



Analysing the Role of the Micro, Small and Medium Enterprises in India's Economic Growth

Salma Begum*

Assistant Professor, JAIN (Deemed-to-be-University) CMS Business School,
Faculty of Management Studies, Bangalore, India

[*Corresponding author]

Abstract

The Micro Small and Medium Enterprises (MSME) sectors are one of the largest contributors to India's GDP leading to socio-economic development in the country. MSMEs generate employment as per the 73rd round of the National Sample Survey (NSS) 11.10 crore jobs. The Gross value added by MSMEs was around 30% in 2019-20. The share of MSME exports in India's total exports stands at 49.5 % in 2020-21. Unfortunately, the MSMEs faced major challenges during COVID-19, more than 67 % of MSMEs were shut down and witnessed an above 25 % fall in their revenue (SIDBI report). Reduced employment, revenue loss, and cash flow hindrance were the major challenges in sustaining their business during COVID-19. The study is based on an extensive literature review and secondary data analysis from published reports. The objective of this study is to analyze the role of MSMEs in India's economic growth and their performance during and post-COVID-19. Trend analysis is used to depict the growth of MSMEs and a correlation test is performed to analyze the relationship between the economic growth, the manufacturing sector's growth rate, and the unemployment rate. The result shows a strong positive correlation between economic growth and manufacturing growth and a strong negative correlation between economic growth and unemployment. Further to measure the causal relationship between both variables a regression test is performed.

Keywords

MSMEs, Economic growth, Unemployment, GDP, Policy

INTRODUCTION

Micro Small and Medium Enterprises (MSMEs) have emerged as one of the significant sectors in the Indian economy. It has been contributing to India's socio-economic development largely by generating employment and adding to the country's gross domestic product. However, Covid-19, the coronavirus disease that spread in every part of the world not only claimed several lives but hampered economic activity all over the world. Since there was no solution to stop the effect of the pandemic, India enforced a lockdown on the whole country. This decision was taken to stop the spread of the virus but it negatively affected the economy. Mostly, it had a huge impact on the functioning of the MSME sector. About 75 percent of MSMEs were shut down temporarily leading to job cuts and hence the economy witnessed a rise in unemployment.

Sivasree, V. H. and Vasavi, P. (2020) in their paper titled "MSMEs in India- growth, and Challenges" discussed the role of MSMEs in providing employment using secondary data and their result shows it has generated more employment in rural areas 55 % than in urban at 45 %. Also, the result shows male dominance (76 %) in comparison to female (24%) employment and the medium enterprises have been showing the least growth while Micro and small enterprises have been growing rapidly. Zanjurne, P. (2018) in her paper titled "Growth and future prospect of MSME in India" focused on the performance of MSMEs, their growth, and opportunities. The study is based on secondary data analysis and the result shows that MSMEs have generated 42 million employments, 40 % of export, and 45 % of Industrial output. Shafi, M., et al (2020) conducted a study on the "Impact of the COVID-19 pandemic on micro, small, and Medium-sized Enterprises operating in Pakistan" with the objective of providing policy recommendations to help MSMEs tackle the crisis. Their study is based on both secondary and primary data for which they collected data from 184 Pakistani MSMEs through questionnaires. The result showed most of them faced severe issues in terms of supply chain disruption and loss. Mitra, S and et al (2021) in their article titled "Enhancing Competitiveness and Productivity of India's Micro, Small, and Medium-

Sized Enterprises during Pandemic Recovery” discussed the effective measures and policy recommendations to be taken by the MSMEs to move forward from the impact of Covid-19 based on Six pillars. Indrakumar, D. (2022) in his paper “Covid-19 and its Impact on Micro, Small, and Medium-Sized Enterprises in India” focused on the performance of MSMEs during covid-19 based on the literature review and appraised the implementation of Atmanirbhar Bharat and Make in India policy to help the MSMEs recover from the crisis. Alsameer, H and Begum, S (2023) in their paper aimed to assess the performance of microfinance institutions during COVID-19 in India and found that due to the pandemic, the financial efficiency of the MFI has been negatively influenced.

