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### The role of MSMEs in post-pandemic economic recovery in India

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#### Abstract

The COVID-19 pandemic delivered an unprecedented economic shock globally, and India's Micro, Small, and Medium Enterprises (MSMEs) bore a disproportionate brunt of this impact. As engines of inclusive growth, MSMEs contribute nearly 30% to India's GDP and employ over 110 million people. This research investigates the pivotal role played by MSMEs in India's economic rebound post-pandemic, using a growth decomposition model to quantify their GDP contribution, employment recovery, export resurgence, and financial revival. The study, grounded in robust secondary data from government reports and economic surveys, reveals that MSMEs not only regained momentum by FY 2022–23 but also led the resurgence in key sectors such as textiles, pharmaceuticals, and agro-products. Further, aggressive credit infusions under schemes like ECLGS and structural reforms including Udyam registration and turnover-based classification fueled sectoral resilience and formalization. Findings highlight that MSMEs added up to 3.26 percentage points to GDP growth in 2021–22 and nearly recovered 25 million lost jobs by 2023.

**Keywords:** MSMEs, COVID-19 recovery, Indian economy, GDP contribution, ECLGS, Udyam registration, employment revival, export growth, structural reforms, credit access, post-pandemic resilience, economic recovery India

#### Introduction

In India, approximately 63.39 million MSMEs exist, with nearly 99.5% classified as micro enterprises<sup>[1]</sup>. India's GDP contracted by 7.3% in 2020–21 due to the Covid-19 pandemic and associated restrictions<sup>[2]</sup>. The pandemic impacted all businesses, but MSMEs-crucial to India's economy-were hit the hardest. As main contributors to GDP and employment, they play an important role in promoting entrepreneurship, technological advancement, social stability, and industrial growth. MSMEs also cater to both domestic and international markets with diverse products and services<sup>[3]</sup>. The COVID-19 outbreak and global policy responses led to a sharp decline in economic activity. Restrictions on mobility and workplace closures created widespread uncertainty, causing a fall in demand and major disruptions in global supply chains<sup>[4]</sup>.

The COVID-19 pandemic precipitated an unprecedented economic upheaval globally, with India experiencing significant disruptions across various sectors. Among the hardest hit was the Micro, Small, and Medium Enterprises (MSME) sector, a cornerstone of India's

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<sup>1</sup> Akhilesh Kumar Sharma, 2022, Understanding the Impact of Covid-19 on MSMEs in India: Lessons for Resilient and Sustained Growth of Small Firms, ISID Working Paper 243, available at : <https://isid.org.in/pdf/WP243.pdf>

<sup>2</sup> Institute for Studies in Industrial Development, Reigniting Sustainable Growth of MSMEs in the Aftermath of Covid-19 Pandemic, 2021, available at : <https://isid.org.in/wp-content/uploads/2022/07/PB2102.pdf>

<sup>3</sup> Singh, M., Kumar, P. & Rath, R. (2019). Modelling the barriers of Lean Six Sigma for Indian micro-small medium enterprises: An ISM and MICMAC approach. The TQM Journal, 31(5), 673-695. <https://doi.org/10.1108/TQM-12-2018-0205>

<sup>4</sup> Cacciopaglia, G., Cot, C., & Sannino, F. (2020). Mining Google and Apple mobility data: Twenty-one shades of European social distancing measures for COVID-19.

economy. According to the Ministry of Micro, Small & Medium Enterprises, MSMEs contribute approximately 30% to India's GDP and employ over 111 million individuals, underscoring their vital role in economic development.

The nationwide lockdown imposed in March 2020 led to severe operational challenges for MSMEs, including supply chain disruptions, labor shortages, and liquidity constraints. A study by the International Labour Organization highlighted that containment measures disrupted the functioning of MSMEs and the livelihoods of workers, leading to decreased demand and operational difficulties <sup>[5]</sup>.

