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INDUSTRY OUTLOOK

MSME INDUSTRY OF INDIA: POST-PANDEMIC SITUATION

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1. INTRODUCTION

Over the last fifty years, the Micro, Small, and Medium-Sized Enterprises (MSME) sector of the Indian economy has developed into an agile sector. MSMEs facilitate the industrialization of rural and underdeveloped areas, thereby reducing disparities and ensuring more equitable distribution of income and wealth across the country. They also contribute significantly to the creation of large numbers of jobs.

As per the Union Budget 2021-22, India has ~6.8 million Udyog Aadhar registered MSMEs.¹ There are over 6 crore MSME units in India employing more than 11 crore individuals.² As of July 1, 2021, the Prime Minister's Employment Generation Program (PMEGP) was expected to produce 5.95 lakh and 1.21 lakh jobs in micro companies over the years 2020-21 and 2021-22, respectively.³



MICRO, SMALL & MEDIUM ENTERPRISES

सूक्ष्म, लघु एवं मध्यम उद्यम

Former MSME Minister Shri Nitin Gadkari in 2020 had set a target of increasing MSMEs' share in exports to 60 per cent from 48 per cent and creating up to 5 crore jobs. He also envisaged a rise in Gross Domestic Product (GDP) share to 40 per cent from 30 per cent by 2025.⁴ In August 2022, the MSME Ministry announced an ambitious target to boost MSME contribution to the GDP to 50 per cent by 2025.⁵

According to the data obtained from the Directorate General of Commercial Intelligence and Statistics, the proportion of MSME-related exports to India's total exports in 2019-20 and 2020-21 remained constant at 49.8 per cent. Currently, the MSME sector contributes one-third to India's GDP. The MSMEs in India, like in the rest of the world, are heterogeneous in terms of company size, product and service diversity, and degree of technology utilized.

As per the NSS 73rd Round of National Sample Survey Office (NSSO), there are a total of estimated 1,23,90,523 women owned proprietary MSMEs in the country. More than 20 per cent proprietary MSMEs are owned by women.⁶ The distribution of establishments by location and type of establishments at all-India level has been well captured by the Sixth Economic Census 2016 in Table no 1 below.⁷

Table 1: Distribution of establishments by location & type of establishments - All India.						
(Figures in absolute number)						
Category	Type of Establishments	Rural Establishments		Urban Establishments		Rural + Urban Establishments
		Number	%	Number	%	Number
Total	Agricultural	12085209	92.03	1046364	7.97%	13131573
		34.73%	%	4.42%		22.45%
	Non-Agricultural	22710545	50.06	22653241	49.94	45363786
		65.26%	%	95.58%	%	77.55%
	Total	34795753	59.48	23699605	40.52	58495359
		100%	%	100%	%	100%
Own Account establishment	Agricultural	10954165	92.60	875117	7.40%	11829282
		39.74%	%	6.08%		28.19%
	Non-Agricultural	16609685	55.12	13525037	44.88	30134722
		60.26%	%	93.92%	%	71.81%
	Total	27563850	65.68	14400154	34.32	41964004
			%		%	
Establishment with at least one hired worker	Agricultural	1131044	86.90	171247	13.10	1302291
			%		%	
	Non-Agricultural	6100860	40.10	9128204	59.90	15229064
		84.77%	%	97.70%	%	91.25%
	Total	7231904	43.74	9299451	56.26	16531355
		100%	%	100%	%	100%
Establishment with Special characteristics	Without Premises	6666084	61.80	4121697	38.20	10787781
		19.16%	%	17.39%	%	18.44%
	Perennial	31434171		22965771		54399942

		90.03%	57.78 %	96.90%	42.22 %	93%
	Under Private Proprietary	30834391	100%	21456132	100%	52290523
		88.62%		90.53%		89.39%
Note: Figures below the numbers show the percentage of establishments to all establishments in the respective category						

Source: Sixth Economic Census 2014.

1.1. MSME – DEFINITIONAL AND CONCEPTUAL ISSUE

A careful examination and evaluation of definitions across nations shows that, the "small scale industries" (SSIs) or "micro, small, and medium-sized enterprises" (MSMEs) have different meanings and implications. Hence this definition evolved over time. The informal sector is distinguished by diverse employment, organization of production, and ties to the formal sector. The SSIs/MSMEs lack a formal and hierarchical structure. Accordingly, changes in industrial structure and their consequences for small businesses and employment must be considered in a multidisciplinary context. The role of MSMEs in extricating developing nations from the 'low-level equilibrium trap' and breaking 'the vicious circle of poverty' is in conformity with economic theory and historical experience of numerous countries. Since standard quantitative yardsticks have yet to be definitively defined, the main features of MSMEs might be investigated in terms of qualitative criteria. They can be categorized in the following ways:

- Mode of Production
- Market position
- Management style
- Workers
- Product type
- Organizational structure
- Legal position
- Output market; and,
- Input market

While consensus on MSMEs may be difficult because of the several models of development, various approaches, and many assertions and averments, the uniqueness of MSMEs lies in the following dimensions:

- Sub-sectoral - coverage of various types of activities.
- Spatial - location in the rural-urban continuum.
- Scale - the size of enterprises.

A new definition of MSMEs was adopted as part of the Aatma-nirbhar Bharat package, which came into effect on May 13th, 2020. This came 14 years after the Micro, Small and Medium Enterprises Development (MSMED) Act, which was first passed in 2006. The purpose of revising the definition was to adopt a more realistic approach in establishing an objective system of classification and to create an ecosystem of ease of doing business in the country.

The government has included Retail and Wholesale trades as MSMEs from 2nd July 2021. The Ministry has clarified that Street Vendors can register as retail traders, as on 9th August 2021. Benefits to Retail and Wholesale trade MSMEs are to be restricted to Priority Sector Lending (PSL) only.⁸ With this step, the thresholds for defining a "Micro manufacturing and services unit" have been raised to ₹ 1 Crore of investment and ₹ 5 Crore of turnover, respectively. Investment caps for small scale enterprises were raised to 10 crore and sales thresholds to 50 crores. Medium-sized enterprises may now invest up to ₹ 20 crore and generate up to ₹ 100 crores of turnover. It was agreed by the Government of India (GoI) on 1st June 2020 to raise the MSME Definition even higher. Investments of ₹ 50 crore and sales of ₹ 250 crore were the new minimum and maximum level, respectively, for medium-sized enterprises.⁹ See Table no 2 below:

Table 2: New criteria based on investment and turnover in plant and machinery.			
Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than ₹ 1 crore and Annual Turnover; not more than ₹ 5 Crores	Investment in Plant and Machinery or Equipment: Not more than ₹ 10 crores and Annual Turnover; not more than ₹ 50 Crores	Investment in Plant and Machinery or Equipment: Not more than ₹ 50 crores and Annual Turnover; not more than ₹ 250 Crores

Source: <https://msme.gov.in/know-about-msme>

The table no 3 given below shows the older criteria.¹⁰

Table 3: Old Criteria based only on Investment in Plant and Machinery.			
Classification	Micro	Small	Medium
Manufacturing enterprises	Investment < ₹25 lakhs	Investment < ₹ 5 crores	Investment < ₹ 10 crores
Service Enterprises	Investment < ₹ 10 lakhs	Investment < ₹ 2 crores	Investment < ₹ 5 crores

