particularly in rural India where the rising ownership of MSMEs by women is a sign of grassroots socioeconomic growth. According to the MSME Annual Report for 2020–21, of the 32.48 million businesses in rural India, a significant 51% are held by women. These businesses also greatly support India's export industry. According to the Directorate General of Commercial Intelligence and Statistics, the proportion of MSME items to overall exports was 49.5% for the fiscal years 2020–21, reflecting an expanding export trading base. The sector had a larger challenge as a result of Covid since businesses had to deal with a disastrous crisis that touched all of their verticals and raised unemployment. Here, both financial aid and the requirement for these businesses' technological progress become necessary. This became critical during the Covid-19 outbreak because the global issue caused the supply chain to become disrupted, which had a severe influence on manufacturing.

#### • Pre-covid 19

Prime Minister Employment Generation Programme (PMEGP)

- The scheme aims at providing financial assistance to self-employment ventures, to generate employment opportunities for unemployed youth and traditional artisans.
- Bank-financed subsidy scheme for setting up microenterprises in the non-farm sector.
- Margin money subsidy on bank loans of 15% to 35% for manufacturing projects of up to INR 25 lakhs, and INR 10 lakhs for service projects.

Credit Guarantee Scheme for Micro & Small Enterprises (CGTMSE)

- The scheme aims at motivating first-generation entrepreneurs towards self-employment by providing credit guarantee funding for third-party guarantee-free / collateral-free loans.
- Guarantee on credits for loans up to INR 2 crores, without third-party guarantee and collateral.
- Guarantee on coverages range from 75% (others) to 85% (Micro Enterprise up to INR 5 lakh).
- 50% of the coverage is for retail activity.

Micro & Small Enterprises Cluster Development Programme (MSE-CDP)

- The scheme aims at the growth of MSEs by addressing advancements in sustainable & green manufacturing technology, market access, skills & quality, etc. Creating infrastructural facilities in existing Clusters of MSEs and Industrial Areas.
- Creating Common Facility Centers including in Plug & Play Facilities.



- Support for Flatted Factory Complexes and Infrastructure Development Projects.

- **POST COVID 19**

**Credit Support for MSMEs**

- Moratorium period of 6 months for repayment of MSME loans and other forms of debts, together with a provision of 'no change in the credit rating during the said period.
- Norms for declaring the NPA period in banks be extended to 180 days for at least the next 2 years as the MSMEs need uninterrupted banking assistance to deal with this crisis.
- Interest rate subvention @ 3% on loans to MSMEs that are healthy and not NPAs.

**“Smart Industrial Village” Policy**

- To achieve an inclusive and equitable growth model with percolation of wealth
- To promote a de-centralized economic structure to avoid concentration of the population resulting in the exodus of migrant workers

**Promoting “Swadeshi” Ideology via Policy & Strategy Drafting**

- By price advantage incentive for import substitution & indigenous product development
- Price Advantage incentive is a percentage additional advantage on a price to Indian supplier compared with the cost of import for a particular product
- Defining & introducing of “Indian quality standard & certification” system to provide “non-tariff barriers” cover for incentivizing locally manufactured “SWADESHI” products
- To stimulate the local investment in the manufacturing segment through promotion schemes & incentives, so that India becomes a manufacturing hub.

**Financial Assistance to MSMEs**

- Prioritize lending to MSMEs from banks by including small enterprises in the earmarked priority sector and raising the sub-target limit to 10% from 7.5%
- Collateral free & MUDRA small loans to encourage self-employment.
- Relaxing ceiling on working capital by banks.

