

“ASSESSING THE DYNAMICS OF MSME DEVELOPMENT IN BRICS ECONOMIES: A COMPARATIVE STUDY”

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ABSTRACT

The BRICS countries, which include India and four other nations, are recognized as highly promising global markets and emerging economies. Their growth rates outpace those of G-7 and G-8 nations due to their lower labor and production costs. Collectively, these nations comprise over 40% of the world's population and an estimated 22% of the global GDP. (Nisa, 2010)[1]. The BRICS nations share certain commonalities in terms of their size, as they are all characterized by large land areas, high populations, and relatively recent economic growth.

Objective: *This paper endeavors to examine the condition of MSMEs in India by drawing comparisons with other emerging economies worldwide. Specifically, the BRICS nations (Brazil, Russia, India, China, and South Africa) have been selected for comparison purposes, with a focus on evaluating the percentage of MSMEs in their respective economies based on various factors, such as their share of total enterprises, contribution to GDP, involvement in exports, capacity for employment generation, ease of doing business, and female ownership.*

Research Methodology: *This study utilizes secondary data sourced from annual reports and press releases of the relevant countries. The data is analyzed using descriptive statistics with the aid of suitable statistical software.*

Findings: *The study reveals that while Indian MSMEs are among the leaders in terms of their number and percentage of total enterprises, they fall behind other BRICS economies in their contribution to GDP and employment generation. On the other hand, Indian MSMEs outperform most of their BRICS counterparts in terms of the percentage of exports, indicating strong demand for their products on the global market. However, India's performance with respect to female ownership of MSMEs lags behind that of other nations, despite ongoing government efforts to promote women's entrepreneurship in the country.*

KEYWORDS: *BRICS, Emerging Economies, Msmes, Employment Generation, Economic Growth.*

INTRODUCTION:

The World Bank defines Micro, Small, and Medium Enterprises (MSMEs) based on the number of employees, where micro enterprises have 1-9 employees, small enterprises have 10-49 employees, and medium enterprises have 50-249 employees. [2].

At first glance, the BRICS nations may appear to have little in common as a multilateral grouping. Additionally, these countries have achieved different levels of economic development.[3]Despite their differences, the five BRICS nations share a common factor: they will significantly contribute to the expansion of the world's middle class. [4].BRICS was established in 2009 with the objective of fostering economic, political, and regional cooperation among its members. Originally known as BRIC, South Africa joined in 2010. The primary aim of BRICS nations is to promote global economic recovery, reduce potential risks in the international financial market, and encourage economic growth among member countries. Additionally, the organization aims to complement and reinforce existing bilateral and multilateral relations between its members. Economists predict that the four BRIC nations will become leading producers of manufactured goods by 2050, driven by low manufacturing costs and an abundant supply of cheap labor. The availability of inexpensive labour and low manufacturing costs has stimulated the growth of MSMEs, which have become a driving force in the global economy. Due to their low establishment costs, these enterprises generate employment and make use of a country's unused human and material resources. The expansion of MSMEs has also been included in the United Nations' 2030 agenda for sustainable development.

Literature Review:

Many governments regard entrepreneurship as the cornerstone of their economic development and, as such, actively promote entrepreneurship. Nevertheless, the emphasis should be on supporting startups with significant growth potential, rather than providing subsidies for the creation of generic businesses. [5].entrepreneurship has positive and significant relationship with economic growth[6]. During economic downturns, the employment share of small businesses typically increases due to a lack of job opportunities in larger firms or layoffs [7]. The adoption of e-commerce by small and medium-sized enterprises does not have a significant impact on their export performance, despite both exporters and non-exporters recognizing the importance of e-commerce. As a result, the adoption rate of e-commerce has not increased. [8] It is necessary to promote public-private coordination in the development and implementation of policies for small and medium-sized enterprises (SMEs). Some problematic issues in the promotion law also need to be addressed. [9].Entrepreneurial development programs are crucial for economic and industrial growth, regardless of a country's level of development. However, these programs have not yet met expectations [10]. The process of economic development heavily relies on entrepreneurship development, as it initiates and sustains the growth. The primary objective of any entrepreneurial development program is to encourage individuals to pursue entrepreneurship as a career and equip them with the necessary skills to identify and capitalize on new business opportunities. [11]. The promotion of entrepreneurship is essential for the growth and development of any economy, and the participation of women is a crucial factor in achieving economic progress [12]. Small Scale Industries (SSI) are a vital part of the Indian GDP. The SSI sector has undergone significant changes following the new industrial policy of 1991, which has also led to the emergence of large global enterprises such as MNCs. However,