1.2. INSTITUTIONAL MEASURES

In June 2020, the first meeting of the Cabinet was held after the NDA government completed its first year of the second term at the Centre, approved modalities, and a road map for implementing two packages for MSMEs – 20,000 crore packages for distressed MSMEs and 50,000 crore equity infusion through fund of funds, which would also enable them to get listed on the stock exchange.¹¹

Mrs. Nirmala Sitharaman, while increasing the budget for Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS) from ₹ 66,000 crores to ₹ 1 lakh crore, urged the Minister of State (MoS) for MSMEs, Shri Sidharth Nath Singh, to establish an MSME Chamber in each district and hold awareness programs about the "Ubharte Sitaare Fund", which was

launched on 21st August 2021. This would help the entrepreneurs working under the "One District, One Product" (ODOP) scheme to learn the benefits of the fund. So far, Uttar Pradesh the state that has the biggest number of MSMEs, has successfully executed the ODOP program.¹²

On 30 March 2022, under the leadership of Prime Minister (PM) Shri Narendra Modi, the Union Cabinet authorized a World Bank-assisted, US\$ 808 million (or ₹ 6,062.45 billion) initiative titled "Raising and Accelerating MSME Performance" (RAMP).¹³ RAMP program is an initiative by the government that was approved assistance of \$500 million by the World Bank in June 2021 to support Covid-hit MSMEs.¹⁴ It is a part of the MSME Competitiveness – A Post COVID Resilience and Recovery Programme (MCRRP) by the government.¹⁵

As an integral part of institutional measures, the Ministry of MSME runs numerous schemes targeted at providing credit and financial assistance, skill development training, infrastructural development, marketing assistance, technological and quality up-gradation and, other services for the MSMEs across the country. The Union Budget 2022-23 provided a long-term vision for steady growth of the MSME sector in the future.

The Ministry also constituted several Committees to review the status of MSMEs for MUDRA Bank with over US\$ 50 billion disbursement, online portal for facilitating payment under SAMADHAN and web based MSME data bank, 50 per cent fee reduction, financial support for ZERO DEFECT ZERO EFFECT (ZED) manufacturing etc.¹⁶ Also, Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) announced in November 2022 that the loan guarantee scheme will be made available to micro, small, and medium-sized enterprises (MSEs) that have been certified as meeting the criteria of the ZED plan. For loans up to ₹ 2 crore, the plan provides a maximum credit guarantee coverage of 85 per cent for these prospective benefactors. All new guarantees granted on or after December 1, 2022, are subject to this new Policy.¹⁷

Union Budget 2022-23 gave formulated policy goals in terms of CGTMSE scheme to strengthen MSMEs with required infusion of funds and facilitate additional credit of ₹ 2 lakh crore for Micro and Small Enterprises and expand employment opportunities. In addition to this, the RAMP program with an outlay of ₹ 6,000 crore over 5 years will be rolled out. The GoI announced the Special Credit Linked Capital Subsidy for Scheme for MSMEs in November 2021 with a provision of 25 per cent capital subsidy for procurement of service equipment through institutional credit to the SMEs for their technological progress.

The Emergency Credit Line Guarantee Scheme (ECLGS), which provided much-needed additional credit to more than 130 lakh MSMEs, has been extended up to March 2023 and its guaranteed cover has been extended by ₹ 50,000 crores to a total cover of ₹ 5 lakh crore, with the additional amount being earmarked exclusively for the hospitality and related enterprises.¹⁸

Table 4: Union Budget allocation for MSME over the years

Budget (in ₹ Crores)	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Allocation	6.48 k	6.55 k	7.01 k	5.66 k	15.7 k	21.4 k
Utilization	6.22k	6.51 k	6.72 k	5.57 k	15.2 k	6.69 k

Source: <https://dashboard.msme.gov.in/dashboard.aspx>

According to an official Circular¹⁹ dated December 2, 2022, micro-finance institutions (MFIs) are now included in the list of member lending institutions (MLIs). Loans made by MFIs to MSEs would be guaranteed up to ₹ 50 lakh per borrower under CGTMSE. Public and private banks, Scheduled Urban Co-operative Banks, Foreign Banks, Regional Rural Banks, Financial Institutions, Small Financing Banks, and NBFCs are the rest of the members.²⁰

MFIs are vital because of the loans they provide to low-income people and the ways in which they enable the rural poor, particularly women, to become self-sufficient economically, improve the lives of their families, and fight against discrimination against women. The eligibility criteria for inclusion of MFIs as MLIs are as follows:

- Should have been undertaking micro finance operations for at least 36 months.
- Prudential grading of up to MfR5
- Minimum CRAR of 15 per cent
- Debt Equity Ratio not more than 10:1
- Portfolio at Risk > 90 days (AUM) should be less than 5 per cent
- Minimum Asset size of 100 crore.

CGTMSE introduced two new guarantee schemes for PM Street Vendor's Aatma-Nirbhar Nidhi (PMSVANidhi) scheme and Subordinate Debt scheme (CGSSD). Under PMSVANidhi scheme, CGTMSE has approved 34.01 lakh letter of recommendation (LoR) applicants with guarantee amount of ₹ 3496.12 crore as on December 2022.²¹

Further, under Credit Guarantee for Subordinate Debt for stressed MSMEs, CGTMSE provided guarantee to 754 MSMEs with guarantee amount of ₹ 81 crore as on Nov 24, 2021.²² Four portals viz., Udyam, e-Shram, National Career Service (NCS), and Atma-nirbhar Skilled Employee-Employer Mapping (ASEEM) were interlinked in September 2022.²³ This was done to promote credit facilitation, skilling and recruiting with the goal of further developing the economy and boosting prospects for entrepreneurship across a wide spectrum.

MSME Dashboard.

Category	Number	As on
Udyam Registration	1,24,13,366	6 th December 2022
No. of Projects (PMEGP)	25,105	6 th December 2022
Proposals approved (CGTMSE)	5,44,938	20 th October 2022
Khadi Institutions (KVIC)	2,933	31 st August 2022
MSE CDP (CFC/ID projects)	525	2 nd September 2022
Export Target (Cair Board)	4,000	31 st March 2022

Source: <https://dashboard.msme.gov.in/dashboard.aspx>

2. COVID-19 and MSME

The important role of MSMEs in supply chain networks makes them a strategic economic sector. These enterprises provide around 30 per cent of the nation's GDP, 40 to 45 per cent of its exports and employ approximately 11.4 crore people (or 30 per cent of the labor-force). There are approximately 63 million unincorporated MSMEs, largely in the non-agricultural sector and are informal micro-enterprises.²⁴ MSMEs have contributed significantly to the Indian economy in terms of job creation, reducing regional disparities, facilitating fast paced economic growth, realizing export potential, etc.

In terms of the instructions given by the GoI, banks have been advised to achieve 20 per cent y-o-y growth in credit to micro and small enterprises; 60 per cent of advances should go to micro enterprises; and 10 per cent annual growth should occur in the number of micro enterprises accounts. But there continues to be significant gaps at the level of various banks in the operation of these policy guidelines laid down by the GoI.²⁵

Consumption loans and defaults constitute a disconcerting facet of MSME loans. The MSME sector was severely impacted by the COVID-19 lockdown owing to widespread labor migration, production disruption, and a shortage of revenue. Due to a paucity of funds, MSMEs began to slash wages, resulting in job losses and increasing unemployment.