Begum S. & Goyal, R. (2023) examined the impact of inflation on the growth of the MSME sector in India using secondary data analysis. The study implied a correlation test and regression analysis to measure the relationship between inflation, manufacturing growth, and Economic growth and the result showed a negative correlation. Begum (2022) conducted a study to measure the effect of the pandemic COVID-19 on the MSME sectors in India through a literature review using secondary data analysis. The result shows a strong negative correlation between the growth rate of the manufacturing sector and the unemployment rate.

OBJECTIVE

The present study aims to measure the role of MSMEs in India’s economic growth and analyze the performance of MSMEs during and post-pandemic.

METHODOLOGY

The current study is based on secondary data analysis and an extensive literature review. To measure the impact of Covid-19, trend analysis of the manufacturing growth rate and unemployment rate are considered. A correlation test is performed to analyse the relationship between the manufacturing growth during and post-pandemic and the unemployment rate for the same period. Further, a linear regression analysis is done to measure the causal relation. Secondary data is used from different published reports of government (MOSPI, CMRI, MSMEs, etc.).

STRUCTURE OF MSME SECTORS IN INDIA

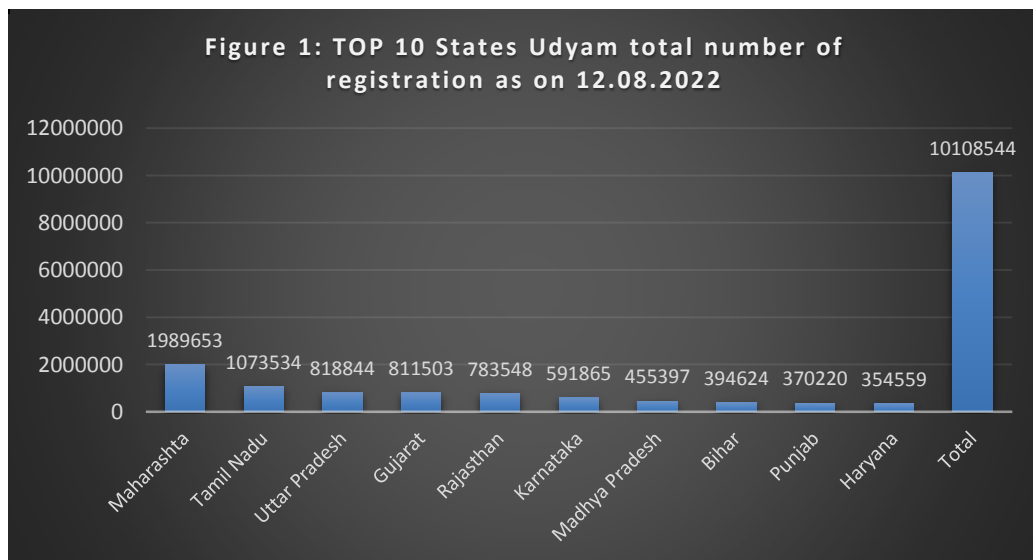
The Micro Small and Medium Enterprises (MSMEs) sector has been contributing to India’s gross domestic product and exports at a large ratio. It has been successful in providing employment majorly to the semi-urban and rural populations and imbibes an entrepreneurial mindset among them. The below table shows the classification of MSMEs as per the government guidelines effective from July 2020.

Table 1 Investment in Plant & Machinery/equipment and Annual Turnover

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises Rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover; not more than Rs. 5 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover; not more than Rs. 50 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover; not more than Rs. 250 crore