this has resulted in a decrease in the growth rate of entrepreneurship and employment opportunities in the SSI sector in India [13]. The increasing trend in the number of units, employment, and market value of assets justifies that the MSME sector as a whole is the growth engine for the Indian economy. [14]. The MSME sector plays a crucial role in the development of rural India by nurturing traditional skills and knowledge and providing employment opportunities in rural areas. [15]. MSMEs have a significant impact on employment generation, contributing to self-sufficiency and promoting uniform development across society. The growth of MSMEs is influenced by government policies. [16]. The recent BRICS-MSME round table conference emphasized crucial issues and called for collaboration on trade and the promotion of entrepreneurship. An action plan was proposed to establish a favourable ecosystem. [17]. April 2020, the 'Need to Support MSMEs to Tide Over COVID-19 Crisis' federation chaired by Sergey Lavrov, the Foreign Affairs Minister of the Russian Federation, emphasized the need for cooperation among member countries to increase MSME exports and ensure their survival during the pandemic. Various sources of literature highlight the significant role played by MSMEs in the global economy. In India, MSMEs are major contributors to GDP, employment, and exports.

The objective of this study is to analyze and compare the strengths and weaknesses of Indian MSMEs with those of other emerging economies around the world.

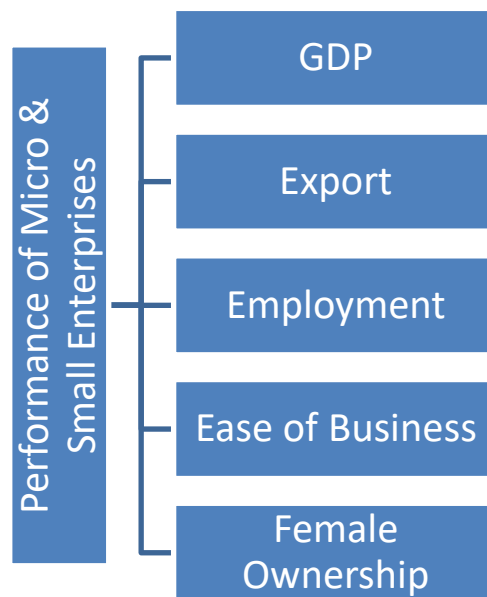


Fig.1. Conceptual Framework of Study

Objectives of the Study:

- To Study the status of MSMEs of BRICs countries.
- To compare role of MSMEs in the economies of BRICs nations on the basis of some of the key indicators like share in GDP ratio, foreign exchange earnings, employment generation, ease of doing business and female ownership.
- To identify strengths and weaknesses of MSMEs in India in comparison to other BRICS nations and suggest suitable solutions.

Research Methodology:

The following study relies on secondary sources since there is no singular source for data on the performance of MSMEs in BRICS nations. The analysis is based on annual reports and press releases from each country. Descriptive statistics are utilized for the data analysis, as it is a valuable tool for in-depth analysis. The analysis was conducted using suitable statistical tool.

