



ANNUAL SURVEY OF MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMEs) IN INDIA: Leveraging E-commerce for the Growth of MSMEs

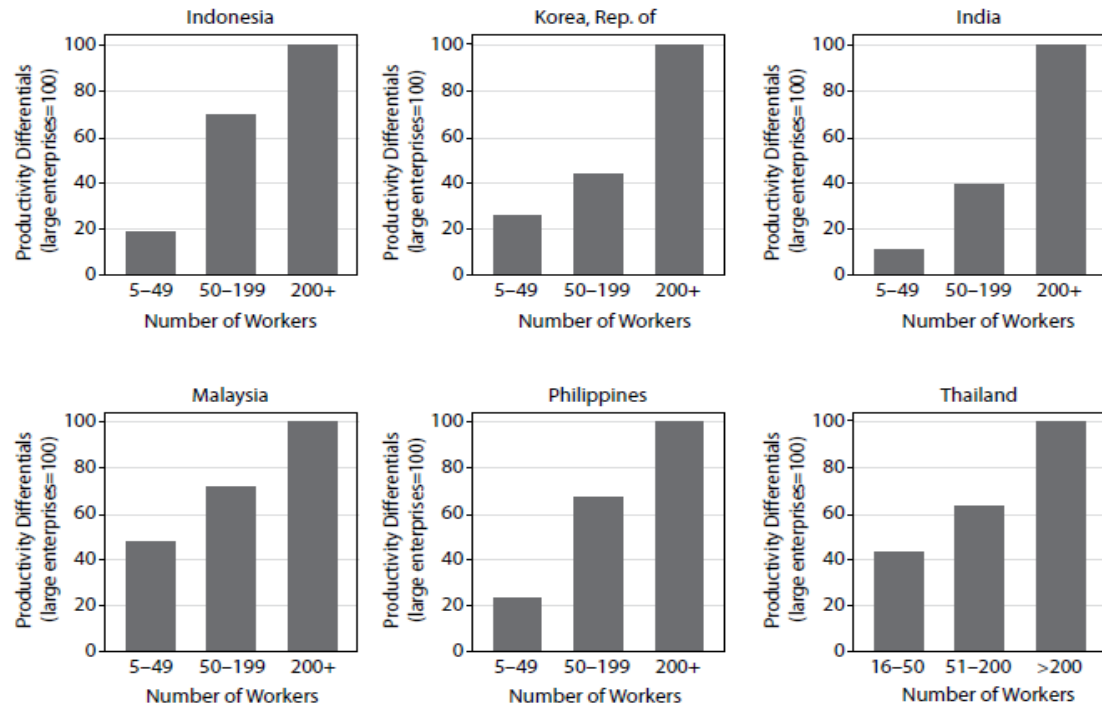
**Presentation of the Key Findings
9th October 2023, New Delhi**



India's enterprise landscape is dominated by MSMEs

- India has 633.8 lakh unincorporated non-agriculture MSMEs engaged in different economic activities:
 - *Micro-enterprises: 630.52 lakh*
 - *Small-enterprises: 3.31 lakh*
 - *Medium-enterprises: .05 lakh*
- There are 176 lakh MSMEs registered on the Udyam portal:
 - *96.2 per cent are micro-enterprises*
 - *3.4 per cent are small-enterprises*
 - *0.4 % are medium-enterprises*

Significant productivity gaps exist between MSMEs and large firms globally



Source: ADB (2009).

Table A.3: Statistics on firm-level total factor productivity (TFP) in developing countries

	Large firms (+250 employees)		SMEs (<250 employees)	
	Average TFP	Observations	Average TFP	Observations
Developing	1.04	2,706	-0.12	21,455
G20 developing	1.06	1,226	-0.12	9,631
Other developing	1.03	1,123	-0.12	8,873
LDCs	1.03	357	-0.11	2,951

Notes: TFP is computed as the residuals of a firm-level regression of log(sales) on capital input, labour input and country-sector fixed effects from the World Bank Enterprise Surveys (last available survey per country).

Sources: World Bank Enterprise Surveys (last available survey per country), own calculations.

Digital technologies have the potential to boost productivity of MSMEs and enable the sector's growth

Benefits to MSMEs of integrating with e-commerce platforms

- Enhance market access by enabling them to reach new clients and markets, thereby boosting their sales and revenues
- Lower the costs incurred by MSMEs to market their products
- Enable MSMEs to get feedback about their product, thereby allowing them to improve their products
- Empower MSMEs and enhance their business acumen by providing them training, skill development and mentorship programs
- Facilitate access to credit for small businesses, either directly or in partnership with banks or other licensed lenders.

However, evidence on the impact of e-commerce on MSMEs in India is limited

Last year, we surveyed 1537 firms integrated with e-commerce platforms:

- Share of online sales in total sales increased from 12% in 2018-19 to 27% in 2020-21
- After integrating with e-commerce platforms, firms witnessed growth in sales, turnover, profits and hiring

To fill this gap, we undertake a primary survey of 2007 MSMEs

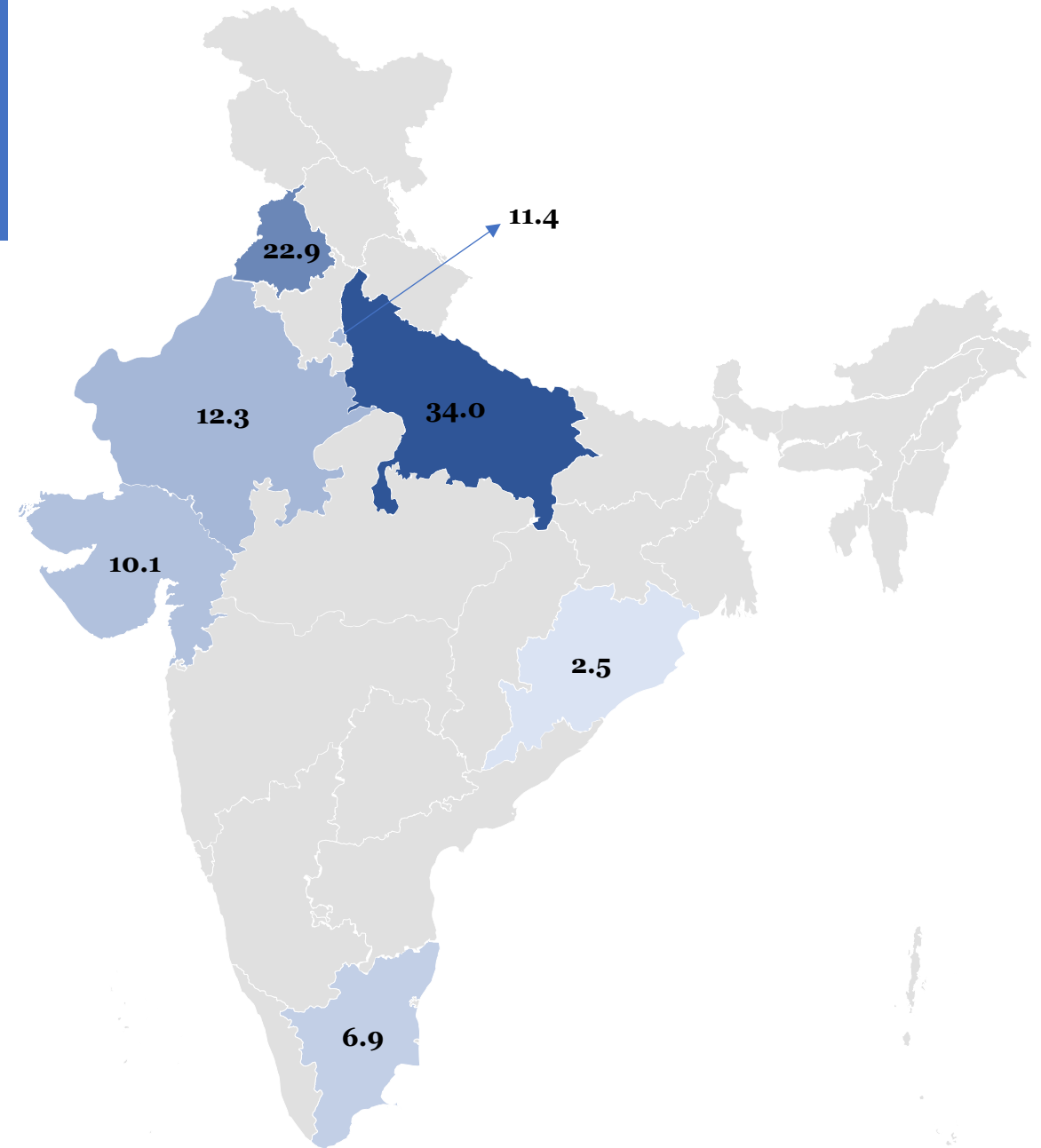
- 1005 are integrated with e-commerce platforms
- 1002 are not integrated with e-commerce platforms

Key Questions

- What are the key characteristics of integrated and non-integrated MSMEs and their respective business owners?
- What are the constraining and enabling factors that impact a firm's decision to join a platform ?
- How do integrated firms transact once they join the platform, how are key performance indicators impacted and whether new growth avenues emerge?
- How does access to finance vary across integrated and non-integrated firms?