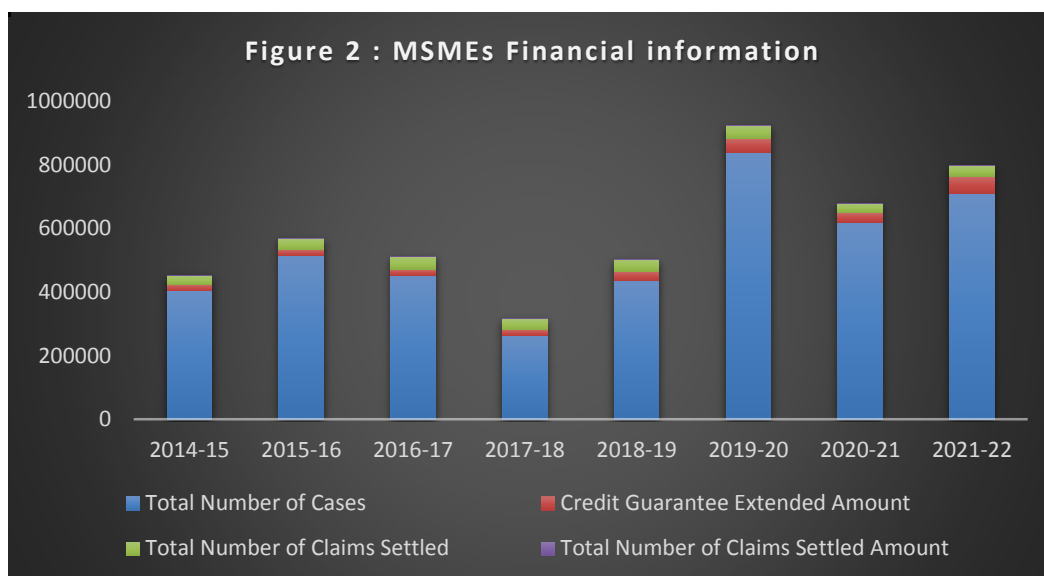
Source: Ministry of Micro Small and Medium Enterprises

The MSME sector is growing rapidly and the government introduced the Udyam registration portal on 1st July 2020 for the MSMEs for free registration based on self-declaration to avail of the services under the schemes. Figure 1, shows the number of registration for the top 10 states under Udyam registration till 12th August 2022.



Source: Ministry of Micro Small and Medium Enterprises

The total number of MSMEs registered in the Udyam registration portal is 10108544 in India. However, from the figure it is evident that the highest number of MSMEs are registered in Maharashtra at 19.68 % followed by Tamil Nadu at 10.62%, Uttar Pradesh at 8.10%, Gujarat at 8.02 %, Rajasthan at 7.75 %, Karnataka at 5.85 %, Madhya Pradesh at 4.50 %, Bihar at 3.90 %, Punjab at 3.66 % and Haryana at 3.50 %.