Overview of MSMEs in BRICS Economies:

Following is the summary of MSMEs of selected countries:

- **Brazil:**

Instead of the commonly used term "Small and Medium-sized Enterprises" in Europe, Brazil uses "Small and Micro Enterprises" (SMEs). The classification of Brazilian SMEs is solely based on revenue, with a maximum of R\$ 4.8 million per year (~€ 1.1 million), which is considerably smaller than a micro enterprise by EU standards (€ 2 million, maximum of 10 employees). In terms of absolute numbers, Brazilian SMEs make up 99% of all Brazilian businesses, amounting to 27% of Brazil's GDP in 2011, and they provide employment for more than half of the country's formal workforce. [18]. Although they make up 99.4% of all businesses in Brazil, Micro, Small, and Medium-sized Enterprises (MSMEs) contribute only 54% to the country's formal employment and 43% of all wages and salaries. Access to public and private sector credit is one of the primary challenges faced by MSMEs, partly due to issues such as the lack of credit history or proper collateral, or the expertise to create a financial statement. [19].

- **Russia:**

Since 2005, the SME sector in Russia has experienced steady growth in terms of both SME numbers and turnover. However, the current contribution of SMEs to GDP is estimated at only 20-25%, which is significantly lower than in developed and developing countries. The regional and industrial structure of SMEs in Russia indicates that the sector is underdeveloped. More than half (57%) of SME turnover comes from the trade sector, while manufacturing, construction, and real estate contribute 11.5%, 11.0%, and 9.7% respectively. These four sectors account for around 90% of SME turnover, with all other sectors combined not exceeding 5%. "The regional distribution of SME turnover is also uneven, with approximately 80% of SME turnover concentrated in the European part of Russia, and 48% of total SME turnover coming from the Central and North West Federal Districts. In addition, SMEs in Moscow and St. Petersburg generate 18% and 7% of total turnover, respectively." Low availability of financing is one of the main obstacles to SME development in Russia. [20]

- **India:**

India has the second-largest base of Micro, Small, and Medium Enterprises (MSMEs) in the world, after China. The sector is involved in the manufacturing of over 6,000 products, ranging from traditional to high-tech items, and provides a wide range of services. With the Indian government's "Make in India" initiative and efforts to attract more foreign direct investment (FDI), the MSME sector is expected to grow rapidly and become integrated into major global value chains. According to official estimates, there are approximately 63.05 million micro industries, 0.33 million small industries, and about 5,000 medium enterprises in India [21].

Following the recent redefinition of MSMEs in India, nearly 99% of all businesses in the country fall under this category. The MSME sector contributes to nearly 40% of the gross industrial value added in the Indian economy and provides the second-largest employment opportunities for the Indian population after agriculture.

China:

“SME definition in China depends on the industry category and is defined based on the number of employees, annual revenue, and total assets comprising a company”. [22] Micro, small, and medium enterprises (MSMEs) are significant contributors to the economy, with a 60% contribution to GDP and providing 80% of urban employment. The majority of small and micro enterprises receive loans from small and medium-sized banks. These enterprises not only generate a considerable amount of tax revenue, but also play a vital role in creating employment, promoting economic development, and ensuring social stability. “In fact, MSMEs provide more than 50% of tax revenue, more than 60% of national GDP, more than 70% of technological innovation, more than 80% of urban employment, and account for more than 90% of all companies.”[23]

• South Africa:

Over the past decade, the MSME sector in South Africa has remained relatively stagnant. According to research by StatsSA, “the number of MSMEs in 2017 was 2.309 million, compared to 2.019 million in 2008. The entire MSME market in South Africa, which includes formal and informal enterprises, is 5.78 million, of which only 14% are formalized. Female ownership has declined significantly over the last decade, from 48% in 2008 to 38% in 2017” [24]. Currently, the total funding provided to the MSME sector is \$16 billion (230 billion rand). The lack of access to external finance is one of the key reasons for the low survival rate of MSMEs in South Africa, as they have to rely on internally generated funds that are often insufficient to support expansion and growth. [25].

Data Analysis and Interpretation:

The data below belong to year 2020 to 2023 as per the availability of latest data from various authentic online sources such as government websites and annual reports.

