
A STUDY ON THE IMPACT OF COVID-19 ON INDIA'S MSME SECTOR

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ABSTRACT

The impact of the Corona virus (COVID-19) pandemic had not only brought the global economy to a standstill but set the clock backwards on the developmental progress of several nations. The outbreak of the Covid-19 pandemic is an unprecedented shock to the Indian economy specially on the Micro, Small and Medium Enterprises (MSMEs) sector of India. With the prolonged country-wide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. In this study we describe the state of MSMEs sector in the pre-covid-19 period, assess the potential impact of shock on MSMEs and analyse the relief measures or policies that have been announced so far by the central government and the Reserve Bank of India (RBI) to ameliorate the shock on the MSMEs sectors and put forward a set of policy recommendations for these specific sector.

Key words: Covid-19, pandemic, economic downturn, Micro, Small and Medium Enterprises (MSMEs), Government relief measures

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1. INTRODUCTION

In the past global countries witnessed several epidemics such as the Spanish Flu of 1918, outbreak of HIV/AIDS, SARS (Severe Acute Respiratory Syndrome), MERS (Middle East Respiratory Syndrome) and Ebola. India also dealt with diseases such as the small pox, plague and polio. WHO declared Coronavirus disease 2019 (COVID-19) as a global pandemic on 11th March 2020. The disease has spread across 213 countries and territories around the world, with a total of more than 19.9 million confirmed cases. In India, the disease was first detected on 30th January 2020 in Kerala in a student who returned from Wuhan. However the Covid-19 which originated in China in December 2019 spread to almost all countries of the

world gradually that can potentially turn out to be the biggest health crisis in world history. The impact of COVID 19 can be said to have two kinds of shocks on countries: a health shock and an economic shock. Both of these shocks leads a country towards darkside.

As global community has realised the disease is highly contagious, the ways to contain the spread include policy actions such as imposition of social distancing, self-isolation at home, closure of institutions, and public facilities, restrictions on mobility and even lockdown of an entire country. These actions can potentially lead to dire consequences for economies around the world. In simple words we can say that, effective containment of the disease requires the economy of a country to stop its normal functioning for temporary or may be for a long duration. This has triggered fears of a deep and prolonged global recession. On April 2, 2020 the World bank President David Malpass in his statement said that beyond the health impact from the Covid -19 pandemic ,we are expecting a major global recession and On 9 th April chief of IMF, Kristalina Georgieva said that the year 2020 could see the worst global economic fallout since the Great Depression in the 1930s, with over 170 countries likely to experience negative per capita GDP growth due to the raging coronavirus pandemic.

India recorded the first case of the disease on January 30, 2020. Since then the cases have increased steadily and significantly. On 15 March 2020 i.e. after one and a half month, the total number of positive cases crossed 100. By the end of March, India had more than 1000 Covid -19 positive cases. Prior to this, a Nationwide lockdown was announced on 24th March 2020, Which was extended to 03 May 2020, in order to contain the spread of Covid -19 cases. The number of tests being conducted was ramped up over the period of time and till date , approximately 20 million samples were tested for Covid -19. Since the beginning an exponential rise in the number of new Covid-19 cases have been noticed and more than 500 new cases for the first time happened on 04th April and more than 1000 new cases in a single day was reported for the first time on 11th April (1035 cases). However, from 19th April, more than 1000 new cases have been reported each day.

In order to curb the spread of the virus, the government of India announced a three week long nationwide lockdown starting (March 25-14 April) 2020 which was continued further with certain relaxations. All non-essential services and businesses, including retail establishments, educational institutions, places of religious worship, public utilities and government offices across the country were closed during this period and all means of travel were stopped. This is by far the most far-reaching measure undertaken by any government in response to the pandemic. Along with other sectors, the MSME sector has also experienced a jolt and will not be able to come out of the shock quite soon as pointed out by various eminent economists. However the government is trying its best to announce various measures keeping in mind exclusively the MSME sector.