In 2016, demonetization was one of the key causes for the hit to lives and livelihoods. The spread of COVID-19 came as a double blow to the Indian economy.²⁶ According to World Bank Report, GDP growth rates came down from 6.5 per cent in 2018 to 3.7 per cent in 2019 to negative 6.6 per cent in 2020. Unemployment rates rose from 5.3 per cent to 8 per cent in FY20.²⁷ It was the worst unemployment rate in India in thirty years. As per the National Statistical Office (NSO), during the first wave of Covid-19 the GDP growth rate contracted by 23.9 per cent and unemployment rate rose to 8.5 per cent.

MSME is the fastest-growing industry in India, providing for more than 10 crores and contributing one-third to India's GDP. According to projections from the Centre for Monitoring Indian Economic (CMIE), the number of employed Indians in March 2020 was 39.6 crores. It reached 27.5 crores by the end of April, indicating that more than 12 crores jobs were destroyed. In April-May 2020, the unemployment rate rose significantly to 23.5 per cent.²⁸

2.1. TRAVEL AND TOURISM SECTOR

India ranked 34th in the Travel & Tourism Competitiveness Report 2019 published by the World Economic Forum.²⁹ Travel, Tourism, and hospitality were the businesses to be crippled by the Coronavirus epidemic and are also the ones that were the last to return to normalcy. The lockdown prevented more visitors from entering the area, striking a severe blow to the hotel and tourism businesses.

This sector came under significant financial pressure in terms of important parameters, such as income, output, and employment. The closing of borders and the resulting limitations on travel have had a devastating impact on the airline, cruise ship, and trucking industries.

This aspect assumed significance because India has around 53,000 people working as travel agents, and over a lakh, tour operators. Because of the seasonal nature of the industry in which these MSMEs operate, gaining access to finance may be rather difficult for the companies in this sector. Another important aspect to consider is that the structure of these enterprises makes them less adaptable, thus making them heavily reliant upon one another. This implies that a problem in any one sector will have repercussions across the board because of inter-linkages. Since it is seasonal, employability is also transient; hence, employees have little assurance out of a job.³⁰

Figure 1: Indian Tourism contribution to GDP and Employment as per World Travel and Tourism Council (WTTC)³¹

India Key Data		
2019	2020	2021
Total contribution of Travel & Tourism to GDP:		
 7.0% of Total Economy INR 15,729.3BN (USD 212.8BN)	4.3% of Total Economy INR 9,164.9BN (USD 124.0BN) Change: -41.7% Economy change: -6.5%	5.8% of Total Economy INR 13,161.1BN (USD 178.0BN) Change: +43.6% Economy change: +8.1%
Total contribution of Travel & Tourism to Employment:		
 40.10MN 8.4% of total jobs	29.14MN 6.3% of total jobs Change: -27.3%	32.10MN 6.9% of total jobs Change: +10.2%

In the first quarter (Q1) of FY21, 1.45 crore jobs out of 3.48 crores active occupations (in 2019 before the pandemic) were estimated to have been lost. Salary/wage earners lost 0.78 crores jobs in Q1. Self-employed numbers decreased 42.8 per cent, vis-a-vis 40.7 per cent for full-time workers. As the economy and tourism picked up in the coming quarters, many positions were returned. The tourist employment shortfall was anticipated to reach 0.18 crores till the third quarter.³²

2.2. AGRICULTURAL INDUSTRY

FY22 was marked by volatility and capriciousness, with the second wave of COVID-19 wreaking havoc in April 2021. This was clearly reflected in the high frequency indicators becoming red in that month. This impact persisted in the month of June 2021. The Omicron variant in January 2022 had a slight impact on two-wheeler and tractor sales, while Goods and Services Taxes (GST) via e-waybill generation slowed. Geopolitical tensions, inflation, and monetary tightening makes FY23 highly unpredictable.³³

The National Bank for Agriculture and Rural Development (NABARD) conducted an online survey between 29 April 2020 and 04 May 2020, on the impact of Covid-19 on the Indian

agriculture and rural economy wherein they employed seven key indicators, i.e., raw material prices, production, cash-flow constraints, employment, supply chain disruptions, exports, and consumer sentiment demand.

The MSME sector was the worst damaged by the pandemic in terms of raw material price levels, employment, production level, consumer demand, and supply chain disruptions. A decrease in output and employment was observed in 97 per cent and 96 per cent of the sample districts, respectively.

Similarly, a negative impact on consumer demand (85 per cent of districts) and cash flow (80 per cent of districts) of the MSME sector was documented, exacerbating the hardship of the poor masses. Based on this research, it was found that overall output levels in the agricultural and allied sectors declined significantly, with overall production levels dropping in 47 per cent of the sample districts. Nevertheless, 19 per cent of the districts reported a rise in the total level of output in the sector, and 34 per cent of the districts reported no change in the levels of production in agricultural and related sectors.

Some of the causes for this drastic reduction were lack of labor and machinery, social distancing, and constraints on the free movement of workers and machinery.³⁴ Table no 5 below shows the proportion of districts that projected some change or no change (as per the data) employing the seven indicators.

As hotels, restaurants, sweet shops, and tea shops halt operations, the market for raw materials for these enterprises drops, aggravating financial distress of the farmers. Tea-based businesses' income is reduced since they could not export much of their product as shown in Fig no 2.

Moreover, Aatma-Nirbhar Bharat targeted migratory labor, the agricultural sector, MSMEs, and street vendors. Farmers received frontloaded transfers and free foodgrains. Subsequent steps focused on bolstering India's manufacturing industry through Production-Linked Incentive (PLIs).

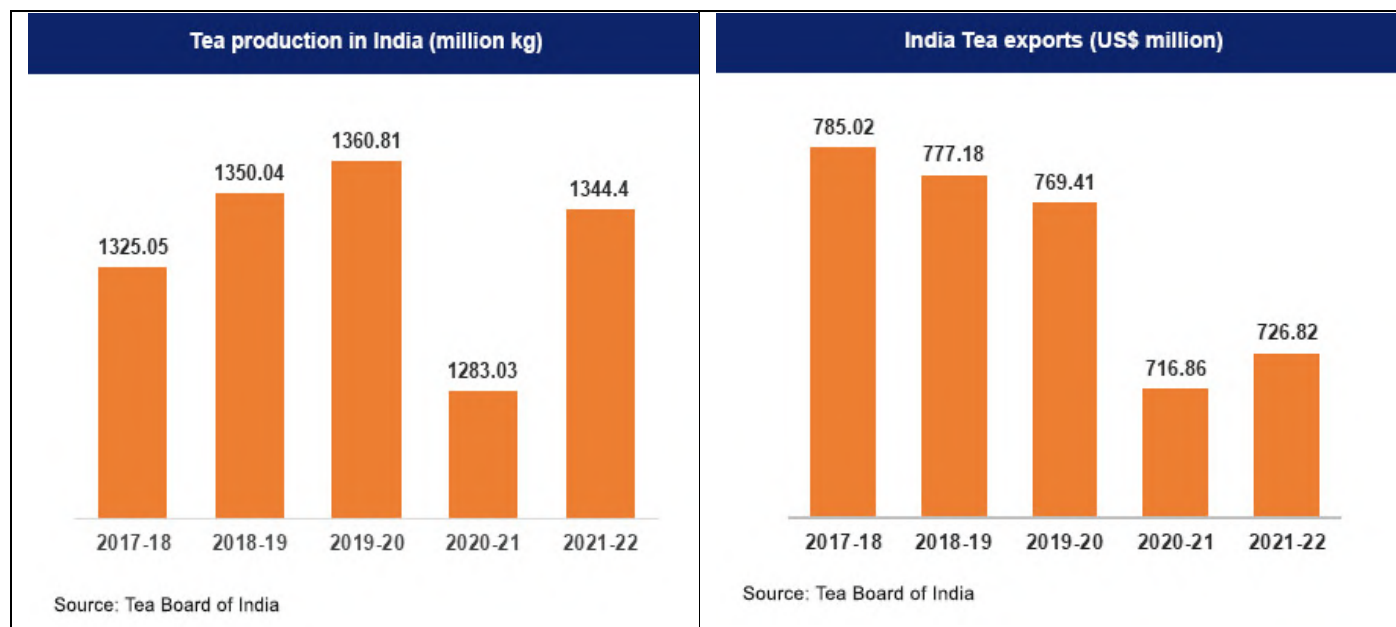
Table 5: Impact on Key Indicators of MSMEs (% of sample Districts)			
Key Indicators	Increased	Decreased	No change
Raw material Prices	46	27	27
Production	1	97	2
Cash flow constraint	16	80	4
Employment	1	96	3
Supply chain Disruptions	18	80	2
Exports	1	86	13
Consumer sentiment/ Demand	9	85	6

