

COVID-19 and MSMEs in India: An Analysis of Pandemic Shock and Policy Response

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Abstract:

The unprecedented outbreak of Covid-19 pandemic has had a negative effect on the growth and performance of enterprises in India and around the world. Out of all, the MSMEs (Micro, Small and Medium Enterprises) were significantly impacted. The Covid-19 has further exacerbated the situation in the MSME sector, which was already suffering severe hardship as a result of the prolonged economic slowdown, demonetization and GST. The paper examines the challenges faced by MSMEs during Covid-19. The paper further assesses the initiatives undertaken by the government for promoting the growth and performance of MSMEs. At the end, the paper provides suggestions for improving the operational performance of MSMEs.

Keywords: MSMEs, Covid-19, Performance, Government Initiatives

I. Introduction

The unprecedented outbreak of Covid-19 pandemic has had a negative effect on the growth and performance of enterprises in India and around the world. Out of all, the MSMEs (Micro, Small and Medium Enterprises) were significantly impacted. The Covid-19 has further exacerbated the situation in the MSME sector, which was already suffering severe hardship as a result of the prolonged economic slowdown, demonetization and GST.

According to the International Monetary Fund's (IMF) predictions June 2020 World Economic Update, the Indian economy would suffer from rapid decline of 4.5% in 2020. The Reserve Bank of India (RBI) Governor had predicted that the GDP will increase at a negative pace in the fiscal year 2020–21.

In response to the Covid-19 outbreak, the Indian government instituted lockdown measures, which included the closure of educational institutions, industrial facilities, and hospitality establishments as well as a prohibited movement through domestic road, rail, and air travel. The lockdown measures limited the business operations of the MSME sector and mounted negative shocks in the form of lower output and supply of final products, non-procurement of raw material, and low availability of labour to work in the production process. The repercussions are numerous and extensive, including job loss, reduction in revenue creation, decreased sales, and cut back in the income of working class. The reverse migration as a result of the lockdown caused a disruption in availability of labour. The India Ratings Report had predicted that the underutilised capacity and expenses for MSMEs will rise due to the unavailability of labour during Covid-19.

The businesses either closed down temporarily or permanently due to a drop in demand, or they adopted measures like employment layoffs, wage cuts, or increases in working hours. This has highlighted how vulnerable many workers are, especially migrant labour. We will never forget their struggle as they made

their way back to home from cities. The “migrant crisis” as highlighted by the media during March-April 2020 is a manifestation of this impact, both on the MSMEs and workers. (ILO, 2021)

In India, the MSME sector has played a vital role in the country’s economic and social development on account of their inherent benefits such as minimal capital requirements, operational flexibility, short gestation period, huge employment potential, exploitation of local resources, etc. It makes a substantial contribution to the economic growth in terms of the gross domestic product, the creation of jobs, exports, rural development, eradication of poverty, reduction of income inequality, and regional disparities. The MSMEs have gained importance in recent years due to their ability to adapt to market changes and adopt cutting-edge practises in local or global contexts, as well as their contribution to job and income growth through export revenues (World Bank Group, 2018). According to the 73rd round of National Sample Survey (NSS) conducted during 2015–2016, MSMEs were the only sector to generate huge employment of 11.10 crore jobs through 6.34 crore MSME units, outside of agricultural sector. By fostering non-agricultural livelihoods and luring more investment to the sector, it creates backward and forward links in the economy (GOI, 2018-19).