2. OBJECTIVES OF THE STUDY

1. To study the impact of COVID -19 on Indian MSMEs sector.
2. To identify and evaluate the various relief measures offered by the government or policy makers during COVID -19 period to these sectors.

3. INDIAN ECONOMY AND MSMES SECTOR

India's Micro, small and medium enterprises (MSMEs) are those silent performers who are carrying India's 5 trillion-dollar economy goal on their shoulders. MSMEs in India constitute 95% of total industries in India and their contribution to national income are immense. They have built a strong community culture based on trust, cooperation and relationship which is today difficult to replicate even in some global MNCs. For Indian MSMEs, their ventures are not just industries but an important part of their heritage, tradition, and life. They are

traditional but always open to embrace the new technologies and innovations, whether digital payments, smart banking, online bidding and procurement, e-commerce or online filing of Taxes, they are the fast learners and early adopters of India. Without their endorsement, India's Digital drive could not have succeeded.

3.1. Existing and Revised Definition of MSMEs

Table 1

Existing MSME Classification			
Criteria: Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Manufacturing Enterprises	Investment <Rs. 25 lac	Investment <Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment <Rs. 10 lac	Investment <Rs. 2 cr.	Investment <Rs. 5 cr.

Table 2

Revised MSME Classification			
Composite Criteria: Investment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment <Rs.1 cr. And Turnover < Rs.5 cr.	Investment <Rs.10 cr. And Turnover <Rs. 50 cr.	Investment <Rs.20 cr. And Turnover <Rs.100 cr.

Source: *The Economic Times*

3.2. Impact on Indian MSMEs Sector

MSMEs are grappling with problems like low liquidity or cash flow and lack of workforce as the daily-wagers have gone to their villages. Businesses that are into manufacturing will also take a hit on export business as the situation remains uncertain.

The services sector is also slowing down with more people opting for social isolation. A recent survey of 5,000 MSMEs, conducted by the All India Manufacturers Organization (AIMO), has found 71% of them could not pay their worker salaries in the month of March due to hard impact of Covid-19. Reports from across the country raise similar alarm bells for how these businesses are unable to meet immediate capital requirements. The micro, small, and medium enterprises (MSMEs) are perhaps one of the hardest hit due to the Covid-19 lockdown in India. At present, the sector provides employment to 114 million people and contributes 30% of India's GDP (gross domestic product), not to mention close to half of the country's exports come from products and services within this sector. With severe supply-chain disruptions, especially for those businesses that do not manufacture or provide essential services, the capacity to continue paying workers (without any reductions) during the lockdown, as per government directives, looks out of the league.

It is a well-known fact that in the global supply chain, China plays a very pivotal role for India and its MSME sector as well. this sector is largely dependent on China for its raw material. For example, Indian drug makers source almost 70 per cent of their ingredients from Chinese factories and Chinese goods worth \$30 billion. Thus complete lockdown of China and India has led to various issues ranging from shrinkage of exports, cessation of production, non-availability of manpower, the uncertainty of consumption, and liquidity squeeze in the market as well.

Micro, small and medium enterprise is the sector which was already reeling under huge distress firstly because of demonetization, then because of poorly implemented GST followed by the prolonged economic slowdown and finally, the biggest of all - the COVID- 19 which is going to aggravate the crisis in this specific sector further. Though it is controversial regarding the stage that India currently is in, many experts are saying that we will be entering into the third stage very soon that involves the spread of this pandemic from cluster to community. After the various lockdowns that the country has faced, one thing is pretty sure that the MSME will be taking a maximum hit and that the distressed sector will render many people jobless and will lead to the closure of thousands of industrial outlets forever.

According to a study commissioned by All India Manufacturers Organization (AIMO), India is currently home to over 75 million MSMEs and close to 25 per cent of these firms will face closure, if the lockdown imposed due to the COVID-19 goes beyond four weeks while a whopping 43 per cent will shut shop if panic extends beyond eight weeks. MSME forms the backbone of the Indian economy and is one of the most crucial segments that let the economy grow by leap and bounds. The sector which provides employment to over 114 million people and contributes to more than 30 per cent of the GDP is going through one of the toughest phases, thus actions are required immediately.