TABLE 1: SHARE OF MICRO AND SMALL ENTERPRISES IN EMERGING ECONOMIES OF BRICS

Country	No. of MSMEs (in millions)	MSME to total enterprise (in%)	Share in GDP (in %)	Share in Export (in %)	Share in Employment (in %)	Ease of doing business (index/190)	Female Ownership (in %)
Brazil	30 ²⁶	98.00 ²⁸	30.00 ²⁶	20.00 ²⁸	73.00 ²⁶	124 ²⁸	31.00 ²⁸
Russia	6.7 ²⁷	99.80 ²⁷	22.30 ²⁸	18.00 ²⁸	23.00 ²⁸	28 ²⁹	34.00 ²⁸
India	7.9 ³⁰	99.50 ³¹	33.00 ³⁰	48.00 ³²	97.00 ³³	63 ³⁴	20.37 ³⁵
China	31.32 ³⁶	98.50 ³⁷	60.00 ³⁷	68.00 ³⁷	79.00 ³⁷	31 ³⁸	30.90 ³⁹
South Africa	2.6 ⁴⁰	98.00 ⁴⁰	42.00 ⁴⁰	7.60 ⁴¹	47.00 ⁴²	84.00 ⁴³	42.00 ⁴³

Source: [26], [27],[28],[29],[30],[31],[32],[33],[34],[35],[36],[37],[38],[39],[40],[41],[42],[43]

Further the data being analysed with the help of descriptive statistics to find out the relation between percentage of micro and small business and their performance in the economy. Hypothesis being created to test the significance with the help of non-parametric test, chi-square.

Hypothesis Testing

H₀: *There is no association between percentage of MSMEs and Economic growth of BRICS countries*

The sub-parameters selected to analyse the association between MSMEs and economic growth are: total number MSMEs, Percentage share of MSMEs to total business enterprises, Share of MSME in GDP, Share of MSME in total export, Employment generation and Women ownership.

TABLE 2: CHI-SQUARE TEST SHOWING THE ASSOCIATION BETWEEN MSMEs AND THEIR CONTRIBUTION IN ECONOMY

	Chi-Square Tests			
Sub-parameters of performance		df	Asymptotic Significance (2-sided)	Decision
Percentage of MSMEs to share in GDP	Pearson Chi-Square	6	.012	Null hypothesis rejected
Percentage of MSMEs to share in Employment	Pearson Chi-Square	6	.026	Null hypothesis rejected
Percentage of MSMEs to Percentage of Export	Pearson Chi-Square	6	.153	Null hypothesis Accepted
Percentage of MSMEs to Ease of doing business	Pearson Chi-Square	6	.045	Null hypothesis rejected
Percentage of MSMEs to Percentage of female ownership	Pearson Chi-Square	6	.125	Null hypothesis Accepted

It has analysed from the chi-square analysis that all the sub-parameters of performance of micro and small enterprises in economy are independent. There is a close association between percentage of micro and small enterprises and their percentage share in GDP, employment generation, and ease of doing business. Whereas there is no significant relationship between percentage of MSME to total business enterprises and percentage of Export and Percentage of female ownership of MSMEs.

Further the cross-country analysis being performed.