**Data analysis**

The provisions of the micro, small and medium enterprises development act, 2006 were introduced on 2<sup>nd</sup> October 2006. The act's motive was to facilitate the promotion, development, and enhance the competitiveness of micro, small and medium enterprises. The act consisted of the definition, classification, memorandum, measures, etc of small, micro, and medium enterprises. The act classified micro, small and medium enterprises as (for both products and services organization)-

**MSME turnover limit:**

Micro Enterprises: up to 5 crores

Small Enterprises: 5 crores to 75 crores

Medium Enterprises: 75 Crores to 250 crores

**For the company manufacturing goods:**

Micro Enterprises: Upto 25 Lakhs

Small Enterprises: 25 Lakhs to 5 Crores

Medium Enterprises: 5 Crores to 10 Crores

**For Service Organisation:**

Micro Enterprises: Upto 10 Lakhs

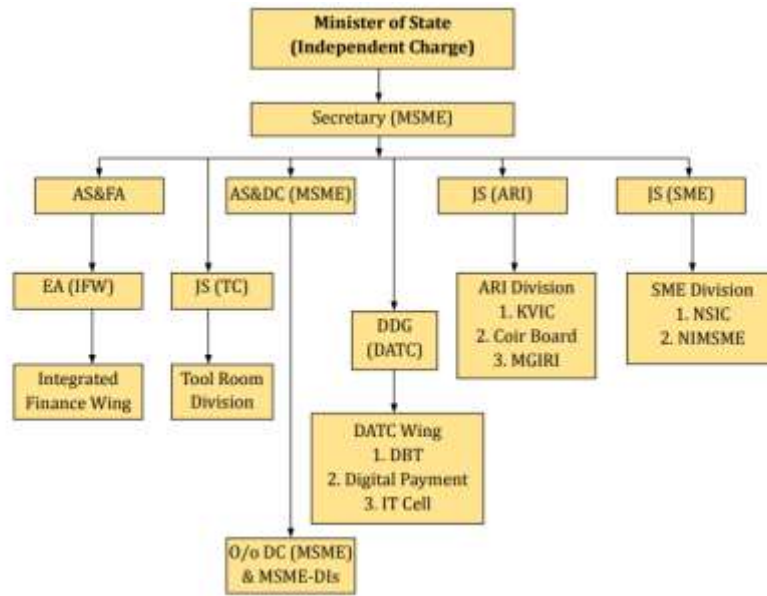
Small Enterprises: 10 Lakhs to 2 Crores

Medium Enterprises: 2 Crores to 5 Crores

The act was introduced to address the legislative issues impacting MSMEs.

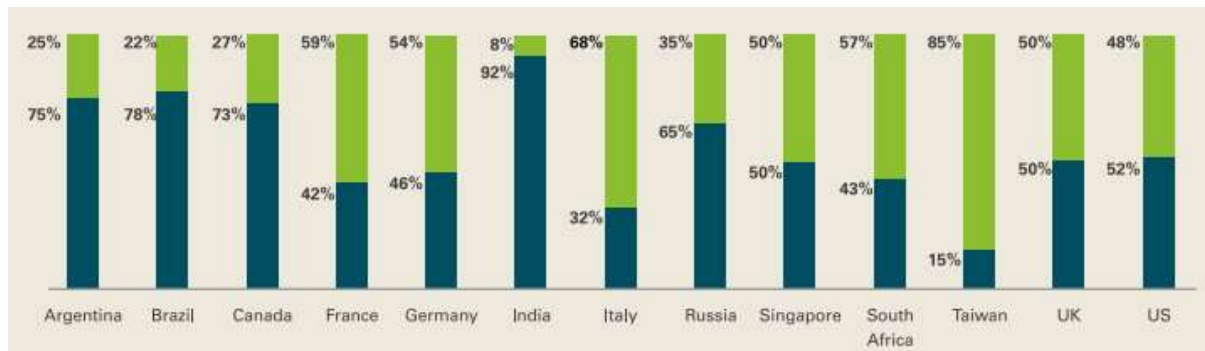
On 9 May 2007, the Ministry of small-scale industries, the Ministry of Agro, and rural industries were merged to form the Ministry of Micro, Small, and Medium enterprises.

The structure of the Ministry is depicted in the figure below-



**Share of MSMEs in the economy-**

As shown in the below figure, there are approx. 46 million Micro, Small and Medium enterprises across various industries. The contribution of the MSME sector to India’s GDP is approx. 8%.