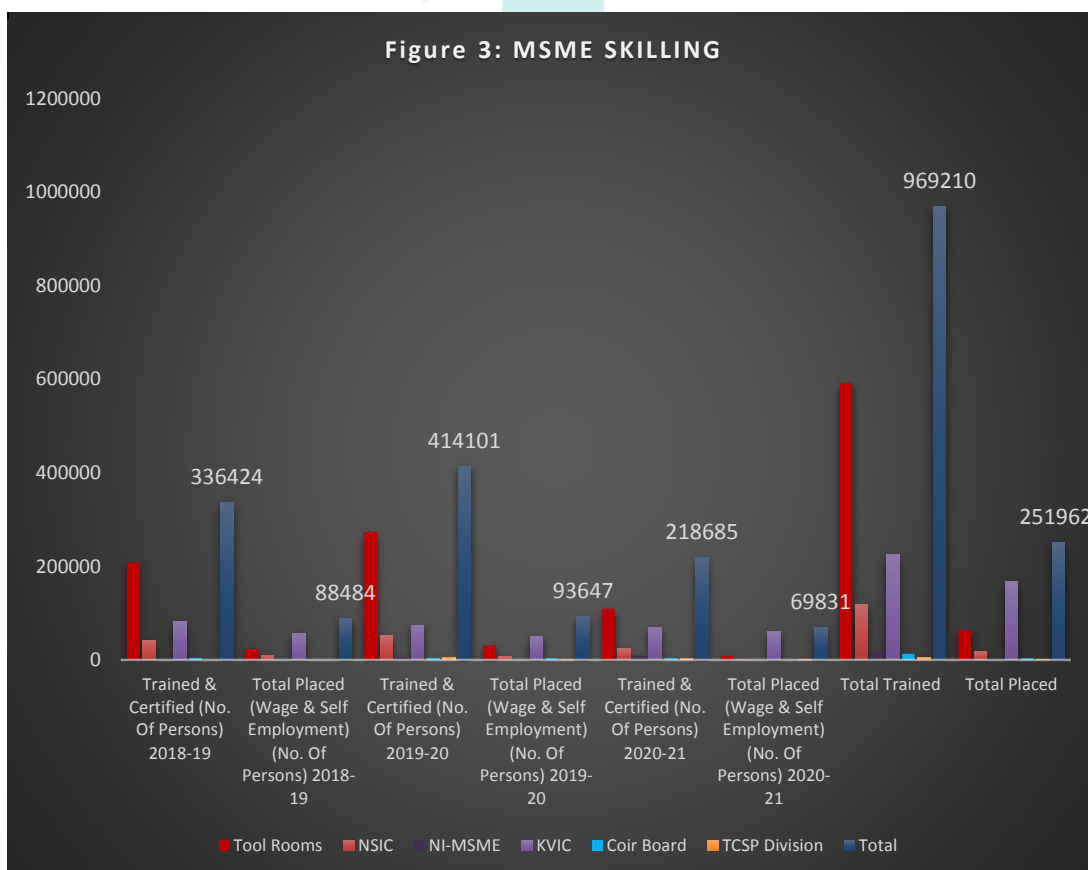


Source: Ministry of Micro Small and Medium Enterprises

Figure 2 shows the financial information of MSMEs for the last 8 years. The total number of cases shows a 27 % increase in 2015-16 from the previous year and 2019-20 shows a 92 % increase in the cases registered however in 2020-21 there is a sharp fall at -21%. The percentage change is similar concerning credit assurance, and claims settled. The percentage change in claims settled during 2020-21 is -35 %.

MSMEs generate employment largely by providing skill development training. As on 31st December 2021, a total number of 1,94,689 persons have been trained. MSMEs have generated 11.10 crore jobs as per the 73rd round of the National Sample Survey (NSS) during 2015-16 (2021-22 annual report, MSME).

Covid-19 has affected the world economy massively. The world has faced economic shocks leading to a fall in economic growth. The trade restrictions and lockdown affected the organized sectors and the unorganized sectors were massively hit.

