

Pioneering Progressive Strategies: Leveraging E-commerce Platforms for the Growth of Micro, Small, and Medium Enterprises (MSME)

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ABSTRACT

The Micro Small and Medium Enterprises (MSMEs) sector in India is a significant contributor for the socio-economic expansion within the nation. This sector has attained considerable prominence due to its contribution to the Gross Domestic Product (GDP) of the nation and as well as exports. Furthermore, it has contributed enormously by generating tremendous employment opportunities and building entrepreneurship skills, particularly in semi-urban and rural regions within the nation.

This research paper highlights the classification of the MSME sector in terms of investment and annual turnover of firms and the sector's evolution and proliferation in India. The major chunk of this research concentrates on a case study of leveraging e-commerce platforms for the growth of the MSME sector in India, conducted by the Indian Council for Research on International Economic Relations (ICRIER) in 2023. The study provides the details of the demographics of the survey respondents, various features of MSMEs integrated with e-commerce platforms like the age and educational qualifications of the proprietors and the firms' investments and sources of financing. It also discusses the average turnover of such firms and the export capacity of MSMEs employing e-commerce platforms, their ability to utilize digital platforms, the obstacles this sector faces, the subsequent policy amendments needed and a critical analysis of the survey.

Keywords: MSME, E-commerce platforms, GDP, Obstacles Encountering MSMEs, demographic factors.

Research Question: What is the current classification of MSMEs in India based on investment levels and annual turnover? How has the MSME sector evolved in India over the past decade in terms of contribution to GDP and employment generation? What demographic factors (such as age, education, and background) influence the success of MSME proprietors utilizing e-commerce platforms? How do MSMEs that leverage e-commerce platforms compare in terms of

turnover and export capacity to those that do not? What are the primary challenges faced by MSMEs in India when integrating e-commerce into their business models? What role do government policies play in facilitating or hindering the growth of MSMEs through e-commerce? How do various sources of financing impact the operational capabilities and growth of MSMEs engaged in e-commerce? These questions and many others are addressed in the white paper.

1. INTRODUCTION

To nurture economic growth; enhance employment opportunities; diminish poverty; and facilitate economic, regional and gender equality, the role of Micro, Small, and Medium Enterprises (MSME) becomes essential for every nation. The MSME sector also provides the highest employment growth rate, which has a favorable effect on export and industrial expansion. Passionate about studying economics in great depth and applying practical case studies to theoretical knowledge to enhance economic progress opportunities; I undertook this research study. This study discusses the criteria for classifying MSMEs, their expansion in India, their contribution to GDP and their generation of employment prospects. The paper also highlights a recent case study on leveraging e-commerce platforms for the growth of the MSME sector and provides a critical analysis of the topic.

Classification of the MSME Sector and Its Growth In India

India's up rise towards evolving as an international powerhouse is essentially navigated by a viable economic topography. In a period monopolized by transitions and digital transformations, the MSME sector in the nation has arisen as a robust thrust in driving economic development. The expansion of the MSMEs industry impacts manifold industries revealing innovation, protecting artistic lineage and nurturing socioeconomic empowerment. Listed in Exhibit 1 is the classification of Micro, Small, and Medium Enterprises as per the new definition stated by the Ministry of India in 2020 in terms of investment in plant and machinery and equipment and annual turnover.

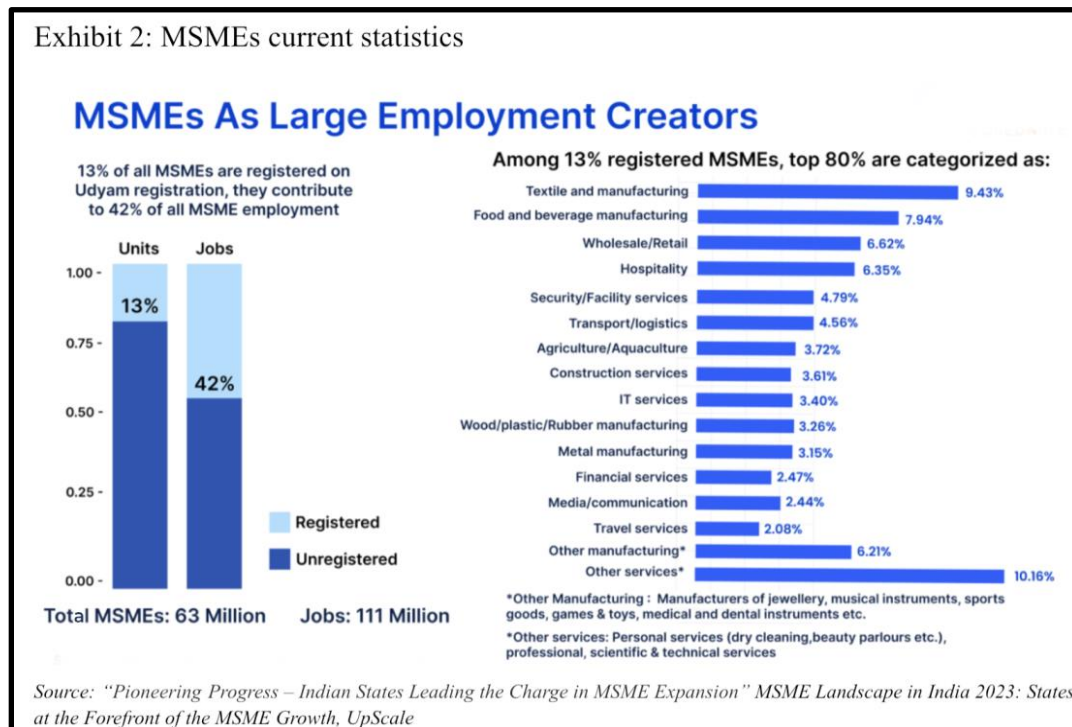
Over the last century, the MSME sector has expanded its footmark across diverse sectors contributing to an expansive spectrum of merchandise to serve domestic and international market demands. Embedded in a labor-driven embodiment, this industry is vigorously developing diverse occupation prospects and thus navigating the country towards phenomenal monetary gaining opportunities. Exhibit 2 highlights the following: employment opportunities created by the MSME sector which currently is 111 million, also the proportion of registered and unregistered units, as well as the diverse industry categories where MSMEs are spread; as estimated in 2023.

Exhibit 1: Classification of Micro, Small, and Medium Enterprises as stated by the Ministry of India in 2020

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: "What's MSME" Ministry of Micro, Small & Medium Enterprises

Exhibit 2: MSMEs current statistics

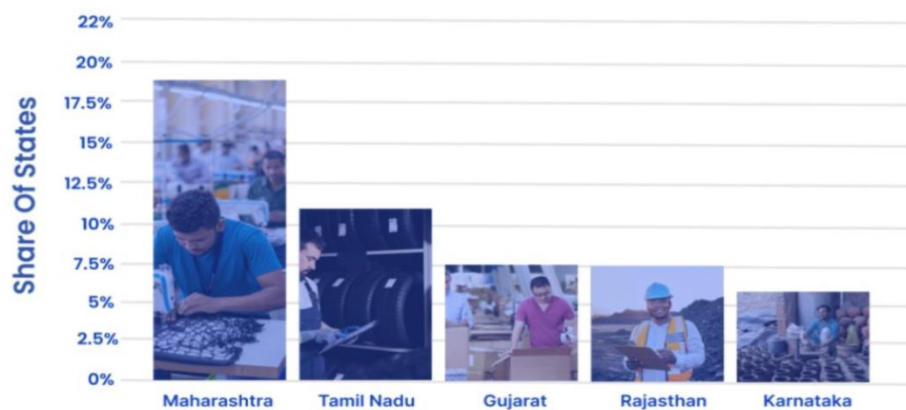


As the Indian nation evolves to mature into a US\$ 5 trillion economy, particular states within the country have arisen as the epicenters of MSME movements, functioning as a key component in contouring the industry's dynamics. For example, Maharashtra, Tamil Nadu, Gujarat, Rajasthan, and Karnataka invariably have an elevated engagement in the MSME sector. The reason behind this is the well-established industrial background, strategic geographical location and

connectivity, and availability of an experienced workforce. Exhibit 3 depicts the Indian states which have the largest share of MSMEs in the nation; Maharashtra is leading followed by Tamil Nadu. Furthermore, Exhibit 4 explains the distribution of the MSME sector into manufacturing, trading, others and electricity, as calculated in 2023.

Exhibit 3: States in India which have the greatest shares of MSMEs

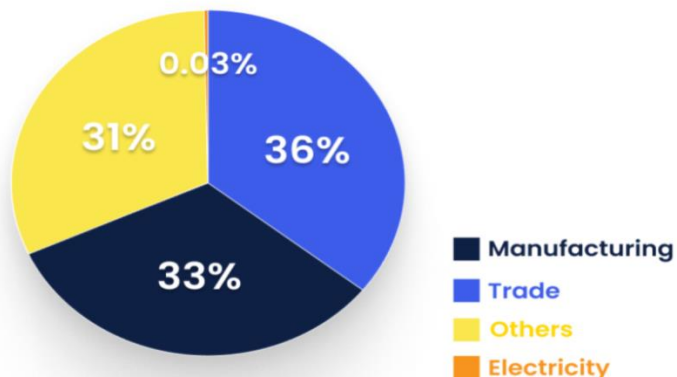
States With The Highest Share Of MSMEs In India As Of February 2023



Source: "Pioneering Progress – Indian States Leading the Charge in MSME Expansion" MSME Landscape in India 2023: States at the Forefront of the MSME Growth, UpScale

Exhibit 4: Distribution of the MSME sector

Estimated MSME Distribution By Sector



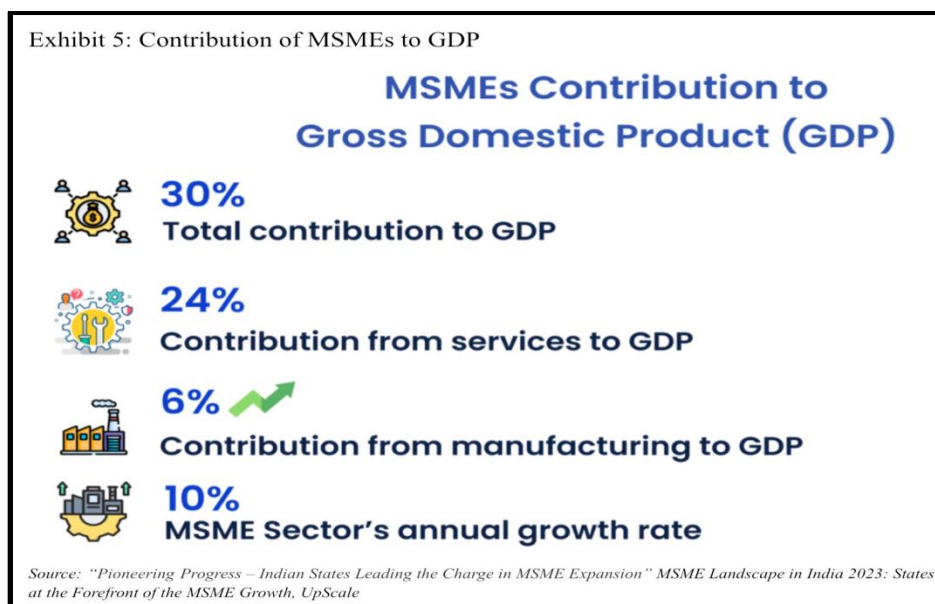
Source: "Pioneering Progress – Indian States Leading the Charge in MSME Expansion" MSME Landscape in India 2023: States at the Forefront of the MSME Growth, UpScale

According to the Ministry of Statistics & Programmed Implementation, "The share of MSME Gross Value Added (GVA) in all India Gross Domestic Product (GDP) during the year 2019-20,

2020-21 and 2021-22 was 30.5%, 27.2% and 29.2% respectively. The share of MSME manufacturing output in all India Manufacturing output during the year 2019-20, 2020-21 and 2021-22 was 36.6%, 36.9% and 36.2% respectively.” Additionally, according to the Directorate General of Commercial Intelligence and Statistics (DGCIS), “The share of export of MSME specified products in all India exports during the year 2020-21, 2021-22 and 2022-23 was 49.4%, 45.0% and 43.6% respectively.”

