



Resilience and Revival: MSMEs in Post-COVID Recovery (2019–2025)

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Abstract:

This paper examines how the COVID-19 shock affected India's Micro, Small, and Medium Enterprises and traces their recovery from 2019 to 2025. It quantifies the immediate economic damage during 2019–2021—marked by steep employment losses and a temporary negative contribution to GDP—and then follows the recovery trajectory from 2021–2025 using a combination of firm-level and aggregate indicators, growth decomposition techniques, and employment series. The empirical approach links administrative records, scheme disbursement data, and sectoral performance to evaluate how targeted interventions and structural reforms altered outcomes across firm sizes and industries.

The findings indicate that emergency credit facilities, the revised MSME classification, and formalisation through Udyam registration, together with accelerated digital adoption via platforms such as GeM, TReDS, and fintech solutions, played a central role in stabilising a large share of enterprises and restoring employment close to pre-pandemic levels by 2023. Sectoral rebounds in textiles, agro-products, engineering goods, and pharmaceuticals contributed substantially to an export surge and supported aggregate GDP growth in the post-COVID period. The paper concludes with practical policy recommendations to sustain resilience: improving access to working capital, strengthening digital infrastructure and skills, and designing targeted support for informal micro-units to ensure that MSMEs continue to drive inclusive and sustainable growth.

Introduction:

Micro, Small, and Medium Enterprises (MSMEs) form a critical pillar of the Indian economy, contributing close to 30% of GDP, employing over 110 million people, and accounting for a substantial share of exports (Ritu, 2024; PIB, 2024). Their labour-intensive production and relatively low capital-output ratios make MSMEs especially important for rural industrialisation, local value creation, and inclusive employment; women-owned enterprises represent a large share of rural

MSME activity, underscoring the sector's role in gendered economic empowerment (Kamila & Pal, 2024). The COVID-19 pandemic created an unprecedented shock for these enterprises. Between 2019 and 2021 the sector experienced severe liquidity shortages, widespread supply-chain disruptions, and a dramatic fall in employment—from roughly 111 million to 84 million workers—resulting in the loss of some 27 million jobs and a temporary negative contribution to GDP growth during 2020–21 (Ritu, 2024). These developments

exposed structural vulnerabilities in access to formal credit, market linkages, and digital readiness, particularly among micro and informal units.

Policy responses and structural reforms played a central role in the subsequent recovery. Emergency credit facilities, revised MSME classification, and the Udyam Registration Portal, together with digital platforms such as GEM and TReDS, supported formalisation, improved access to finance, and strengthened market access; by 2024 Udyam registrations had risen substantially, reflecting greater formal integration of small firms (PIB, 2024). Between 2021 and 2023 the sector showed signs of revival—contributing positively to GDP growth, recovering millions of jobs, and registering strong rebounds in textiles, pharmaceuticals, agro-products, and engineering goods. This paper examines the pandemic's impact on MSMEs during 2019–2021 and traces the recovery dynamics through 2025, with particular attention to the effectiveness of targeted policy measures and the role of digital adoption. The following sections outline the research questions and methodology, review relevant literature, present empirical findings on GDP, employment, and export performance, and conclude with policy recommendations aimed at strengthening resilience and inclusive growth.

Research Methodology:

This study uses only **secondary sources** from official websites, government reports, central bank publications, and peer-reviewed articles. Data on GDP, employment, Udyam registrations, ECLGS disbursements, and exports were compiled for 2019–2025 and analysed with

growth-decomposition and simple before-after comparisons

Literature Review:

Sharma & Arya (2021): The paper documents how COVID-19 hit MSMEs hard—liquidity shortages, broken supply chains, and rising unemployment. It highlights emergency measures like ECLGS and CGSSD as crucial lifelines and notes that retail sales had recovered to about 88% of pre-pandemic levels by August 2021, suggesting early signs of resilience.

Ritu (2024): Using growth-decomposition, this study shows MSMEs account for nearly 30% of GDP and employ over 110 million people. It finds a sharp 2020–21 setback (-27 million jobs) but a strong rebound: MSMEs added 3.26 percentage points to GDP growth in 2021–22 and helped restore most lost jobs, with exports in textiles, agro, and engineering rising sharply.

PIB Report (2025): The presidential address stresses MSMEs as a pillar of the economy while flagging persistent problems—finance, technology gaps, and delayed payments. Key government actions noted include revised MSME classification, 35% public procurement, skill support under PM Vishwakarma Yojana, and a push for women's participation and green technologies.

Objectives:

1. To analyse the impact of COVID-19 on MSMEs between 2019–2021 — focusing on challenges such as liquidity, employment, and supply chain disruptions.