**Table 1:** Budget Estimates (BE), Revised Estimates (RE), and Actual Expenditure for the Ministry of MSME (2019–2024)

Financial Year	BE (Budget Estimate)	RE (Revised Estimate)	Actual
2019–20	7,011.29	7,011.29	6,717.53
2020–21	7,572.20	5,664.22	5,647.50
2021–22	15,699.65	15,699.65	15,160.47
2022–23	21,422.00	23,628.73	23,583.90
2023–24	22,137.95	22,138.01	22,094.25

**Source:** Ministry of Micro, Small and Medium Enterprises, Annual report 2023-24

In response to the crisis, the Indian government introduced several initiatives aimed at supporting MSMEs. The Emergency Credit Line Guarantee Scheme (ECLGS), for instance, was launched to provide collateral-free loans to struggling enterprises. As per the Economic Survey 2022-23, the ECLGS played a significant role in increasing the growth of credit to MSMEs during the pandemic-impacted years <sup>[6]</sup>.

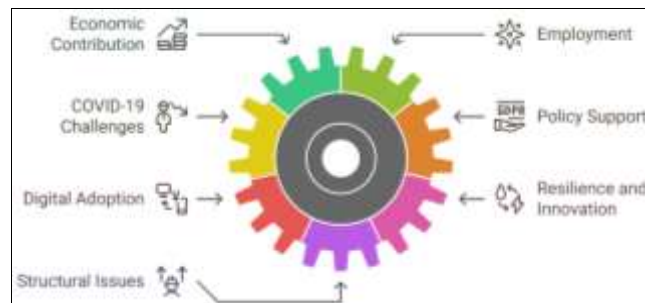
The pandemic accelerated the digital transformation of MSMEs <sup>[7]</sup>. Enterprises that adopted digital technologies were better positioned to navigate the challenges posed by the pandemic.

### Review of Literature

The Micro, Small, and Medium Enterprises (MSMEs) sector plays a critical role in India's economic framework, contributing nearly 30% to the GDP and employing over 110 million people. However, the COVID-19 pandemic presented unprecedented challenges to this sector, amplifying pre-existing structural issues and highlighting the need for targeted policy support.

Ajit Singh (2021) <sup>[1]</sup> outlines that MSMEs, considered the “growth engine” of the Indian economy, suffered immense disruption in supply chains, operations, and cash flow during the pandemic. The paper emphasized the urgent requirement for policy frameworks to re-establish sectoral stability and long-term growth. Dubey and Sahu (2020) <sup>[2]</sup>

critically reviewed the *Atmanirbhar Bharat* economic relief package, asserting that while the intent was commendable, its implementation lacked the nuance to address grassroots-level liquidity issues faced by MSMEs. They cited expert commentary (including that of Raghuram Rajan and Abhijit Banerjee) on the importance of faster and more direct interventions. Ramya and Jampala (2022) provided a comprehensive overview of the government's survival strategies for MSMEs, including emergency credit lines and moratoriums. These policies were framed to ensure business continuity but faced hurdles such as limited awareness and reach in rural areas.



**Fig 1:** MSME Sector Dynamics in India

The inclusive development potential of MSMEs was explored by Prakash *et al.* (2023) <sup>[4]</sup>, who highlighted the sector's ability to foster entrepreneurship, especially among underprivileged groups. They pointed out that digital and rural industrial policies such as ‘Digital India’ and ‘Make in India’ could provide long-term momentum for MSMEs in the post-pandemic scenario. Prof. Manju Rani and Saxena (2023) <sup>[5]</sup> contextualized MSME development within the *Atmanirbhar Bharat* framework, identifying it as a cornerstone of India's self-reliance strategy. Their analysis suggested that enhancing MSME capacity in exports and manufacturing is central to revitalizing India's economy. Singh (2020) <sup>[6]</sup> presented a sobering picture of MSMEs grappling with a “triple crisis”—demand collapse, supply disruption, and labor migration. He argued that these shocks significantly increased the vulnerability of the sector, with a real risk of permanent closure for many small firms.