Geographical and Sectoral Coverage

- Survey covered seven Indian States/ Union territories
- Eleven cities were covered – namely – Agra, Ahmedabad, Bhubaneswar, Chennai, Delhi, Jalandhar, Jaipur, Ludhiana, Lucknow, Meerut and Saharanpur
- Following the categories covered last year, MSMEs manufacturing sports goods, toys, processed and preserved foods, wearing apparel, furniture and handicrafts were covered



Selection of Respondents

Respondent Type

Either 'Owners' or 'key decision maker' were interviewed in MSMEs

Selection of Respondent

Equal distribution of firms that are integrated and those that are not integrated with e-commerce platforms

Screening Process

MSME were selected using the screening criteria in the questionnaire

Sampling Technique for Unit Selection

To identify target respondents within selected cluster, right-hand rule method was followed, where the investigator visited the MSMEs falling on the right-hand side direction

Arriving at Approach for Sample Selection

A cluster-based approach was recommended in expert discussion

State-Selection

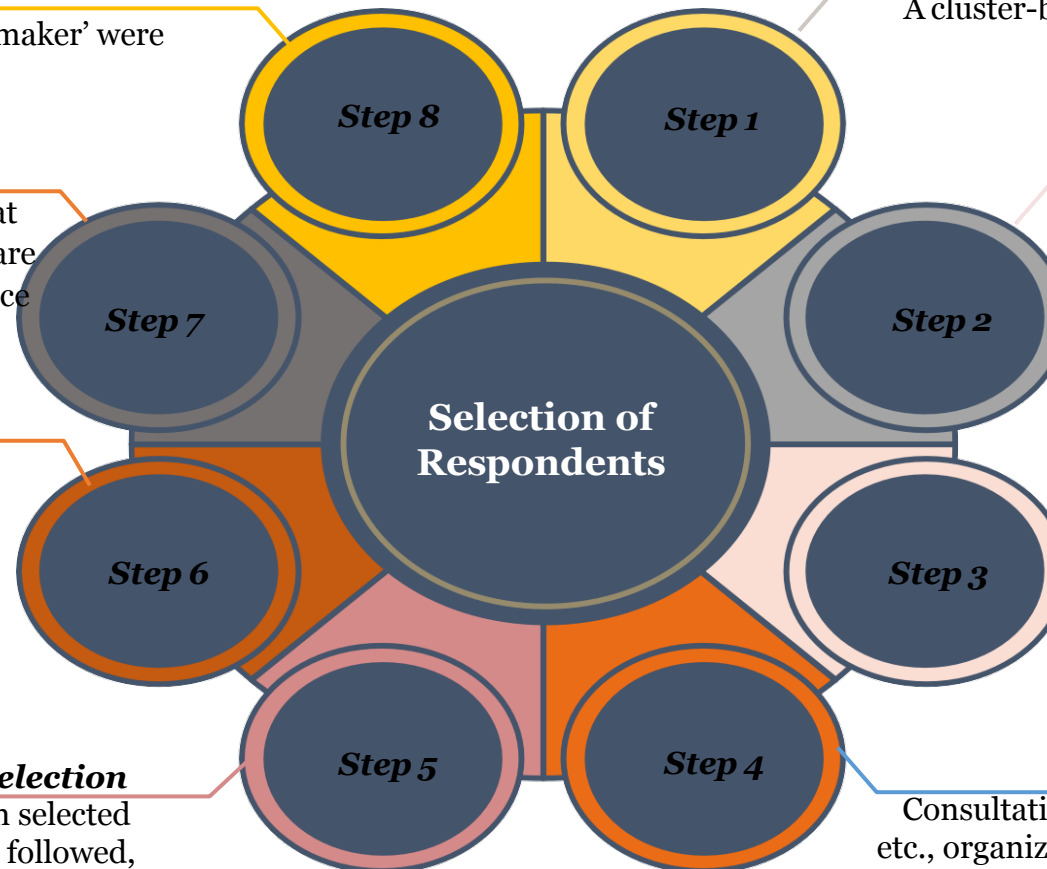
Selection of states was done based on majority of MSMEs cluster located – following last year's survey

Frame Setting

Sources like online & offline directories published by industry and trade associations in survey firm's repository, and the Directory of Department of MSME

Sample Cluster Identification

Consultation with industry association, academia, etc., organization websites, walk-in at the industrial areas, economies of scale



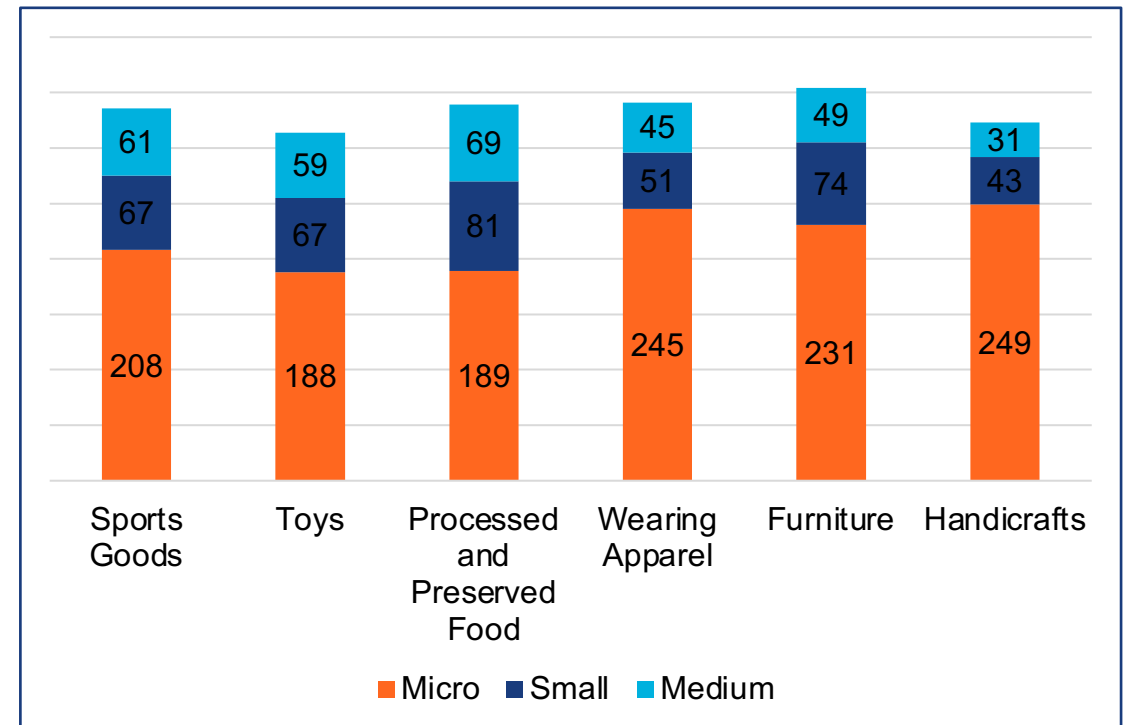
Characteristics of sample

Distribution of surveyed enterprises by size and status of e-commerce integration