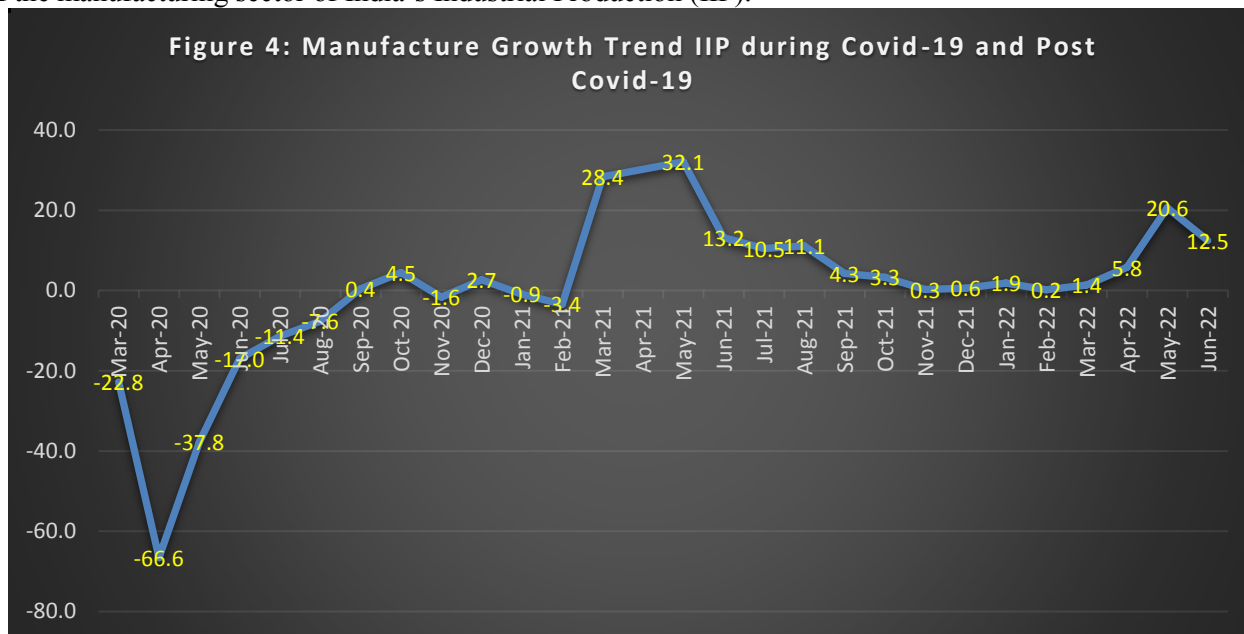


Source: Ministry of Micro Small and Medium Enterprises

Figure 3 shows the number of youths trained, certified, and employed for three years under the Skill India plan. In 2018-19, from all the skill training provided out of the total people trained 26.3 % were employed, which shows a fall in 2019-20 at 22.61 % were employed and increased to 31.9 % in 2020-21. Considering all the three years it is seen that out of the total people trained only 25.9 % people are placed or self-employed. There is a huge gap between the number of people trained and certified and one-fourth of them employed.

RESULTS AND FINDINGS

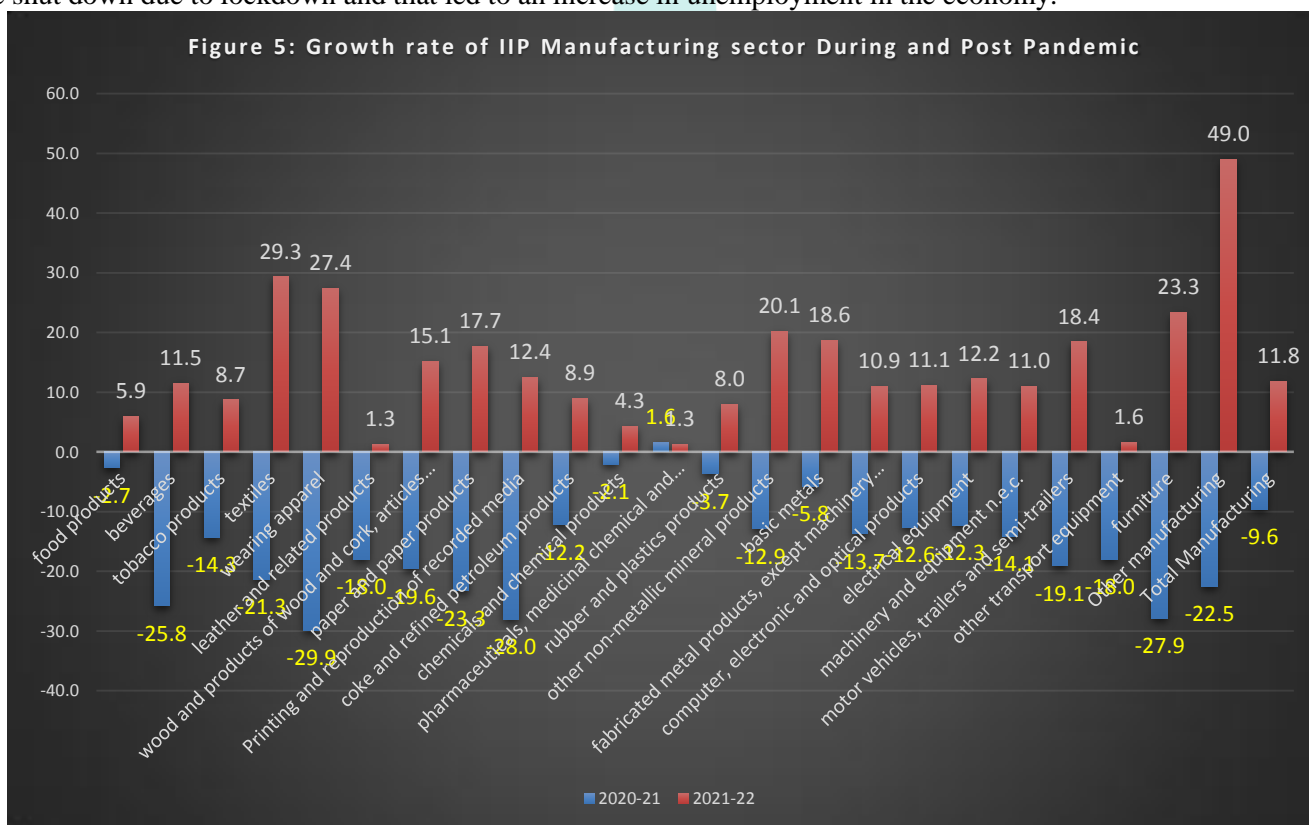
In this section, the impact of Covid-19 is discussed with the help of secondary data. To analyse the impact of Covid-19 on MSMEs, the growth rate of manufacturing sectors and the unemployment rate are considered. Figure 4 shows the growth trend of the manufacturing sector of India's Industrial Production (IIP).