As per the Udyam Registration Portal in August 2023, “The total number of persons employed in MSME which were registered from 01.07.2020 to 01.08.2023 in India was 12,36,15,681.¹ In 2023, the Indian MSME is approximately estimated for 30% of the total GDP and is foreseen to earn a remarkable US\$ 1 trillion contribution to the country’s export revenue by 2028.²

Exhibit 5 depicts the contribution of MSMEs to GDP in India, as assessed in 2023.



Furthermore, behind the extraordinary growth of MSME lie multiple catalysts that steer the development of MSME. These key characteristics include the following:

¹“Role of MSME Sector in the Country,” Ministry of Micro, Small & Medium Enterprises n.d. <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1946375>.

²Sharma, Aashima. TPCI - Trade Promotion Council of India. “Budget 2023-24: MSMEs to Drive Growth?,” December 1, 2023. <https://www.indiabusinesstrade.in/blogs/budget-2023-24-msmes-to-drive-growth/>.

1. Access and adoption of technology and digital platforms facilitates smooth operations and enhances market reach.
2. Strategic location in closeness to key markets improves distribution efficiency and accessibility.
3. An expanding growing and diverse consumer landscape proposes vast prospects for MSME to cater to evolving market demands.
4. Availability of funds, comprising venture capital and development of fintech services assists in supporting business evolution and expansion.
5. Public incentives like tax breaks and subsidies boost MSME to invest and innovate goods production and services, propelling economic advancement.

The prevalence of digital platforms and leveraging of e-commerce platforms for the growth of MSME would support the ‘Make in India’ initiative, which in turn would facilitate the growth of local enterprises. This research paper particularly examines and highlights the success of leveraging e-commerce platforms for the growth of MSMEs.

2. Case Study: Leveraging E-commerce Platforms for Growth of the MSME Sector

2.1. Demographics of the Survey Respondents

The ICRIER survey collected responses from 2,007 MSMEs between November 2022 and January 2023. The total survey sample constituted 65% micro, 19% small and 16% medium firms and 1,005 firms were integrated with e-commerce platforms, while the remaining 1,002 were not integrated. Refer to Exhibit 6 for further details.

Exhibit 6: Distribution of surveyed enterprises by size and status of e-commerce integration (numbers)

Type	Overall	E-commerce Integration	
		Yes	No
Micro	1310	615	695
Small	383	259	124
Medium	314	131	183
Total	2007	1005	1002

Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

Exhibit 7 depicts that MSMEs were chosen across six different product categories. The majority of enterprises in the sample are primarily micro-enterprises, followed by small and medium enterprises.

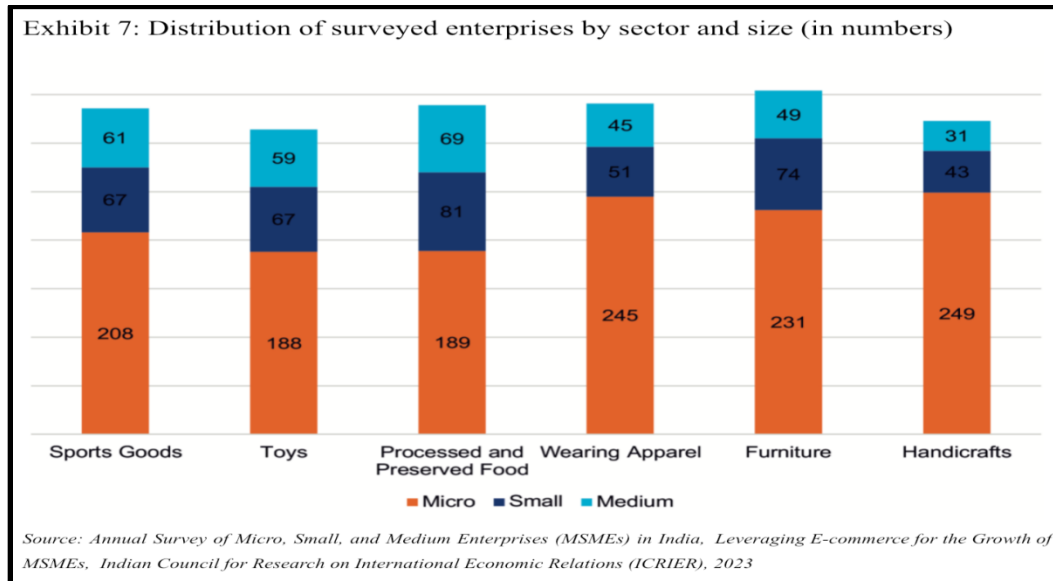


Exhibit 8 depicts the location of the survey respondent firms. Exhibit 9 highlights the distribution of surveyed firms by location and product categories in numbers. Exhibit 10 portrays the allocation of surveyed companies by employment in percentage. The demographics stated that 64% of MSMEs had less than 10 employees.

Exhibit 8: Distribution of surveyed enterprises by location and size (in numbers)

State	City	Micro	Small	Medium	Total	State Total
Delhi	Delhi	123	83	22	228	228
Gujarat	Ahmedabad	78	106	18	202	202
Odisha	Bhubaneswar	9	13	28	50	50
Punjab	Ludhiana	125	51	82	258	460
Punjab	Jalandhar	132	55	15	202	
Rajasthan	Jaipur	231	15	0	246	246
Uttar Pradesh	Lucknow	148	10	67	225	
Uttar Pradesh	Agra	167	21	7	195	
Uttar Pradesh	Meerut	144	5	1	150	683
Uttar Pradesh	Saharanpur	53	12	48	113	
Tamil Nadu	Chennai	100	12	26	138	138

Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

Exhibit 9: Distribution of surveyed enterprises by location and product categories (in numbers)

Location	Sports Goods	Toys	Processed and Preserved Food	Wearing Apparel	Furniture	Handicrafts
Ahmedabad	31	41	44	32	33	21
Bhubaneshwar	1	3	11	1	21	13
Delhi	49	37	33	37	35	37
Jaipur	65	47	74	19	10	31
Lucknow	40	38	35	23	44	45
Ludhiana	22	36	34	82	48	36
Jalandhar	38	20	16	51	56	21
Agra	33	18	34	37	32	41
Meerut	32	24	25	22	26	21
Saharanpur	19	32	8	13	17	24
Chennai	6	18	25	24	32	33
Overall	336	314	339	341	354	323

Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

Exhibit 10: Distribution of firms in the sample by employment (in percentage)

Number of Employees (Range)	Overall	Micro	Small	Medium
Less than 10 employees	63.23	77.48	66.32	0
10 – 50 employees	28.05	22.52	32.11	46.18
51 – 250 employees	8.32	0	1.57	51.27
More than 250 employees	0.4	0	0	2.55
Total	2007	1310	383	314

Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

The survey demographic questionnaire also collected other relevant data related to the businesses like export orientation, composition of employment and demographics of business owners such as their age, gender, educational qualifications; which are depicted in Exhibit 11. These characteristics impede or stimulate a company’s decision to tie up with e-commerce platforms.