Due to its extensive effects on the economy, MSME sector is largely regarded as the foundation of the Indian Economy. However, the severe impact of Covid-19 has forced the MSME sector to fight for its survival. The threat of lockdown has become conscious in the MSMEs sector, bringing plentiful problems in financial crisis, demand, supply chain trouble, freezing of import and export opportunity, etc. (Banu & Suresh, 2020). To battle against health crisis challenges and maintain their growth process, this sector requires urgent stimulus. The government has shown its concern in need of attention in the form of monetary and fiscal support to induce economic activity in the sector. This sector needs immediate stimulus in order to combat health crisis difficulties and preserve their growth process. The government has expressed its need for financial and fiscal support to encourage economic development in the industry. The Government of India (GOI) launched a number of initiatives as a part of the "Atmanirbhar Bharat" package in May 2020 in an effort to boost the economy and protect MSMEs from the negative effects of Covid-19. Even when containment measures were gradually relaxed in June 2020, many MSMEs found it difficult to resume operations, which led to more financial losses and kept them on the verge of collapsing permanently. In November 2020, the government unveiled the India Recovery Plan, a relief initiative aimed at helping the MSMEs. First, a fund worth three trillion rupees (USD 39 billion) was set out for guaranteed lending without collateral for small enterprises. Additionally, a subordinate debt programme for stressed MSMEs worth 200 billion rupees (USD 2.6 billion) was created. Third, capital of USD 6.5 billion (500 billion rupees) was made available for equity infusion into MSMEs with growth potential. (Chen, Yutong et al., 2023). Finally, the government increased the investment ceiling for MSMEs and added new turnover requirements.

II. Review of Literature

The Covid-19 had an economic impact on all the areas of the economy, including growth, global trade, financial markets, unemployment, income, poverty, and many other factors. A significant loss was experienced in the level of global trade. The growth model of India depends on the export-led-growth. (Sahoo, Pravakar and Ashwani, 2020)

The majority of MSMEs have been significantly impacted by the pandemic and have dealt with a variety of difficulties, including a lack of cash, disruptions in the supply chain, and reduction in sales, income, and profit. (Tairas, 2020; Shafi et al., 2020; Wijaya, 2020). Additionally, due to shortage of cash flow and

restricted access to credit, MSMEs were also experiencing a lack of operating capital. During the pandemic, these factors collectively led to greater operating expenses of MSMEs. The increase in inventory of finished goods inventories were caused by the demand side factors of decreased public consumption and rising prices during the pandemic (Lemi et al., 2020). The small businesses around the world were more affected by the logistical difficulties, the decline in sales, the decreased access to financing, and the drop in capacity utilisation during Covid-19 (Ratnasingam et al., 2020; Nordhagen et al., 2021).

Ozili and Arun (2020) recognised the spill over effects of the lockdown and pandemic which led to the closure of corporate offices, businesses and events which in turn had a significant impact on economic growth.

According to FICCI, 60% of the enterprises experienced supply chain issues and 73% of businesses reported reduced orders. The disruptions in the supply chain led to the shutdown of the units. The Indian Institute of Foreign Trade (IIFT) also observed that most of the exports would be adversely affected due to a slump in demand and supply chain disruptions.

Nevertheless, the MSMEs continued to experience low level of liquidity despite the relaxation of loan requirements by the banks. According to Brickwork Ratings, two major concerns have made it more difficult for MSMEs to raise money during the pandemic. These include the inability to obtain official funding from the banking system and the problem of delayed payments. The payments from the well-known businesses and the government to the MSMEs have been long-delayed. (ILO, 2021)

III. MSMEs and Sustainable Development Goals

MSMEs are significant to nations for many additional reasons in addition to their economic importance. A thriving MSME sector encourages the diversification of wealth, economic opportunities, skills, and political influence while lowering the concentration of socio-economic elites and decision-making. They offer chances to numerous marginalised and at-risk groups, including women and individuals who might otherwise be shut out of the formal economy. A prevalent factor in the development of small businesses throughout the developing world, as well as a significant source of employment and wealth creation, is so-called "necessity entrepreneurship," in which unofficial self-employment ventures fill the labour gap. MSMEs, for instance, frequently give women the chance to get over difficulties like flexibility of work that they have historically had to contend with when trying to enter and remain in the workforce.