To facilitate the development, promotion, and enhancement of the MSMEs, the Ministry of MSME had launched various schemes and projects. The following are the projects identified in respect of the Ministry of MSMEs schemes-

S.No.	Name of the Scheme	No. of Projects
1	Prime Minister Employment Generation Programme	178
2	Micro & Small Enterprises Cluster Development (MSE-CDP)	81
3	EDP/MDP schemes	46
4	Entrepreneurial and Managerial Development of SMEs through Incubators	13
5	MSME Market Development Assistance (MDA)	12
6	Marketing Assistance & Technology Upgradation (MATU)	10
7	Revamped Scheme of Fund for Regeneration Of Traditional Industries (SFURTI)	10
8	Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)	7
9	Credit Linked Capital Subsidy for Technology Upgradation	6
10	Financial Support to MSMEs in ZED Certification Scheme	4
11	Technology and Quality Upgradation Support to MSMEs	4



12	Lean Manufacturing Competitiveness for MSMEs	3
13	Design Clinic for Design Expertise to MSMEs 1	1
14	Assistance to Training Institutions (ATI)	1
15	A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)	1
16	Skill Upgradation & Mahila Coir Yojana (MCY)	2
17	Market Promotion & Development Scheme	1
18	Performance and Credit Rating Scheme 1	1
19	Marketing Support/Assistance to MSMEs(Bar Code)	1
20	Others	52
	<b>TOTAL</b>	<b>434</b>

### Role of MSMEs in the Indian economy pre-covid-

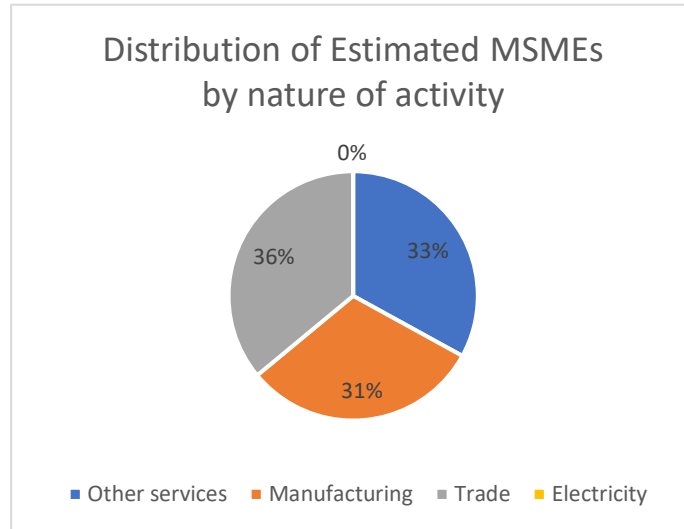
The Micro, Small, and Medium Enterprises have been contributing significantly to the expansion of the Indian economy through continuous growth and business innovations. As per the data available with CSO, the MSME sector's contribution toward the country's gross value added (GVA) and gross domestic product (GDP) at current prices from 2011-2017 is as follows-

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	-	8106946	32.35	8736329	30.00
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

### Estimated numbers of MSMEs in the country-

As per the National Sample Survey (NSS) 73<sup>rd</sup> round (conducted in the 2015-2016 period), there were 633.88 lakh unincorporated non-agriculture MSMEs in the country. The distribution for the same is given below-

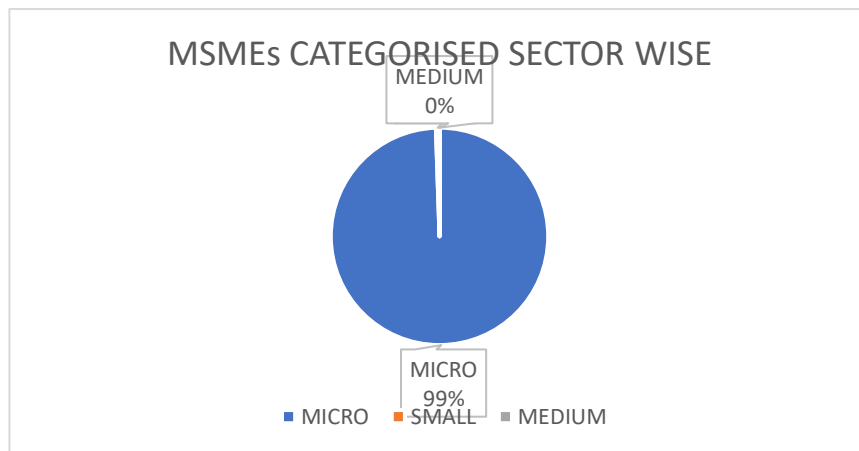
ACTIVITY	No. of enterprises in Rural	No. of enterprises in Urban	TOTAL	SHARE (%)
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Other services	102	104.85	206.85	33
Electricity	0.03	0.01	0.03	0
<b>All</b>	<b>321.88</b>	<b>309</b>	<b>633.88</b>	<b>100</b>