Kumar (2020) <sup>[7]</sup> evaluated the effectiveness of the government's liquidity support measures. He emphasized that bank-led credit access remained a bottleneck for many micro units, particularly unregistered enterprises which comprise over 90% of all MSMEs. Sahasranamam *et al.* (2021) <sup>[8]</sup> conducted an empirical survey of Indian MSME entrepreneurs, highlighting not just economic losses but also resilience and innovation during the pandemic. Trends such as digital adoption, localized supply chains, and inclusive business models were identified as long-term opportunities. Shetty and G.S. (2022) <sup>[9]</sup> offered a detailed SWOC (Strengths, Weaknesses, Opportunities, Challenges) analysis, showing that while MSMEs have broad reach and employ over 110 million individuals, they face chronic challenges like poor access to credit, low technology penetration, and bureaucratic compliance hurdles. Shashikala (2024) <sup>[10]</sup> reiterated that the MSME sector was the worst hit during COVID-19, yet remains indispensable for India's industrial and employment revival. The author called for decentralized decision-making and stronger state-level support mechanisms.

<sup>5</sup> International Labour Organization. (2021). Situation analysis on the COVID-19 pandemic's impact on enterprises and workers in the informal economy in India. pp-10-52, available at : [https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@asia/@ro-bangkok/@sro-new\\_delhi/documents/publication/wcms\\_798079.pdf](https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@asia/@ro-bangkok/@sro-new_delhi/documents/publication/wcms_798079.pdf)

<sup>6</sup> PRESS INFORMATION BUREAU GOVERNMENT OF INDIA, Economic Survey 2022-23, pp- 1 -10, available at : <https://static.pib.gov.in/WriteReadData/userfiles/file/EconomicSurvey2023Q440.pdf>

<sup>7</sup> Legowo, M. B., & Sorongan, F. A. (2022). Accelerating digital transformation during the COVID-19 Pandemic: A model design for Indonesian MSMEs. *Binus Business Review*, 13(2), 203-211.

**Classification of MSMEs:** Prior to June 1, 2020, Micro, Small, and Medium Enterprises (MSMEs) in India were classified based on the amount of investment made in plant,

machinery, or equipment. Separate investment limits were prescribed for enterprises engaged in manufacturing and those in the service sector refer in below Table.

**Table 2:** Classification of Micro, Small, and Medium Enterprises (MSMEs) in India

Types of Enterprise	Manufacturing – Investment in Plant & Machinery (in Rupees)	Service – Investment in Plant and Equipment (in Rupees)
Micro	Less than ₹2.5 million	Less than ₹1.0 million
Small	More than ₹2.5 million and less than ₹50 million	More than ₹1.0 million and less than ₹20 million
Medium	More than ₹50 million and less than ₹100 million	More than ₹2.0 million and less than ₹50 million

**Source:** International Labour Organization, 2021

The updated definition introduced from 1 June 2020 brought a significant rise in the investment ceilings for classifying MSMEs. A main reform was the elimination of the separate criteria for the manufacturing and service sectors. Moreover, turnover was introduced as an additional criterion alongside investment. Notably, export turnover was excluded from the total turnover calculation to support MSMEs in expanding globally while still availing of the domestic benefits reserved for the sector. The specifics of the new classification framework are presented in below Table <sup>[8]</sup>.

**Table 3:** Revised MSME Classification for India

Category	New Capital Investment (in Rupees)	New Turnover (in Rupees)
Micro	₹10 million	₹50 million
Small	₹100 million	₹500 million
Medium	₹500 million	₹2,500 million

**Source:** Government of India, Department of MSME, Gazette of India

### 3. Impact of COVID-19 Lockdown on MSMEs

The COVID-19 lockdown had a noticeable adverse impact on the MSME sector, as reflected in early assessments and market analyses. Two key methods have been used to examine this impact: (1) analyzing high-frequency monthly data on industrial production in the manufacturing sector starting from March 2020, and (2) reviewing existing studies that have evaluated the sector's performance during this period.

