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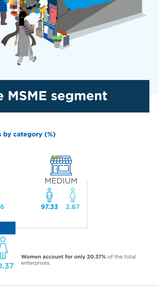
KREA UNIVERSITY

Building Back Better for MSMEs in India: Insights from the Field

India's **63 million MSMEs** are a vibrant engine of growth, accounting for **30% of the country's GDP.**

The number of **MSMEs in India increased by a CAGR of 18.5%** from 2019 to 2020.

(Annual Report 2019-20, Ministry of MSME)



Characteristics of the MSME segment

Distribution of enterprises by category (%)

MICRO	SMALL	MEDIUM
79.56	94.74	97.33
20.44	5.26	2.67

ALL

79.63	20.37

Micro enterprises dominate the MSME sector, **accounting for 99% of MSMEs.**

Women account for only 20.37% of the total enterprises.

Distribution of enterprises by social group and geography (%)

	SC	ST	OBC	OTHERS	NOT KNOWN
RURAL	15.37	6.70	51.59	25.62	0.72
URBAN	9.45	1.43	47.80	40.46	0.86

Socially **backward groups** owned almost **66.23% of MSMEs.**

Across both emerging markets as well as developed nations, many **MSMEs are excluded from the credit ecosystem** due to various challenges – the primary one being the lack of access to reliable credit information to justify credit disbursal.

Women entrepreneurs are more reliant on self-financing (35 percent) as compared to their male counterparts (18 percent)

Indian MSMEs lack up-to-date information and are often **unaware about the latest technologies** used in the global market.

Impact of COVID on microenterprises

The pandemic has affected MSMEs, and microenterprises in particular. An ongoing survey of microenterprises by LEAD and GAME found that:

BUSINESS PERFORMANCE

Nearly 80% of enterprises reduced scale of operations or shut down temporarily.

Only 21% of the businesses stated that they are performing better than March 2020.

INCOME

Production units saw the largest decline in revenue - reporting zero revenue for the months of April, May and June 2020.

EMPLOYMENT

While businesses value loyalty, over time they have resorted to layoffs with a decline in cash reserves and hiring is largely driven by demand fluctuations.

However, trends have improved overtime, with an almost 50% decline in reduction in layoffs post September 2020.

How are women entrepreneurs faring?

Women entrepreneurs have been disproportionately affected by the pandemic.

More (72%) women-led enterprises **reported cash shortages** than male-led (53%) enterprises. (Bubeck and Chandrasekhar 2020)

A survey of rural women-led enterprises conducted found that **1 in 3 women entrepreneurs have shut down** their business either temporarily or permanently. (LEAD, 2020)

There were early signs of recovery in Oct/Nov 2020, buoyed in part by the Diwali festive season. 73.2% of women-led businesses that were closed at the time of the first survey **have reopened within six months.** (LEAD, 2020)

Women entrepreneurs consistently reported moderate to extremely high levels of stress regarding household responsibilities, staying locked in and household expenses. (LEAD, 2020)

Adapting to shocks

Entrepreneurs have also adopted innovative coping strategies with support from community-based institutions.

Nitu Karn, Madhubani crafts shop owner since 2014
Rajnagar, Bihar

Nitu started her journey as a Madhubani artist, painting articles like t-shirts, traditional clothes, canvas and handicraft articles. When the pandemic affected her business, she was unable to reach out to her customers. Her work-related businesses were limiting creative reach online - an idea clicked. Nitu set up a Facebook page accepting online orders for Madhubani masks. The page has gained popularity, receiving orders for over 2000 masks which has allowed her to repay her credit and increase her income stream.

Vidya, Tailoring unit owner
Satara, Maharashtra

"Last year in ten days, all of us made Rs. 5000 selling at a bazaar. Now we have the stock but no bazaars are being held. One of the benefits of the lack of access to physical markets is that we learned about the possibilities of online sales and payments. We have started using social media and since the onset of the lockdown, we have sold fifty bags online."

Vengadesh, Welding shop owner
Tirunelveli, Tamil Nadu

"Despite the current situation, I have not considered letting go off my workers. I continue to pay two of my employees who were willing to come in to work, and have retained the others."

Are enterprises ready to go digital?

Since the pandemic started, there have been notable increases in mobile phone and internet access in India (GSMA 2020). But gaps persist.

MOBILE OWNERSHIP

Men have better access to smartphones than women (23% higher)

INTERNET USAGE

Women are 50% less likely to use internet over smartphones than men (GSMA report, 2020)

These gaps have further accentuated the vulnerabilities of women entrepreneurs

A survey of artisans conducted in the states of Rajasthan and Uttar Pradesh suggests that:

Only **50%** of the sample had sole access to a smartphone.

Digital capabilities vary with complexity of applications:

96.8% of respondents are comfortable with SMS and basic phone usage

42.6% use app-based messaging (Whatsapp and Telegram)

Only 7% use and accept payments through digital platforms

These findings suggest that for nano and micro enterprises, important information about subsidies and regulatory compliances, can be disseminated through bulk SMS or app-based messages during a pandemic or similar crises.

(Source: artisan survey (n = 874), conducted remotely between November 2020 – Jan 2021 by Catalyst Atal Incubation Centre. Results forthcoming.)

Barriers to digital use for women entrepreneurs

Interrupted electricity supply and recurring cost of internet services are barriers to improving digital access for women entrepreneurs. Lack of affordability, low digital literacy and social norms in addition to infrastructural challenges can further widen the digital divide.

With the pandemic restricting travel, exhibitions and melas, there are limited opportunities to showcase products and reach customers, and entrepreneurs rely on outreach support from the government and large private players.

Since women entrepreneurs mostly rely on their relationship with the customers, they are concerned that e-commerce will take away the human interaction they currently depend so heavily on.

(Source: Scoping study, LEAD at Krea University)