The growth and entrepreneurship of MSMEs can aid in the implementation of the overall Agenda 2030. At least three of the Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development (Agenda 2030)—SDG 1 ("End poverty in all its forms everywhere"); SDG 8 ("Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all"); and SDG 10 ("Reduce inequality within and among countries"—recognize the significance of MSMEs in these objectives). The SDG 1 might be supported by individual MSMEs employing new business models and solutions in their daily operations. A new range of business models and opportunities are being accessed by the private sector, especially MSMEs, as part of the ambitious effort to end poverty through the SDGs. MSMEs have the ability to encourage entrepreneurship and promote decent work, which are both important for achieving SDG 8. MSMEs are important players in achieving SDG 10 because they support economic inclusion and have the ability to revitalise underserved regions of the world. Furthermore, MSMEs' rising production can aid in reducing wage disparity. The current push for sustainable economic growth, particularly in the context of COVID-19, is relevant to MSMEs in order to

increase their competitiveness after the crisis. (UNCTAD, 2022) The UN has also offered policy proposals for how to use competition law and policy to solve particular difficulties experienced by MSMEs during the COVID-19 issues.

IV. Challenges faced by MSEs during Covid-19

The ability of MSEs to thrive and expand is constrained due to its small size. It also limits MSMEs' access to the resources that are available to larger companies. A small firm functions substantially differently from a large domestic competitor or multinational corporation (MNC), and it is not simply a giant corporation that has been scaled down. MSEs are more susceptible to external shocks. For instance, low turnover and marginal profitability can indicate that many businesses have insufficient financial reserves, which could prevent them from being able to rely on savings in the event of a sudden decline in revenue. MSMEs tend to have a low survival rate that is easily threatened by abrupt, unanticipated shocks or changes in customer behaviour. During Covid-19, the MSMEs had faced the following challenges-

Survival Challenges- Even the best-managed small enterprises faced survival issues throughout the pandemic. The real estate, entertainment, and hospitality sectors, among many others, have all suffered significant losses. As a result, the vast majority of companies in these industries have undergone a full transformation. Lack of access to affordable capital, high fixed cost, limited use of digital or cutting-edge technology, greater cost of capital, etc. are some of the major problems that caused hinderances for MSMEs during Covid-19.

Shortage of Capital-The MSMEs were confronted by shortage of capital. Due to the countrywide shutdown, small businesses suffered from lack of cash flows. The MSMEs were unable to pay their creditors due to halt in output and decline in demand. While production and income were at low level, MSMEs still had to incur a number of expenses, including staff salaries, tax deposits, warehouse and office space rent, among other things. To handle their declining cash flows, microbusinesses relied mainly on their own savings. According to a survey by the Global Alliance for Mass Entrepreneurship (GAME), over 14% of the entities surveyed had permanently stopped doing business as a result of inadequate cash flow and business operations.

Shortage of raw materials-Small businesses in the state had experienced shortage of supplies and raw materials as a result of the nationwide lockdown. As a result, production was stopped, which ultimately had an impact on the entire supply chain.

Decline in Market Demand- Due to decline in market demand, consumer demand patterns changed, disrupting supply chains and putting pressure on them. Fundamental shifts in consumer behaviour and distribution channels brought on by the COVID-19 crisis have affected the MSMEs. Over the last years, low sales and low client traffic remained the primary difficulty for microbusinesses, which has led to the permanent closure of several MSMEs.

High Transaction Cost-Fixed costs like staff pay or compensation packages, loan interest, lease of the premises, etc. became major burden for the MSMEs when economic activity froze as a result of lockdown and social estrangement. All of this led to an increase in the fixed costs of MSMEs, making it more challenging for them to pay for all charges and expenses.

Shortage of Manpower- MSMEs across India have experienced the workforce disruption. Almost all businesses were severely impacted due to the staffing crisis. After losing their jobs, money, and housing due to the lockdown, millions of workers made their way home on foot while carrying their belongings and family.

Decline in Exports- The global supply-chain disruptions, export, and trade services had an impact on the trade. The exports were mainly affected due to a slump in demand and disruption of supply chains leading to shortage of parts and intermediate goods. The supply constraints and low capacity utilization impacted the price level even after the lockdown restrictions were lifted. The price level changes restricted the ability of the MSMEs to plan accordingly.