Exhibit 11: Characteristics of the survey sample

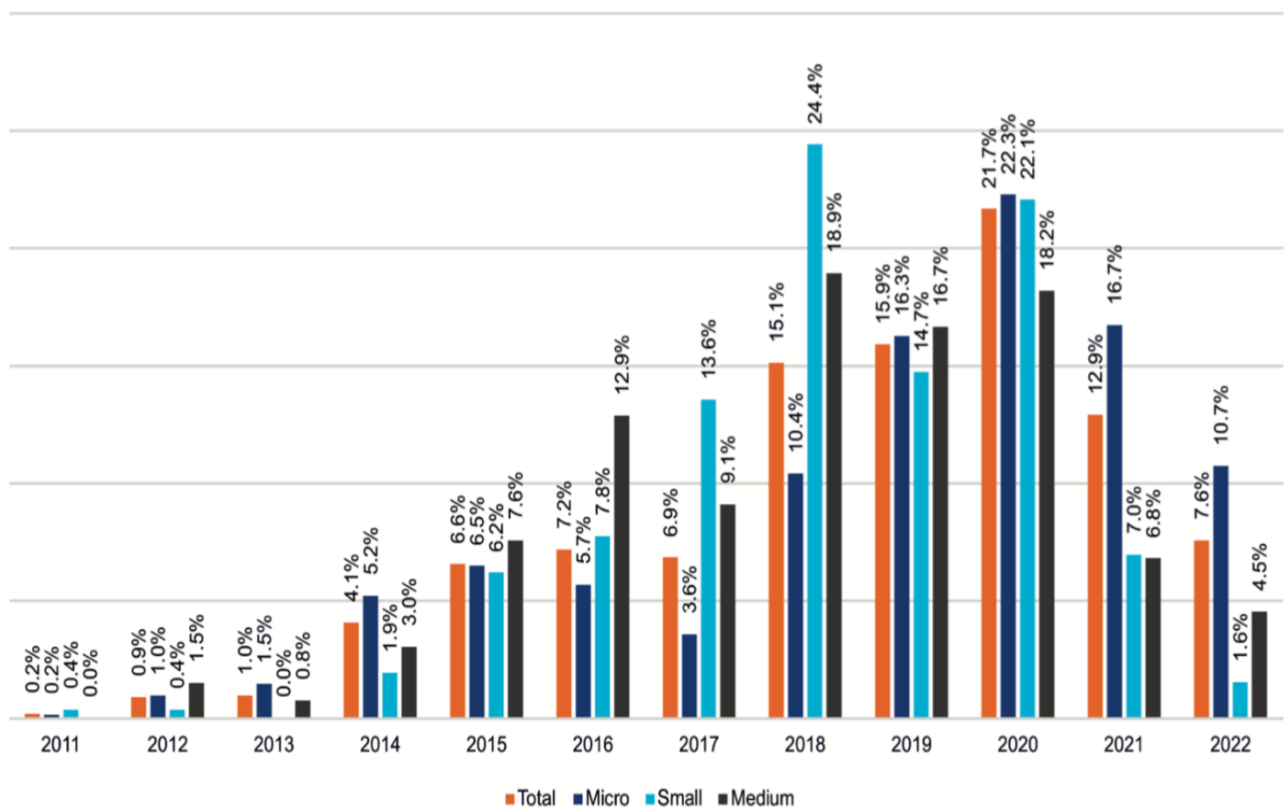
Categories	Size of Enterprise			E-commerce Integration		
	Overall	Micro	Small	Medium	Yes	No
OWNER DEMOGRAPHICS						
Age of Primary Owner						
18-24 Years	133	96	20	17	76	57
25-35 Years	882	598	141	143	488	394
36-50 Years	816	502	185	129	380	436
Over 50 years	176	114	37	25	61	115
Gender of Primary Owner						
Male	1905	1252	372	281	959	946
Female	102	58	11	33	46	56
Education of Primary Owner						
Not literate	1	1	0	0	0	1
School up to 4 Years	2	2	0	0	1	1
School 5-9 years	92	58	20	14	30	62
SSC/HSC (completed 10th/12th class)	712	472	142	98	341	371
Graduate and above	1197	774	221	202	631	566
Any other	3	3	0	0	2	1
FIRM CHARACTERISTICS						
Location						
Delhi	228	123	83	22	165	63
Ahmedabad	202	78	106	18	96	106
Bhubaneshwar	50	9	13	28	2	48
Ludhiana	258	125	51	82	136	122
Jalandhar	202	132	55	15	98	104
Jaipur	246	231	15	0	138	108
Lucknow	225	148	10	67	103	122
Agra	195	167	21	7	102	93
Meerut	150	144	5	1	75	75
Saharanpur	113	53	12	48	45	68
Chennai	138	100	12	26	45	93
Exports - Yes/No						
Yes	302	119	94	89	189	113
No	1705	1191	289	225	816	889
Age of the firm						
1960-1975	24	19	3	2	11	13
1976-1980	30	18	8	4	11	19
1981-1985	12	6	1	5	7	5
1986-1990	84	58	18	8	43	41

Roughly 44% of respondent companies are owned by people in the age group of 25-35 years and 41% are owned by those in the age group 36-50 years. Around 60% of owners have graduate

degrees and women owned businesses account for merely 5.1% of the respondents. More than 23% of respondent companies were established between 2011 and 2015, only 15% of MSMEs were engaged in exports and 60% were operating out of business clusters.

Exhibit 12 demonstrates that the usage of e-commerce platforms for sales has augmented recently. Of all the integrated MSMEs survey respondents around 51% joined the platforms between 2015-19 and more than 40% of the integrated firms began selling on e-commerce platforms after the onset of the pandemic in 2020. The percentage of micro-firms that have joined e-commerce platforms since the outset of the pandemic is greater than that of small and medium firms. A majority of these surveyed MSMEs documented joining e-commerce platforms led to a boost in their sales.

Exhibit 12: Distribution of e-commerce-integrated MSMEs by year of integration



Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

Furthermore, Exhibit 13 depicts the distribution of e-commerce-integrated MSMEs by year of integration for each size bin and sector.

Exhibit 13: Distribution of e-commerce-integrated MSMEs by year of integration for each size bin and sector (in numbers and percentages)

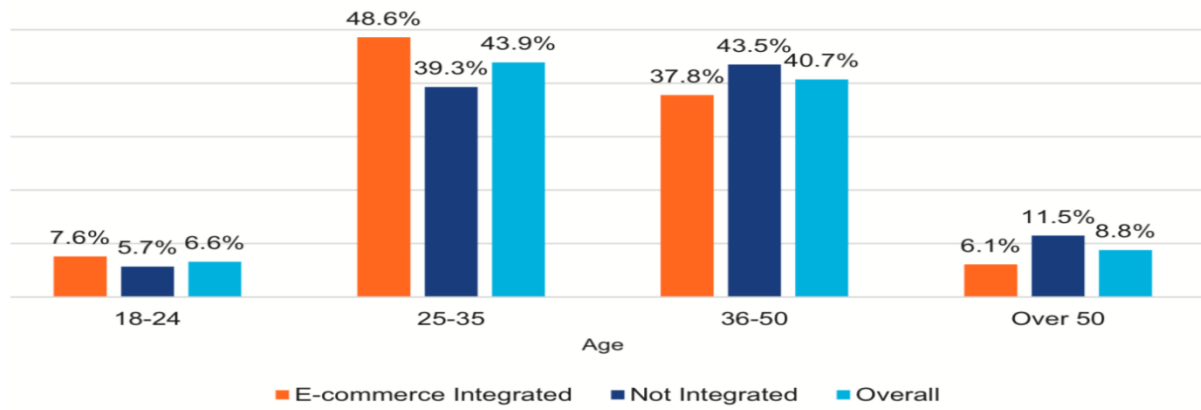
Year	2011 to 2015	2016 to 2019	2020	2021	2022
Overall	128 (12.7)	453 (45.1)	218 (21.7)	130 (12.9)	76 (7.6)
Type of Enterprise					
Micro	88 (14.3)	221 (35.9)	137 (22.3)	103 (16.8)	66 (10.7)
Small	23 (8.9)	157 (60.6)	57 (22)	18 (7)	4 (1.5)
Medium	17 (13.0)	75 (57.3)	24 (18.3)	9 (6.9)	6 (4.6)
Type of Industry					
Sports goods	25 (14.2)	71 (40.3)	36 (20.5)	33 (18.8)	11 (6.3)
Toys	17 (11.7)	75 (51.7)	26 (17.9)	22 (15.2)	5 (3.5)
Processed and preserved food	24 (16.3)	67 (45.6)	39 (26.5)	10 (6.8)	7 (4.8)
Wearing apparel	21 (11.2)	84 (44.7)	41 (21.8)	19 (10.1)	23 (12.2)
Furniture	14 (8.4)	62 (37.1)	46 (27.5)	29 (17.4)	16 (9.6)
Handicraft items	27 (14.8)	94 (51.7)	30 (16.5)	17 (9.3)	14 (7.7)

Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

2.2. Features of MSMEs Integrated with E-commerce Platforms

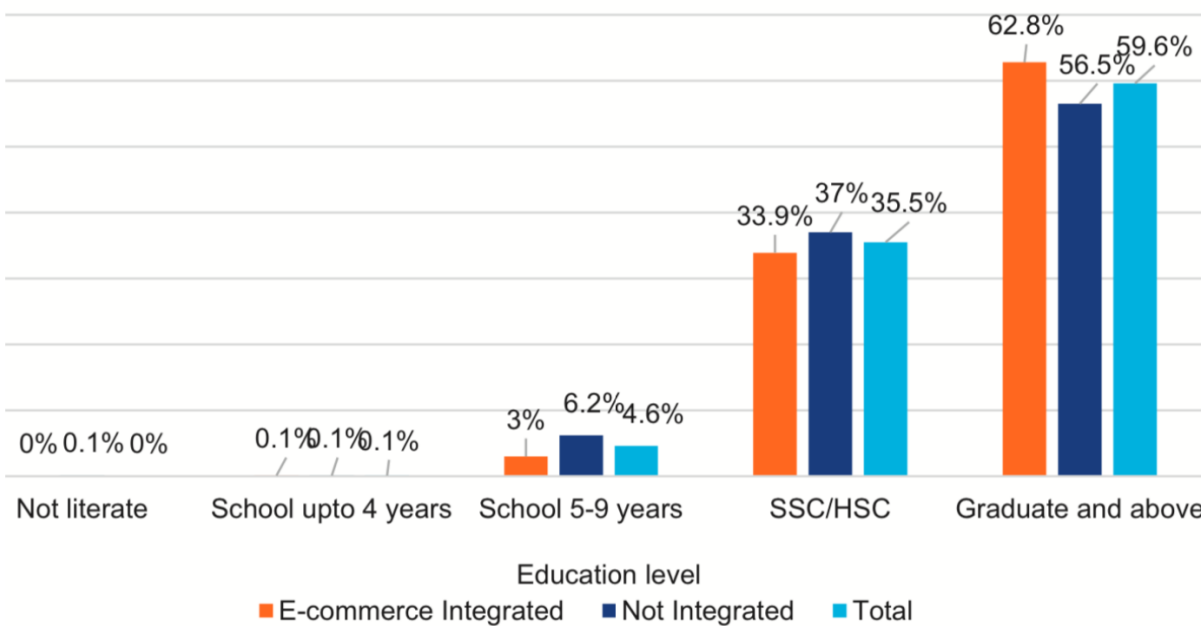
The survey reveals that MSMEs with younger and more educated proprietors are more likely to be integrated with e-commerce platforms. Exhibits 14 and 15 depict that the majority of MSMEs integrated with e-commerce platforms are with owners in the age group of 25-35 years and have educational qualifications of graduates and above.