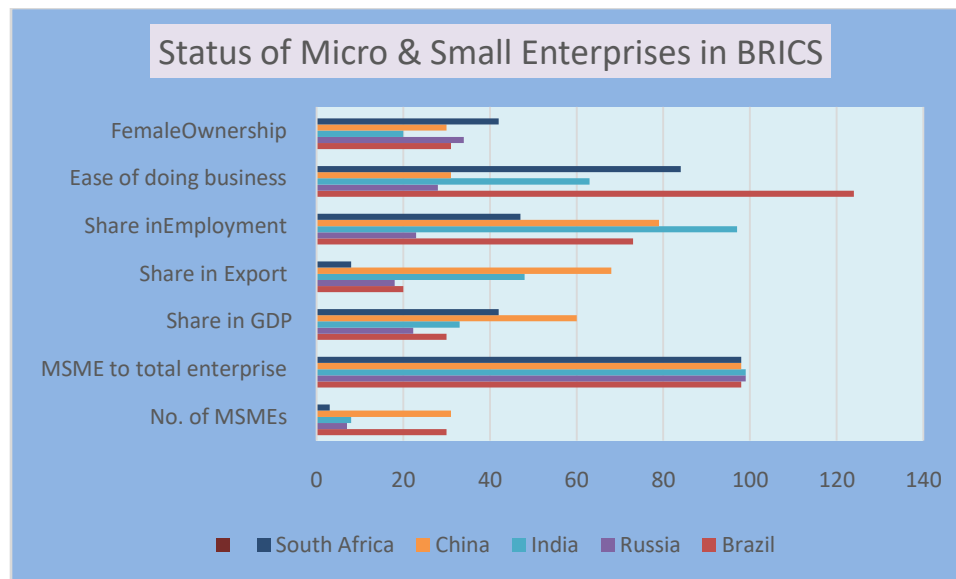


Fig. 1: Status of MSMEs in BRICS nations

India has highest number of Micro & Small Enterprises among BRICS economies and second highest in terms of percentage to total enterprises. This is due to the government support and least legal requirement for the MSME registration. India has separate ministry for MSME that keep on promoting MSME sector in the country. Whereas in terms of share in GDP Indian MSME sector lag behind the China and South Africa. Indian MSMEs have decent share in terms of export. Indian MSME products are managed to create demand in foreign market. In terms of employment generation, micro & small enterprises of China are ahead of all nations. India lag behind Brazil and South Africa in terms of employment generation. For ease of doing business India's performance among BRICS economies is after Russia & China. That also impact the sustenance of enterprises. The data also shows that there is an association between ease of doing business index and percentage of micro & small enterprises in economy. Among all the sub-parameters of performance of MSMEs in BRICS economies, India's performance in terms of women ownership is poor despite Micro and small enterprises are considered as a tool for women empowerment in India.

Conclusion & Recommendations:

The current research reveals that all five BRICS countries, which are vast in terms of both size and population, are focused on bolstering the micro and small enterprise sector to promote economic growth and create employment opportunities. The BRICS governments are fostering collaboration to promote MSMEs. The study indicates that there is a notable correlation between the percentage of micro and small enterprises and the percentage of employment generated, contribution to GDP, ease of doing business, and exports. [43] There is no significant association observed between the percentage of micro and small enterprises and export and female ownership in BRICS nations. Therefore, it can be concluded that simply having a high number of MSMEs is not enough to promote export and women entrepreneurship through MSMEs. Separate measures need to be taken by policy makers and the government to increase their performance in total export and women entrepreneurship. In India, MSMEs are facing several

major issues, such as the unavailability of adequate and timely credit facilities, high credit costs, lack of modern technology, insufficient research and innovation, inadequate training and skill development, and complex labour laws. [44]. To enhance the global competitiveness of MSMEs, it is necessary to make more efforts such as increasing investment in advanced technology and research and development, utilizing digital and technology-enabled platforms more effectively, transferring technology, investing more in human resources, improving access to finance, bridging infrastructure gaps, and reducing stringent business regulations. [45] SMEs in South Africa account for 42% of GDP, while in Brazil, the figure is 30%. The exact contribution of SMEs to the GDP in Russia is not available, but it is only 22.3%, which is not satisfactory. In India, the focus of economic activity is on the industrial and service sectors, with the agricultural sector contributing only 17.8% to the GDP and employing over 50% of the population. The relatively low contribution of SMEs to the GDP in India may be due to larger industries having a greater share of the GDP compared to smaller businesses. Therefore, there is room for improvement in SMEs' contribution to the Indian economy. [45]

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