



Impact of Covid-19 on MSMEs of India and Remedies for its Resurgence

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Abstract:

The current Covid-19 pandemic has affected the MSMEs sector to a great extent. Due to dependence on cash economy, the operation of these enterprises has been badly affected due to lockdown, and many restrictions. Many MSMEs are on the verge of closure due to non-availability of workers, raw materials, transportation infrastructure, and lack of funds. According to a survey by Dun & Bradstreet, a provider of commercial data, analytics and insights for businesses, over 82% of small business had experienced a negative impact during covid-19. This intends to ascertain various repercussions of covid-19 on MSMEs and what steps have been taken by government to improve the situation and are these step sufficient enough? Also suggested what would be done to bring MSMEs sector out of the predicament.

Introduction :

Micro, small and medium enterprises is a fundamental pillar of Indian's economy. It is also called the backbone of India's economy. It provides employment to about 11 crore people of India and contributes 30% share in Gross Domestic Product. This sector contributes to the social and economic development of the country by encouraging entrepreneurship at comparatively low capital cost after agriculture and creating huge employment opportunities but the current pandemic outbreak which is known as covid-19 has led to the shutdown of world economy. World Health Organization (WHO) has declared Covid-19 as global pandemic on 11 March 2020.[1] In view of the deadly effects of Covid-19 and to prevent its spread, the Government of India declared 21 days lockdown on 24 March which kept

extending as per circumstances till 31st may 2020.[2]. As soon as the lockdown was implemented, transport services, government offices, commercial and industrial establishments were closed, as well as educational institutions and hospitality services were closed with immediate effect except for some essential services thus the health crisis turned into an economic crisis. This economic crisis shook our spine. In this corona period many MSMEs units are on the verge of closure. The main objective of the paper is to know, what are the impact of covid-19 on the MSME sector and what efforts did the government make to get rid of it, how effective were these efforts and to find out the ways by which they can be revived.

This paper is organized as follows, Section 1 comprises of Review of literature, Research Objective and Methodology. Section 2 consist of Findings which is further subdivided into three parts viz. Current scenario of MSMEs sector, Impact of Covid-19 on MSMEs sector, Remedies for resurgence of MSMEs. Section 3 contains answer to the question 'Do the measures taken by the government for MSMEs fulfill its requirement? And the Conclusion of the Research paper.

Keywords : MSMEs, India, Covid-19, Impact, Remedies.

Review of literature: There are some of the literature that have been reviewed

The researchers Amritha Hariharan, Silpa Thomas and P.K. Viswanathan (2021) have researched 'on 26 MSMEs situated in Karla to study the impact of Covid-19 on sales of various sector. He conclude that the most affected sector were Hotel ,Textile , Food Processing units, furniture and export oriented units.[3]

According to the research of Bhaskar Saikia and Sondeep Dey (2020), MSMEs faced challenges such as Collapsing demand and access to liquidity, Accessing inputs and managing inventory, Managing the work environment, Policy uncertainty and disrupted supply chain and Accessing emergency support.[4]

Sachin Arjun Kadam And Digvijay Pandey (2020) are concluded in their research that MSME can be increased by creating more employment opportunities through import substitution and export promotion with simplified and beneficial registration procedures and it is necessary to have managerial competence for significant growth.[5]

According to the researchers Tapas Kumar Biswas and Manik Chandra das The Covid-19 pandemic is having a clear impact on the supply chains of virtually all manufacturers. The researcher has identified the five essential barriers of supply chain such as lack of man power, local laws enforcement, lack of transportation, scarcity of raw materials and deficiency in cash flow for Indian manufacturing sectors during lockdown.[6]

Jahid Syaifullah, Makmun Syafudin, Markus Utomo Sukendar, and Junaedi have researched on 254 MSMEs to study Social Media Marketing impact on Business Performance of MSMEs during the COVID-19 Pandemic. The results of this study indicate that the use of social media for marketing has a positive effect on the performance of MSMEs, especially in increasing sales, customer relationships, productivity, and creativity.[7]

Objective of the study: The main objectives of the study are

- ✓ To study current scenario of MSMEs sector in India.
- ✓ To study impact of covid-19 on MSMEs sector.
- ✓ To study remedies for MSMEs resurgence.