As seen in the chart, 36% of MSMEs were in trade, 31% of MSMEs were in manufacturing activities and 33% were in other services.

**Distribution of MSMEs Sector Wise-**

SECTOR	MICRO	SMALL	MEDIUM	TOTAL	SHARE %
RURAL	324.09	0.78	0.01	324.88	51
URBAN	306.43	2.53	0.04	309	49
ALL	630.52	3.31	0.05	633.88	100

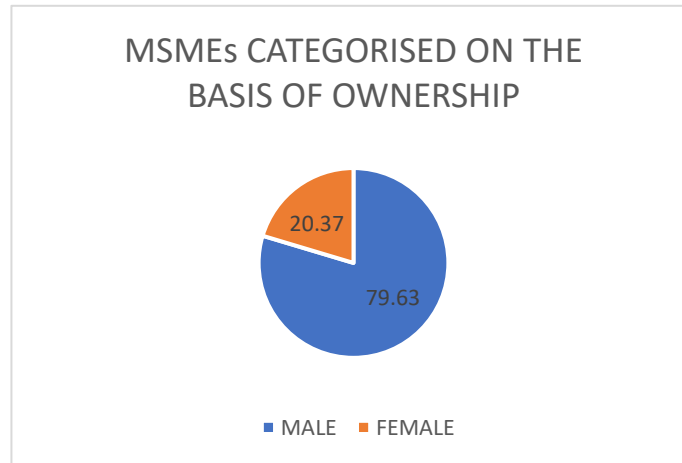


The micro sector can be seen contributing the most to the MSMEs, with 630.52 lakh estimated enterprises, which totals more than 99% of the total estimated MSMEs whereas the small and medium sectors account for 3.31 lakh and 0.05 lakh enterprises respectively.

**DISTRIBUTION OF MSMEs OWNERSHIP WISE (GENDER BASED)-**

SECTOR	MALE (%)	FEMALE (%)	ALL (%)
RURAL	77.76	22.24	100
URBAN	81.58	18.42	100
ALL	79.63	20.37	100





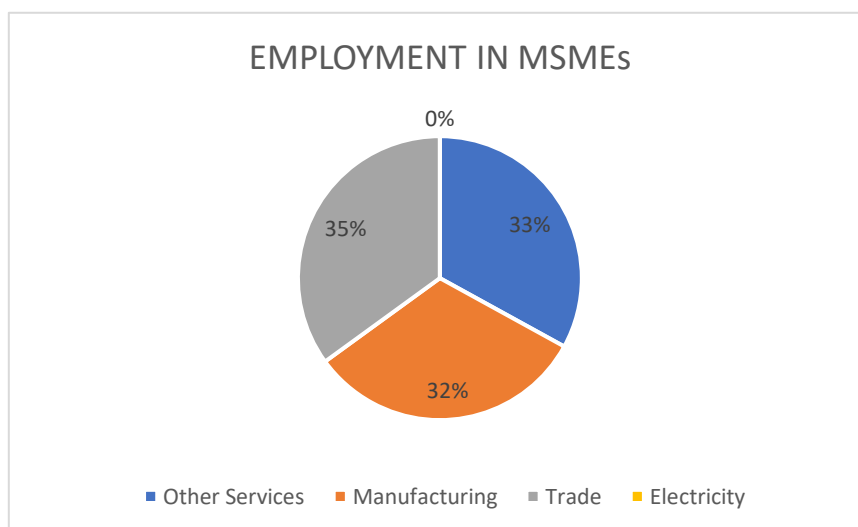
As seen, in the chart and the tables, male owners have been predominant in MSMEs as males account for 79.63%

CATEGORY	MALE (%)	FEMALE (%)	ALL (%)
MICRO	79.56	20.44	100
SMALL	94.74	5.26	100
MEDIUM	97.33	2.67	100
<b>ALL</b>	<b>79.63</b>	<b>20.37</b>	<b>100</b>

of the ownership of the enterprises whereas females account for 20.37%.

