

IMPACT OF COVID-19 ON MSME

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ABSTRACT

An attempt has been made by researcher. The researcher analysed that the outbreak of covid-19 has led to plague followed by increasing number of cases reported in other countries across all countries. In response to the outbreak, Government of India has taken various policy action to contain the blowout of virus such as enforcing social distancing and self-isolation measures, travel ban and border closure, and lockdown of entire country. India, which has a population of 1.3 billion spends about 1.6% of total GDP on its healthcare infrastructure, is unprepared with its fragile and tattered healthcare facilities. The Covid-19 pandemic has left its impact on all sectors of the economy. Like other sectors of economy, Micro, Small & Medium Enterprises have been hit badly due to lockdown imposed by the government to tackle Covid-19 pandemic. Micro, Small & Medium Enterprises is the second largest employment provider after agriculture in India. The Growth Engine of The Nation is MSME sector. MSMEs were already struggling – in terms of falling revenues and capacity utilisation in the lead up to the Covid-19 crisis. Lockdowns have raised a question mark on the survival of many primarily. This paper covers overall impact of Covid-19 on MSMEs, the backbone of Indian economy and major constituent of India's export.

KEYWORDS: *Micro, Small & Medium Enterprises (MSMEs), Covid-19, Pandemic, Lockdown.*

Introduction

At first, most of them are not register anywhere. A big cause for this is that they are just too small. Even Goods and Services Tax (GST) has its threshold and most micro-enterprises do not qualify. This apparent invisibility tends to work for enterprises as well as against them. Being out of the formal network, they do not have to keep accounts, pay taxes or adhere to regulatory norms etc. This brings down their costs. But, as it is clear in a time of crisis, it also constrains a government's capability to help them. For instance, in some of developed countries, the government has tried to directly provide wages, subsidies and extra credit to smaller firms but that could happen because even smaller firms were being mapped. They do not have the buffers of the bigger firms or access to cheap capital to help them tide over this period. Demand has plunged for the businesses and entrepreneurs, even in commodity sectors and some buyers are reducing payments for orders already received. MSMEs have minor cash reserves, and therefore go out of business first in liquidity shock. With collapsing demand, and unlikely to rebound strongly in the near term, it will be increasingly difficult for these businesses to meet their obligations and such as repayment of loans or remunerations to their employees. According to Trans Union CIBIL, MSME loans worth \$ 2.3 lakh crore is at a higher risk of becoming non-performing. Further, the working capacity requirements of these firms will increase as payment cycles are likely to be stretched, creating additional cash flow problems. MSMEs frequently source inputs from other states & even from abroad, so as a result of COVID19 supply chains have become longer and complex. For manufacturing MSMEs in lockdown situations, remaining open is challenging because factory floors are not designed for social distancing. With the emergence of new technologies like, artificial intelligence, Data Analytics, robotics

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(This paper has been submitted for the National Webinar on "Latest Advancements & Future Trends" organized by K. R. Doshi Group of Colleges, Bhavnagar, which was held on 20th December, 2020.)

and related Technologies (collectively called as Industrial Revolution 4.0) is a bigger challenge for MSMEs. A survey says that lockdown has raised a question mark on the existence of many primarily because these are not firms that have too much cash to wait out the crisis. It results in job losses and migration to labours. Only 7% small and medium firms said that they will be able to continue for more than 3 months with their cash in hand if their business remain closed. A bigger problem to restart now is the lack of labour availability due to migration.

Recently, the RBI has introduced long term repo operation (LTRO) worth 100000 crore, therefore bank can increase lending at cheaper rate of interest. This initiative will give some help to MSME sector. Those SME's which are listed in BSE SME exchange there is a possibility to decrease the prices of the shares. People will be sitate to invest in SMEs stock after this Epidemics result supply will be greater than demand which leads to decline the share value. The impact of lockdown will be very discomfort for Indian MSME because in India most of the small business transactions are done in cash and payment to the workers and labourers are also made in cash. Small businesses are not very much comfortable to adopt digital practices in its business. Due to this crisis small businesses will try to adopt digital practices in its business. There are chances to arise the problem of liquidity crunch and with out adequate liquidity the small business might be closed own in coming future. As a result, workers will face layoff and unemployment in near future. Workers are moving towards native house from work place.

But for some business the impact may be positive. The businesses which deal with essential items which is mandatory for livelihood experiencing stronger sales due to sharp increase in demand for product. Consumers are buying essential commodity more than necessary which ultimately leads to exponential growth in sales. The stutter buying in huge quantity of essential commodities leads to raise the prices of commodity due to lower supply and high demand. For packaged food business this crucial situation has some opportunity to expand their business. Every family has been quarantined in their home. They are not permitted to move from one place to another. In this time business who deals with packaged food can grab the opportunity by making home delivery and create healthy relationship with society.