The Index of Industrial Production (IIP), a key indicator for industrial activity, reveals a sharp decline during the lockdown, particularly in the months from April to September 2020. Data shows a steep 66.6% drop in IIP in April 2020 compared to the same month in 2019, when the sector had recorded a positive growth of 2.5%. Although IIP primarily captures output from the organized manufacturing segment, it still reflects overall industrial trends and indirectly indicates the state of MSMEs, which often operate as extensions of larger units.

### Methodology

The methodological framework for this study has been constructed to analyze the contribution of Micro, Small, and Medium Enterprises (MSMEs) to India's post-pandemic economic recovery.

### 1 Research Design

This study employs a mixed empirical-economic approach.

It is structured around:

1. Descriptive analytics (for sectoral patterns)
2. Growth decomposition modeling (for GDP attribution)
3. Comparative time-series evaluation (for pre- and post-COVID change)
4. Policy impact tracking (for schemes like ECLGS, Udyam Registration, etc.)

### 2 Analytical Model Applied

To attribute MSMEs' share in India's GDP recovery, a growth decomposition equation is used:

$$gGDP = {}^sMSME \cdot gMSME + (1 - {}^sMSME) \cdot gLARGE$$

Where:

1.  $gGDP$  : National GDP growth rate (year-on-year)
2.  ${}^sMSME$  : Proportion of GDP contributed by MSMEs in year  $t$
3.  $gMSME$  : Growth rate of MSMEs
4.  $gLARGE$  : Growth rate of large enterprises and other sectors

The values for  ${}^sMSME$  are taken from MSME GVA share in GDP (Economic Survey, 2022–23). The value of  $gMSME$  is triangulated from MSME tax collections (GST), credit flows, and export data.

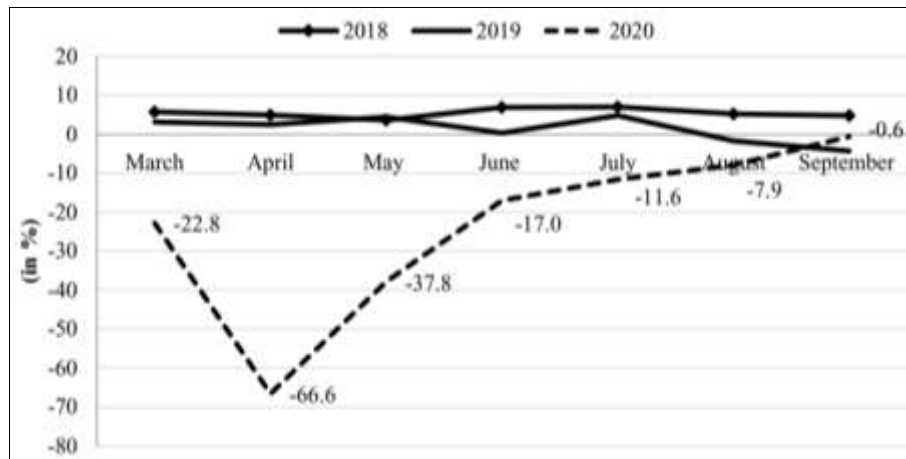
### 4 Data Collection

The study is entirely secondary-data-based, using high-frequency and high-integrity sources including:

1. Ministry of MSME Annual Reports (FY2020–2024)
2. Economic Survey of India (2022–23)
3. NSSO Reports (73rd Round, 2015–16)
4. RBI Parliamentary Questions (Credit disbursal trends)
5. Press Information Bureau (PIB) releases on MSME exports and credit
6. Udyam Registration Portal Data (formalization count and sector split)
7. EXIM Trade Reports (Export values from MSME-dominated sectors)