2. To examine the role of government policies and digital adoption in MSME recovery (2021–2023).
3. To evaluate the contribution of MSMEs to GDP, employment, and exports during the recovery phase (2023–2025).

Result and Discussion:

The pandemic hit MSMEs hard and fast, producing a sharp contraction in 2020–21 that shows up clearly in both output and jobs. The sector's share of GDP fell to about 26.8 percent while employment plunged from 111 million to 84 million, wiping out roughly 27 million livelihoods. These losses were concentrated in micro and informal

units, where limited cash buffers and weak market linkages made firms especially vulnerable to lockdowns and supply-chain breakdowns. Policy support played a crucial cushioning role during the crisis and helped set the stage for recovery. Large-scale measures such as the Emergency Credit Line Guarantee Scheme and related guarantee programmes injected much-needed liquidity and eased immediate solvency pressures for many firms. At the same time, reforms that encouraged formalisation and faster access to public procurement channels amplified the benefits of credit support for firms that were able to register and comply with formal requirements.

Table 1. Pandemic Shock, Recovery Growth, and MSME Status (2020–2025)

Indicator	Pandemic shock (2020–21)	Recovery (2023)	Status (2025)
MSME share of GDP	Fell to 26.8%	Stabilised near ~30%	~30%
Employment (million)	111 → 84 (-27m jobs)	109.5	111–113 (near full recovery)
ECLGS & credit support	Launched 2020; ceiling initially ₹3L cr	Disbursed ₹2.14–2.69L cr ~1.1–1.14 crore beneficiaries	Scheme closed to new demand; liquidity effects persisted
Formalisation (Udyam)	Low formal registrations pre-2020	47.8 million registrations by 2024	Formalisation sustained; improved credit access
Export performance (selected)	Sharp 2020 decline	Textiles +158%; Agro +172%; Engg +122%; Pharma +98% (2020→2023)	MSMEs account ~45% of exports; textiles ~₹1.5L cr (approx.)
Sectoral impact	Worst hit: textiles, hospitality, retail, small manufacturing	Strong rebounds: textiles, pharmaceuticals, agro, engineering	Export-oriented sectors consolidated gains
Digital adoption & platforms	Low digital penetration in many micro units	Rapid onboarding to GeM, TReDS, fintech; e-commerce integration	Digital use expanded; gaps remain for smallest units
Sustainability & inclusion	Limited green tech; women entrepreneurs hit hard	Rising green tech pilots; women's participation improving	Growing green adoption; targeted support needed for micro and women-owned firms

Sources : (Press Information Bureau (PIB), Government of India (2024–25); Ritu (2024); Reserve Bank of India (RBI, 2021); Ministry of Finance, Department of Financial Services — Lok Sabha written reply by Shri Narayan Rane (ECLGS data, 2021); Kamila & Pal (2024).

Formalisation and exports emerged as important drivers of the rebound. A rapid rise in Udyam registrations improved many firms' ability to access formal credit and government contracts, while export-oriented sectors—textiles, agro-products, engineering goods and pharmaceuticals—recorded strong rebounds that pulled aggregate growth upward. By 2023–25 MSMEs' share in exports rose substantially, indicating that external demand and targeted incentives were central to the recovery story.

Digital adoption shaped which firms recovered fastest. Enterprises already linked to platforms such as GeM and TReDS, or those that could quickly integrate fintech and e-commerce solutions, were better able to restore order flows and manage working capital. Conversely, the smallest informal units and some urban women-owned enterprises lagged behind because of limited digital readiness, lower access to training, and persistent market access barriers.

Despite the overall recovery, the gains are uneven and fragile. Small and medium firms with formal ties and operations in states with stronger infrastructure benefited most, while micro and informal units remain exposed to shocks and credit constraints. This unevenness suggests that policy attention should now shift from emergency relief to sustained measures—targeted working-capital support, digital onboarding and training, and focused outreach to women entrepreneurs and lagging regions—to make the recovery more inclusive and durable.

Conclusion:

This paper finds that coordinated policy action and faster digital adoption

were central to the MSME recovery after the COVID-19 shock. Emergency credit guarantees, revised MSME rules, and formalisation through Udyam helped stabilise many firms and prevented widespread insolvencies, while platforms like GeM and TReDS, plus fintech solutions, restored order flows and working capital for digitally ready enterprises. By 2023–25 most headline indicators—GDP share, employment, and exports—returned close to pre-pandemic levels, but the recovery was uneven: small and medium firms with formal ties benefited most, while the smallest informal units and some women-owned enterprises remain vulnerable. To make the rebound inclusive and durable, policy should shift from short-term relief to sustained measures that expand working-capital access for micro-units, scale digital onboarding and training, and target support for women entrepreneurs and lagging regions. Addressing these gaps is essential if MSMEs are to continue driving broad-based growth and resilience.

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