Source: Ministry of Statistics and Programme Implementation

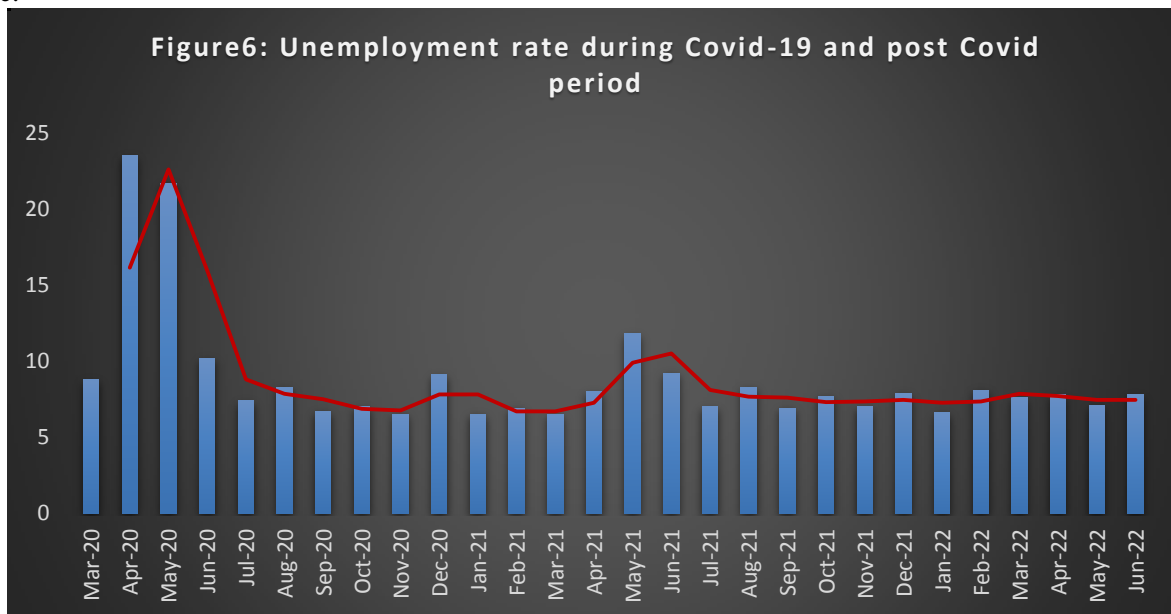
The figure depicts the manufacturing growth during the Covid-19 outbreak, i.e.; March 2020 and post the pandemic period. From the trend analysis, the manufacturing sector witnessed a sharp decline from March 2020 till February 2021 and the economy revived post that it shows fluctuation but positive growth.

The negative growth rate shows the negative impact of Covid-19 on the MSMEs as more than 67 % of MSMEs were shut down due to lockdown and that led to an increase in unemployment in the economy.