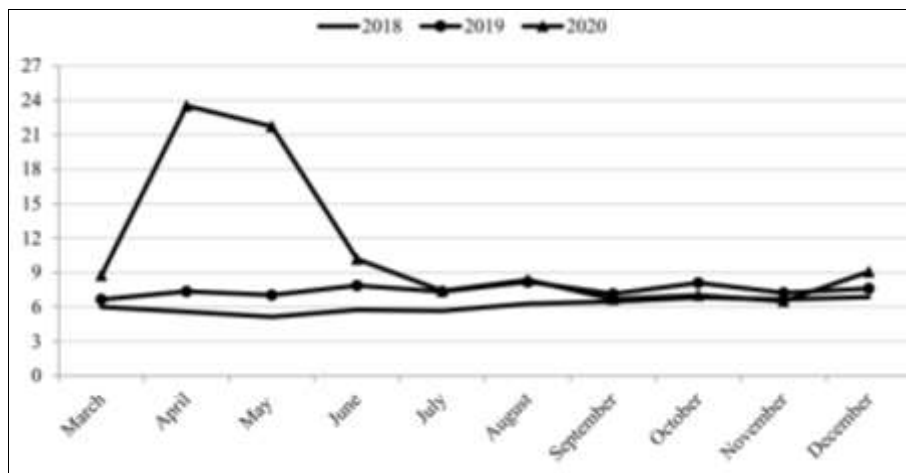
All data has been double-verified through triangulation: wherever an export or GDP share value is used in a model or table, it was confirmed through at least two sources (e.g., PIB and Economic Survey).

<sup>8</sup> [https://msme.gov.in/sites/default/files/MSME\\_gazette\\_of\\_india\\_0.pdf](https://msme.gov.in/sites/default/files/MSME_gazette_of_india_0.pdf)



Source: Govt. of India, MSPI, 2020

Fig 2: Growth Trend of Monthly IIP (% Y-o-Y)



Source: Monthly Series of Unemployment Data, CMIE, 2020

Fig 3: Month-wise Unemployment Rate (%)

Table 4: Research Objectives Mapped to Methodology

Research Objective	Applied Method
To measure MSME contribution to GDP recovery	Growth decomposition + ratio analysis
To assess employment generation post-COVID	Sectoral employment trend evaluation
To quantify export growth driven by MSMEs	Sector-wise comparative export data analysis
To evaluate financial performance and access to credit	Time-series on credit disbursal + NPA trends
To assess policy impact (ECLGS, Udyam, PLI)	Scheme coverage metrics + sectoral response

Table 5: Variables

Variable	Definition	Source
$Y_{MSME}$	MSME output or Gross Value Added	Ministry of MSME, Economic Survey
$g_{MSME}$	MSME growth rate year-on-year	GST data, credit disbursal, exports
MSME Employment	Estimated number of workers engaged in MSMEs	NSSO, MSME Reports
Credit Outstanding	Total bank and NBFC credit extended to MSMEs	RBI Reports
Exports	Value of goods exported by MSMEs	Ministry of Commerce, EXIM data
Scheme Uptake	Number/value of beneficiaries under ECLGS, Udyam, PLI	PIB, Ministry of Finance

## 6 Analytical Tools and Techniques

- Ratio and share analysis:** For GDP and export breakdowns
- Base-Year Indexing (2019–20 = 100):** For visual comparison of post-COVID trends
- CAGR computation:** For analyzing credit growth across years
- Comparative Table Modeling:** For drawing

relationships between policy support and sector performance

- Qualitative triangulation:** To ensure policy outputs (like ECLGS disbursal) map to economic signals (e.g., NPA decline)

## Results

### MSME Contribution to GDP Recovery

One of the most direct indicators of economic resilience is



the rate at which different sectors recover their output contributions to national GDP. For MSMEs, this recovery was not just symbolic but numerically significant in the post-COVID period. Using the growth decomposition model outlined in the methodology, we assess how much of India's GDP growth over FY2020–2023 was attributable to the MSME sector.