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

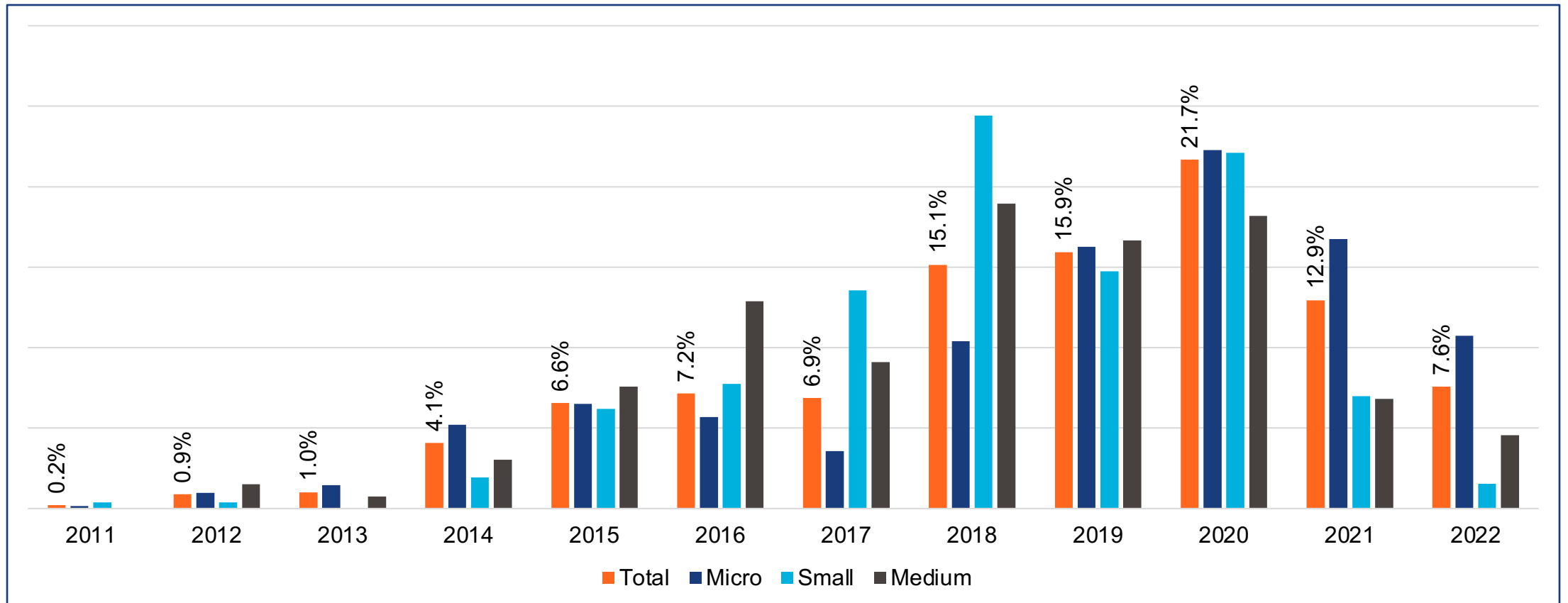
Only MSMEs registered under Udyam registrations of Department of MSME were included in sample

Distribution of surveyed enterprises by sector and size



The use of e-commerce platforms for sales has accelerated in recent years

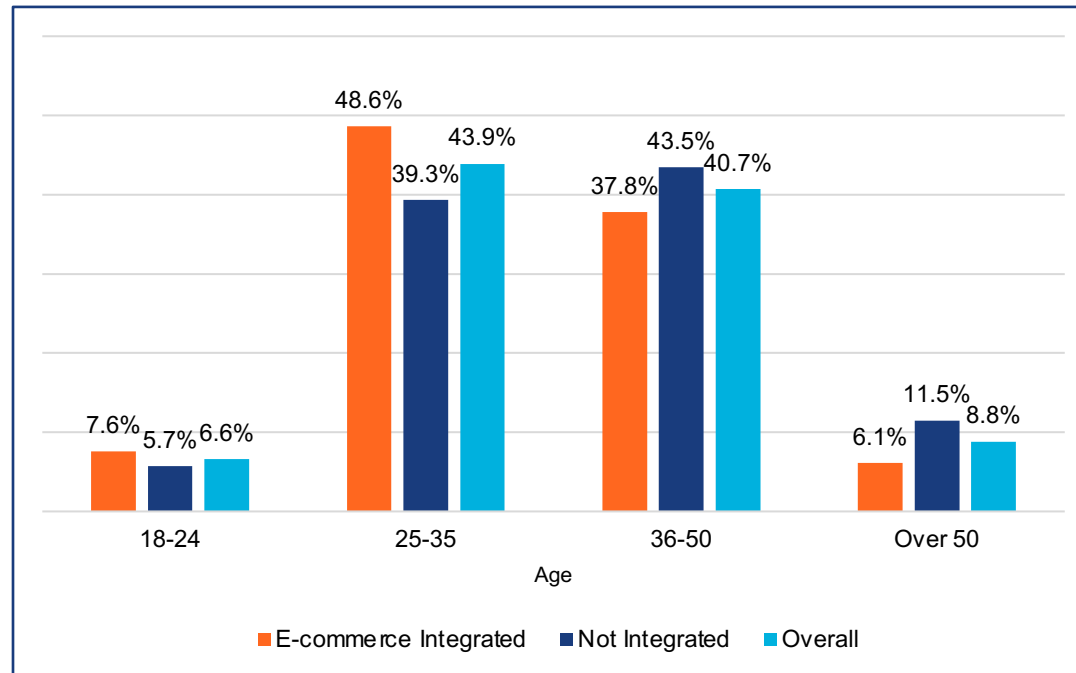
Distribution of e-commerce-integrated MSMEs by year of integration



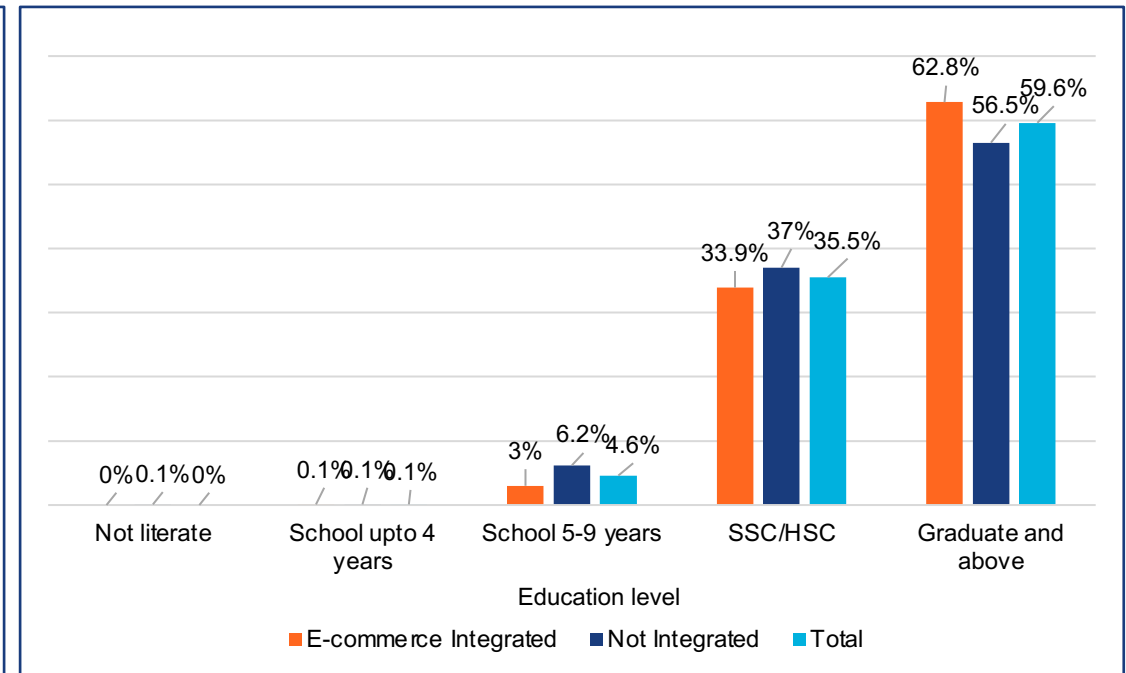
Characteristics of Firms Integrated with Platforms