Source: Ministry of Statistics and Programme Implementation

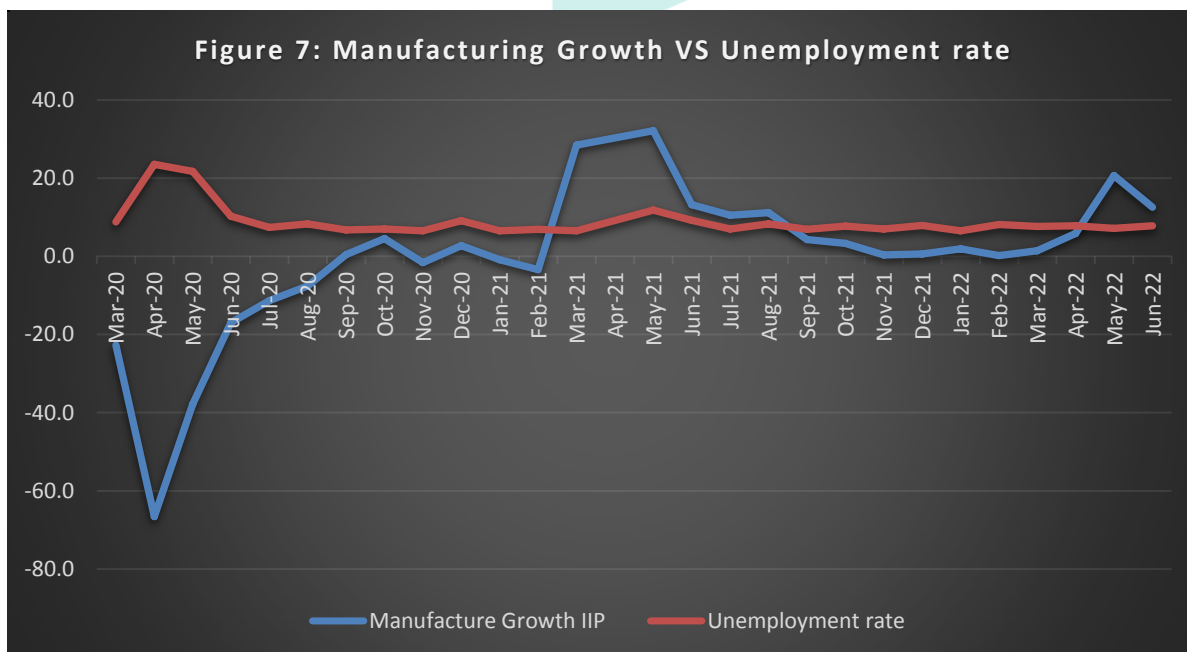
Figure 5, shows the growth rate of the manufacturing sector based on different categories of manufacturing sectors. The figure shows a comparison of the growth rate between 2020-21 and 2021-22 years. It is evident that during 2020-21, due to the coronavirus outbreak and lockdown imposed majority of the MSMEs had to shut down and hence shows a negative growth rate.



Source: CMIE 2022

Figure 6 shows the unemployment rate of India from March 2020 to June 2022. In linkage with the previous discussion on the negative growth rate of the manufacturing sector, the impact can be seen on the unemployment rate. The trend line shows the unemployment rate was very high initially as India faced the pandemic outbreak, however, it has improved over time.

It is important to understand the relationship between the growth rate of the manufacturing sector and the unemployment rate. The information captured for both the indicators during Covid-19 and later is shown in figure 7. The trend line shows higher the unemployment rate lower is the growth rate.



Correlation Test

To measure the relationship between both indicators. A correlation test is performed. The result of the correlation test is shown in the below table.

Table 2 Correlation test between Economic growth, Manufacturing IIP and Unemployment

	Economic Growth	Manufacturing IIP	Unemployment
Economic Growth	1		
Manufacturing IIP	0.904639615	1	
Unemployment	-0.701133576	-0.914029706	1

The correlation result shows both manufacturing growth and economic growth and unemployment rate are strongly correlated. The correlation between economic growth and manufacturing growth is strong and positively correlated at 0.90, with a 1-unit increase in manufacturing growth the economic growth will increase to .90. The correlation between manufacturing growth and unemployment shows a negative strong correlation at -0.70, with a 1-unit increase in the manufacturing.

Multiple Regression Analysis

Regression analysis is performed to measure the causal relationship between manufacturing growth from MSMEs and India's economic growth. The below table shows the regression analysis.