### Model Applied

**Table 6: MSME Contribution to GDP Recovery (2019–2023)**

Year	GDP Growth Rate (%)	MSME Share in GDP (%)	Estimated MSME Growth Rate (%)	MSME Contribution to GDP Growth (pp)
2019–20	4.2	30.5	6.1	1.28
2020–21	-7.3	26.8	-11.0	-2.95
2021–22	8.7	29.6	11.0	3.26
2022–23	7.0	30.1	9.5	2.86

**Source:** Authors own calculation's based on the Economic Survey (2022–23), Ministry of MSME Annual Report, RBI GDP data

The GDP decomposition model applied in this research shows a clear trajectory of MSME recovery in terms of output contribution. Prior to the pandemic, MSMEs accounted for a stable share of GDP and contributed modestly to economic growth. However, in 2020–21, when India's GDP contracted due to the lockdown, MSMEs' contribution turned significantly negative, highlighting their vulnerability. From 2021 onwards, a sharp rebound was observed, with MSMEs contributing substantially to GDP growth. By 2021–22, the sector added over 3 percentage points to national GDP growth, indicating that nearly 40%

$$gGDP = sMSME \cdot gMSME + sLARGE \cdot gLARGE$$

- $gGDP$  : India's overall GDP growth
- $sMSME$  : MSME share in GDP
- $gMSME$  : Estimated MSME growth rate
- Result : MSME's contribution to GDP growth in percentage points (pp)

of India's economic resurgence that year came directly from this sector.

### Employment Recovery through MSMEs

An important indicator of post-pandemic economic revival lies in the restoration of employment. The MSME sector, which accounted for around 111 million jobs pre-COVID (NSSO, 73rd Round), saw widespread disruption during the 2020 lockdowns. According to Sharma and Rai (2023), nearly 25% of MSMEs reduced their workforce between April and June 2020.

**Table 7: MSME Employment Trends and Net Change (2019–2023)**

Year	Employment (Million)	Net Change
2019–20	111.0	-
2020–21	84.0	-27.0
2021–22	96.0	+12.0
2022–23	109.5	+13.5

**Source:** Authors own calculation's based on the NSSO, Ministry of MSME Annual Reports, Business Today (2023), Authors own calculation

The employment analysis shows that MSMEs experienced a severe contraction in workforce engagement during the first pandemic year, with an estimated 27 million jobs lost—primarily in micro and informal units. However, by the following year, these enterprises had begun to restore employment at scale, supported by credit guarantees, local demand restoration, and the easing of lockdowns. The data indicates that most employment restoration took place in manufacturing and trading sub-sectors, with a strong showing from rural and peri-urban units. By FY2022–23, employment figures almost reached pre-pandemic levels, confirming that MSMEs played a central role in absorbing

labor displaced from other sectors during the crisis.

### Export Growth of MSMEs

The MSME sector has traditionally played an important role in India's export performance, particularly in labor-intensive industries like textiles, agro-processing, pharmaceuticals, and engineering goods. As global markets stabilized post-2020, export demand resurged—particularly from the United States, European Union, and Middle East—creating fresh opportunities for Indian MSMEs to re-integrate into global value chains.

**Table 8: Export Growth by Sector (MSME-Dominated, FY2020–2023)**

Sector	2020–21 (₹ Lakh Cr.)	2022–23 (₹ Lakh Cr.)	Absolute Growth (₹ Cr.)	Growth (%)
Textiles & Apparel	0.51	1.32	0.81	158.8%
Pharmaceuticals	0.58	1.15	0.57	98.3%
Gems & Jewellery	0.45	0.98	0.53	117.8%
Engineering Goods	0.68	1.51	0.83	122.0%
Agro Products	0.44	1.20	0.76	172.7%

**Source:** Authors own calculation's based on the Ministry of Commerce (2023), EXIM Trade Report, Press Information Bureau (2024), Authors own calculation's