**ESTIMATED EMPLOYMENT IN MSMEs-**

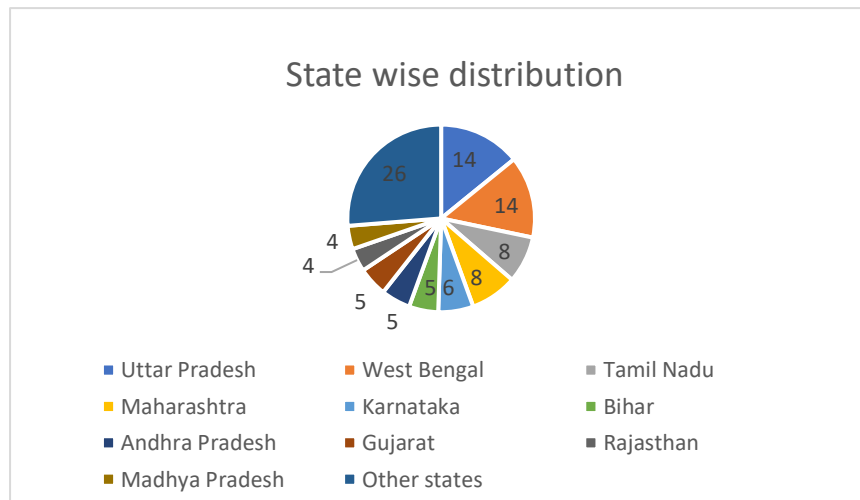
Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
<b>All</b>	<b>497.78</b>	<b>612.10</b>	<b>1109.89</b>	<b>100</b>



The micro sector is estimated to have 630.52 lakh enterprises which provide about 1076.19 lakh employment, accounting for 97% of the total employment in the sector whereas the small and medium sectors account for 2.88% and 0.16% of employment respectively.

**State-wise distribution of MSMEs-**

Sl. No.	State/UT	Estimated Number of MSMEs	
		Number (in lakh)	Share (in %)
1	Uttar Pradesh	89.99	14
2	West Bengal	88.67	14
3	Tamil Nadu	49.48	8
4	Maharashtra	47.78	8
5	Karnataka	38.34	6
6	Bihar	34.46	5
7	Andhra Pradesh	33.87	5
8	Gujarat	33.16	5
9	Rajasthan	26.87	4
10	Madhya Pradesh	26.74	4
11	<b>Total of above ten States</b>	<b>469.36</b>	<b>74</b>
12	<b>Other State/UTs</b>	<b>164.52</b>	<b>26</b>
13	<b>All</b>	<b>633.88</b>	<b>100</b>



From the above table, we can see, the state of Uttar Pradesh had the largest number of MSMEs with a share of 14.20%. The top 10 states account for a share of 74.05% of the total MSMEs in the country.