Source: NABARD 2020.

The Prime Minister (PM) of India announced a ₹ 20 lakh crore economic package under the 'Aatma-Nirbhar Bharat Abhiyaan' or Self-reliant India campaign, to aid our country out of the Coronavirus crisis (by making us self-reliant). On 12 May 2020, the PM issued a resounding

plea to the country, launching the Aatma-nirbhar Bharat Abhiyaan (Self-reliant India campaign) and announcing the special economic and comprehensive package of ₹ 20 lakh crores – equal to 10 per cent of India's GDP – to combat the COVID-19 epidemic in India.³⁵ “More than ₹ 500 crores have been transferred digitally to 18,000 MSMEs under the Self-Reliant India Fund to further promote the business,” the Finance Minister said in September 2022.³⁶ Overall demand for metals and minerals dropped due to the epidemic, resulting in lower pricing. Shares of mining companies also fell significantly in value terms.

Figure 2: Trends in Tea Output and exports in India from 2017-2022.³⁷

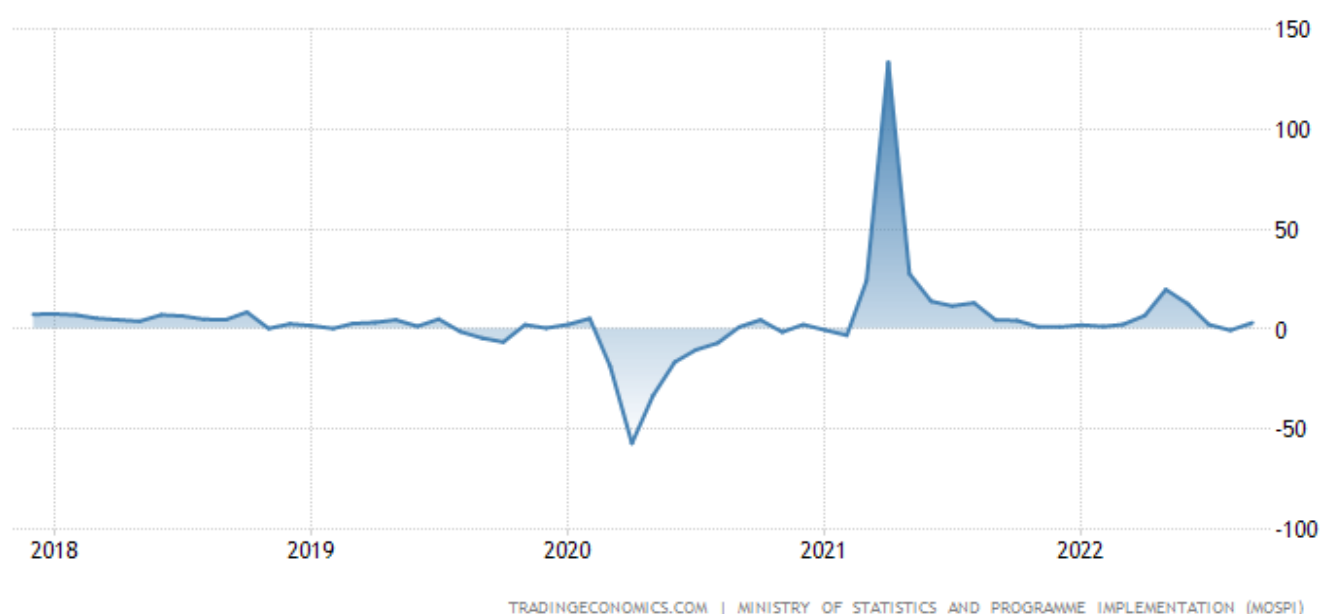


2.3. SECONDARY SECTOR

2.3.1. INDEX OF INDUSTRIAL PRODUCTION (IIP)

The GoI expected the Indian economy to double to US\$ 5 trillion in the next five years based on MSMEs' inputs.³⁸ Fig 3 below shows the crippling effect of Covid-19 on IIP for the manufacturing sector for the past 5 years. It is clear by the trough presented between 2020 and 2021 that the manufacturing sector was negatively impacted by the series of lockdowns.

Figure 3: Growth rate of IIP manufacturing (%) 2018-2022



Source: MoSPI 2022³⁹

Key issues that impacted the manufacturing sector were liquidity crunch, capacity under-utilization, labor shortages, weaker demand, lockdown restrictions, supply chain disruptions, raw material shortages, etc. The rate of expansion of industrial output fell to a new low in February 2021, dropping 3.2 per cent from the previous month. As of August of 2021, the IIP index of manufacturing output rose by 13 per cent. The IIP increased by 2.2 per cent on an annualized basis in July. A report from the Ministry of Statistics and Program Implementation (MoSPI) in August 2022 revealed that the quick estimates of IIP using the base year 2011-12 were 131.3.⁴⁰

While the IIP increased by 7.7 per cent, overall economic activity fell by 2 per cent over the comparable periods of the previous two years. August 2022 had a decrease of 0.7 per cent in manufacturing compared to the 11.1 per cent growth experienced in August 2021. In comparison to the corresponding period last year, when the electrical industry increased by 16 per cent, it only rose by 1.4 per cent this year.

The mining sector contracted by 3.9 per cent in August 2022, vis-a-vis the 23.3 per cent growth witnessed in the same month the year before. The Mining Industry Index was at 99.6 in August 2022, while the manufacturing industry index was at 131.0 and the electricity production index was at 191.3.⁴¹

2.3.2. INDIAN HANDICRAFT AND HANDLOOM INDUSTRY

The Indian handicraft and handloom industry was severely impaired during the pandemic. The hit to this industry was worrisome as it is the second largest industry after the agricultural sector in terms of employment. The people who are employed in this sector are skilled but poor. Post the debilitating impact of the demonetization in December 2016, this pandemic came as a double whammy for them, leading to an increase in production cost. Since product input prices rose, intermediaries or firms reduced salaries of the craftsmen to offset investment expenditures.

