

India's MSMEs: Recent Developments & Imperatives



by
K.S.Arun
&
P.M.Mathew



Institute of Small Enterprises and Development



ISED House, ISED Road, Cochin - 682028

Email: info@isedonline.org, seo@isedonline.org

www.isedonline.org

India's MSMEs: Recent Developments & Imperatives

India's MSMEs: Recent Developments & Imperatives

by
**K.S.Arun
& P.M.Mathew**

ISED Small Enterprise Observatory
Jointly with
ISED Centre for Enterprise Development

© Institute of Small Enterprises and Development 2021

All rights reserved. No part of this document may be reproduced or utilised in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage or retrieval system, without permission in writing from the publisher.

Institute of Small Enterprises
and Development, ISED House,
ISED Enclave, ISED Road,
Cochin-682 028, India
URL: www.isedonline.org
Email: info@isedonline.org



ISED Small Enterprise Observatory,
ISED House, ISED Enclave,
ISED Road,
Cochin-682 028, India
URL: www.isedonline.org
Email: seo@isedonline.org

Published by P.M. Mathew, for Institute of Small Enterprises and Development.

Series: **ISED Discussion Paper Series**

Price: 490.00 (India); US \$ 15.00 (Overseas)

About ISED Discussion Paper Series

ISED Discussion Paper Series aims to accelerate the public availability of the research undertaken by ISED-associated people of all categories. It presents research results that, in whole or part, are suitable for submission to a refereed journal, to a sponsor, to a major conference or to the editor of a book. Our intention is to provide access to early results of research at ISED. Readers are encouraged to quote or reproduce material from ISED Discussion Papers for their own publications, as long as they are not being sold commercially. As copyright holder, ISED requests due acknowledgement and a copy of the publication. ISED publications seek to provide evidence and analysis that matters for entrepreneurial people and the planet.

Preface

Covid-19, the Pandemic, has set a new tradition of continuous disruption in the economies of the world. Unlike the usual business cycles, such disruption is marked by its poor predictability. The experience of containment of the Pandemic, across the world, remains rather mixed. There is a significant 'confidence crisis' that cuts across all sections of the society. This, obviously, has implications for consumer and producer confidence that help economies to come back to a "new normal".

Under the India MSME Communication Programme(IMCP), the Observatory, in co operation with the various Knowledge Centres of the Institute, makes a rigorous analysis of the latest currents in the MSME constituency, leading to a unique 'Development Report'. This study is a spill-over of this exercise of Development Reporting on micro, small and medium enterprises (MSMEs) at the ISED.

While the team of the Observatory did a meticulous job under the guidance and support of the Project Leaders, individual members of the Team, including the editors and the Associates, have made their special contribution in specific thematic areas. While this title is significant in the present context of the Indian economy , and of the MSME developments in specific, I hope it will contribute to wider discussions in the subject area.

As this title come out as a joint output of the Observatory and the ISED Centre for Enterprise Development, the Institute wishes to thank, without fail, the pains and efforts of the authors, and all who have supported it through inputs and suggestions. ISED has taken best efforts to ensure the quality and reliability of this paper. However, for the findings and views, the authors alone are responsible.



P.M.Mathew

Director, ISED Cochin

September 10,2021

India's MSMEs: Recent Developments & Imperatives

K.S.Arun & P.M.Mathew

Abstract

The irony and significance of the MSME experience in India, as in 2021, is that it indicates the need and relevance for a 'bootstrap development' approach. A pragmatic approach that takes care of the needs of "India" and "Bharat" would require a "Tortoise and Hare strategy" that accommodates both the leaders and the laggards. Such a strategy need to take care of both the strengths and weaknesses of the various subsectors having distinct technology levels and cultural practices.

Key Words: India, SMEs, Pandemic.

1.0 Introduction

India's economic and social experience in 2021 leaves behind it, a history of accelerated disruption and damages under a full year of the Pandemic, Covid-19. The damage to lives and livelihoods, while being a significant loss, gives some opportunities for introspection and exploration of new strategies. The irony and significance of the MSME experience, as in 2021, is that it indicates the need and relevance for a 'bootstrap development' approach. It is against this background that the ISED Small Enterprise Observatory has been advocating a pragmatic approach that takes care of the needs of "India" and "Bharat". A "Tortoise and Hare strategy", the Observatory believes, is the way forward for the country.

2.0. India's SME Scene in 2020: A Recap

India's MSME scene, as in 2020, was the outcome of a buildup of a slow growth phenomenon since 2018-19. According to the data released by the Ministry of Statistics and Programme Implementation (MoSPI), quarterly GDP growth rate and industrial output, gross tax revenue, and demand for electricity in eight core sectors had come down by the end of 2019. The Pandemic and its long duration has exacerbated an already difficult situation.