Integrated firms are owned by younger and more educated individuals

Distribution of MSMEs by the age of owner



Distribution of MSMEs by the educational qualification of owner

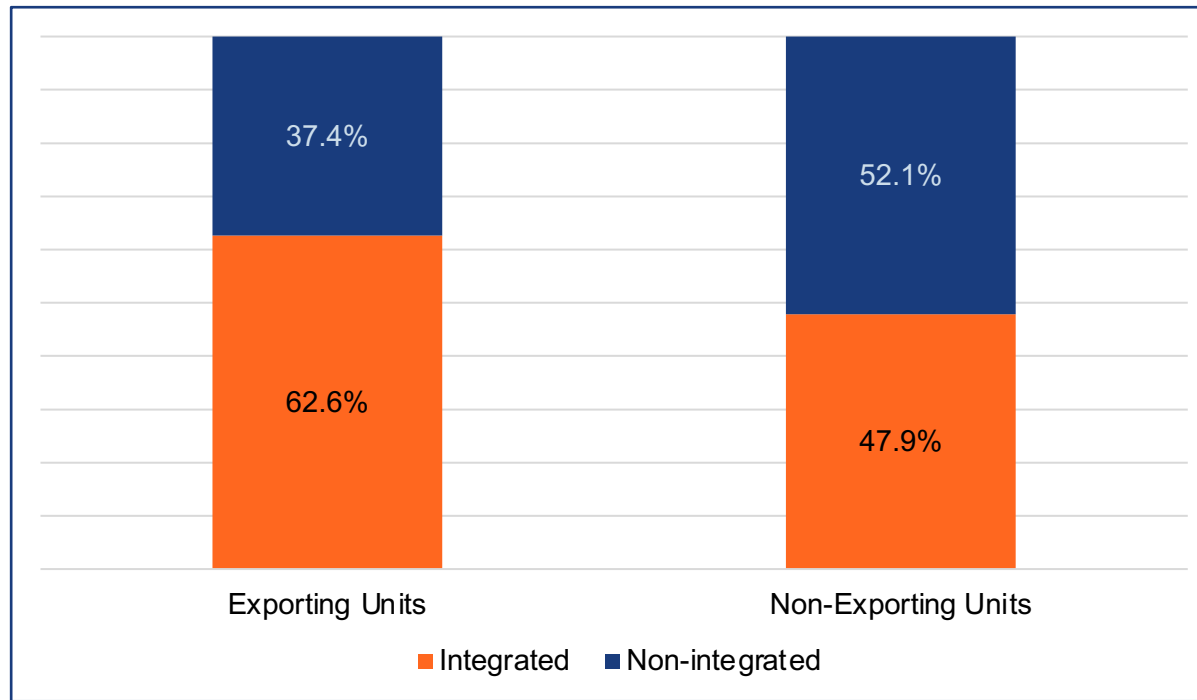


Women-owned MSMEs are not far behind male-owned MSMEs in integrating with e-commerce platforms

- Among women-owned enterprises, 45.1 per cent were integrated with e-commerce platforms
- Among male-owned enterprises, 50.3 per cent were integrated with e-commerce platforms

A higher share of export-oriented firms report being integrated with e-commerce platforms compared to those that do not export

Distribution of exporting and non-exporting units by e-commerce integration status

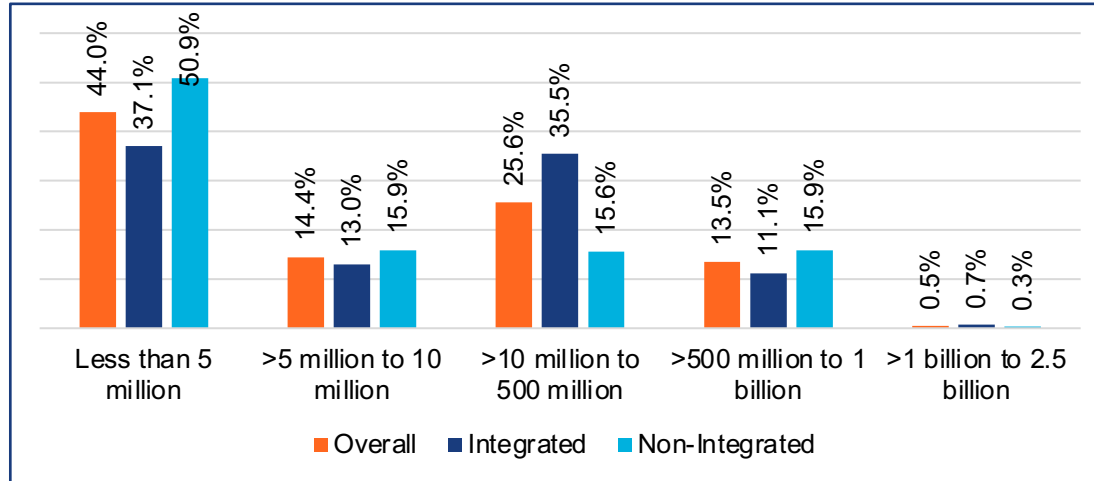


Only 15% of the MSMEs in sample are export-oriented

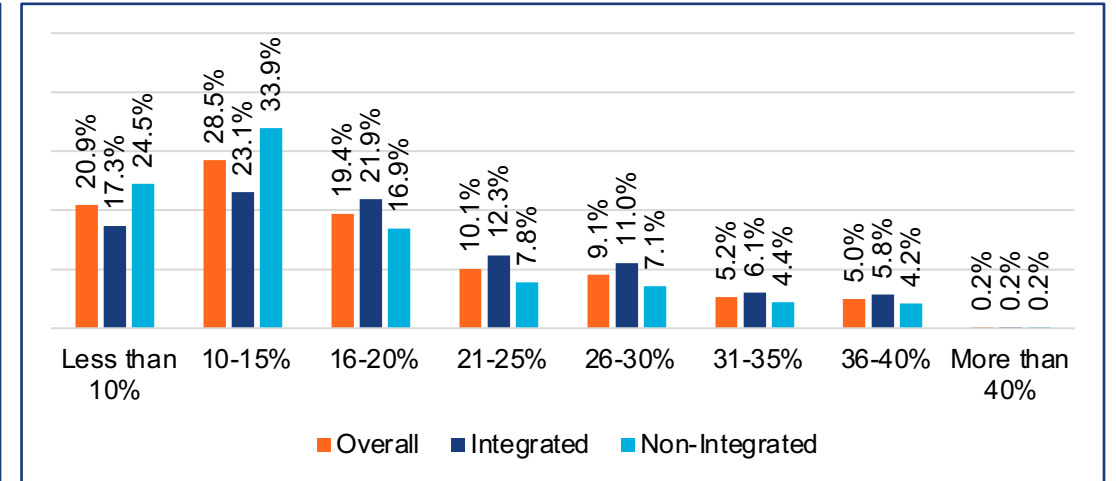
More productive firms in the economy are likely to be engaged in exporting activity

Integrated firms report higher turnovers, profitability and a higher share of permanent employees