Artisans and craftsmen are both creative individuals, who create something by hand. However, artisans are more likely to work on unique projects with an emphasis on aesthetic appeal, while craftsmen are experts in the production of functional, mass-produced products.

Artisans now have an exceedingly high opportunity cost with ongoing trade. Thus, they do not want their next generation to continue with their heritage. Governmental reforms in terms of bridging the skill gap, technological upliftment, and healing the unemployment wave are a dire need for them. Since 2020, the government has brought about policies as given in Table no 6.

Table 6: Government scheme for Handicraft industry	
Scheme	Properties
National Handicrafts Development Programme (NHDP)⁴²	Marketing Support & Services, Skill Development in Handicraft Sector, Ambedkar Hastshilp Vikas Yojana [AHVY], Direct Benefit to Artisans (Welfare) and, Infrastructure and Technology Support vi. Research & Development
Comprehensive Handicrafts Cluster Development Scheme.⁴³	To assist the artisans & entrepreneurs to set up world-class units with modern infrastructure, latest technology, and adequate training and human resource development inputs, coupled with market linkages and production diversification and to boost production and export
Ambedkar Hastshilp Vikas Yojna⁴⁴	This comes under the Dastkar Shashktikaran Yojna sub-section of this programme; craftsmen may be mobilized into self-help groups via community empowerment.
Handicrafts Mega Cluster Mission (HMCM)	The main goal is to help stakeholders use contemporary infrastructure at block levels, the newest technology, design innovations, suitable training, and Human Resource Development (HRD), and appropriate market links.
Technology Upgradation Fund (TUF)	Purchase of new machinery and equipment; Factory building and renovation of existing factory building
Integrated Handlooms Development Scheme (IHDS)	Form Self Help Groups (SHGs), Government gives you money for buying raw materials + machines, training in weaving, dyeing, designing and business Management.

Source: <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1578542>

Policies, such as, the Ambedkar Hastshilp Vikas Yojana (AHVY), Mega Cluster Scheme (HMCM), Comprehensive Handicrafts Cluster Development Scheme and other marketing and R&D assistance have consistently been provided to the industry. However, policymakers are concerned about the durability of these handcraft MSMEs in incorporating the advantages of these regulations. The Covid-19 brought to the fore several wide-ranging issues from a sudden decline in demand, to problems with working capital and disruptions in logistics, overall weaknesses of business models and a major loss of jobs. These factors have all contributed to

the recent economic slowdown. Also, “the khadi sector has grown exponentially in the past eight years and 1.5 crore people have been given job opportunities,” Mrs. Sitharaman said while addressing Laghu Udyog Bharati (LUB) Maharashtra Pradesh Adhiveshan 2022.⁴⁵

2.4. MARKETING ASSISTANCE

MSMEs are sometimes forced to work with severely constrained budgets to promote their goods and services because of the limited means available for the marketing. Traditional methods of advertising, such as, print advertisements and direct mail, may be quite expensive and difficult to quantify in terms of their return on investment. These challenges can be solved with digital marketing, but it also introduces new challenges of its own. There are numerous organizations that provide solutions like email marketing platforms, search engine optimization tools, social media schedulers, and so on in addition to the costs associated with developing a professional website.



The marketing concerns usually faced by small business owners are:

- Increasing exposure and creating quality leads
- Insufficient resources (money, personnel, or time)
- Improving visibility and producing high-quality leads
- Selecting the appropriate social media channels
- Regular execution of marketing efforts
- Executing marketing initiatives consistently
- Creating and distributing content
- Staying current with trends and technology.
- knowing whom to trust when outsourcing marketing initiatives.

Table 7: Government schemes for Marketing specifically for MSMEs (Marketing Promotion Schemes)

Scheme	Description
International Cooperation Scheme	IC Scheme provides financial assistance on reimbursement basis for airfare, space rent, freight charges, advertisement &

	publicity charges, entry/registration fee, registration-cum-membership certificate charge/fee, export insurance premium on reimbursement basis.
Procurement and Marketing Support Scheme (P&MS)	To encourage Micro and Small Enterprises to develop domestic markets and promotion of new market access initiatives.
	To facilitate market linkages for effective implementation of Public Procurement Policy for MSEs Order of 2012.
	To educate MSMEs on various facets of business development.
	To create an overall awareness about trade fairs, latest market technique and other such related topics.

Source: <https://msme.gov.in/1-marketing-promotion-schemes#A22>

2.5. TECHNICAL KNOW-HOW

The problem that the majority of MSME face is technological obsolescence. Accordingly, the GoI issued various schemes to promote the latest version of technical know-how. Two of them are as follows⁴⁶:

MSME Champions Scheme - promoting competitiveness among Micro, Small, and Medium Enterprises (MSMEs) by reducing waste through Lean Manufacturing, supporting design improvement, building awareness on Intellectual Property Rights, Zero Defect Zero Effect (ZED) Scheme, digitally empowering MSME through Digital MSME, promoting & supporting untapped individual creativity, and promoting adoption of latest technologies in manufacturing and knowledge-based innovation.

A Scheme for promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE) - creating new jobs and reduce unemployment, promote entrepreneurship culture in India, Boost Grassroots economic development at district level, facilitate innovative business solution for un-met social needs, and Promote innovation to further strengthen the competitiveness of the MSME sector.

2.6. INFRASTRUCTURAL DEVELOPMENT

The majority of MSMEs are based either on industrial estates established many decades ago which are operating inside metropolitan areas or have emerged in a disorganized way in semi-urban or rural areas. The insufficient and unstable nature of the infrastructure in these places, which includes electricity, water, and roads, among other things, results in high transaction costs. Because of the growth of the manufacturing sector, including MSMEs, there is just not enough land available for MSMEs to expand and be viable by attaining a “critical mass”.

Micro and Small Enterprises Cluster Development Program (MSE-CDP) is a government scheme to promote Infrastructural development based on matching share basis and reimbursement. Hard interventions, i.e., the establishment of CFCs with a maximum eligible project cost of ₹ 15,000 crore and a GoI commitment of 70 per cent (90 per cent for special category States and for clusters with more than 50 per cent women/micro/village/ SC/ST

units). Infrastructure development in new/existing industrial estates/areas with a maximum qualifying project cost of ₹ 10 crores and a 60 per cent government's contribution (80 per cent for special category States and clusters with more than 50 per cent women/micro/SC/ST units) has been provided with a renewed trust.⁴⁷

2.7. THE SHUT - DOWNS

The Covid-19 epidemic brought nations to a standstill, altered "normal" lifestyles, and forced the world economy into one of the most severe recessions post the Great Depression of 1929. This shifting paradigm has had a negative impact on the global economy, with uncertainty marring future growth prospects. In addition to weak customer demand, supply variations, and lockdown limitations, Indian firms were forced undertake an austerity drive to survive.

