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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	20.44	94.74	5.26	97.33	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 **66.27% 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 increase in hiring and a reduction in layoffs post September 2020.

How are women entrepreneurs faring?

Women entrepreneurs have been disproportionately affected by the pandemic.

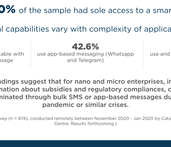
More women-led enterprises (72%) **reported cash shortages** than enterprises led by men (53%). (Bulsara and Chandrasekhar, 2020)

A survey of rural women-led enterprises 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, 2021)

Women entrepreneurs consistently reported **moderate to extremely high levels of stress** regarding household responsibilities, staying locked in and managing 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. With the pandemic affecting her business, she started making masks to sell to her home makers. But when other related businesses were selling creative masks 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	INTERNET USAGE
Men have better access to smartphones than women (23% higher)	Women are 18% 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%	42.6%	Only 7%
of respondents are comfortable with SMS and basic phone usage	use app-based messaging (Whatsapp and Telegram)	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 2020 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 infrastructure 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)

Pathways to recovery - A round-up of policy measures and recommendations

Improving access to finance

Financial measures for immediate support to MSMEs can include **wage subsidies, capped compensation for businesses with decreased turnover, deferring utility bills;** collaborations between public-sector banks and fintech players to streamline and simplify loan processes and creditworthiness assessments for MSMEs. (Pandey & Pillai, 2020)

Ensure rapid delivery of support by simplifying access and **ensuring effective digital delivery systems,** while safeguarding accountability and effectiveness. (OECD, 2020)

Policies should consider the fact that **instruments to provide equity to SMEs often have limited take-up** and/or are not widely adopted (with the possible exception of high-potential start-ups and mid-sized firms) (OECD, 2020)

Integrating a gender lens

Providing **safe and accessible workplaces** with occupational safety and health (OSH) measures, gender responsive and inclusive measures (paid sick leave, care leave, work-from-home options)

Effective Active Labour Market Policies such as **public employment programmes to help re-entry into the labour market;** more comprehensive national employment policies to aid such recovery (United Nations, 2020)

Boosting Demand

Fast-tracking public procurement procedures and simplifying them to facilitate more tenders from MSMEs

Tax incentives to stimulate local sourcing of multinational enterprises (ILO, 2020)

Focusing on digitisation as a cornerstone of recovery

Digitising the business environment (online registration / licensing, stronger e-commerce platforms, enabling entry of new online non-bank e-money providers, online public-private stakeholder dialogue); strengthening supply chains by aiding changes in supply chain management (less just-in-time stock control and more stockpiling); promoting a more resilient MSME sector through environmentally sustainable and inclusive rebuilding

Facilitate **access to ICT tools and platforms** that enterprises could use for sourcing locally and for maintaining communications with customers

Supporting both vendors and consumers to **use digital channels for paying wages and/or goods**

(ILO, 2020)

"Situating enterprise development approaches in the local context is an important first step to recovery. Understanding the local economy and how it is integrated with the peripheral and larger economy is critical to create the right bridges. There are various aspects of an ecosystem approach to consider; from infrastructure such as road and electricity and digital infrastructure, access to finance, mentorship and skill building. We need to have a holistic approach and improve coordination between various actors - policy, multilateral organisations, and industry"

- Samik Sundar Das, Senior Rural Development Specialist, The World Bank

Initiatives for promoting digitalisation of women entrepreneurs

Kerala's Kudumbashree Mission works with women entrepreneurs to promote the sale of the goods/ products made by these micro-enterprises. The Mission runs a brick and mortar supermarket and have also launched a digital platform, **Kudumbashreebazaar,** to enable the sale of *Kerala's* chief life products through digital channels. The individual or group micro-enterprises onboarded onto the platform as sellers are only sent messages on the application linked to the portal with the details of confirmed orders and customer information.

Bihar's livelihood mission **JeeVika** has focussed on the creation of producer groups and producer companies to enable large scale production of handicraft and weaver products. In bringing together women of the same interest in skills and helping them set up a formal business organisation, there are about 400 Producer Groups and one Producer Company in the non-farm sector named **Bihargram Mahila Producer Co. Ltd**

Amazon Saheli partners with organizations focused on self-employed women and women entrepreneurs to help them sell on the Amazon platform. Saheli offers an initial one-month handholding support for women on enrolling and enlisting products and promotes brand visibility to help launch and sustain their online presence. This aggregator platform partners with NGOs, government bodies, CSR wings and charitable trusts. The platform currently reaches 0.3 million women artisans.

Maharashtra's SRLM, Umed, has a partnership with Saheli, Kanpur and the general Amazon through which it has facilitated the sales of 90 products worth 0.45 million in the last 2 months. The SRLM allows products made by women who have individual and group enterprises to be onboarded on the condition that they have a GST certification, as this is a must for an e-commerce platform.

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