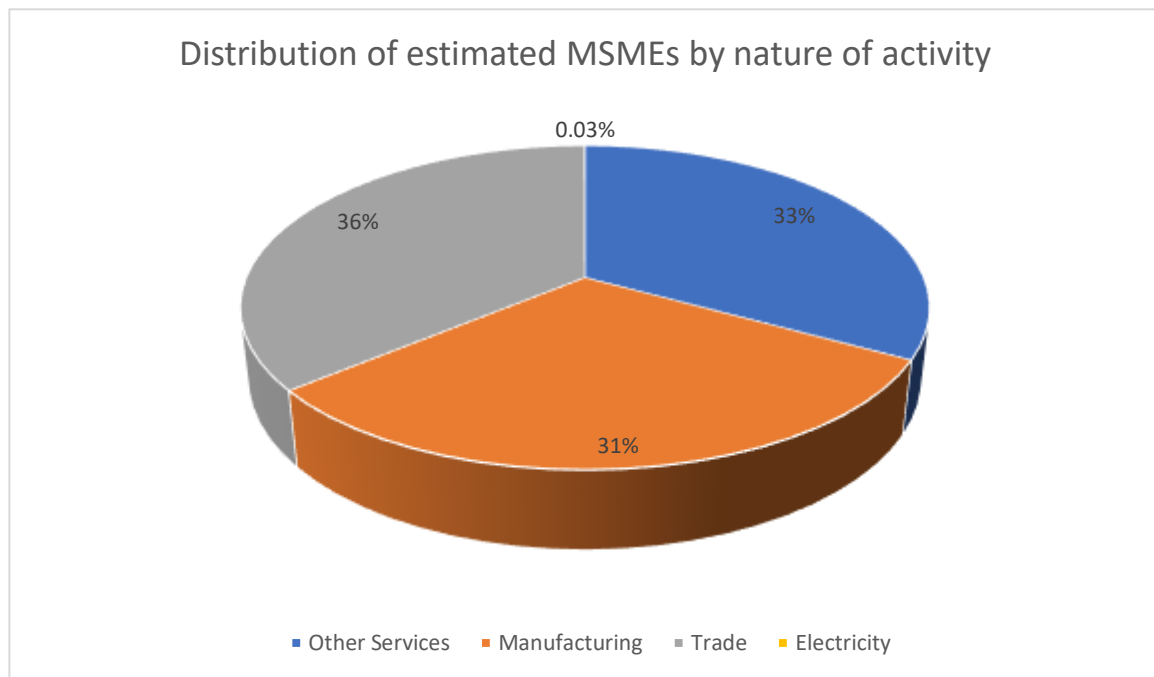
**Role of MSMEs in the Indian economy during covid-**

Covid-19 hit India when The Indian Economy was already facing a lot of problems, (contraction in demand, declining GDP growth rate, etc).

So, during the lockdown, MSMEs have profoundly affected as the lockdown contracted supply which affected manufacturing. Many migrant laborers were still in their hometowns and were unwilling to come back after lockdown so there was a deficit of laborers.

During covid-19 consumers were forced to stay at home, hence MSMEs were directly affected as there was a sudden decrease in demand, which forced enterprises to lay off employees, therefore, causing a decline in employment in the MSME sector.

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	114.14	82.50	<b>196.65</b>	<b>31</b>
Electricity*	0.03	0.01	<b>0.03</b>	-
Trade	108.71	121.64	<b>230.35</b>	<b>36</b>
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The estimated data for MSMEs during covid remains the same, as shown in the above chart and table, 36% of MSMEs were in trade, 31% of MSMEs were in manufacturing activities and 33% were in other services. The Annual MSMEs Report of 2020-21 and 2021-22 given by the government of India showed the same data as before covid.

But a study done by the Small Industries Development Bank of India which sampled 1029 MSMEs spread across 20 states, revealed that 67% of the MSMEs were temporarily closed for up to 3 months and more than 50% of the MSMEs were witnessing a decline of more than 25% in their revenues during 2020-21.

### Role of MSMEs in the Indian economy post COVID-19

An average of 11% decline in the MSME sector has been recorded in 2021. As the MSME sector was the most vulnerable sector during the pandemic, 95% of the enterprises were affected negatively due to the lockdown.



MSMEs faced the most barriers in market access, productivity, and investments as they were unable to get access to more finances.

All India Manufacturers Organisation conducted a survey, which concluded that self-employed MSME units which account for more than 35% of the MSMEs sector do not have any scope of recovery for their businesses.

Through our secondary research, we could conclude that the share of MSMEs in the country's GDP dropped from 30.5% pre-covid to 26.83% during FY-21.