India's MSME experience today needs to be analyzed and judged against the happenings during a full year of the Pandemic. Unlike during the Pandemic of 1914, which may be familiar only to the top senior citizens of the country, was not marked by the level of technology that we are familiar with

today. This essentially implies that, as against the intensity of the disruption, India has been able to withstand many of the evil effects of COVID-19, because of its advancements on the technology front. Of late, with the introduction of a vaccine, as a major tool for management of the epidemic, the country is better equipped to go forward fast into a new normal. But, there remains the damages that have already happened, which again, was a continuation of the problems faced by the economy over a couple of years. 'India MSME Report 2020' has provided a review of such developments. For a realistic understanding of where the country is today, and as to the path that India is likely to take beyond the current crisis, let us have a recap of such developments in the economy.

2.1. Overall State of the Economy

To examine the backdrop of the developments in 2020, India's economy had fallen on hard times since 2018-19. According to the Advance Estimates (January) of the National Statistical Office (NSO), the growth of GDP) was 5% in 2019-20 in real terms; many private forecasters had put the figure even lower. GDP growth in the fourth quarter of 2019-20 went down to 3.1%. According to latest official data, nearly half of India's exports came from MSMEs in 2019-20, up from 7.5% in 2018-19. Share of exports of products related to MSMEs during the year 2018-19 stood at 48.10 per cent. The jump in the share has been impressive from the preceding year (FY18) when MSME exports contributed only 7.5 per cent to total exports. The share for FY16 and FY17 stood at 5.9 per cent (\$130.7 billion) and

4.8 per cent (\$137 billion), respectively. The MSME value of exports was \$147.4 billions while during the previous year, till September, MSMEs exported goods worth \$78.5 billions. While a slow growth syndrome was noticed by economists during 2019, the government and policy experts were hoping over the performance of the MSME sector. But, in fact, the MSME sector was faced with unusual structural problems, so that it was unable to tread on its logical path, and to contribute significantly to the economy. It was against the above background that the ISED Small Enterprise Observatory recommended a 'Tortoise and Hare' strategy of MSME development for the country. (see India Micro, Small and Medium Enterprise Report 2019, Chapter 9).

The year 2020 was opened with the announcement of a Pandemic by the World Health Organisation. Following that, multilateral agencies such as the IMF, World Bank, and the United Nations, came up with projections on the likely slow down at the global level and in individual economies. Being a global Pandemic, Covid-19 also triggered serious debates on the prospects of the Indian economy, and the steps to be taken to address the "two-curve problem".

Prime Minister Narendra Modi announced formation of the 'Covid-19 Economic Response Task Force' on March 19, 2020, followed by announcement of a Rs. 15000 crores Fund for the health care sector. The Finance Minister's announcement, on March 24, involved some relief measures relating to tax compliance.

A lock-down of the country, which means a state of isolation or restricted access, instituted as a security measure against disease spread, was announced on March 25, 2020. Spread over four phases, the Lock-down ended on May 31, 2020. It was designed and managed by the Union Government, under a subject advisory set up by the Indian Council of Medical Research (ICMR) and the Ministry of Health and Family Welfare, and with responsibility of implementation by the State governments.

The overall impact of the 'Lockdown' on the Indian economy has been reported to be significant. According to the CMIE, unemployment rose from 6.7% on 15 March to 26% on 19 April. During the lockdown, an estimated 14 crores (140 million)

people lost employment, while salaries were cut for many others. More than 45% of households across the nation have reported an income drop. The economy was expected to lose over Rs.32,000 crores every day, during the lock-down. Up to 53% of businesses in the country were projected to be significantly affected, due to stress on supply chains. Such damage to agricultural produce also was reported to be serious. Informal sectors and daily wage groups were at serious risk.

The World Bank and the rating agencies had initially revised India's growth for FY2021 with the lowest figures, the lowest in three decades since 1990s. However, after the announcement of the economic package in mid-May, GDP estimates were downgraded negative figures, signalling a deep recession. On 26 May, CRISIL announced India's worst recession since Independence. State Bank of India Research estimated a contraction of over 40% in the GDP in Q1 FY21. World Bank has joined the long list of institutions and expected a negative GDP growth for India in 20-21.

Major companies in India such as, L&T, Bharat Forge, Grasim Industries, Aditya Birla group, BHEL, and Tata Motors, temporarily suspended or significantly reduced their operations. Young start-ups were impacted due to lack of funds. Fast-moving consumer goods companies significantly reduced operations, and switched over to essentials. Stock markets in the country posted their worst losses in history on 23 March 2020.

The overall state of the economy in 2020 was marked by two impactful developments during the first quarter of the year: a) a slow growth syndrome; and b) lock-down of the country consequent on the Pandemic, and the consequent economic crisis.

How did the trend towards slow growth take place? GDP growth in the fourth quarter of 2019-20 went down to 3.1%, according to the Ministry of Statistics and Programme Implementation. According to the office of the Chief Economic Adviser, this drop was mainly due to the effect of COVID-19. Notably, India had also been witnessing a pre-Pandemic slowdown. According to the World Bank, the Pandemic has "magnified pre-existing risks to India's economic outlook".