The MoS for MSMEs Shri Bhanu Pratap Singh Verma pointed out that as per the data from the UAM, 400 MSMEs (4 per cent of all closures) were closed between 2016 and 2019. According to statistics from the UAM and Udyam registration portals, the bulk of units, 96 per cent, or 9,667, were shut between 2019 and 2022. Also, based on the statistics compiled from the Udyam registration site and the former UAM, 10,067 MSMEs ceased operations between 2016 and 2022.⁴⁸

Between April to July 2022, 2,870 MSMEs registered on the Udyam portal were shut and 6,222 Udyam-registered MSMEs were shut in FY22. Between July 1, 2020, and March 31, 2021, 175 Udyam units were closed. Meanwhile, 724 MSME based jobs were lost in FY21. Whereas 19,862 job loss happened in the second quarter of 2022. Although ECLGS has been beneficial for MSMEs, they closed on a temporary basis and are trying to recover along with the lost employment rates. Credit assistance for roughly 13.5 lakh MSME loan accounts was provided by ECLGS, which resulted in the saving of the livelihoods of almost 6 crore families of employees who were working in MSMEs.⁴⁹

The Ministry of MSME on 7th September 2021 assigned a Study to Small Industries Development Bank of India (SIDBI) to assess the impact of change in MSME classification on the Sector. This Report was submitted on 27th January 2022. By taking a random sample comprising 1,029 MSMEs spread across the 20 States and 2 Union Territories they found that two-thirds (i.e., 67 per cent) of the country's MSME were temporarily shut for three months or more in FY21.

Approximately 65 per cent of the MSMEs polled obtained credit through the government's ECLGS, which provided banks and financial institutions with a 100 per cent guarantee against any losses incurred because of borrowers' failure to repay. About 36 per cent of MSMEs surveyed had also availed loans under the Credit Guarantee Fund Trust for Micro and Small Enterprises scheme during FY21.⁵⁰

3. INADEQUATE FINANCE AND BAD ASSETS OF MSMEs

Credit growth to industry increased to 7.1 per cent in March 2022, up from 0.4 per cent in March 2021. Credit to medium-sized businesses increased by 71.4 per cent in March 2022⁵¹, compared to 34.5 per cent the previous year. Lending growth to micro and small businesses increased to 21.5 per cent from 3.9 per cent, while credit to big businesses increased by 0.9 per cent compared to a 2.5 per cent shrinkage during the same period last year. But a careful observation revealed that bank credit reached an upper limit by March 2020 for Micro and Small categories. Subsequently, there was a declining trend.

However, it is quite interesting to see medium industries recorded credit growth of 31.0 per cent in October 2022 as compared with 35.1 per cent last year, while credit to micro and small industries rose by 20.4 per cent from 14.6 per cent a year ago.⁵² A large portion of the epidemic was marked by a lack of consistency in bank financing to MSMEs. Depending on the severity of lockdowns, it increased in certain quarters and decreased in others. The report of SIDBI and Transunion CIBIL revealed that the demand for MSME loans (measured as commercial credit enquiries) was 1.6 times the pre-pandemic levels.

Table no 8: Deployment of Gross Bank Credit to MSMEs and Large enterprises

Sector	Outstanding as on (in ₹ crores)						
	Mar.18, 2016	Mar.31, 2017	Mar.31, 2018	Mar.29, 2019	Mar.27, 2020	Mar.26, 2021	Mar.25, 2022
Micro and Small	371467	369731	372999	375505	392265	407675	495281
Medium	114821	104806	10368	106395	105095	141339	242269
Large	2244389	2205296	2222589	2403878	2476068	2413318	2434359

Note: Micro & Small includes credit to micro & small industries in the manufacturing sector.

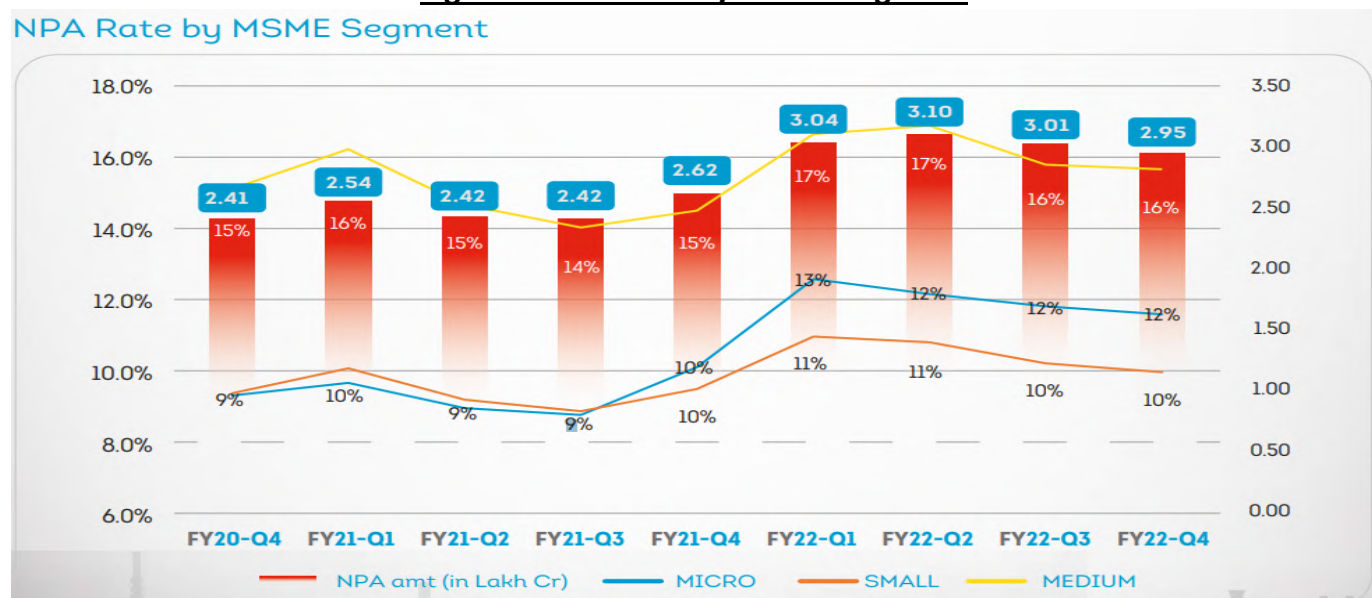
Source: Sectoral Deployment of Bank Credit – up to 25th march 2022)

Reserve Bank of India - Data on Sectoral Deployment of Bank Credit (rbi.org.in)

Total MSME credit exposure was at ₹ 23.12 lakh crores as of Mar'22 (FY22-Q4), reflecting y-o-y growth rate of 6.3 per cent. Total live MSME borrowers stood at ~0.7 crores as of Mar'22 with y-o-y growth rate of 6 per cent. Overall MSME NPA was 12.8 per cent as of Mar'22 (FY22-Q4). NPAs in MSME segment rose constantly since Mar'21 (FY21-Q4). Till FY20-Q3, the Micro segment had a lower NPA rate than the small segment.⁵³ (refer to fig 4) According to the Reserve Bank of India, priority sector lending to micro and small firms rose 5 per cent between March and August 2022-23.⁵⁴

The International Finance Corporation (IFC) projected that the magnitude of the credit gap for small and medium-sized enterprises (SMEs) in developing countries was roughly \$5 trillion, which is 1.3 times the level of present MSME lending. There were fewer MSMEs that were owned by women, and this disparity was more than 32 per cent due to their absence.⁵⁵

Figure 4: NPA Rate by MSME Segment



Source: MSME Pulse, 2022 by SIDBI and TransUnion CIBIL. Available at https://www.sidbi.in/files/article/articlefiles/MSME%20Report_August%202022.pdf

Banks and other financial institutions need to take synchronized measures for MSMEs to drive India's growth. The Reserve Bank of India (RBI)'s *Report on Trend and Progress of Banking in India* 2020-21 (p. 87) says that the total number of MSME accounts with all Indian Scheduled Commercial Bank (SCBs) in 2020–21 was ₹ 420.19 lakh, with credit flow outstanding to such MSMEs at ₹ 17,83,924.8 crore. MSMEs accounted for 14 per cent of the total number of loan accounts with the Indian scheduled commercial banks SCBs in 2020–21 (29.9 crore accounts) and 16 per cent of the total credit flow of ₹ 1,09,12,317 crore.⁵⁶

NBFCs have developed credit evaluation and risk management strategies to better appraise MSMEs' creditworthiness, providing shorter turnaround times. This encourages MSMEs to seek financing via conventional channels. Specialized NBFCs provide specialized goods and services for their segmented consumers. Effective sales and delivery channels helped them achieve this. Refer to Fig 5.