## RESULT OF THE FINDINGS

Our research paper aimed to establish a pre-pandemic overview against which during and post-pandemic responses could be compared, allowing us to see the situation of MSMEs in India and the acute impact of COVID-19 on MSMEs. Through the primary and secondary research, we have analyzed that MSMEs in India have always been vulnerable but tough times really began for the MSME sector when the government-imposed demonetization on November 8, 2016, which caused a contraction in the money supply leading to an overall fall in demand which put millions of Micro, small and medium enterprises out of business. Demonetisation rendered close to 3 crore people unemployed, from which a substantial portion was the MSMEs in India. While the MSME sector was trying to recover from the impact of demonetization, it was hit by the implementation of GST. The government provided no relief or aid to the unorganized sector which decimated the MSMEs. Soon after, the pandemic surfaced, and with it came the lockdown. The lockdown caused unprecedented destruction of economic activity in the country stopping the sales and earnings for MSMEs in India. Through secondary research, we got to know that more than 93% of the enterprises were affected by the lockdown. Enterprises faced issues in the payment of wages/salaries and repayment of loans. This caused many enterprises to lay off workers, either temporarily or permanently leading to an increase in unemployment. The number of enterprises engaging no labor increased from 5% to 17% to the lockdown. The proportion of women laborers laid off was higher than that of the male laborers. Enterprises also adapted to new working arrangements, online sales or increasing the sales efforts. The government rolled out multiple remedial Schemes to ease the impact on the enterprises, beginning in May 2020. However, despite the schemes provided, the MSMEs continued to face problems regarding stretched liquidity cycles. The key issues identified were, a lack of formal funding from the banking system and the delay in payments. There had been a delay in payments to the MSMEs from the more prominent companies and the government.

## CONCLUSION

The ability of SMEs to react to quickly shifting market demand, technological development, and capacity restrictions related to knowledge, innovation, and creativity are among the hurdles they must overcome. But for many SMEs, their potential is frequently due to factors relating to their tiny scale, not completely realized: insufficient resources (money, absence of economies of scale (in terms of technology, skilled personnel, market access, and market information); scale and breadth; greater transaction costs compared to large businesses; a lack of networks that may lead to a lack of knowledge, expertise, and experience of domestic and international businesses; global markets; heightened competition and concentration in the industry from huge transnational corporations brought on by economic integration and globalization, "churning," and instability, as well as a lack of entrepreneurial spirit, capability, and expertise.

The following four significant problems that SMEs encounter was addressed in this study with solutions:

1. There are three distinct ways to make it easier for small businesses to obtain financing: local investment trust funds for start-ups and risky SME businesses, credit guarantee schemes by the government, and private SME lenders.
2. Another difficulty for SMEs is the lack of SME databases. Their accounts, both financial and nonfinancial, are frequently challenging to evaluate. We offered the Credit Risk Database (CRD) in Japan as an illustration of how SMEs might be graded based on financial and nonfinancial data as a potential remedy for other Asian economies. The CRD contains a substantial amount of data that may be statistically analyzed to grade SMEs.
3. Lack of investment in R&D is the third significant barrier to SME development. We offered a number of alternatives to lessen this issue. Asian governments should support business R&D through tax incentives in addition to giving grants, contracts, and loans. Numerous Asian economies are already experiencing this. Collaboration is a crucial vector of information flows related to innovation for both enterprises using R&D (internally created or externally acquired) and for those who are not actively engaged in R&D.
4. The inadequate use of information technology for sales is the final significant barrier to SME development. National governments may give SMEs and small businesses close mentoring-style support to help them learn how to use information technology in their businesses through the countrywide municipalities, or through societies of commerce and industry and chambers of commerce and industry.



## SUGGESTIONS

The micro, small, and medium enterprises (MSME) will have their own book written on them in a bibliotheca about the prosperity of the Indian economy. The sector's contribution is so significant that it not only contributes 29% of India's GDP but also employs more than 11 crore people across its 6.3 crore businesses. However, the MSME sector nearly crashed-landed in 2020 as a result of COVID-19 and its aftermath, with a significant decline in revenue.

Here are enlisted some suggestions to assist rehabilitation of the MSME sector seriously impacted due to the onslaught of COVID-19.