Research Methodology:

The paper is descriptive in nature. The data is required for the study is collected from secondary sources such as MSMEs annual report 2020-21, newspaper, research article, journals and related websites.

Findings: This part splits into following sub part as under:

- I. Current scenario of MSMEs sector in India.
 - II. Impact of covid-19 on Indian economy.
 - III. Remedies for MSMEs resurgence.
- I. **Current scenario of MSMEs sector in India-** MSME sector in India is the largest in the world after china and second largest employment generator after agriculture. According to ministry of MSMEs annual report 2020-21 there are total 633.88 lakh MSMEs in India, out of which 324.88 lakh in rural areas, which is 51% of the total, and 309 lakh are in urban area which is 49% of total MSMEs. Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounted for 0.52% and 0.01% of total estimated MSME's, respectively.[8] Approx 11.5 crore people have got employment in this sector. Micro sector provided employment to 1076.19 lakh persons that in turn accounts for around 97% of total employment in the sector. Small and medium enterprises have given employment to 31.95 lakh and 1.75 lakh peoples which is 2.88% and 0.16% respectively. State of Uttar Pradesh had the largest number of estimated MSMEs with a share of 14.20% of MSMEs in the country. Top ten states which are Uttar Pradesh ,West Bengal , Tamil Nadu , Maharashtra , Karnataka ,Bihar , Andhra Pradesh , Gujarat , Rajasthan and Madhya Pradesh accounted for a share of 74.05% of the total number of MSMEs in the country.

Distribution of enterprises and employment (Rural and Urban Area wise)

(Numbers in lakh)

| Sector | Micro | | Small | | Medium | | Total | | Share% | |
|--------|-------------|------------|-------------|------------|-------------|------------|-------------|------------|-------------|------------|
| | Enterprises | Employment | Enterprises | Employment | Enterprises | Employment | Enterprises | Employment | Enterprises | Employment |
| Rural | 324.09 | 489.30 | 0.78 | 7.88 | 0.01 | 0.60 | 324.88 | 497.78 | 51 | 45 |
| Urban | 306.43 | 586.88 | 2.53 | 24.06 | 0.04 | 1.16 | 309.00 | 612.10 | 49 | 55 |
| All | 630.52 | 1076.19 | 3.31 | 31.95 | 0.05 | 1.75 | 633.88 | 1109.80 | 100 | 100 |

(Sources: Ministry of MSMEs annual report 2020-21)

II. Impact of Covid-19 on Indian MSMEs sector:

The current corona virus pandemic has affected the MSMEs sector to a great extent. Due to dependence on cash economy, the operation of these enterprises has been badly affected due to lockdown and many restrictions. Many MSMEs are on the verge of closure due to non-availability of workers, raw materials, transportation infrastructure, and lack of funds. According to a survey by Dun & Bradstreet, a provider of commercial data, analytics and insights for businesses, over 82% of small business had experienced a negative impact during covid-19.[9]

Given below are the major impacts faced by MSMEs sector :

- **Shortage of manpower** : After the second world war, there would hardly have been such a situation which would be as dreadful as covid-19. Day by day the situation was getting serious. On the one hand, lakhs of people were suffering from this disease, on the other hand, due to the restriction of movement, the employees had to stay at home and work. There were many enterprises that could not get their work done from home and had to shutdown their work. India is second most corona affected country with total number of cases are 28,574,350.[10] Thus MSMEs has to face and is also facing shortage of manpower.
- **Market Demand** : Covid -19 had a very strong impact on the market demand. The demand for some products became so high that it was not possible to meet their demand in such a short time like protective equipment (PPE kit, Sanitations product etc.) and the demand of some products fell so much that the enterprises had to face losses.
- **Shortage of input materials** : For the prevention of Covid-19 , first national lockdown was imposed, after that restrictions of movement were imposed in many states, due to which the benefit of space utility was not available, which many manufacturing units had to face the shortage of raw material
- **Cash crunch** : After lockdown MSMEs industries are facing the problem of cash crunch. Enterprises are not able to meet their payment commitment within their payment cycle period.
- **Export** : Merchandise exports have declined by more than 60% and imports have come down negligible. The trade collapse was not surprising as regional, national as well as the worldwide lockdown have not only affected demand and investment, but severely disrupted supply chain.