In sum, financial, structural, administrative, and psychological constraints hinder MSMEs' development. Although NBFCs have provided finance to MSMEs via guided marketing strategies and targeted loan packages, much remains to be desired. Hence, the government should keep collaborating with all stakeholders to enhance financial inclusion.

Figure 5: Methods by which NBFC can fill the credit gap of MSME



Source: <https://protium.co.in/2022/09/01/how-nbfcs-are-bridging-the-credit-gap-for-msmes-in-india/>

4. INDUSTRY RISK

The economic lockdown enforced nationwide on March 23, 2020, in response to the Covid-19 pandemic breakout threw the whole economy into disarray. This was also starkly reflected in a contraction of 23.9 per cent in GDP in the first quarter (April-June) Q1 2020. Even if the lockdown somewhat eased in 2021, the economy understandably took some time to recover and reach the pre-pandemic level.

One of the groups that suffered the most from the economic freeze is the workforce of MSMEs. A significant number of people were laid off. The pressure on the stressed industry was aggravated because of Covid-19, which was then followed by a lockdown on a national scale. The absence of low-cost funding (particularly for businesses that are not considered investment grade) and labor shortages worsened the situation. Subsequent to the lockdown, a lot of dealers were unable to procure raw materials and their cash flow was negatively impacted.

The myriad ills of the sector were exacerbated by a nationwide lockdown. Lack of cheap capital (especially for non-investment grade firms), and labor shortages posed further challenges. Post lockdown, many dealers failed to mobilize raw materials, and faced a cash flow crunch. The scenario did not significantly improve for the sector amidst the second wave of COVID. The assets looked stressed and so was the business. In view of such debilitating hits to the sector, several deadlines for relief packages were extended this year.

As a critical sector for job creation and general economic growth, MSMEs face a slew of legacy constraints, such as, information asymmetry, unregistered enterprises, lack of timely and appropriate finance availability, delayed receivables, a lack of exit strategy, and antiquated technology, among others. Over time, it has become clear that the majority of MSMEs in India rely on unsecured loans (from informal sources) for working capital and term loans (Sharma,

Manoranjan 2010).⁵⁷ Lack of trustworthy financial statements lead to unfavorable credit ratings for businesses. Lenders sometimes resort to inefficient practices by spending a lot of time and effort on evaluations, resulting in high transaction costs.

Difficulties in conducting credit evaluations of enterprises in the sector owing to a lack of credit history and reliable financial statements further complicate small and medium enterprises' (SMEs) financing. Sometimes, lenders must invest a great deal of time and effort in their assessments, resulting in high transaction costs. Occasionally, lenders prefer to lend based on the mortgage of the entrepreneur's personal property. But most MSMEs, excluding high-potential MSMEs, are unable to provide such collateral.

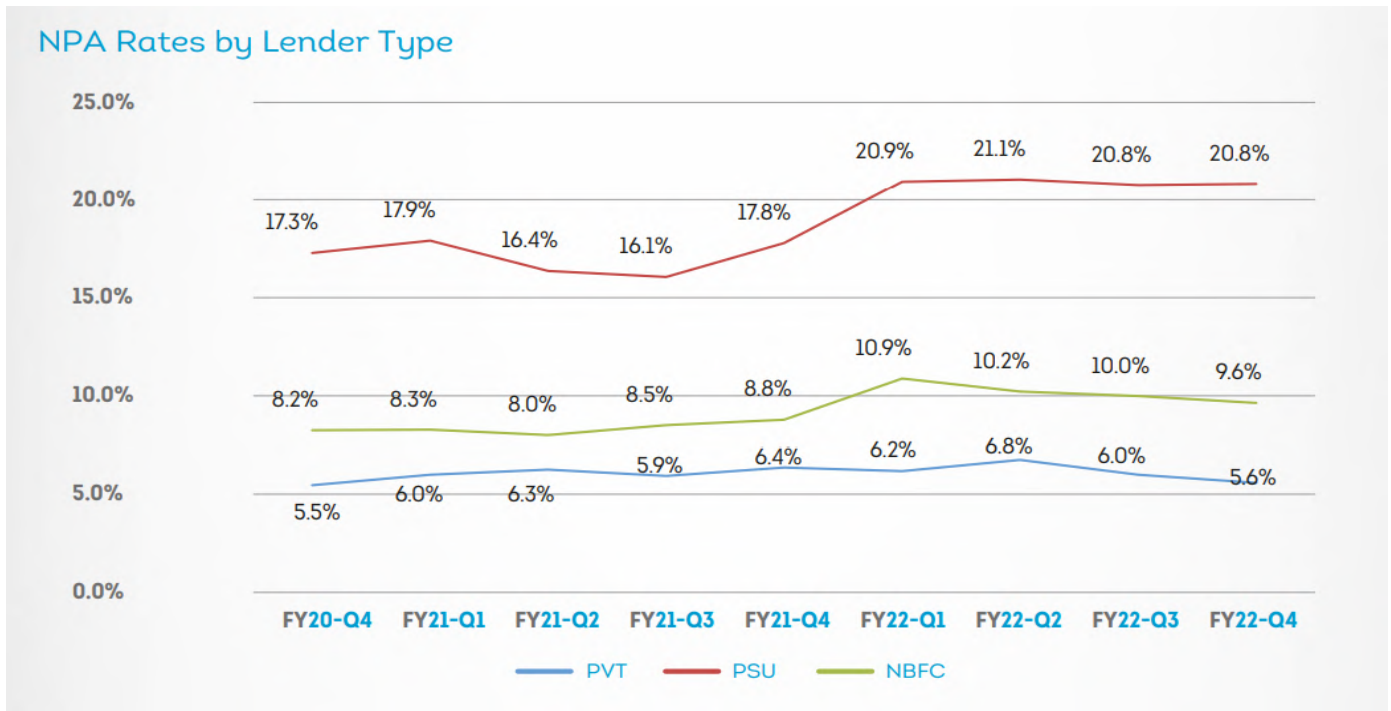
In recent years, however, lenders have turned to digital information as improvements in digitization have led to the availability of new information sources. NPA rates varied widely in default rates on MSME loans based on lender categories. Between December 2017 and December 2019, the NPA rate on MSME loans of public sector banks varied between 16.6 per cent and 18.7 per cent (see figure 7) well above the range of NPA rates of private sector banks (which was between 3.5 per cent and 5 per cent).⁵⁸ The NPA rates of NBFCs during this period ranged between 7.3 per cent and 7.6 per cent. NPA in Private Banks remains stable from FY21-Q3. There is a rise in NPA in PSU banks and NBFC after FY21-Q3. NPA in NBFCs continue to grow at a steady rate since last 2 years.