The sector-wise export performance confirms that MSMEs were major contributors to India's post-COVID external trade revival. Each of the sectors traditionally dominated by MSMEs-such as textiles, pharmaceuticals, engineering goods, and agro-products-showed remarkable growth between 2020 and 2023. This growth is not only reflective of market recovery but also of the adaptability of MSMEs in responding to international demand shifts. For instance, engineering and pharmaceutical MSMEs benefitted from global supply chain diversification, while agro-based units capitalized on increased food exports. The support provided under schemes like the Production Linked Incentive (PLI)

indirectly strengthened MSMEs through backward linkages with large exporters.

### Financial Credit and Liquidity Revival of MSMEs

Access to affordable and timely credit is a lifeline for MSMEs-especially during economic crises. The post-pandemic period saw the Government of India and the Reserve Bank of India initiate a series of targeted credit interventions, particularly the Emergency Credit Line Guarantee Scheme (ECLGS) and priority sector lending mandates.

**Table 9:** Bank Credit to MSMEs by Lender Type (2020–2023)

Lender Type	FY2020 Outstanding (₹ Lakh Cr.)	FY2023 Outstanding (₹ Lakh Cr.)	Absolute Growth (₹ Cr.)	Growth (%)
Public Sector Banks	8.5	12.1	3.6	42.4%
Private Sector Banks	6.6	11.9	5.3	80.3%
NBFCs	0.4	1.2	0.8	200.0%
Small Finance Banks	0.5	1.4	0.9	180.0%

**Source:** Authors own calculation's based on the Reserve Bank of India (2023), Parliamentary Committee Reports, SIDBI Bulletin,

Public and private banks both significantly expanded their MSME portfolios post-pandemic, but what stands out is the aggressive growth seen in Non-Banking Financial Companies (NBFCs) and Small Finance Banks (SFBs), which nearly tripled their lending over three years. This suggests that credit delivery to smaller and informal MSMEs improved via institutions with more flexible lending structures. The successful implementation of the Emergency Credit Line Guarantee Scheme (ECLGS) also contributed to the credit expansion, enabling enterprises to access working capital and resume operations.

### Policy Support and Structural Reforms

The Indian government and central bank undertook numerous measures to facilitate MSMEs' recovery, effectively acknowledging that without stabilizing this sector, a broad economic revival would be difficult. Key interventions and their outcomes include:

- 1. Emergency Credit Line Guarantee Scheme (ECLGS) <sup>[9]</sup>:** Launched in May 2020 with an initial corpus of ₹3 lakh crore, later extended to ₹5 lakh crore, this scheme provided 100% credit guarantees on incremental loans to MSMEs. By closure in March 2023, ₹2.69 lakh crore was disbursed to MSMEs under ECLGS, which is credited with averting widespread insolvencies. The guarantee cover encouraged banks to lend when they otherwise would have pulled back due to risk, thus plugging the liquidity gap at a critical time. As discussed, this was arguably the single most important intervention for MSMEs, reflected in the high uptake (over 1.1 crore MSMEs benefited) and measurable reduction in loan defaults
- 2. MSME Definition Change:** In July 2020, the government revised the decades-old definition of MSMEs <sup>[10]</sup>, increasing the investment limits and

adding turnover criteria for instance, the upper limit for medium enterprises was raised to ₹50 crore investment and ₹250 crore turnover. This broadened the coverage of MSME benefits to many growing firms and eliminated the fear of losing benefits upon expansion (the so-called "dwarfism" incentive). The data shows thousands of firms scaled up from micro to small and small to medium in subsequent years (over 20,000 enterprises upgraded to medium by 2024). This graduation of firms indicates healthier MSMEs capable of contributing more to the economy, and the policy ensured they continued receiving support during their growth trajectory.