Impact of covid-19 on Indian MSMEs sector on the basis of reported survey results:

- According to the Confederation of All India Traders (CAIT), India's domestic trading community, including small and large retailers, has suffered an estimated loss of 15 lakh crore in the last two months, as the second wave has forced many states to consider restrictions again .[11]
- Federation of Retailer Association of India (FRAI), which represents around 4 crore micro, small, and medium retailers in the country, had said that the lockdown restrictions may cost at least around 40% of the monthly earnings of micro retailers. The impact will be across sectors particularly for non-essential categories.
- A joint survey conducted by non- banking financial company Magma Fincorp and Business School Bhavan' SPJIMR for "Focused on the financial impact of the pandemic on MSMEs, and their outlook towards the earnings" .The result were based on responses from 14,444 MSMEs .Approx 50% of the micro, small and medium enterprises including essential and non essential manufacturers and suppliers were reported to have witnessed 20-25 per cent reduction in their earnings.[12]
- Clothing Manufacturers Association of India (CMAI) has done a survey and analyzed around 1500 Reponses. Almost 20% respondents were thinking of shut down the business after lockdown and 60 per cent of them anticipated a drop in revenue to the tune of 40 percent. About 80% of the Textile industry mostly micro small medium enterprises.[13]
- According to the National Restaurant Association of India (NRAI), which represents over 500,000 restaurants across the country, more than two million people directly employed in this sector could be rendered jobless by the Covid -19 pandemic.[14]
- A rapid survey was conducted by the Global Alliance for Mass Entrepreneurship (GAME) and the leverage alliance for mass entrepreneurship Access and Development (LEED) to understand the impact of the COVID-19 crisis on India's micro enterprises. Under this research, 1471 micro units were taken. The first round of survey was conducted from May 29 to June 10.57 per cent respondents said that they do not have anycash reserves to survive, 40 per cent respondents tried to taken a loan and 14% said that they were unable to pay their workers. In term of household expenses over 70 per cent female respondents suggested that they are facing increased household conflicts, compared with 53% of male respondents. [15]

III. Remedies for MSMEs resurgence :

MSMEs play an important role in GDP by creating massive employment in every nook and corner of India. There is no denying the fact that the progress of our country depends to a large extent on MSMEs. However, with the impact of Covid-19 and beyond, the MSMEs sector almost crashed. There was a strong contraction in revenue. The sector suffered the most due to severe liquidity crunch and fall in demand. Government offers several incentives to ensure business continuity amid crisis which are:

- An Emergency Credit Line Guarantee Scheme, has announced by government, whose objective is to provide 100% guaranteed coverage to banks, non-banking financial institutions and other lending institutions so that they can provide emergency loans to those institutions which have lost their working capital due to the pandemic of covid- 19. MSMEs benefited 3 lakh crore from Emergency credit Line Guarantee Yojna.
- The government made a provision of INR 200 billion for subordinate debt aimed at helping MSMEs with equity problem. That is those declared as Non-Performing Assets (NPAs) or currently economically stressed MSMEs. Under the Scheme, Promoter(s) of the MSME unit will be given credit facility equal to 15 % of his/ her stake in the MSME entity (equity plus debt) or INR 7.5 million (whichever is lower) and the credit advanced through the financial institutions will be guaranteed under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMCE). The CGTMCE will get an allocation of INR 40 billion to support MSMEs. This is expected to bail out 200,000 ailing small and medium sized companies.
- The government will set up a fund of funds for equity funding for firms with growth potential. It announced that a fund of funds will be set up with INR 100 billion corpus. It is expected to raise INR 500 billion.
- Definition of MSMEs redefined so that MSMEs can expand without fear of losing any benefits. There is no distinction between manufacturing and service sector MSMEs. According to the new definition, micro enterprise will be called those enterprises whose investment is up to Rs 1 crore and turnover is up to Rs 5 crore, small enterprise will be those whose investment is Rs 10 crore and turnover is up to Rs 50 crore and medium enterprises will be those whose investment is 20 crore and turnover up to Rs 100 crore.[16]
- RBI has also allowed Non-Banking Financial Companies (NBFCs) to avail bank funding under Targeted Long Term Repo Operations (TLTRO) to promote incremental lending and push revival of stressed sectors. Under the scheme, NBFCs will be able to provide a credit lifeline to financially drying MSMEs.[17]
- The Reserve Bank of India has gradually reduced interest rates from 5.15% in February to 4% on 22 May. It has also announced a three-month moratorium on repayment of term loans.
- Government announced loan facilities for small, informal businesses and street vendors on 14 May 2020. These include a 2% interest subsidy on microloans for a period of 12 months for loans up to INR 50,000 and a special lending program for street vendors of up to INR 10,000 to finance their working capital, targeting about 5 million street vendors.[18]
- On June 1, 2020, Prime Minister Shree Narendra Modi launched the ICT based technological system champion portal, whose main objective is to address the grievances of small units and guide them to enlarge their size.