Laying-off workers- Small enterprises may form the backbone of the Indian economy, contributing to the growth of its industrial base and the creation of millions of jobs, but the pandemic has demonstrated that it is preferable to be larger. A major coping mechanism for firms was to lay off workers. Despite widespread layoffs, MSME margins suffered mostly from high and rising input costs as well as a steep increase in finance costs. A survey by the Global Alliance for Mass Entrepreneurship (GAME) shows that almost 14 per cent of the surveyed entities have permanently exited business due to failure of proper cash flow and business.

V. Government Initiatives for the Revival of MSMEs

A new definition for MSMEs has been provided by the “Atma Nirbhar Bharat Abhiyan” or Self-Reliant India Scheme of 2020 by the Government of India. The Atma Nirbhar Package, offered several forms of support to the economy, particularly businesses in the MSME Sector. The government launched a special economic package under ‘Atmanirbhar Bharat’ worth Rs. 20 lakh crore for all facets of society, including MSMEs and industries. The following actions have been made by the government to support the MSME sector in the nation:

1. Subordinate Debt of Rs 20,000 crore for MSMEs.
2. Rs. 3 trillion automatic loans without collateral for businesses, particularly MSMEs.
3. Equity injection of Rs. 50,000 crore through the MSME Fund of Funds.
4. “Udyam Registration” portal of MSME registration.
5. No global tenders for procurement up to Rs 200 crores
6. New and revised criteria for the classification of MSMEs.

Further, the Government of India rolled out numerous schemes and revived old schemes to address the financial difficulties faced by MSMEs. The following are some of the schemes that were undertaken by the government for supporting the MSME Industry-

1. The Scheme of Fund for the Regeneration of Traditional Industries (SFURTI)

The SFURTI programme aims to strengthen traditional industries by having a group of artisans, service providers, traders, and raw material suppliers produce and process goods for marketing using locally accessible raw materials, skills, and technologies while also sharing common concerns and risks.

2. Prime Minister's Employment Generation Programme (PMEGP)

The Khadi and Village Industries Commission (KVIC), the nodal agency at the national level, is in charge of putting the scheme into action. The State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs), and banks are responsible for implementing the scheme at the State level. KVIC routes the government subsidies provided by the scheme through the designated banks for final payment to the beneficiaries.

3. Credit Guarantee Fund Scheme for Micro and Small Enterprises

The Government of India established the loans Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to provide collateral-free loans to the micro- and small-enterprise sector. During 2018-19,

4.36 lakh credit facilities were approved and Rs 30,168.57 crore guarantees were approved under the scheme.

4. Entrepreneurship and Skill Development Programme

The program's goal is to inspire young people from various societal groups, such as SC/ST/Women, individuals with disabilities, former service members, and people living below the poverty line, to think about self-employment or entrepreneurship as a possible career path.

5. Scheme for Promoting Innovation, Rural Industry and Entrepreneurship (ASPIRE)

The ASPIRE programme aims at encouraging innovation, rural industry, and entrepreneurship. In order to accelerate entrepreneurship and to support start-ups for innovation in the agriculture industry, ASPIRE was established as a network of technology hubs and incubation facilities.

6. Relief to MSMEs with NPAs

About 2 lakh MSMEs have non-performing assets (NPAs) that have been severely impacted by the economic down turn. To help these organisations, the government has allocated Rs. 2000 crores in the form of subordinated debt. The money supplied in the form of equity can be injected into the MSME units' businesses. The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) aims at providing the lending institutions with a sum of Rs. 4000 crores as a partial guarantee for the amount lent.

7. Release of Pending Payments

The government planned to release all outstanding payments owed to MSMEs. This aimed to enable them to survive, as the businesses' domestic sales had already decreased by approximately 92% and their exports by 100% compared to last year. Here, there are proposals to establish a fund worth \$1 trillion. Through this fund, the unpaid MSMEs would be helped.