The MSME Pulse for June 2021, in January 2020 stressed that the NPA rate for large corporates at 19.7 per cent far outstripped the NPA rate in the MSME segment at 12.5 per cent. The NPA rate for the micro-segment at 9 per cent was lower than the small and medium segments, which was at 11 per cent. NPA rates were highest for medium-sized MSMEs at 18 per cent across all lenders. The overall NPA rate in MSME lending stayed steady till June 2020 while it reduced across all sub-segments in September 2020.

Further, in small and medium category enterprises, it remained steady till March 2021. However, the NPA rates were higher for big-ticket size enterprises within the MSME segments. In the Micro segment, the NPA rate increased substantially from 9.2 per cent in December 2020 to 10.4 per cent in March 2021. The overall NPA rate in MSME lending stayed steady till June 2020 while it reduced across all sub-segments in September 2020. Further, in small and medium category enterprises, it remained steady till March 2021.

The NPA rates were higher for large enterprises within the MSME segments. In the Micro segment, the NPA rate increased substantially from 9.2 per cent in December 2020 to 10.4 per cent in March 2021. ⁵⁹ For 2022, refer to figure 4. Figure 6 shows the NPA Rates by Lender Type (PSUs, PVT, and NBFCs). NPA in Private Banks remained stable from FY21-Q3. There was a rise in NPA in PSU banks and NBFC after FY21-Q3. NPA in NBFCs continued to grow at a steady rate for last two years.⁶⁰

Figure 6: NPA Rates of Lenders to MSME over the Years (in per cent)



Source: https://www.sidbi.in/files/article/articlefiles/MSME%20Report_August%202022.pdf

5. WAY FORWARD

The criticality of MSMEs in India stems from their contribution to GDP, exports, and employment (Sharma, Manoranjan 2010).⁶¹ But of late, the devastation of MSMEs caused by the triple whammy of demonetization, rolling out of the GST and now Covid-19 has been increasingly realized. Due to the intrinsic features of their small-scale operations, restricted monetary basis, and constricted area of operation, MSMEs face a wide variety of challenges in the wake of Covid-19. Therefore, a suitable policy framework that places an emphasis on both the financial and governance components of MSMEs is essential in order to enhance their organizational resilience.

Several attempts have been made by the GoI and the RBI to resuscitate the MSMEs. But fundamental issues of timeliness, adequacy, collateral, and cost of credit need to be resolved (Sharma, Manoranjan 2010).⁶² Given the investment requirements in MSMEs, we need to identify financing issues, viz., their lower capital-intensive nature with lower operation and maintenance cost, exposure limit of banks to sectors and inadequate sector-specific risks awareness among financial institutions.

The Indian Ministry of Commerce and Industry established Agricultural Export Policy, 2018 to double farmers' income by 2022 by doubling agricultural exports and integrating Indian farmers and agricultural goods into the global value chain. The government aimed to export \$60 billion in agricultural goods by 2022. The government also tabled new agriculture measures, which farmers reject (Baisya, R. K., 2022).⁶³

A significant number of raw materials for India's MSME come from China. The "Covid-19 pandemic" and the subsequent lockdown in many countries, including China, resulted in a variety of different concerns. These concerns *inter-alia* included a disruption in the supply chain, the unavailability of labor, unstable demand, a reduction in exports and imports, and liquidity constraints. In view of the severity of the situation, the MSME sector is still struggling to survive.⁶⁴ This created opportunities for Indian industries to explore African and South Asian markets.⁶⁵

Although the pandemic reduced employment rates, the epidemic gave the travel and tourism industry time to review and alter its known standards. Due to travel and tourist limitations during lockdowns, nature reportedly healed. In India, good sight and low pollution levels made Himalayan Mountain ranges visible from faraway regions. Low human activity has made India's Ganges and Yamuna less polluted in recent decades.

Changes in air quality in cities throughout the globe, the mending of the ozone layer, flocks of flamingos flocking to Mumbai, and cleaner rivers in NCT of Delhi. These aspects are all suggestive of the captivating beauty of nature if not spoilt by environmental pollution and degradation on a large scale.

Over the last ten years, the MSME sector has seen significant transformation, including an increase in the prevalence of service organizations and a doubling in the number of registered businesses. The MSME sector is responsible for almost one-third of India's GDP and makes substantial contributions to Indian economy.

The industry certainly is an important component of the Indian society. Hence, efforts have been made to provide support for it. The Government policy should focus on ease of doing business, growth of MSME clusters, capital acquisition, Foreign direct investment (FDI), implementing new-age technology, etc.

In the new normal post covid-19 pandemic, consumer trend will mostly involve increased levels of digital customer connection and streamlined automation procedures. Therefore, it is essential for MSMEs to make investments in digital technology. This will be beneficial for MSMEs as it will make them more sensitive to the vagaries of the market. Additionally, it will boost the productivity and efficiency of the unit. By ensuring that the supply chain is both flexible and strong, it will also assist their essential downstream operations, such as, sales and marketing.

The government has also established several Committees and undertook several other initiatives in recent years to bolster the MSME sector. These Committees recommended modifications in the definition, access to finance, global and domestic markets, improving research and development and adopting modern and affordable technologies, lack of marketing platforms and distribution network, affordable skilled labor, and revision in labor laws taking care of enterprises without compromising the interests of workers, etc.

Many MSMEs struggle with financial management, credit, skills, raw material acquisition, and logistics, according to studies. Lack of experience and obsolete technology prevent these businesses from competing with big corporations. These problems hinder the development of

an essential industry that contributes a third to India's GDP, employs over 11 crore employees, and boosts the Indian economy.⁶⁶ As an apex institution for promoting, developing, and financing the MSME sector, SIDBI must ensure smooth operation of digital technology-enabled quick sanctioning of credit disbursement and ease of doing processes for the MSMEs. Apart from the institutional frameworks, SIDBI may explore in a much greater measure for stakeholders' willingness to provide financial assistance to MSMEs as they signed a pact with Google Inc.⁶⁷

Accordingly, in drawing up MSMEs development plans, we must identify these key issues for their successful implementation. These include aspects, such as identification and diversification, holistic versus piecemeal, bottom-up versus top-down, demand driven versus supply-driven, group approach versus individual approach, subsidized input cost versus full recovery, vertical and horizontal linkages between MSMEs and large industries, effective management, management, participatory planning, and institutional restructuring.

Financiers, Central and State governments, regulators, corporations / PSUs, insurers, industry groups, and most crucially MSMEs themselves must all work together in close co-ordination to achieve these ambitious development objectives. The successful Make in India, Digital India, and 'Skill India' campaigns all exemplify creative and out-of-the-box thinking.

This is required for the MSMEs *“to develop a global vision, respond to more demanding standards of customers, identify the patterns of shifting value and craft the key strategies that will leapfrog them ahead of competition”* (Kapur Committee). However, these programs need to be expanded greatly, and the broad-based development of this sector should occur all over the country to achieve the national objective of economic growth and distributive equity.

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