Table 3 Regression Analysis

Multiple R	0.904639615
R Square	0.818372832
Adjusted R Square	0.795669437
Standard Error	2.033627354

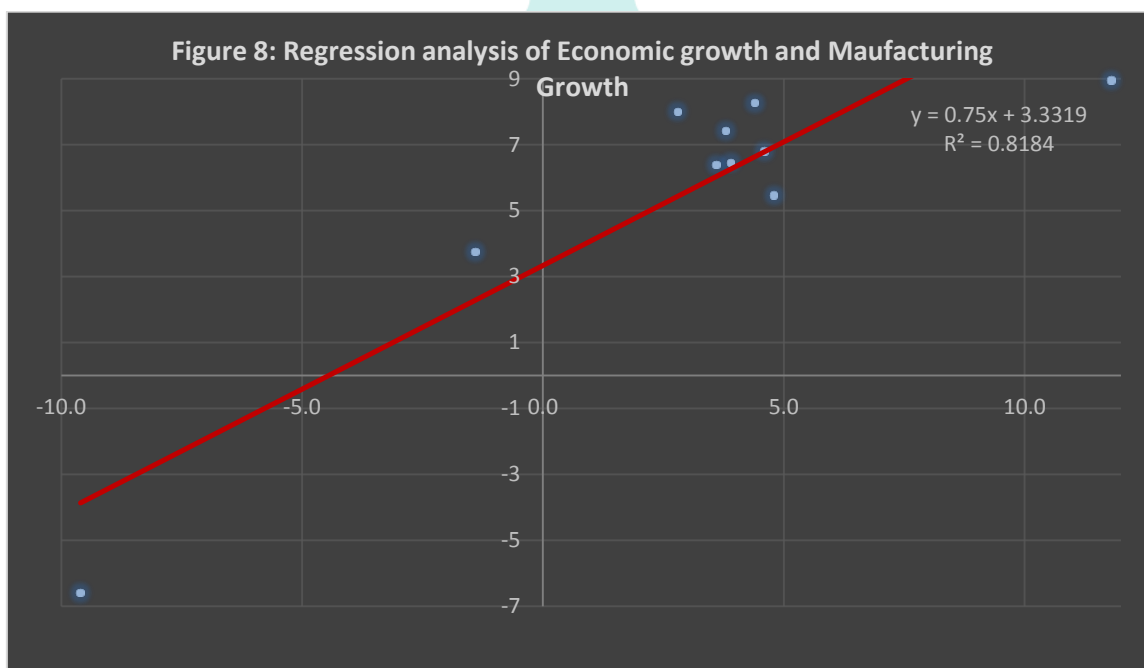
ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	149.0744	149.074	4.13564	0.00032
Residual	8	33.08512	4.13564		
Total	9	182.1595			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	3.33185	0.736281	4.52525	0.001	1.63399	5.0297	1.63399	5.02972
Manufacturing IIP	0.75002	0.124924	6.00385	0.000	0.46195	1.0381	0.46195	1.03810

Regression Model
 $y = 0.75x + 3.3319$

From Table 3, linear regression is performed to establish a causal relationship between manufacturing growth and economic growth. The result shows as there is an increase in manufacturing growth the economic growth will increase by 0.75 percent. The manufacturing growth and economic growth rate show a positive causal relationship. The R^2 value shows 0.82 and the p-value <0.05 which is statistically significant. Independent variables show a statistically significant impact on the outcome variable Economic growth. Hence, the model is a good fit.

The linear regression line is projected in Figure 8 using a scatter plot chart which shows a positive relationship between both variables.



CONCLUSION

MSMEs generate employment largely by providing skill development training. As of 31st December 2021, a total number of 1,94,689 persons have been trained. MSMEs have generated 11.10 crore jobs as per the 73rd round of the National Sample Survey (NSS) during 2015-16 (2021-22 annual report, MSME). Since MSME is one of the largest sectors

generating employment, it is evident that due to restrictions imposed by the government during COVID-19 have forced reverse migration leading to an increase in unemployment. This has had a huge impact on the Indian economy leading to a fall in India's gross domestic product. Since MSMEs generate huge employment and contribute largely to India's GDP and exports, the government should consider inducing FDI inflow to strengthen the sector. The MSMEs were affected largely due to restrictions of movement, a drop in consumer demand, and an inability to manage cash flow. Though the government has initiated and implemented several schemes for strengthening the MSMEs, the vulnerable section of society must be protected from any uncertain event in the future. The government can provide loans with lower interest rates and in the case of any defaulter, no penalty should be taken. Further, we must learn and apply from other countries to tackle the situation in any uncertainty.

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