Exhibit 14: Distribution of MSMEs by the age of the owner



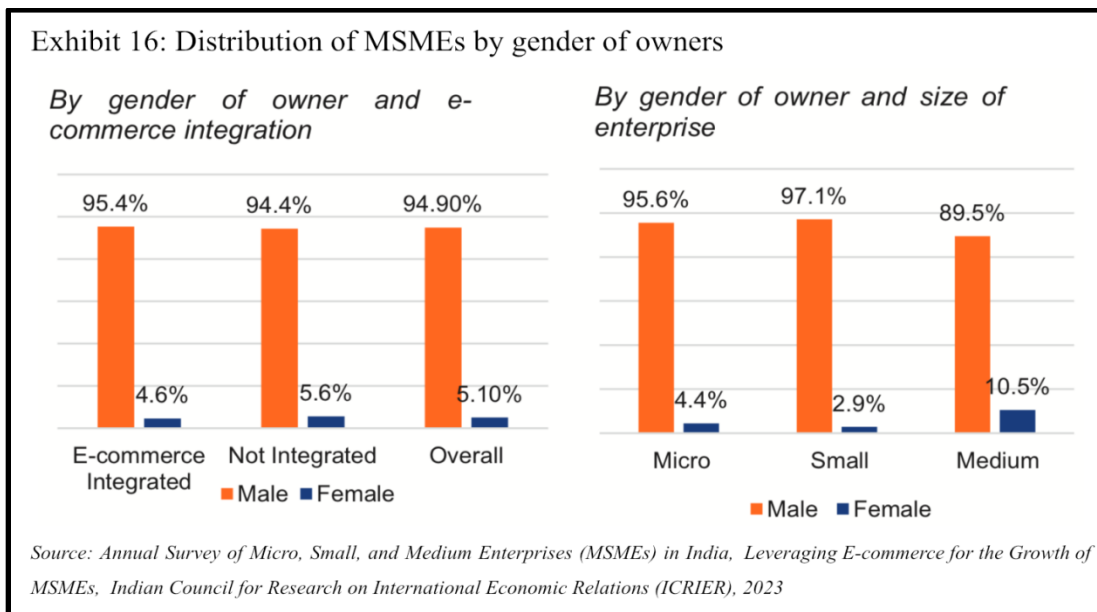
Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

Exhibit 15: Distribution of MSMEs by educational qualifications of owners

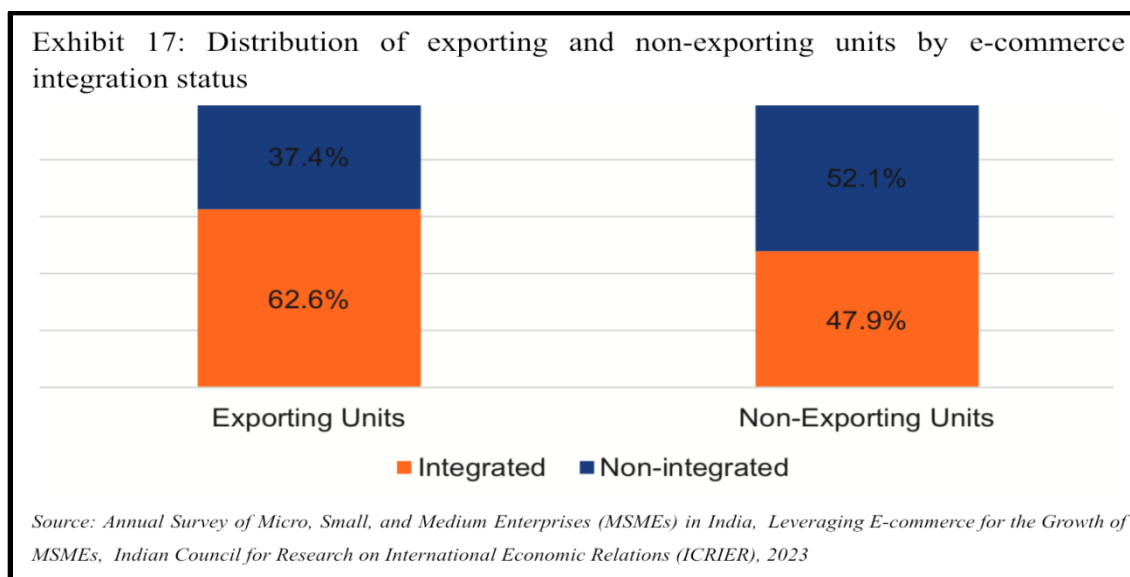


Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

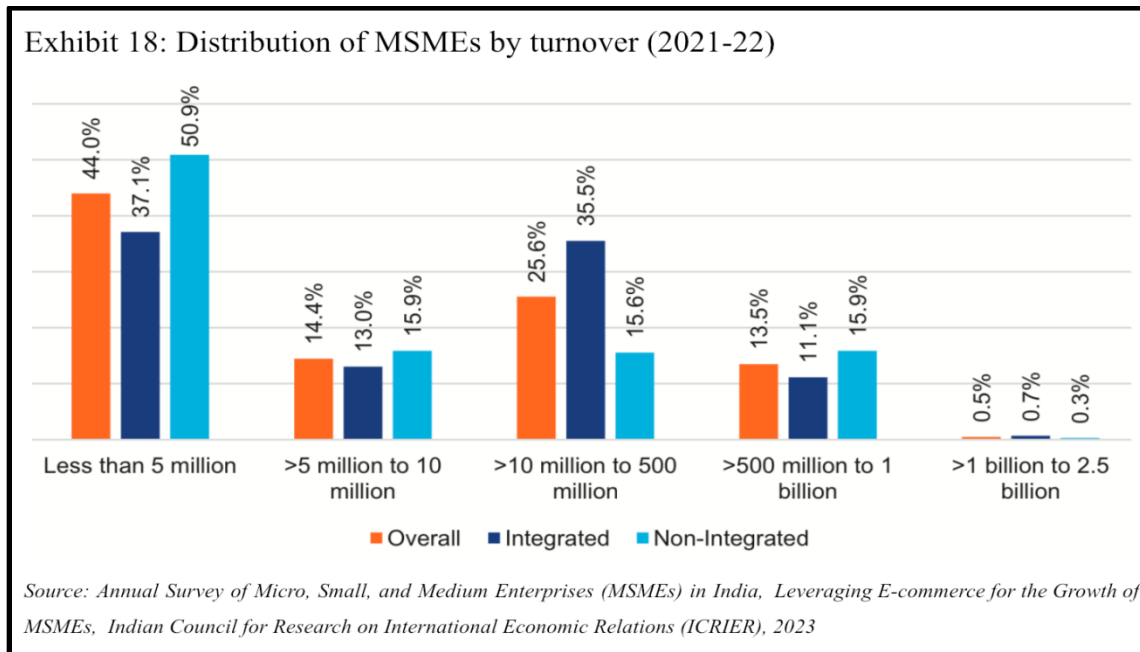
Also, female-owned MSMEs are not lagging behind as compared to male-owned companies in terms of integrating with e-commerce platforms, despite the underrepresentation of females in the MSME landscape. Refer to Exhibit 16 for further details.



Also, an increased share of export-oriented MSMEs is found to be integrated with e-commerce platforms as compared to MSMEs that do not export, indicating a positive connection between corporations’ export orientation and digitalization. Refer to Exhibit 17 for further details.



Hence, assessing performance indicators, integrated MSMEs seem to be better off than non-integrated MSMEs; the former report increased turnovers and profitability, and an increased percentage of permanent employees in their workforce compared to non-integrated MSMEs. Exhibit 18 depicts the allocation of MSMEs by turnover over the recent years.



Over 85% of integrated MSMEs documented an increase in their total sales and profit margins after integrating with e-commerce platforms. Refer to Exhibit 19. Also, Exhibit 20 depicts that MSMEs integrated with e-commerce platforms have a greater share of permanent employees as compared to non-integrated MSMEs.

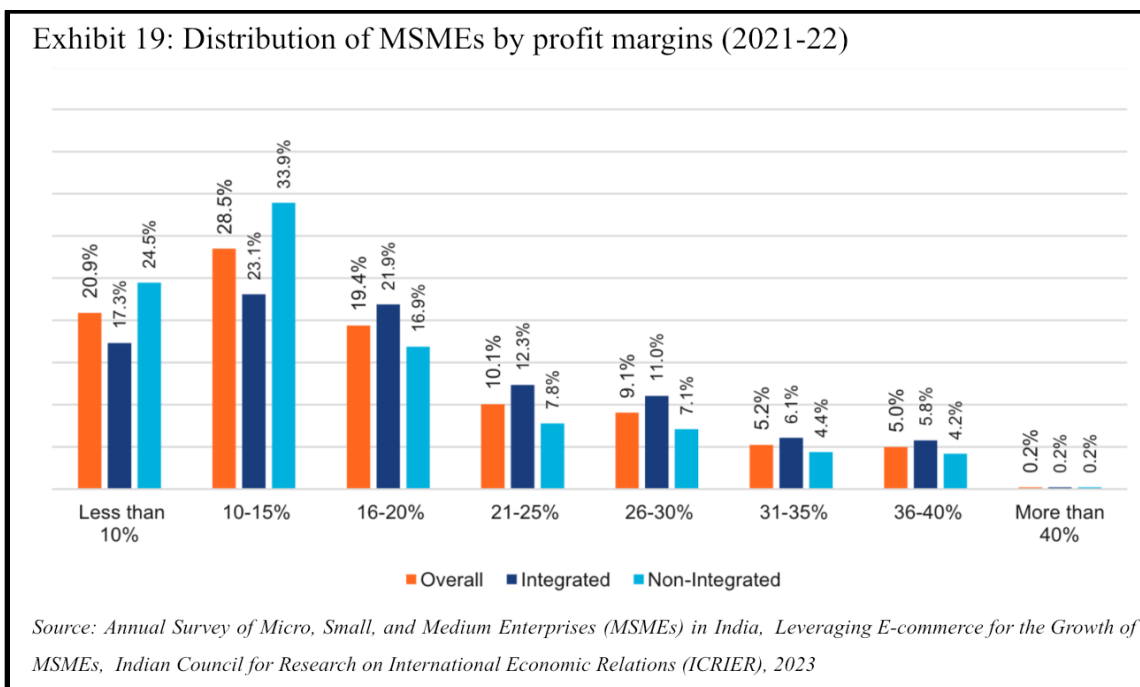
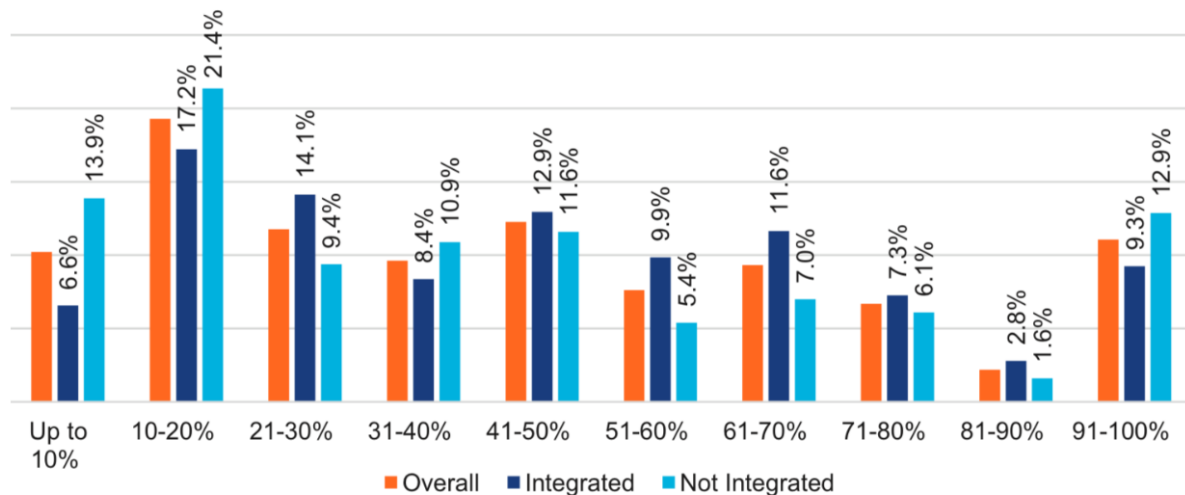


Exhibit 20: Distribution of MSMEs by the share of permanent employees in the workforce (2021-22)



Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

The results of the survey suggest that MSMEs have witnessed significant gains by integrating with e-commerce platforms. Improved market access is the most widely reported benefit of integration. Therefore, a majority of integrated enterprises report their willingness to increase the share of e-commerce sales in their total future sales. It is important to highlight the fact that at present, the volume of sales made through e-commerce platforms account for a relatively smaller share of the firms’ total sales compared to those made through traditional routes. Therefore, there is significant scope for MSMEs to increase the share of online sales in total sales.