Remedies can be adopted by enterprises for their revival:

Digital adoption : An enterprise can reduce its cost by adopting digitization and connect with global customer by adopting few digital platforms in this covid-19 era. Endurance Business Group conducted a survey which resulted in 60% of MSMEs using video- conferencing and WhatsApp during COVID-19 for business reasons, giving them 50% increase in their e-commerce income in the initial months.

Non-Essential to Essential : If possible, an enterprise can make such products whose demand is high in the market. Like during the lockdown, such an enterprise which was engaged in making alcohol started making sanitizers.

Manage cash flow requirements : The enterprise should find out and manage its cash requirement. Plans should be made to reduce costs and consider how to meet them when needed

Ensure safety of workforce : Entrepreneur should ensure the safety of their workforce so that they can continue their work in this pandemic without fear and business can be run successfully.

Be aware with Government Schemes : The government has launched many schemes for the development and expansion of MSMEs and to reduce the effects on them from Covid-19 but the enterprise is not able to take advantage of these schemes because of they are not aware of it. To be benefited from these schemes, entrepreneur should always be aware.

Do the measures taken by the government for MSMEs fulfill its requirement?

The Government has taken several measures for the revival of MSMEs who battling the worst effects of COVID-19, but only those enterprises that are registered will get the benefit of these measures. Out of about 633.3 lakh MSMEs, only 90.18 lakh enterprises are registered. Only those firms are eligible for collateral free loans, which already have outstanding loans, only some enterprise will get their benefit which is only 45 lakh firm that is 7% of the total firm. A special loan facility of Rs.5000 crore was announced to benefit 50 lakh street vendors. But only 40% of the targeted sellers got the loan after almost a year. Financial transparency Coalition pointed out that by increasing the investment limit used to define MSMEs allowed larger companies to access the scheme, at the expenses of smaller businesses. Government announced relief package is 10% of Gross Domestic Product (GDP) but Santosh Mehrotra, economist and chairperson of the Centre for Informal Sector and Labour Studies, Jawaharlal Nehru University, said “Only 2.2 per cent of GDP was fiscal stimulus. In contrast, this was 4.7 per cent on average in emerging market economies,” [19]. The measures taken by the government for the resurgence of MSMEs are focused on the supply side. Attempts were made to bridge the liquidity through credit whereas these measures should have been focused on the demand side because unless there is demand for the goods in the market, for whom the enterprise will produce. Due to Covid-19, the income of the people has been affected deeply. If consumers have cash, then consumption will also increase and demand will increase only due to increase in consumption and goods will be produced only when there

is demand. To improve the performance and resurgence of MSMEs Government should invest more and more in technology application and Research & Development activity.

Conclusion :

Covid -19 pandemic adversely affected the MSMEs sector. Predominant impact according to the study are shortage of manpower, violable market demand, shortage of input materials, cash crunch and more than 60% of decline in export. To cope with the situation government came in with various relief schemes such as Emergency Credit Line Guarantee Schemes which provides collateral free loans, Broadened the definition of MSMEs and provided interest subsidy to street-vendor. The study shows that the schemes by the government have mainly focused on providing assistance through landings which have not even covered major chunk of MSMEs therefore these schemes are not sufficient and much effective for resurgence of MSMEs. For the revival more investment should be done in digitization, Research and development.

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