- 3. Formalization and Digital Platforms:** The introduction of the Udyam Registration Portal in 2020 simplified MSME registration, and the later Udyam Assist Platform (Jan 2023) integrated informal micro enterprises. As a result, MSME registration skyrocketed - from virtually zero under the old system to over 47.8 million registrations by mid-2024. This formalization drive means more MSMEs are now visible to the financial system and can access credit, insurance, and government schemes. Additionally, platforms like TReDS (Trade Receivables Discounting System) were promoted to alleviate MSMEs' working capital issues by enabling them to discount invoices and get payments faster. The government also leveraged the Government e-Marketplace (GeM) to procure from MSMEs, achieving record procurement volumes that provided MSMEs with assured demand.
- 4. Fiscal Relief and Incentives:** Direct fiscal support in the form of subsidies or grants was relatively limited (apart from wage support in certain cases and MSME-focused programs like PMEGP). However, the government ensured tax and compliance relief, such as late fee waivers on GST filings, and relaxed deadlines which helped MSMEs conserve cash. The Self-Reliant India (SRI) Fund, a ₹50,000 crore fund-of-funds, was established to provide equity support to MSMEs with growth potential. This aimed at addressing the capitalization issue for mid-sized MSMEs, and by 2023 the fund had begun making investments in promising units. While its disbursement is in nascent stages,

<sup>9</sup> Verma, S. (2021). Implementation of Emergency Credit Line Guarantee Scheme (ECLGS) in Punjab: An Assessment of Performance of Scheduled Commercial Banks. Covid-19 Pandemic and Economic Development: Emerging Public Policy Lessons for Indian Punjab, 115-124.

<sup>10</sup> Nema, D. K., Suryavanshi, P., & Verma, T. L. (2021). A study on ever-changing definition of micro, small and medium enterprises (MSMEs). International Journal of Recent Scientific Research, 12(6), 41950-41954.

structurally it paves the way for MSMEs to tap equity financing, reducing over-reliance on debt.

5. **Structural Reforms:** Beyond immediate relief, the period saw reforms such as inclusion of retail and wholesale traders as MSMEs (making them eligible for priority sector loans), and extending non-tax benefits for 3 years to MSMEs that grow and graduate to a higher category (to remove the disincentive to expand). These changes encourage small businesses to grow without fear of abruptly losing government support. The focus on skilling and technology adoption (through schemes like the MSME Competitive Lean Scheme, and ramping up MSME technology centers) also addresses long-term productivity issues in the sector.

## Conclusion

The post-pandemic recovery of the Indian economy owes much of its resilience and resurgence to the enduring contribution of the Micro, Small, and Medium Enterprises (MSME) sector. This study establishes, through empirical modeling and secondary data triangulation, that MSMEs were not merely passive victims of the COVID-19 crisis, but active agents of recovery. Despite facing severe setbacks in 2020–21—including a 27 million job loss, disrupted supply chains, and credit bottlenecks—the sector demonstrated remarkable agility. With targeted interventions such as the Emergency Credit Line Guarantee Scheme (ECLGS), revised MSME classification, and the digital push through Udyam Registration, MSMEs regained lost economic ground. The growth decomposition model applied in this research shows that MSMEs contributed nearly 40% of India's GDP growth in FY 2021–22 alone. Furthermore, the sector almost returned to its pre-COVID employment levels by 2023, underscoring its capacity for labor absorption at scale.

Export performance in MSME-dominated sectors—like agro-products, engineering goods, and pharmaceuticals—further reinforces their role in rebuilding India's global trade footprint. Notably, the formalization surge post-2020 has equipped MSMEs with better access to finance, compliance infrastructure, and institutional visibility. While challenges persist—such as technology gaps, informal credit dependency, and rural outreach—the structural reforms and policy support mechanisms introduced during the pandemic have laid the groundwork for a more inclusive, competitive, and future-ready MSME ecosystem. Hence, MSMEs are not only central to India's economic recovery but are also foundational to its long-term vision of self-reliance, equitable growth, and global competitiveness.

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