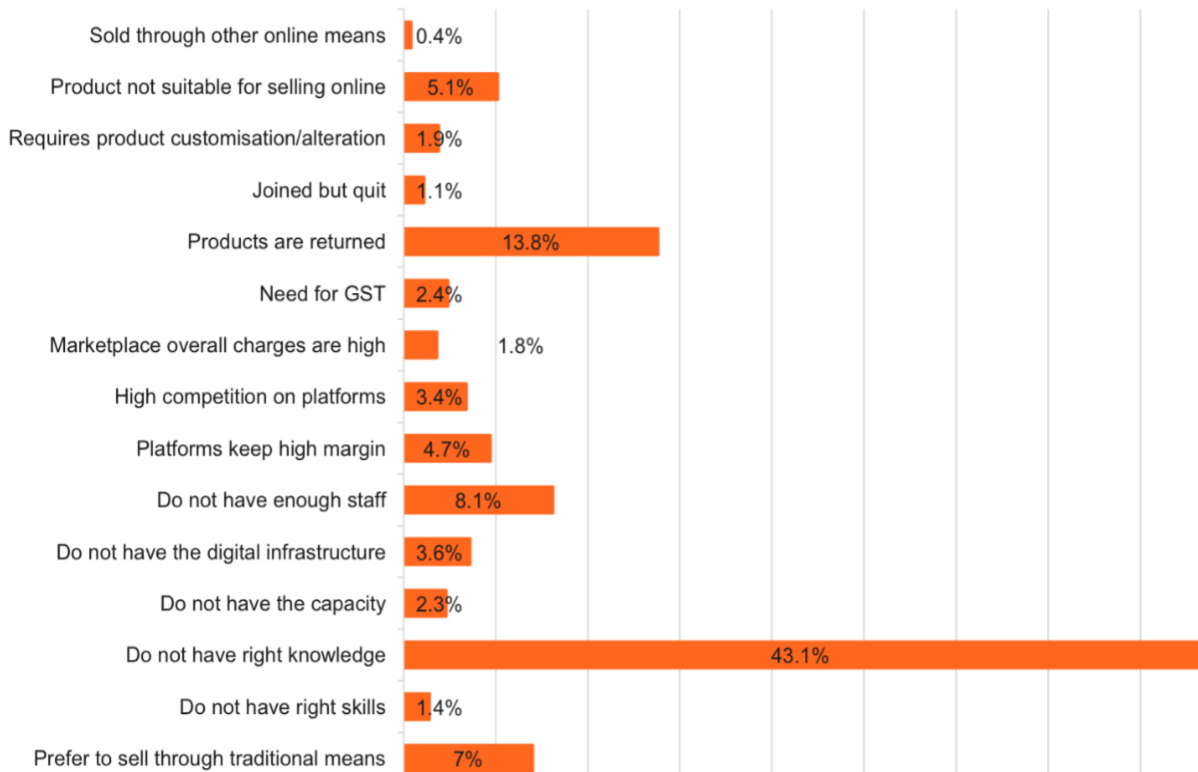
MSMEs that are integrated with e-commerce platforms have an outstanding online presence and document a greater usage of social media platforms, like Facebook, WhatsApp, and Instagram. Nearly 58% of integrated MSMEs conducted online sales via social media platforms and their own websites, as compared to non-integrated MSMEs.

2.3. Justifications for Not Integrating with E-Commerce Platforms

The majority of MSMEs are unable to integrate with e-commerce platforms due to a lack of understanding about digital technologies and e-commerce platforms, which is reflected in Exhibit 21. MSMEs that are not integrated with e-commerce platforms are likely to find it challenging to access markets when integrated MSMEs are exploring larger market sizes by leveraging e-commerce platforms. Hence, bridging the gap between integrated and non-

integrated MSMEs will mandate investments in digital technical skills, infrastructure benefits, financial services and managerial and business skills.

Exhibit 21: Distribution of non-integrated enterprises by reasons for not integrating with e-commerce platforms



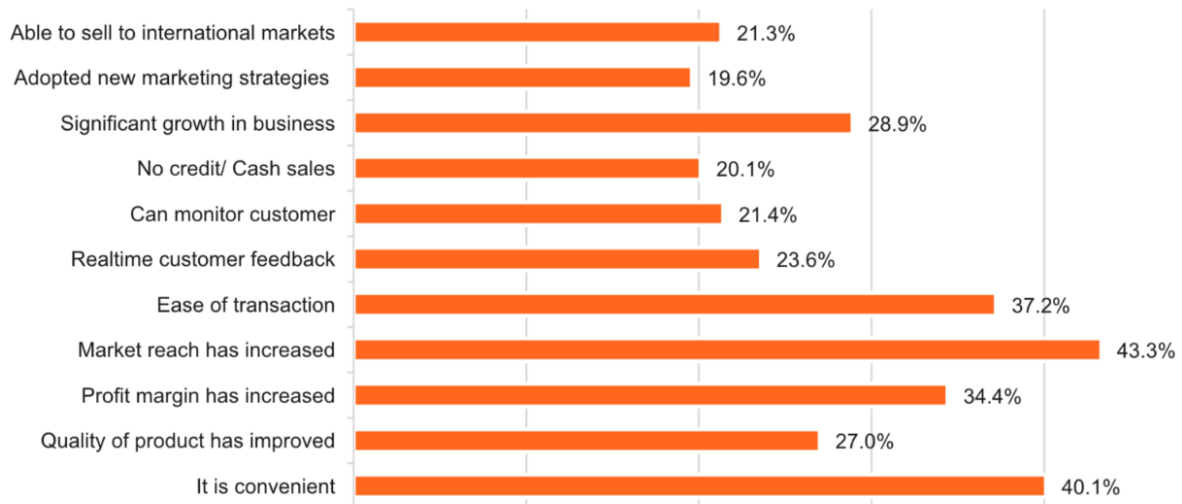
Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

Also, as per the survey results micro and small enterprises documented a greater readiness to integrate with e-commerce platforms in the future as compared to medium enterprises.

2.4. Performance Of Firms Integrated with E-commerce Platforms

The benefit of MSMEs integrating with e-commerce is reflected in Exhibit 22. Around 43% of integrated MSMEs documented that e-commerce integration facilitated them to improve their market reach and nearly 40% of integrated MSMEs declared that it was convenient to sell utilizing e-commerce platforms and marketing became simpler to perform.

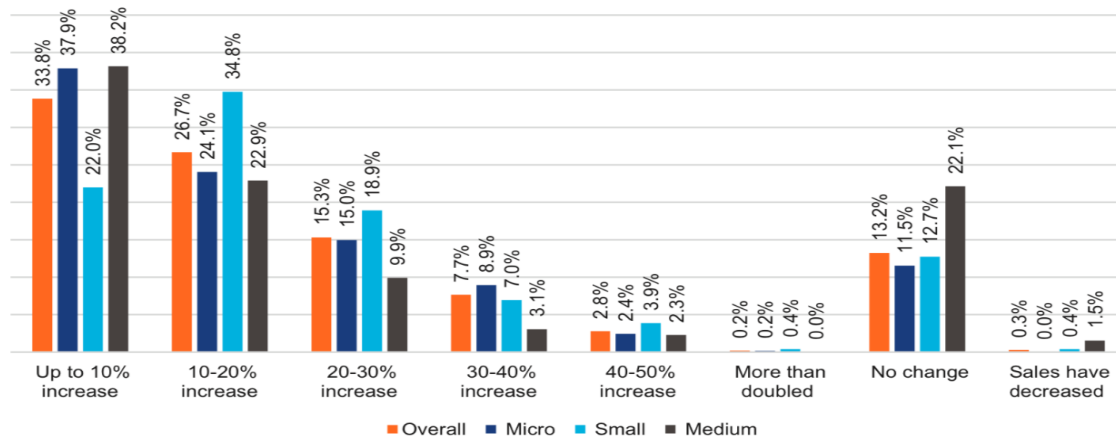
Exhibit 22: Advantages of MSMEs integrating with e-commerce



Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

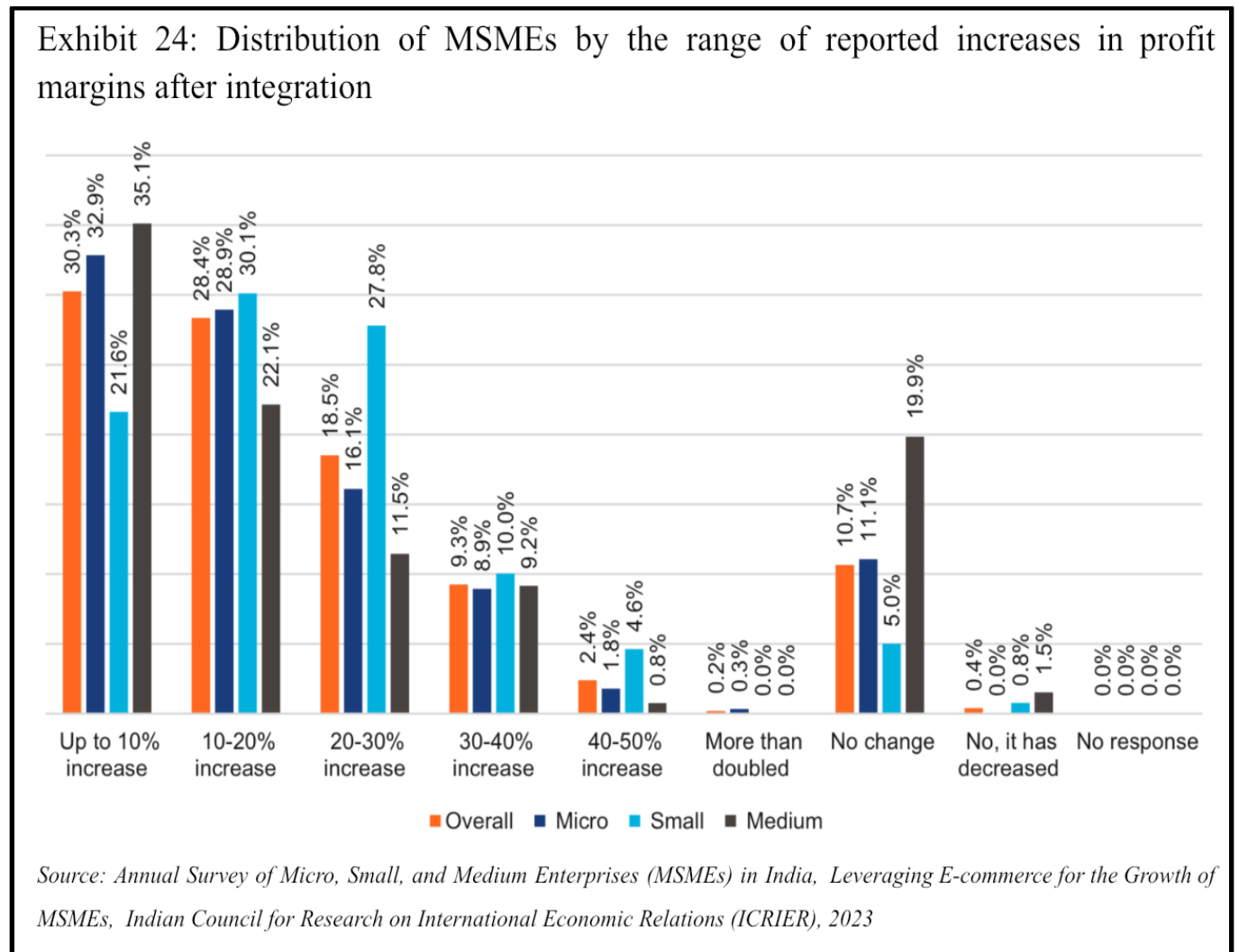
Refer to Exhibit 23 which depicts that integrated MSMEs documented a boost in total sales after tying up with e-commerce platforms. Small and micro MSMEs performed better than medium-sized MSMEs.