1. Any tragedy of this destructive character, which at this point shows no signs of abating and may be harmful in many more ways than we can currently imagine if it persists beyond our perception, must be fought with a systematic approach. Our humble observation is that the government may create a flexible policy framework or nimble plan schedule to address multiple emerging scenarios and can prioritize its various response measures under each of these scenarios, even though the ministry is probably already moving in the right direction. Both short-term and long-term strategies should be included in this policy framework. While the sustainability of this industry, for both owners and employees alike, may be treated as a short-term measure, the conditions this industry faces, say for a specific period of time after the lift-up of lockdown, and measures to address them appropriately, may be treated as a medium-term measure, and finally, developing the sector's capacity for future growth may be treated as a long-term measure.
2. This is an urgent necessity that, if it is not addressed, might render all efforts futile. More than 90% of the MSME units in our country are so-called micro businesses. Most of the businesses are operated by modestly wealthy businesspeople. The extended lockdown has practically depleted all of their funds, making it impossible for them to maintain their enterprises or ensure the payment of salaries and wages to their workers. The government may consider subsidizing a portion of these workers' wages or salaries through a well-designed support system for a set amount of time in order to maintain their engagement and ensure smooth payment. Given the lack of a real MSME database that contains the precise number of MSMEs in the nation, it is by no means a simple process. In order to find a workable solution, the government must consult with various MSME mouthpieces, representing bodies/organizations, trade groups, connected government agencies, etc. The single window system notion that we will explain in the following paragraphs is appropriate for this use. This call for pay support is not an unusual one for our government to hear, as many other nations throughout the world also subsidize their workers' wages. Despite its financial limitations, the government should not hesitate to take this action because it will not only give this industry the necessary boost it needs, but it will also help increase demand in the economy because thousands of people will be gainfully employed in the process. This, combined with their multiplier and accelerator effects, will increase employment and demand in the economy, which the nation is currently precariously short of. Paying salaries or wages for a precisely defined term may be regarded as a CSR payment under certain conditions in specific circumstances where the companies are compelled to donate CSR funding.
3. MSME business owners, more specifically micro business owners, are also victims of the crisis and desperately need help on many fronts in order to survive and get started. They require assistance in the following areas:
  - I) Supply of Utilities: During this period of restriction, paying for utilities such as electricity, water, rent, property taxes, etc. can be extremely difficult for business owners to do. Many of these costs are fixed expenses that quickly add up and become extremely difficult for them to handle, at least at first. Here, the government can step in and, in appropriate circumstances, may find ways to postpone the issue or may permit partial concessions or exemptions up to a reasonable period, covering both its non-working period and initial operational period together, to lessen the entrepreneurs' cash-flow crisis.
  - II) Supply of Inputs: During the early phases of operations, the units are likely to experience input constraints since the suppliers might be reluctant to offer any credit options, demand payment of arrears, increase prices excessively, or create other fictitious restrictions. It's possible that the issues are product- or industry-specific. The government needs to get down on the ground to understand the issues at their core and should act quickly. The government may give the required directives if the problems persist with the agencies that supply these inputs. When the input providers are large corporations or manufacturing giants, the government may provide the required boost by adopting appropriate rules.

Our MSME Growth, Innovation, and Inclusive Finance Project enhanced MSMEs' access to capital in three crucial yet underserved industries: early-stage/startups, services, and manufacturing in India. A \$500 million credit line issued to the Small Industry Development Bank of India (SIDBI) was created to offer disadvantaged MSMEs a



more inexpensive, long-term source of capital. A complement to the loan component, technical assistance in the amount of \$3.7 million was concentrated on SIDBI and the participating financial institutions' capacity building (PFIs). The initiative advanced MSME finance through the creation of novel lending techniques that shortened response times, reached more underserved MSMEs, and crowded in more private sector financing in addition to providing \$265 million in loans directly to MSMEs. Additionally, it benefited MSMEs in low-income states, women-owned MSMEs, and new customers. The project helped SIDBI expand the Fund of Funds for Startups, which seeks to remit \$1.5 billion in startup funding indirectly by 2025. SIDBI is now the largest online lender in India thanks to its "contactless lending" platform, a digital matchmaking and MSME lending aggregator that has attracted \$1.9 billion in private sector funding.

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