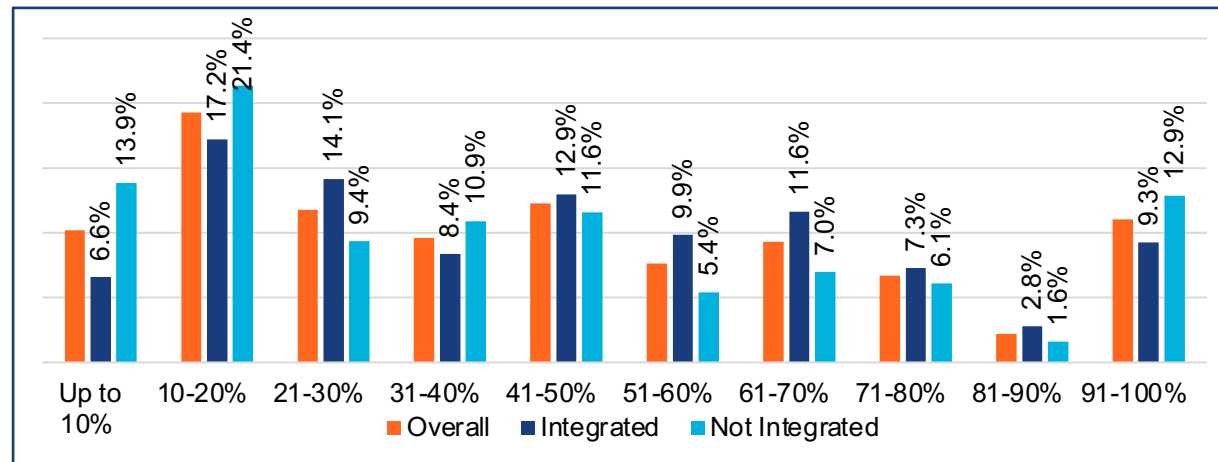
Distribution of MSMEs by turnover (2021-22)



Distribution of MSMEs by profit margin (2021-22)

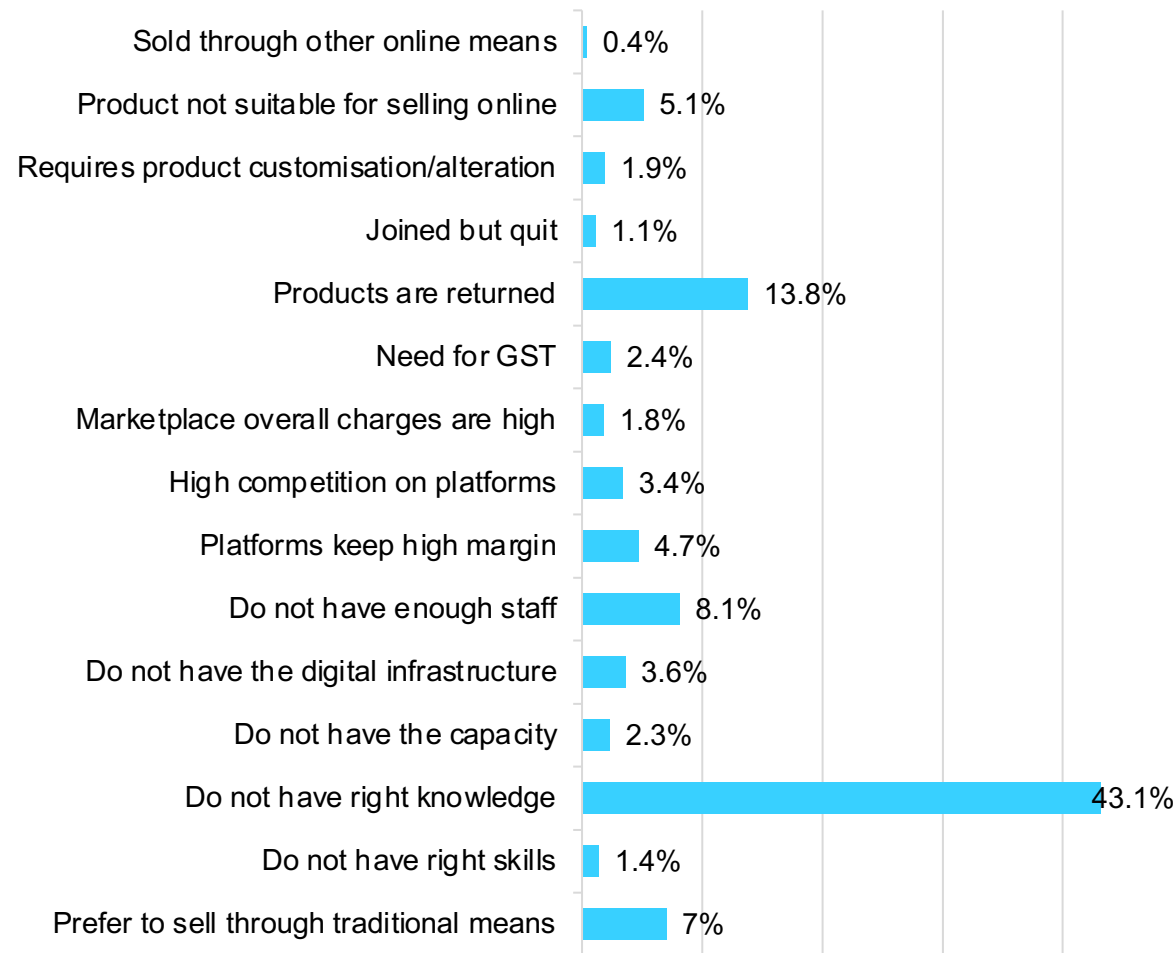


Distribution of MSMEs by share of permanent employees (2021-22)



Reasons for Non-Integration

Lack of knowledge about how to effectively utilize digital technologies and e-commerce platforms are amongst primary reasons for non-integration

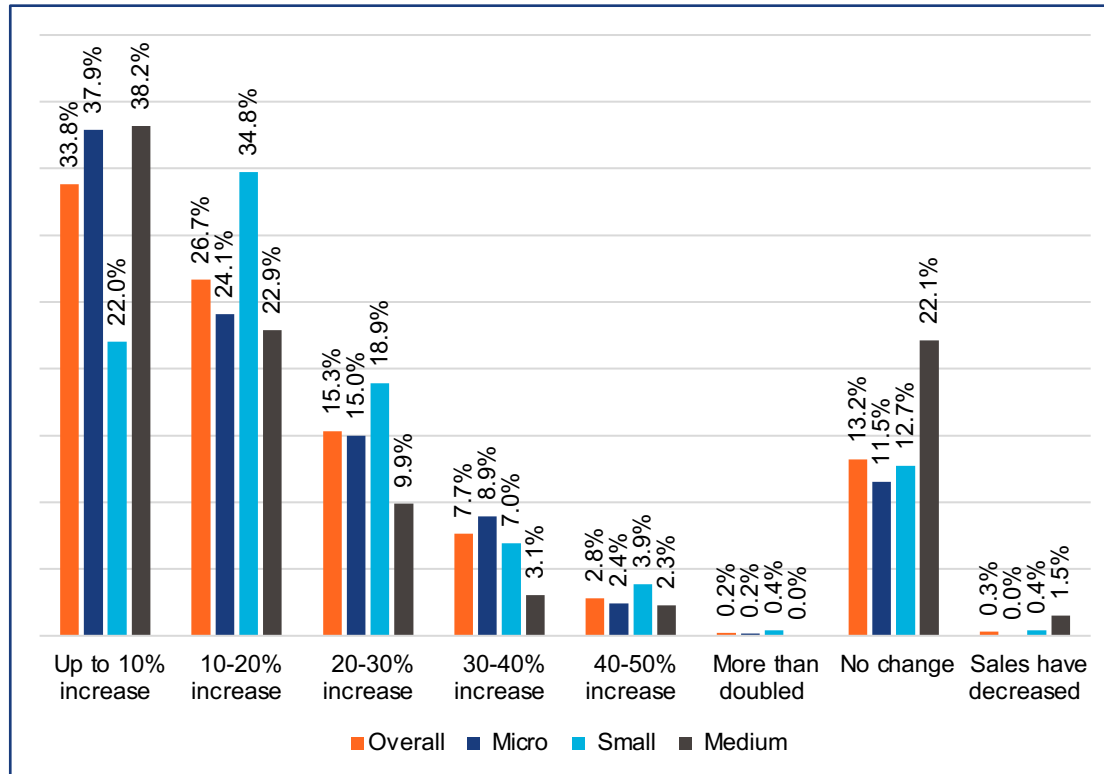


- Only 11 firms reported to have previously joined e-commerce platforms and left
- Of all non-integrated MSMEs, over one-fifth reported interest in joining e-commerce platforms in future
 - *Willingness to join was greatest among micro-enterprises, with 30% indicating a desire to do so*