Exhibit 23: Distribution of MSMEs by the range of reported increase of total sales after integration



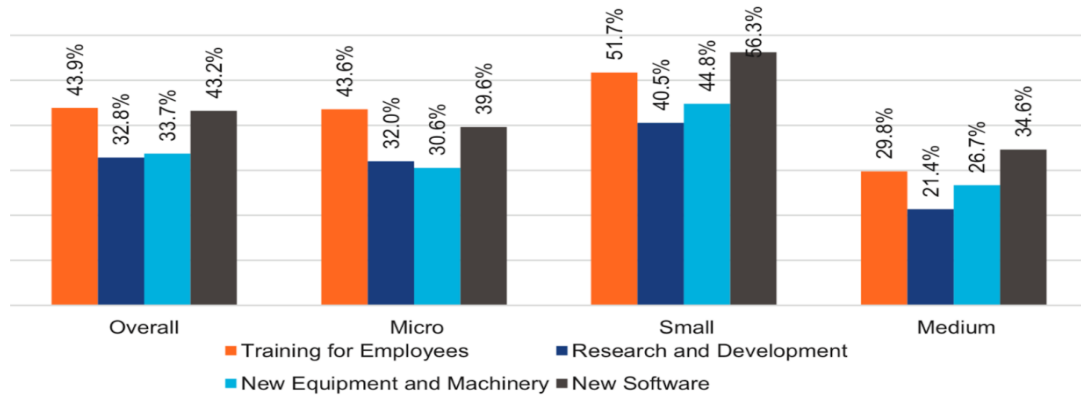
Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

Exhibit 24 depicts that integrated MSMEs documented advancement in profit margins after allying with e-commerce platforms. Around 90% of the integrated MSMEs declared a boost in their profit margins after tying up with e-commerce platforms and small-sized MSMEs appear to be leading this race. Refer to Exhibit 24 for further details.



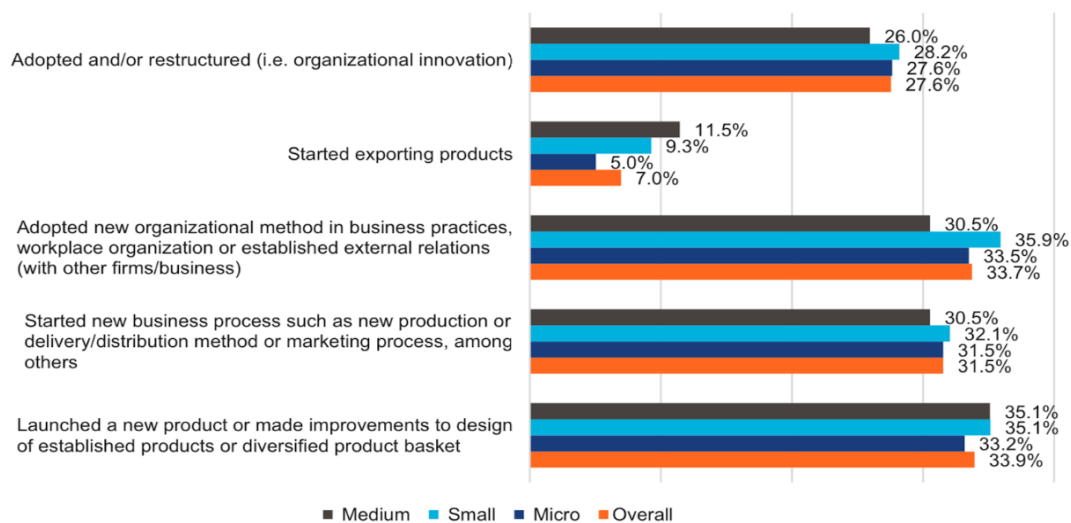
On tying up with e-commerce platforms many MSMEs facilitated innovation and notified launching new merchandise, enhancing current product features and embracing fresh business practices and managerial methodology. Also, the survey results observed that medium-sized businesses are better equipped to adjust to e-commerce platforms as they require a minimum amount of investment to adjust to these shifts. Refer to Exhibits 25 and 26 for detailed information.

Exhibit 25: Percentage of MSMEs that reported an increase in investments after joining e-commerce platforms by type of investments



Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

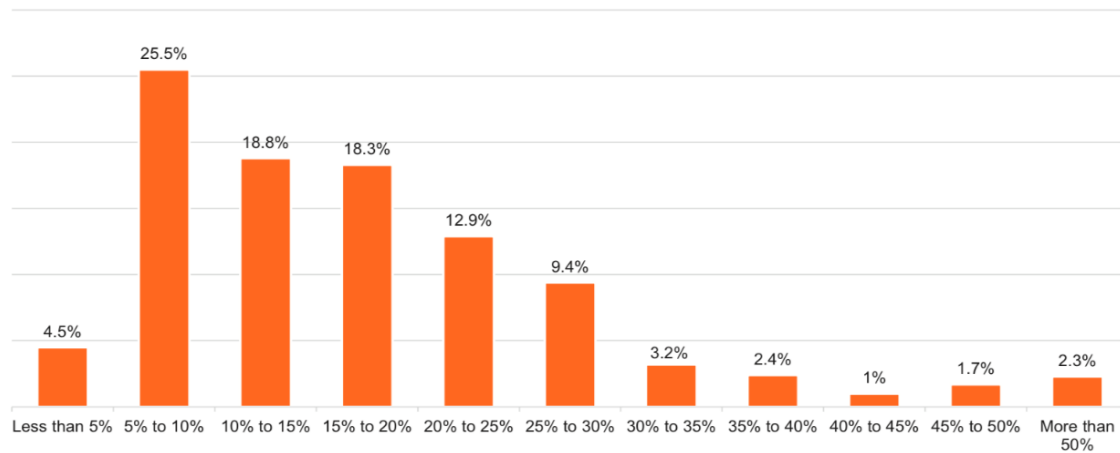
Exhibit 26: Percentage of MSMEs that have made changes in their business model after integrating with the e-commerce platforms by type of innovation



Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

Nonetheless, multiple integrated MSMEs reveal a readiness to enhance the percentage of online sales, it is crucial to document that currently the magnitude of sales conducted through e-commerce platforms by MSMEs accounts for a tiny percentage of enterprises' total sales volumes as compared to those sales conducted through conventional channels. Further detailed inputs are in Exhibit 27.

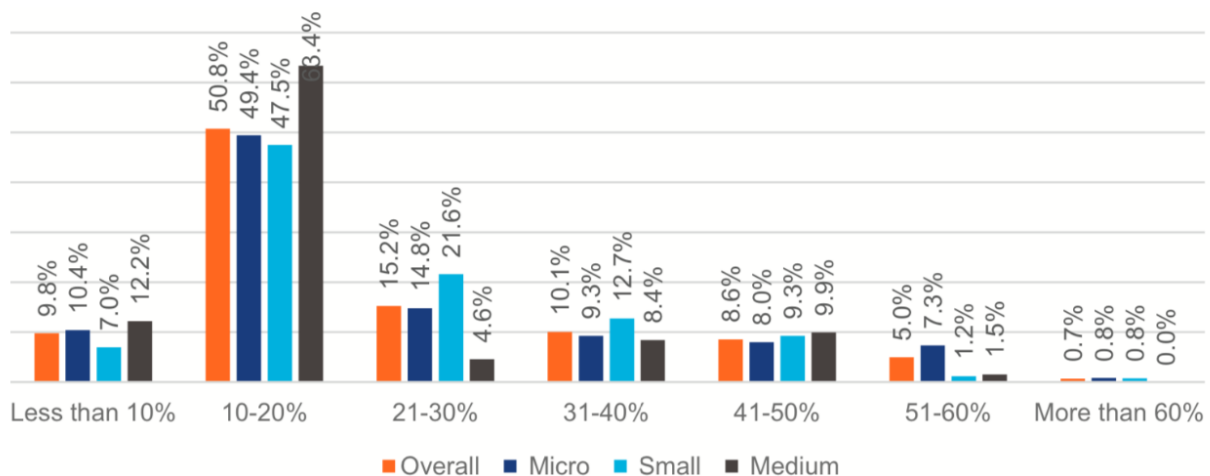
Exhibit 27: Distribution of integrated MSMEs by the desired increase in the share of online sales over the next 2 years



Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

Additionally, in 2021-22, greater than 50% of the surveyed MSMEs stated that their sales supported through e-commerce constituted between 10% to 20% of their total sales volumes, which is depicted in Exhibit 28.