3.3. Challenges faced by MSMEs during Covid-19 period

The world as a whole is likely to enter into a recession in 2020, according to latest estimates from the International Monetary Fund (IMF). Some sectors will suffer more than others, with the travel, accommodation and food services sectors being hit particularly hard. Businesses themselves are likely to travel through a four- phase process: shutdown, supply-chain disruption, demand depression and finally, recovery. The severity and disruption caused by each stage of the process will depend on the policies adopted by governments. We know the impact will be severe; what we do not know is how long the crisis will last. As they move from shutdown to recovery MSMEs will face a combination of threats to their survival:

1. Collapsing demand and access to liquidity: Demand has plunged for the businesses and entrepreneurs we support – even in commodity sectors – and some buyers are slowing payments for orders already received.

MSMEs have small cash reserves, and therefore go out of business first in a liquidity shock. Businesses which trade internationally are especially vulnerable, as they depend on access to increasingly scarce US dollars to fund a variety of their costs.

2. Accessing inputs and managing inventory: MSMEs frequently source inputs from abroad, increasingly so as supply chains have become longer and more complex. For the garment companies we work with in North Africa, for instance, as orders have collapsed key inputs, such as fabrics from China, have also disappeared.

3. Managing the work environment: For manufacturing MSMEs in lockdown situations, remaining open is challenging as factory floors are not designed for social distancing. Massive out migration from cities has meant workers have disappeared and they may be difficult to remobilize. Many countries have suspended support to farmers even as the agricultural calendar continues.

4. Policy uncertainty and disrupted supply chains: Policies are evolving fast. MSME managers often work alone and cannot create crisis teams to track changes. Various business are complaining of non delivery of products due to limited or no operation of air travels and railways. Supply chain disruptions such as grounded airlines create huge liabilities.

5. Accessing emergency support: Many of the small businesses we support are on the edge of the formal economy or trade informally. They rarely draw on government support and

relatively few participate in networks of government support institutions. As governments put together emergency support, reaching these companies and finding ways to help may be difficult.

3.4. Central Government relief measures for MSMEs

For the first time, India has a government that believes in Collective Efforts, Inclusive Growth mantra and it is reaching out to the MSMEs and non-corporate sector too. Last year PM Modi launched MSME Support and Outreach program and unveiled 12 key initiatives to boost the sector's growth which includes a 59-minute loan portal, compulsory 25 percent procurement from MSMEs by central public sector enterprises, and simplification of procedures under Companies act. The Covid-19 situation has put businesses in a tight situation but if the government can take measures and ensure immediate action, it could reduce the blow to the MSME segment. The government has started taking some steps to keep the MSME segment afloat. The Reserve Bank of India recently introduced Long Term Repo Operations (LTRO) worth ₹ 100,000 crore to help increase banking lending rate at cheaper interest rates. Government-run banks are also being encouraged to keep loans worth ₹60,000 crore ready.

In addition, Finance Minister, Nirmala Sitharaman, also announced the extension of the last date to file belated Income Tax Return for all businesses for the FY 2018-19 from March 31 to September 30. The deadline for GST returns filing for March, April and May is now June 30. While these measures give some hope to the MSME sector, there are a few more steps that the government can take to ensure aid to the ailing business sector. The financial relief measures announced by FM Nirmala Sitharaman on 14 May 2020 under the mega ₹ 20 lakh crore stimulus package, six aimed at bringing lockdown-hit India's vast MSME sector back to life. Mrs. Sitharaman sharing the details of the humongous Covid-19 financial package – roughly 10 per cent of the Indian GDP – announced measures to boost liquidity in MSMEs, help them take benefit of the government schemes, enable them to compete with foreign companies, and strengthen their network.