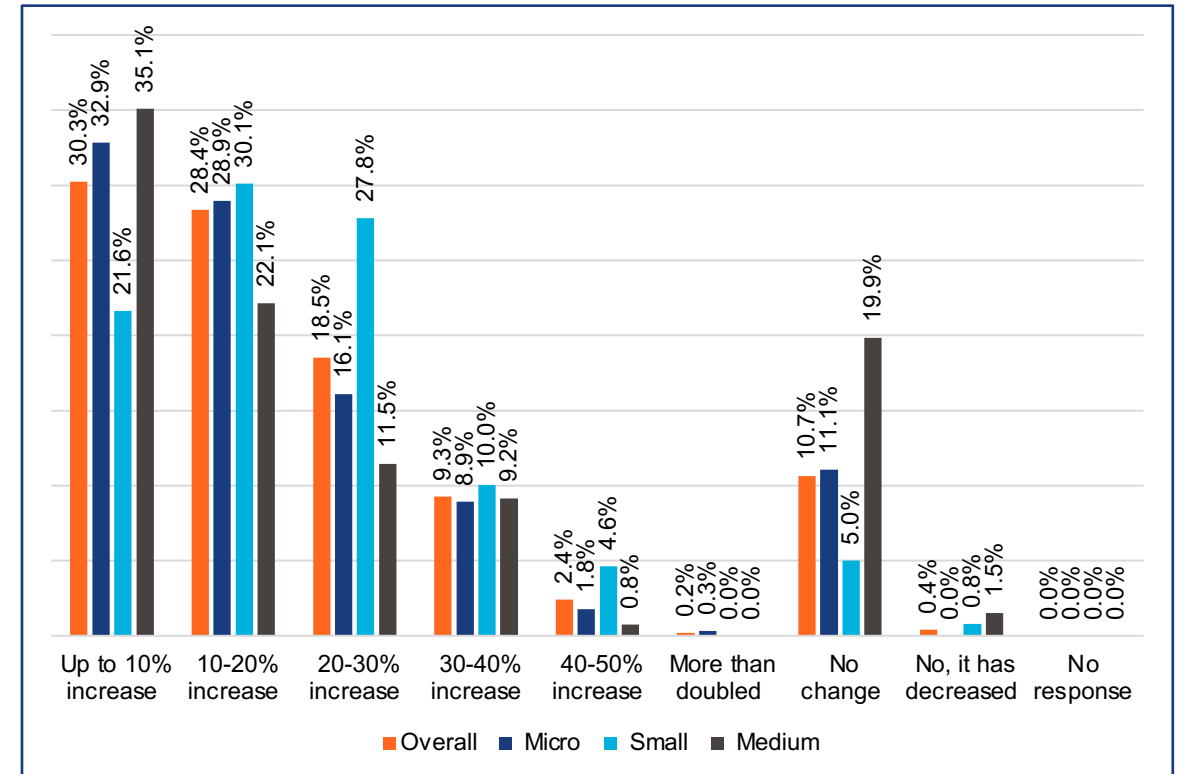
Performance of Integrated Firms

Integrated firms report an improvement in sales and profit margins on joining e-commerce platforms

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

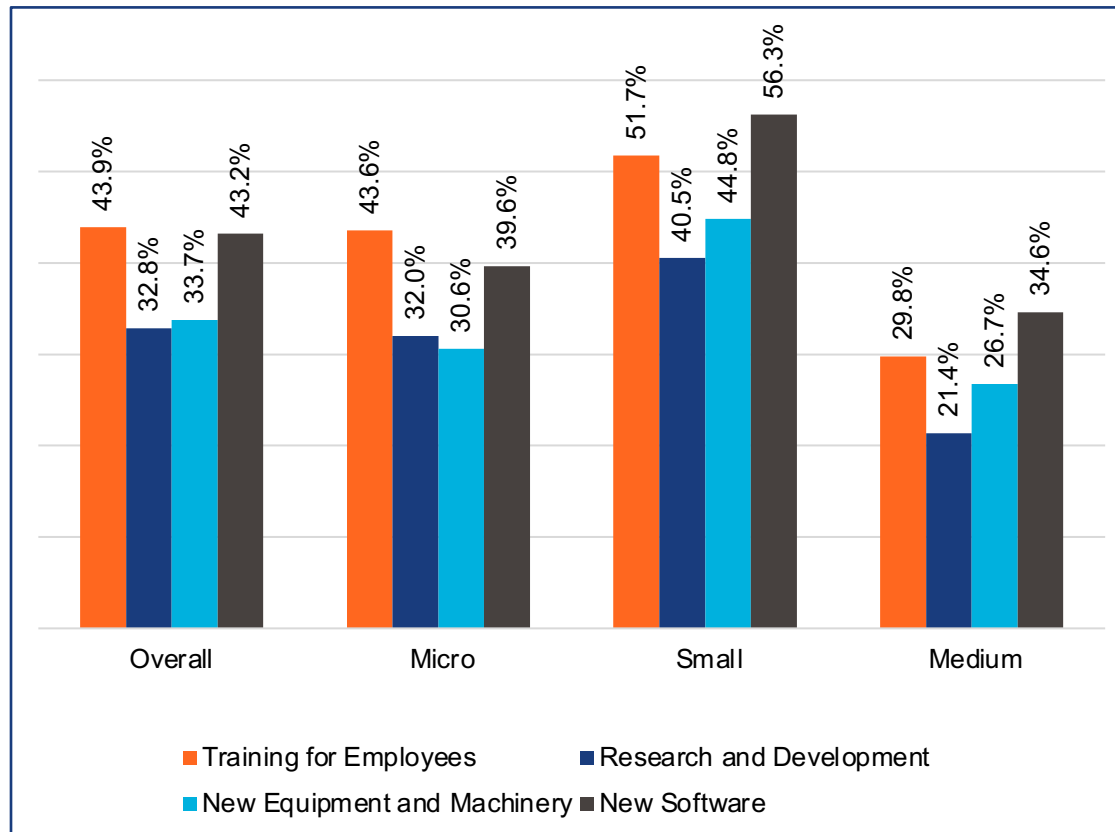


Distribution of MSMEs by the range of reported increase in profit margins after integration

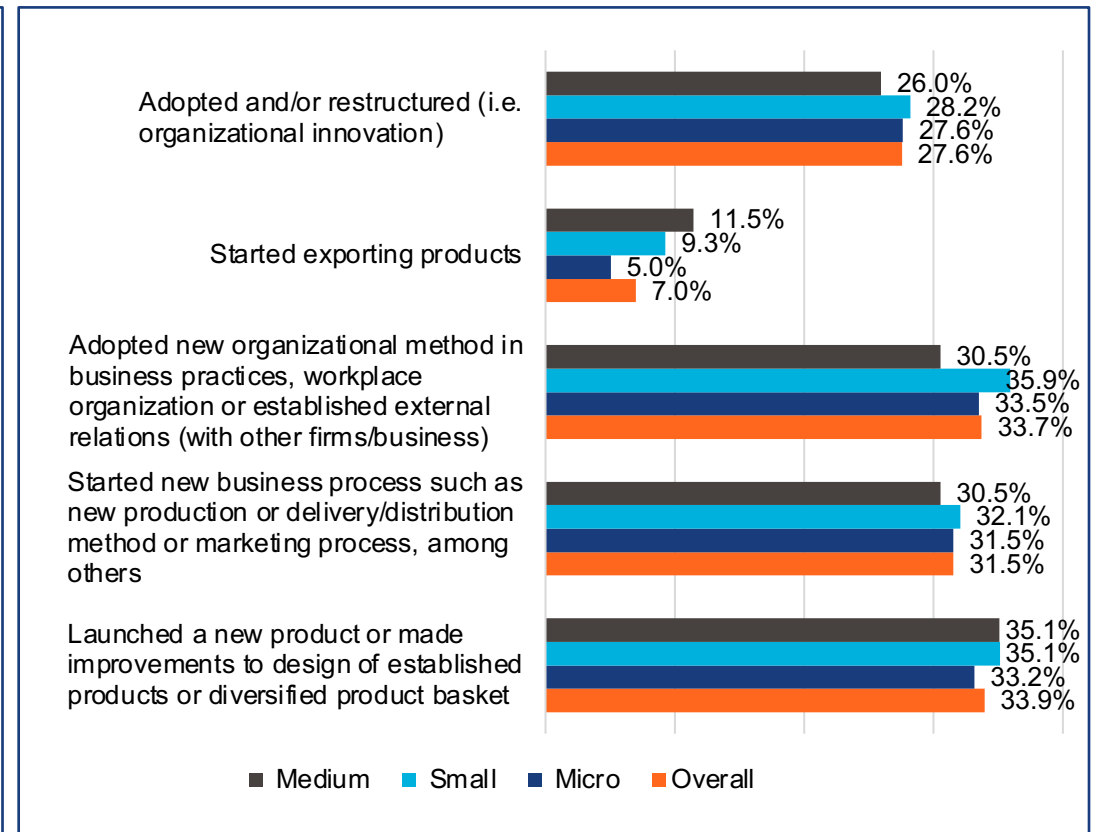


Integration with platforms also appears to foster investment and innovation

Percentage of MSMEs that reported an increase in investments after joining e-commerce platforms (by type of investment)