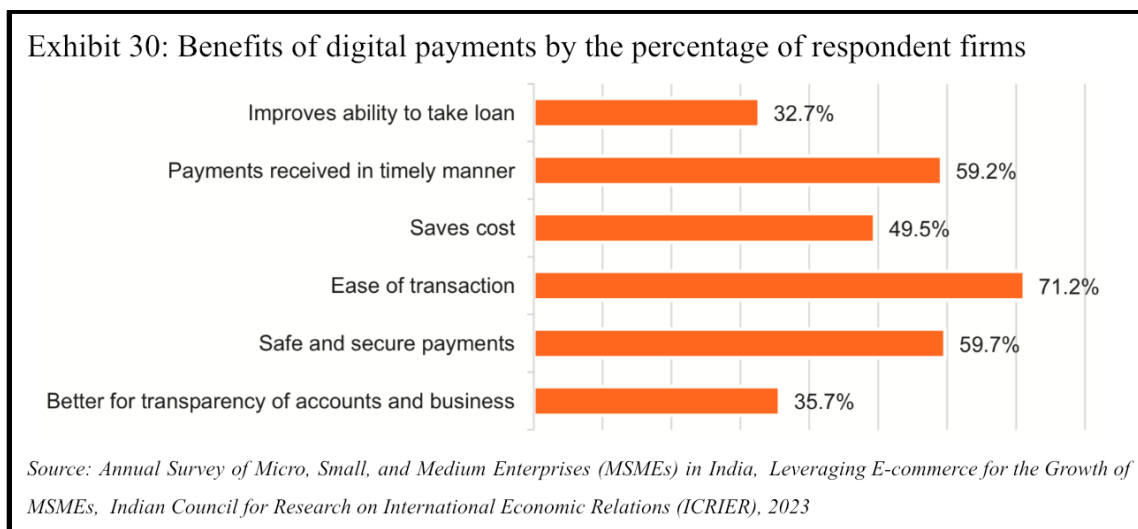
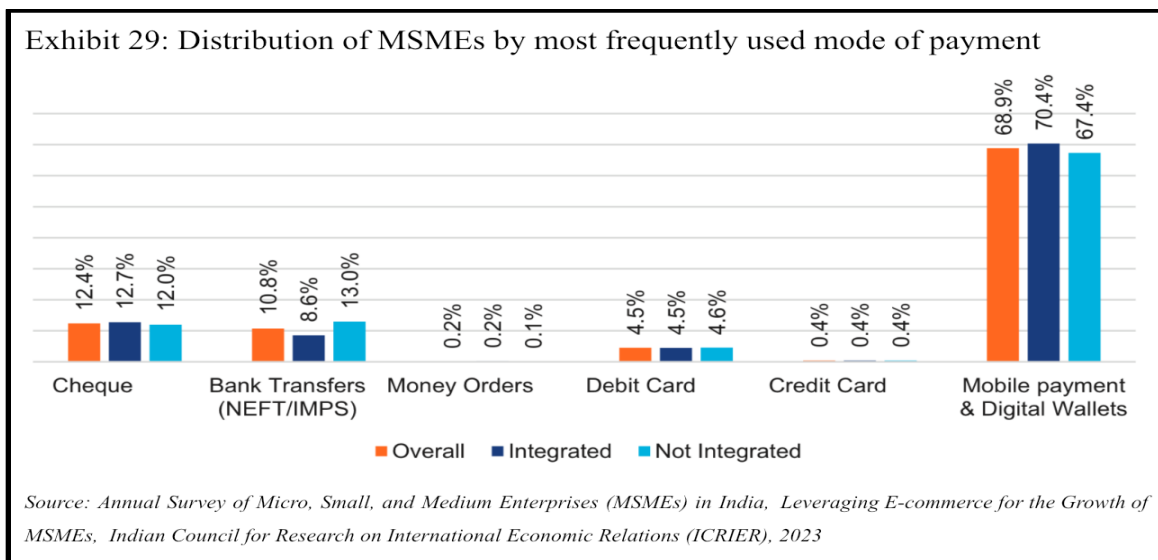
Exhibit 28: Distribution of MSMEs by share of e-commerce sales in total sales



Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

2.5. Utilizing Digital Payment Technology

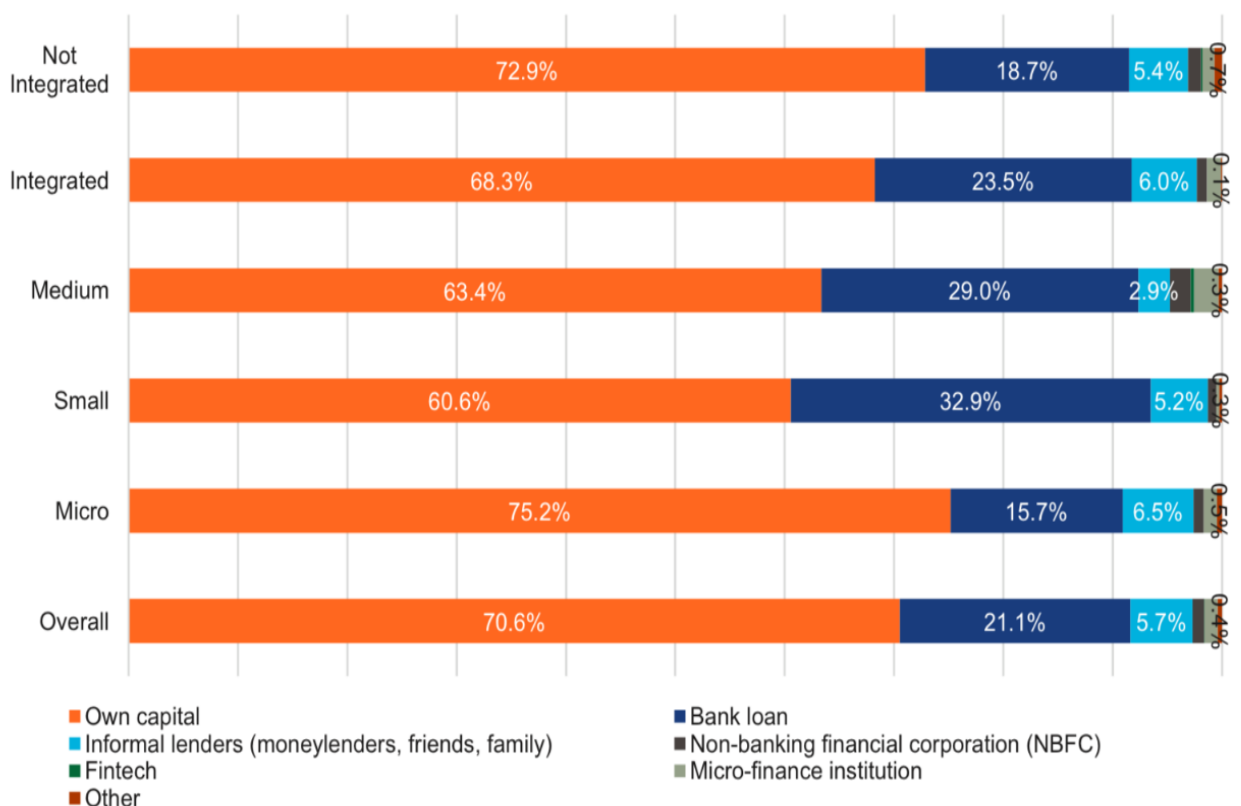
A majority of MSMEs, both integrated and non-integrated businesses that were surveyed, noted that they received most of their payments digitally or through mobile wallet payment technology. Of the surveyed enterprises comprising both integrated and non-integrated, roughly 67% documented that cash-based sales were estimated for less than 50% of their entire sales. Generally, cash-based sales were found to be more common for non-integrated MSMEs as compared to integrated MSMEs. Refer to Exhibit 29 for details. Exhibit 30 depicts the advantages of digital payments by the percentage of respondent firms and ease of transaction and cost savings proved to be the major benefits of digital payments.



2.6. Financing Sources for MSMEs

Enhancing access to finance is crucial for MSMEs as debt repayments remain one of the greatest economic hurdles encountered by the industry. As per the survey results, owners' capital in the form of savings or inheritance is the key source for financing MSMEs and bank loans are the second option, as depicted in Exhibit 31.

Exhibit 31: A major source of finance for MSMEs by percentage of respondent firms



Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

Furthermore, MSMEs' integration with e-commerce platforms makes it simpler for them to access loans. The surveyed MSMEs revealed that they had been able to access loans from fintech firms or non-banking financial corporations by providing their revenue on e-commerce platforms as guarantees and not requiring collateral securities. Exhibit 32 portrays the distribution of MSMEs loan sources from banks and non-banking financial corporations.

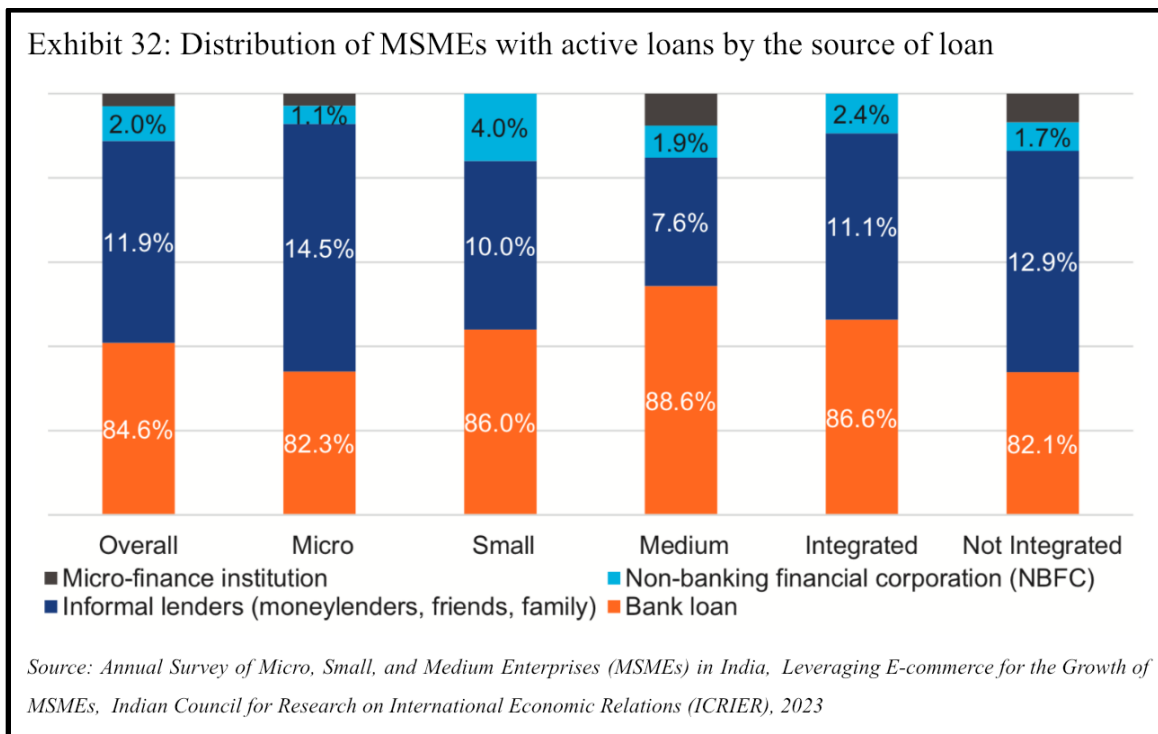


Exhibit 33 depicts the percentage of integrated MSMEs declaring whether access to loans has enhanced since allying with e-commerce platforms. Exhibit 34 portrays that the majority of non-integrated MSMEs assume that their proficiency to increase external finance would have been better if they had a presence on e-commerce platforms.