8. Limiting the Participation of Foreign Companies

India never had a scarcity of tenders to submit, but the majority of MSMEs encountered competition from large multinational corporations, which unfairly disadvantaged the local MSMEs. Global tenders for government projects up to Rs. 200 crores have been outlawed by the government to stop this. This action will have a significant impact on domestic enterprises' growing representation in the general economy.

9. Samadhan Portal

The Ministry of MSME, Government of India has created a SAMADHAAN portal to allow Micro & Small Businesses (MSEs) to immediately record their cases relating to delayed payments by Central Ministries / Departments / CPSEs / State Government & other buyers on the portal.

10. Champions Portal

The Prime Minister officially unveiled the "Champions" internet portal on June 1, 2020. This includes aspects of e-governance, such as handling MSMEs' needs and grievance resolution. A total of 18,723 complaints have been resolved through the portal as of September 9, 2020.

VI. Conclusion

MSMEs have greatly aided in the development of the Indian economy and have grown to play a vital role in it. Along with creating employment opportunities, it also helps in flourishing the impoverished areas of the nation. Even before the epidemic, consumption was declining and unemployment was at a 45-year high of 8.5 percent. When determining the economic reaction for India, the welfare loss must be taken into account. India needs to implement effective and drastic policy changes to address the youth bulge if

it is to maintain its current growth rate. Following financial crisis relief measures, the country's population of working age needs to have access to economic security. According to estimates, India needs to add 10 million jobs per year to keep up with the expansion of the working-age population. The creation of employment opportunities depends critically on how easy it is to conduct business. This crisis cannot undercut the massive workforce created by India's youth bulge. The major aim is to prescribe policies that would quickly boost employment and ease corporate operations. During Covid-19 pandemic, MSMEs confronted various obstacles, making it very difficult for them to survive. Despite a number of governmental measures, the performance of the MSMEs is not satisfactory. It is significant to undertake measures for improving the productivity levels of the MSMEs. The MSMEs should increase the adoption and use of ICT through mobile applications for everything from accounting to inventory management, from marketing to accessing finance, mainstreaming digital, financial, and marketing skills into business development services. MSME agencies should offer training on the important new challenges in digital marketplaces that have an impact on MSME economic recovery in the wake of COVID-19. The improvement of communication and collaboration between representatives of the MSME sector and governmental entities at the national and regional levels, taking into account global markets, is of the utmost importance, specifically with the support of international and regional organisations.

India's fiscal flexibility is constrained, notwithstanding the demand for substantial relief measures. The MSME sector will be protected during the shutdown time by the plethora of steps announced by the central bank to relieve the liquidity. To encourage small firms to continue operating in the face of insufficient demand, financing would need to be recapitalized based on the firm's productivity. Despite the fact that the current economic stimulus programme attempts to protect the business sector, the unorganised structure makes it difficult to develop a medium-term strategy. By offering wage subsidies, loan guarantees, direct financing, and adjusted structural policies, the OECD countries have widely adopted measures to lessen the impact on their Small and Medium Enterprises (SMEs). Similar proposals have been made by the Reserve Bank of India (RBI), including a much-needed loan moratorium, a reduction in the minimum amount of reserves that banks must deposit with the RBI, and working capital funding. Although the second set of relief measures has concentrated on small businesses, the anticipation of a growing budget deficit—from a revised projection of 3.8 percent to 5.07 percent—means that financial stimulus has a mixed record.

In order to create and carry out strategies to resurrect the economy by reconstructing the industries, the role of governance is essential. To successfully transition to a more resilient, equitable, and sustainable society in the face of disruptions from the current pandemic and to effectively respond in building a society that is fully engaged in seeking to reverse climate changes, there are many other issues that must be addressed.

It is crucial for India to make an effort to strike a balance between ongoing public and human capital investment and the immediate financial reaction. To achieve the “Make in India” goal, businesses require a temporary influx of capital, and the MSME sector needs rehabilitation.

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