1. ₹ 3 lakh crore collateral-free loans: Banks and NBFCs will offer up to 20 per cent of entire outstanding credit as on February 29, 2020, to MSMEs. Units with upto ₹ 25 crore outstanding credit and ₹ 100 crore turnover are eligible for taking these loans that will have four-year tenure with a moratorium of 12 months on principal payment. The scheme can be availed till October 31, 2020. The government will provide complete credit guarantee cover to lenders on principal and interest amount.

2. ₹ 20,000 crore subordinate debt: MSMEs declaring NPAs or those stressed will be eligible for equity support as the government will facilitate the provision of ₹20,000 crore as subordinate debt. The government will also provide ₹ 4,000 crore to CGTMSE that will offer partial credit guarantee support to banks for lending to MSMEs.

3. ₹ 50,000 crore equity infusion: The government will infuse ₹ 50,000 crore in equity in MSMEs through a Fund of Funds that will be operated through a Mother fund and a few daughter fund. The Fund of Funds will be set-up with a corpus of ₹ 10,000 crore to give equity-based funding to MSMEs having growth potential and viability. It will also urge MSMEs to list on stock exchanges..

4. Global tenders disallowed: Addressing MSMEs' issue of unfair competition from foreign companies in government procurement tenders due to the size and strength differ, the government said it will not allow global tenders in such schemes upto ₹ 200 crore. Necessary amendments of General Financial Rules will be effected, according to the government document detailing the 15 relief schemes. Through the recently revised measures, the government has instilled a lot of faith in India's backbone the MSME ecosystem, particularly

the collateral-free loans, and the push towards the government procurement tendering will help businesses.

5. Clearing MSME Dues: Nirmala Sitharaman said that the government and central public sector enterprises will release all pending MSME payments in 45 days. The minister also said that fintech enterprises will be used to boost transaction-based lending using the data by the e-marketplace. This e-market for developing linkages for MSMEs will be promoted to replace trade fairs and exhibitions. Current interventions to help the sector include business continuity measures announced by the Reserve Bank of India (RBI); emergency credit lines introduced by Public Sector Banks (PSBs); a concessional interest rate loan announced by the Small Industries Development Bank of India (SIDBI) specifically for MSMEs engaged in manufacturing goods or providing services related to Covid-19; and deferring GST (goods and services tax) payments until June 2020.

4. FINDINGS & SUGGESTIONS

India has done relatively better than even some of the developed countries to fight Covid-19. The prime reason for this is the timely intervention and preventive measures taken by the Centre. The on-going Covid-19 crisis consists of three interlinked problems: a health crisis, an economic shock following from the lockdown, and a world economic downturn. MSMEs have created considerable pressure upon policy makers to act quickly and decisively. But coming up with an effective policy response is not an easy task. For one thing, the crisis poses some exceptional difficulties. It is clear that the human and economic toll will be serious, but it is unclear how long the crisis will last or how deep the damage will be. And without a clear understanding of the size and duration of the problem, it is difficult to know how to calibrate the policy response.

MSME are the backbone of our nation. It is very important now to protect the workers in the MSMEs, who have been badly affected, and yet have little savings to tide them over the shock. The government has announced various stimulus package focused on the MSMEs, but the main issue of identification of beneficiaries in the absence of a comprehensive dataset on MSME units as well as informal workers makes it more difficult and suggest potential

5. CONCLUSION

No doubt, Covid-19 has posed an unprecedented challenge for India. Given the large size of the population, the precarious situation of the economy, especially of the financial sector in the pre-Covid-19 period, and the economy's dependence on MSMEs, lockdowns and other social distancing measures would be hugely disruptive. Central & State governments and also Policy makers need to be prepared to scale up the response as the events unfold so as to minimize the impact on the MSMEs and pave the way for a V-shaped recovery. At the same time, they must ensure that the responses remain enshrined in a rules-based framework and limit the exercise of discretion in order to avoid long-term damage to the economy.

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