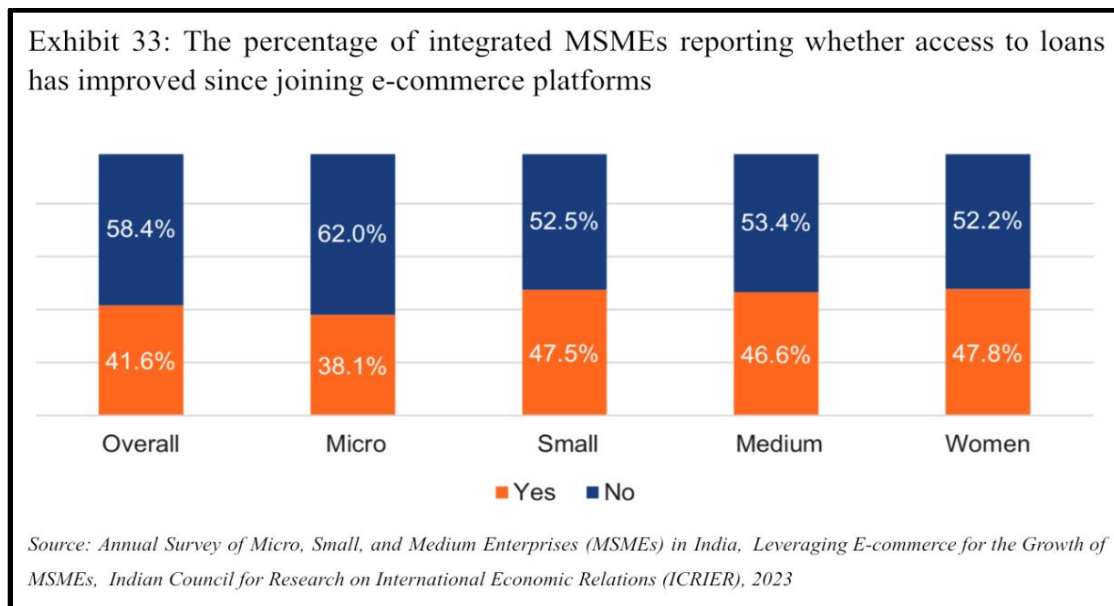
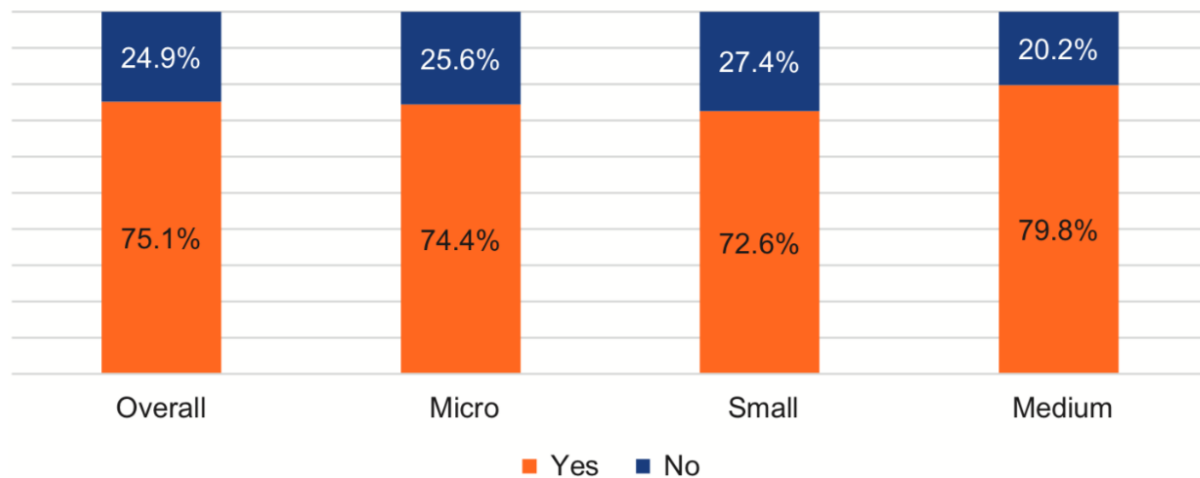


Exhibit 34: The percentage of non-integrated MSMEs reporting whether their ability to raise external finance would have been improved by joining e-commerce platforms



Source: Annual Survey of Micro, Small, and Medium Enterprises (MSMEs) in India, Leveraging E-commerce for the Growth of MSMEs, Indian Council for Research on International Economic Relations (ICRIER), 2023

2.7. Fundamental Obstacles Encountering MSMEs And Subsequent Positive Policy Amendments

The ICRIER's survey also conducted an interview round where questions related to leveraging e-commerce platforms for MSMEs were discussed with the survey respondents. The respondents provided substantial insights into the difficulties encountered by MSMEs commonly and also emphasized challenges associated with e-commerce integration. The survey respondents documented that the primary challenges they faced were the following:

1. Incapability to access markets and grow geographical coverage
2. Maintain customer loyalty
3. Utilize marketing strategies to establish their product range
4. Physical infrastructure bottlenecks
5. Lack of access to economical and formal sources of credit
6. Scarcity of skilled labor, lack of digital knowledge and advanced technical skills
7. Untimely payments and bad debts

Nonetheless, leveraging e-commerce platforms to facilitate MSMEs to augment access to markets and expand their businesses mandates policy support from the public administrations and tremendous collaboration with stakeholders from the private sector especially from e-commerce platforms. To address these obstacles, the Indian government has offered multiple schemes and policies that provide monetary support, tax subsidies, loan extensions, infrastructure development, access to skill development and technical and training up gradation facilities. Some of them are listed here:

1. Emergency Credit Line Guarantee Scheme, which aimed to assist MSMEs in fulfilling their functional liabilities and resuming business after the distress induced by the pandemic emergency.
2. Credit Guarantee Fund Trust for Micro and Small Enterprises, introduced a hybrid security derivative permitting guarantee cover for the percentage of credit facility not covered by a collateral security.
3. Credit Linked Capital Subsidy Scheme, aimed to stimulate technology up-gradation in micro and small enterprises by facilitating a capital subsidy of 15% on institutional finance of up to Rs.1 crore availed by the business.

However, the survey respondents felt that there was an absence of unification and rationalization of the schemes, as there was a lack of coordination between the State and Central governments and this defeated the essence of strengthening an expansive MSME scheme that would allow businesses to discover policy incentives and programmes in a single shot. Furthermore, these businesses declared that it was also essential for governments at all tiers to build a greater awareness and understanding about the different incentives and programmes for an increased uptake.

In fact, cluster developmental policies facilitate a critical function in the development of manufacturing-sector MSME. These policies are especially meaningful in the context of MSME as they facilitate such businesses to strengthen alliances, jointly attain economies of scale and pool resources to eventually enhance their efficiency, and productivity, hence attracting foreign direct investments. MSME clusters in their jurisdictions prompt schemes that facilitate businesses in the identified clusters to integrate with e-commerce platforms leverage the One District One Product programme to stimulate production objectives, and tap the expertise of industry stakeholders to facilitate export gains and e-commerce.

The surveyed MSME enterprises indicated that there was capacity to facilitate exports through e-commerce platforms. Additionally, several MSME owners remarked that by extending their

spread in domestic markets, e-commerce platforms could also permit them to cross domestic borders, hence stimulating scalability and optimizing resources and expenses.

The current Indian policy, namely the Foreign Trade Policy (2023) has facilitated multiple incentives and support actions for MSMEs to decrease compliance expenses for MSMEs that are engaged in e-commerce exports. This policy motivates international exchanges in the digital economy via e-commerce exports by equipping MSMEs with access to global platforms via the Niryat Bandhu Scheme which strives to guide fresh and potential exporters on the complications of international trade and commerce via counseling and outreach skill development sessions. The survey respondent firms suggested that for facilitating exports via e-commerce platforms, there was a requirement for establishing special e-commerce MSMEs export promotion cells within the current export promotion committees, and trade and commerce publicity associations at the cluster level. These would assist MSMEs in the following manner-

1. Supply data and current news on global markets
2. Collate demand data
3. Perform training sessions related to utilizing e-commerce platforms
4. Provide brief on e-commerce export procedures
5. Assist in brand building
6. Guide MSME in digital marketing and collaborating in alliances with private and public sector bodies

Furthermore, the survey respondents reported that facilitating Goods and Services Tax (GST) equality between offline and online merchants associated with registration processes was a crucial step to motivate MSME to integrate with the e-commerce ecosystem. At the 47th GST committee meeting, it was agreed that any online or offline merchant maintaining an aggregate turnover on an all-India basis of less than INR 4 million, would be exempt from mandatorily registering for GST, and earlier this exemption was only for offline sellers.

The public and the private sector must work together to enhance skill development and training exercises, provide market development assistance, knowledge on supply chain and logistics management and aid technology adoption for the MSME sector, hence reducing the gap faced by MSMEs and promoting an easier integration with e-commerce platforms. Additionally, in order to gain easy access to finance, tie-ups between e-commerce platforms and fintech businesses would prove to be advantageous for MSMEs, as it will make it feasible for them to receive digital payments and reduce operating expenses. Fintech solutions which deliver low-cost

technology choices such as "Buy Now, Pay Later" and "Pay by Link" would motivate regional merchandisers to swap from conventional offline to online business prototypes. Also, fintech firms would empower regional retailers by proposing loans at economical charges, without encountering multiple challenges including shorter paperwork and registration processes.

3. Critical Analysis of the Survey

The critical analysis of the MSMEs' survey indicates that firms which adopt e-commerce platforms as a sales medium are likely to be those that are owned by younger and more educated owners. Also, an elevated percentage of export-oriented MSME are found to be integrated with e-commerce platforms as compared to non-export-oriented enterprises, implying a favorable connection between companies' export orientation and e-commerce adoption.

Generally, integrated MSME seem to be more promising as compared to non-integrated enterprises on fundamental performance indicators namely turnover, profitability, product innovation, adoption of technology and allocation of employment benefits, as MSMEs are reasonably positioned to retrieve the benefits of online sales and are thus more probable to tie up with e-commerce platforms. The survey results indicate that integration with e-commerce platforms enable MSME to enhance their access to global markets and financing, hence easing integral impediments to their expansion. Therefore, for MSME to act as effective engines of development, their digital adaptation seems to be a prerogative.

4. Closing Statement

The Indian government has been preparing schemes to support MSMEs with the goal of building fresh employment opportunities and attaining growth. These programmes have enabled the boost but MSMEs persist in confronting impediments to growth. Also, as economies are rapidly changing and digitalization is taking place, MSMEs will be required to adopt digital solutions to compete and survive. Foreseeing the path for MSMEs on the future horizon remains promising. The MSMEs' should focus on sustainability, digital integration, and the local-first approach which aligns perfectly with the nation's aspirations. As the economy gradually recovers, the MSME ecosystem in the country is expected to regain its momentum, contributing extensively to India's growth and development.

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