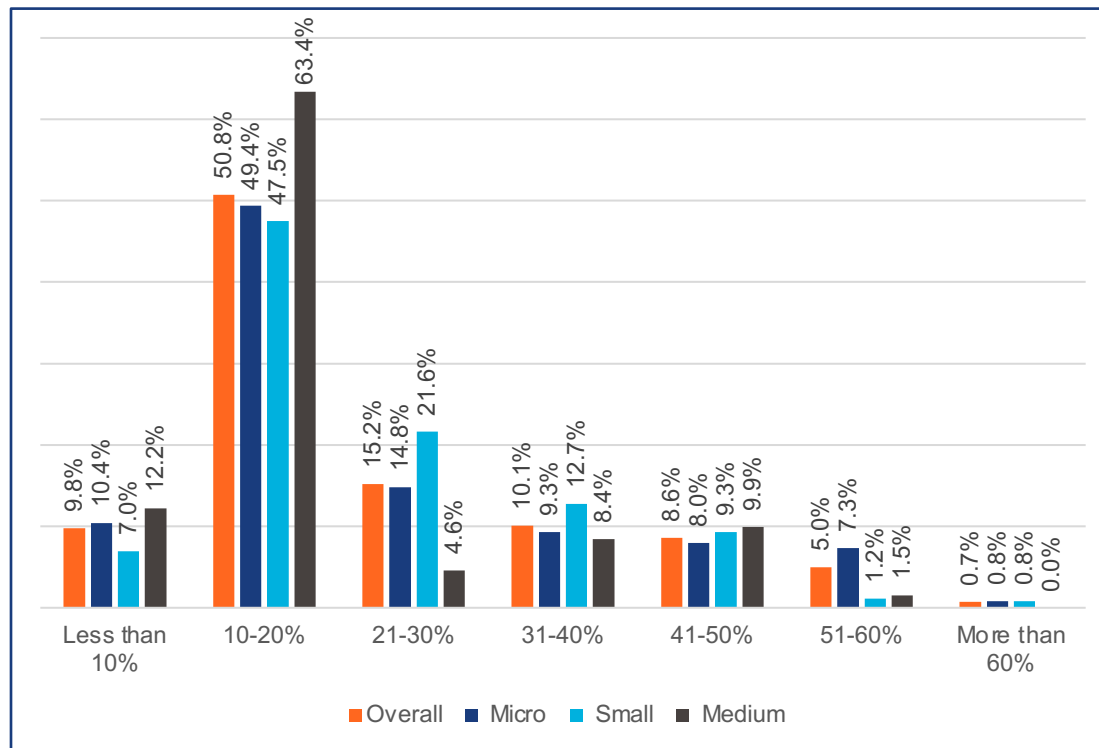


Percentage of MSMEs that have undertaken innovations and made changes in business model after integrating with e-commerce platforms by type of innovation

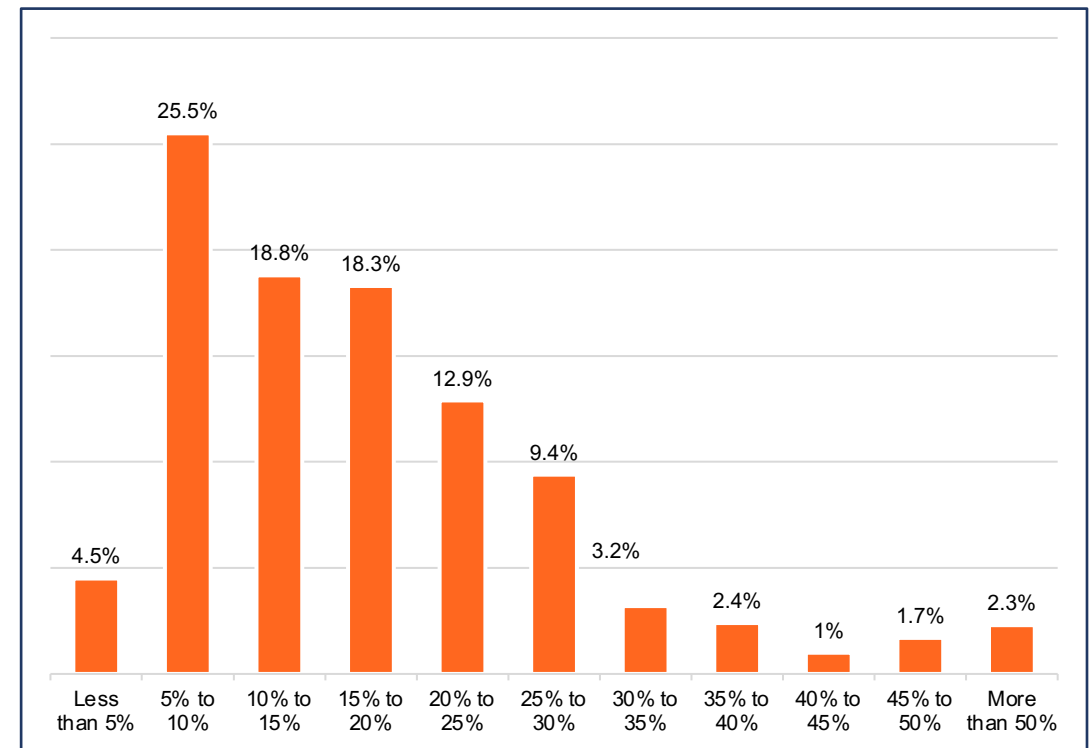


Over 70 per cent of integrated MSMEs expressed a desire to increase the share of their e-commerce sales in the future

Distribution of MSMEs by share of e-commerce sales in total sales

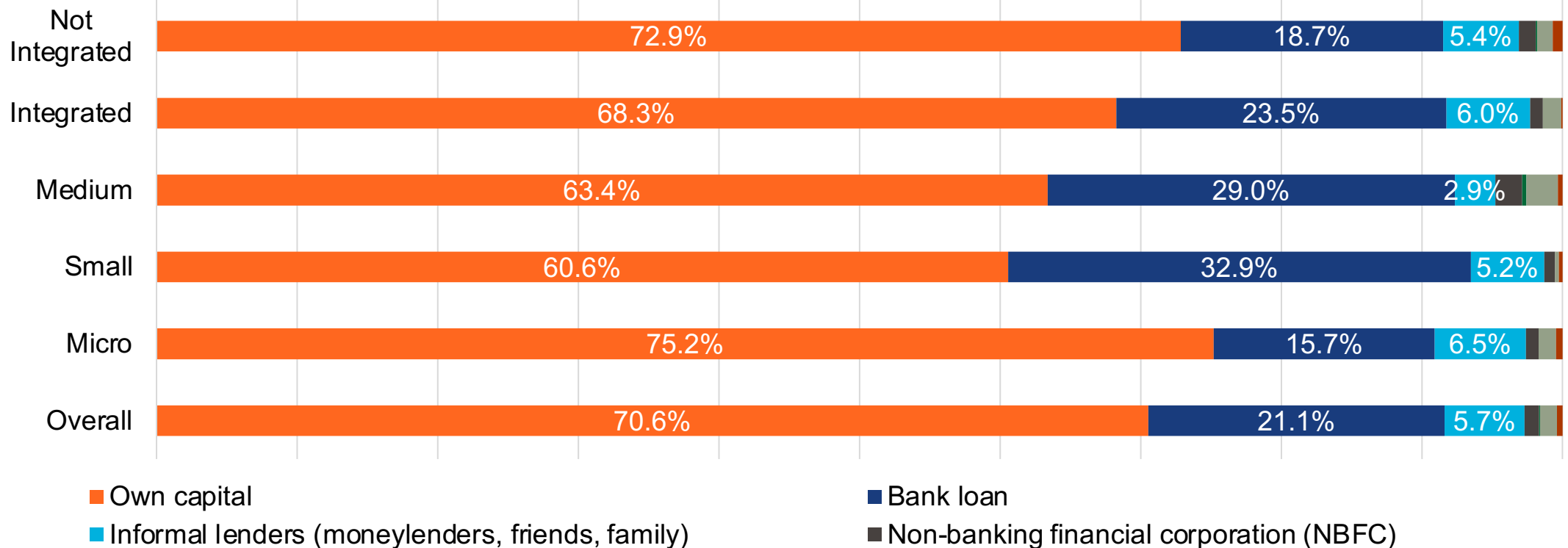


Distribution of integrated MSMEs by the desired increase in share of online sales over the next 2 years



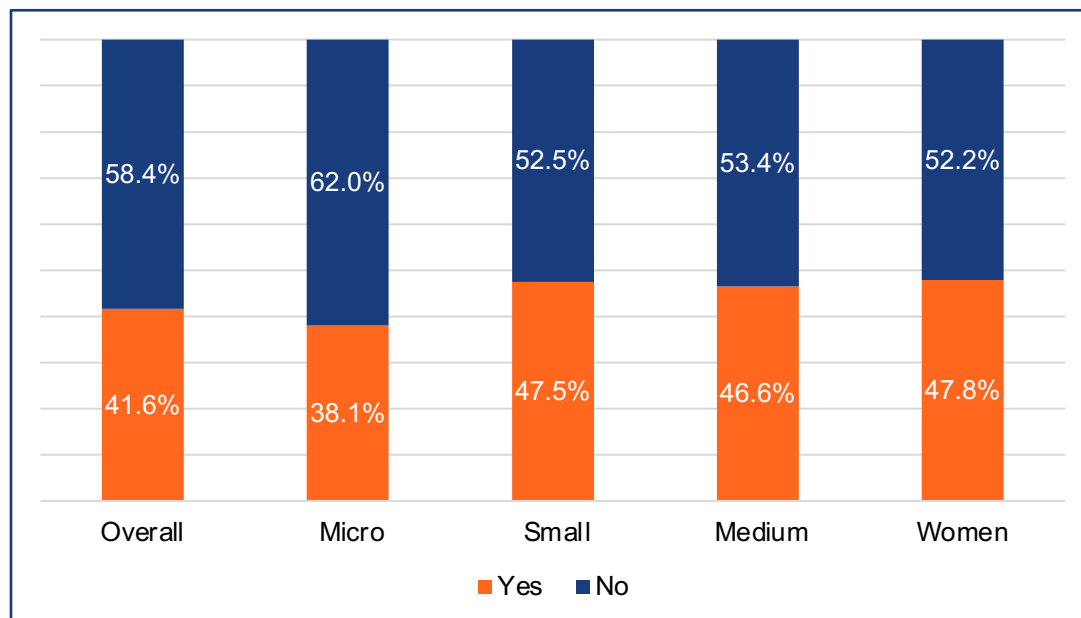
Inability to access formal finance poses a significant constraint to MSMEs

Own capital is the primary source of finance for MSMEs

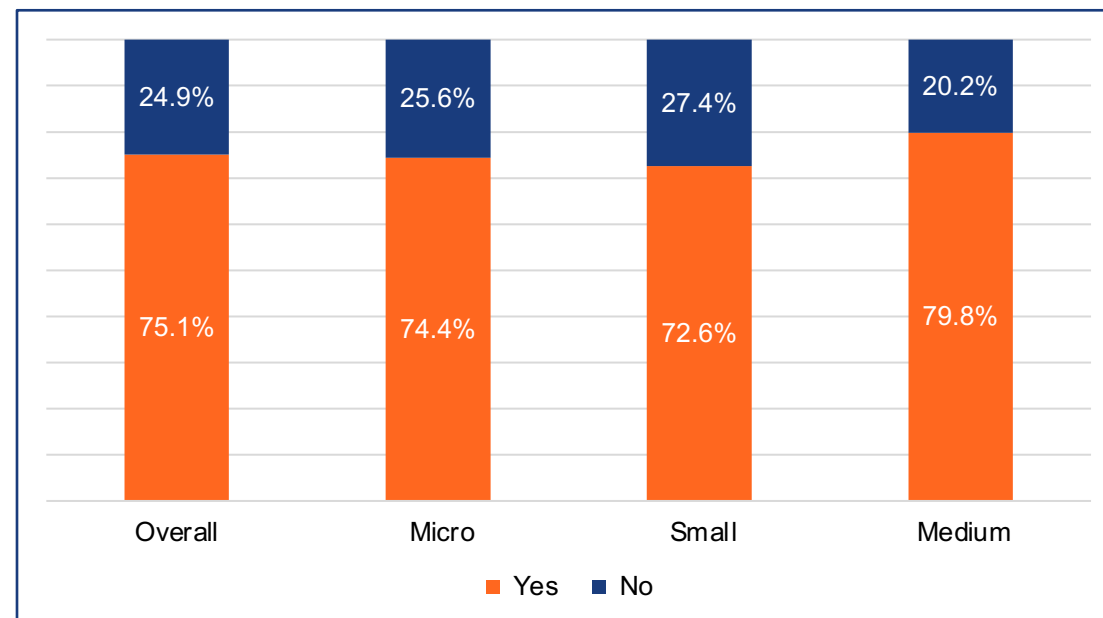


As MSMEs enhance their digital footprint through integration with e-commerce platforms, they are able to improve access to finance

Percentage of integrated MSMEs reporting whether access to loan has improved since joining e-commerce platforms



Percentage of non-integrated MSMEs reporting whether their ability to raise external finance would have improved on joining e-commerce platforms



About 12% of integrated enterprises indicated that they had been able to access collateral-free loans from fintech companies or non-banking financial corporations by linking their earnings on e-commerce platforms to their NBFC loan account

Policy Recommendations based on IDIs

- Need for consolidation and rationalisation of existing schemes & effective co-ordination between Central and State governments
- Leverage One District One Product programme to promote exports and e-commerce
- Simplification of GST regime to reduce compliance burden with respect to issue of principal place of business
- Greater support required from e-commerce platforms for market development assistance, supply chain & logistics management and enhancing customer service
- Greater collaboration between e-commerce platforms & fintech companies

As economies rapidly digitalise, MSMEs will need to embrace digital solutions to compete and survive

- E-commerce platforms can serve as a promising driver of business growth for MSMEs
 - *Integrated firms report improvement in key performance indicators (total sales and profit margins); investment in employees, machinery and equipment (including software); innovation (in products and business processes) and access to finance*

Two issues

- While there has been a paradigm shift towards online purchases by consumers after Covid-19, will e-commerce sales serve as a sufficiently and reliable source of revenue in the long run?
- For firms that are unable to join e-commerce platforms, technology may represent a survival threat rather than an opportunity:
 - *Given that the integrated firms are better off on average than non-integrated firms, such differences in market access on account of e-commerce platforms can exacerbate inequities between firms*
 - *Policymakers and other stakeholders must be mindful of these potential inequities and seek to bridge the divide between the integrated and non-integrated firms*
 - *Bridging the gap between integrated and non-integrated firms will not only require investments in technology, digital skills, information, and other factors that are complementary to digital adoption, but also aim to enhance the productivity of MSMEs by providing them with infrastructure services, financial services, managerial and business skills and enterprise support and training*