Impact on Indian Economy

There will be devastating impact on Indian economy due to the pandemic of Covid-19. Every economic action which reflects GDP of a nation has been stopped. This standstill will decline the speed of growth of economy. Cross border economic activity has been motionless. We can expect sluggishness in the developing country like India. The pandemic and consequent lockdown have hit various sector of our Indian economy badly.

- **Raw Material and Spare Parts:** In India around 55% of electronic component import from China. Imports have been decreased to 40% because of the outbreak of this virus and prolong lockdown. To tackle this situation India is considering the promotion of home production to reduce the dependency on China. On other hand, China is India's third largest export partner for export of raw materials like organic chemical, mineral fuel, cotton etc and because of complete lockdown, export has been stopped which leads to a substantial trade deficit for India.
- **Agriculture:** The nationwide lockdown will have significant impact on agriculture sector. Farmers are worrying about government procurement and their ability to sell their product. Even still, markets are closed, order from the home ministry to exempt all farming activities from shutdown. Unless the government acts soon, farmers in India will face dark future leading to bankruptcies and they will lead to suicide.
- **Automotive:** Already, Automotive sector has been witnessing a sluggish demand for last one year. The current situation has further aggravated the problem and compounded the situation with an acute liquidity crunch. 27% of India's automotive part imported by china. Wuhan is the major auto hub the supply chain of automotive sector has been hit significantly.
- **Hotels, Restaurants and Tourism:** demand has decline substantially due to complete lockdown. Owners are struggling to recover fixed cost. There will be no demand of hotels around 5-to-6-month, people will try to avoid travelling which leads to lower demand to hotels. India is a beautiful cultural and historical tourism fascinate domestic and foreign national throughout the year. The whole tourism value chain, which includes hotels, restaurants, and agents have been stopped. Tourism industry is likely taking a massive hit and people will generally avoid movement for tourist purposes in foreseeable future. In India the service sector account for 55% of GDP. It is estimated that the loss to tourism and hospitality industry will be \$2.1 billion for March and April alone.

- **Apparel and Textile:** This sector contributes 2% of GDP. China is the production hub of cotton. India is totally dependence on china for textile raw materials. India also exports cotton yarn to china in bulk quantity. Now because of the outbreak there is poor demand in china as result price to come down in India. Clothing manufacturer can look at local sourcing opportunities. Textile and apparel sector production is expected to decline by 10-12% in April- June quarter. The sector is one of the largest employers in the country, employing over 45 million (direct jobs) as well as large number of daily pay workers.
- **E-commerce:** Several e-commerce players Flipkart, Amazon, Myntra etc are unable to fulfilment customer requirement due to absence of delivery man. They are not accepting new orders however companies are trying to service essential items on priority basis. But the story is not end here, consumer buying habit is going to be change after this event, consumer will avoid large gathering as in traditional shop. Most of the purchaser will prefer online shopping. Hence there is lots of opportunity to expand business.
- **Building and Construction:** construction work in various sites has been stopped. Predictable job loss of 30% in real estate sector. Fresh equity investments into the country's real estate sector would decreasing.
- **Chemicals and Petrochemicals:** India is 6th largest chemical and petrochemicals producer in world, contribute 3.5% of global chemical industry (2018-19). Raw material price for petrochemicals is falling primarily driven by crude price. Imports are expected to fall as major import sources, Middle East and China are highly impacted by Covid-19. Majority of the chemical producing units are SMEs and they do not sudden increase working capital requirement. Extension of credit to customers and suppliers alongside falling revenue in the short to medium term is expected to adversely affect cash flows.
- **Education and Skilling:** all the education institution is closed. There are 39931 colleges and 933 universities (2018-19) approx. Schools around the country have been impacted by Covid-19, closures of schools last several weeks during the critical period of academic year ending. Low-fee private schools especially are likely face larger impact on teaching and learning. In higher education, most higher education institute are not fully geared to implement online learning.

Factors Responsible for Affecting the MSMEs due to COVID-19

- **Shortage of Manpower:** Organizations across the State have experienced unprecedented workforce disruption. Virtually all companies are still determining how they will work in the short- and long-term, as shortage of manpower exists, which has affected the MSMEs to a greater extent.
- **Market Demand:** Consumer demand patterns have shifted; supply chains are disrupted and have been under pressure, due to a stagnating economy and reduction in market demand. With the COVID-19, important changes in consumer behaviour and routes to market have knocked MSMEs off balance in the State.
- **Shortage of Supplies/Input Materials:** Small industries in the State have faced a scarcity of raw material due to the ongoing nationwide lockdown. As a result, there was a halt in the production which ultimately affected the entire supply chain. So, shortage of raw material has been a factor which adversely affected the MSMEs during the pandemic.
- **Logistics:** Due to lockdown, the chain of supply has virtually come to a end. As a result, deliveries lie pending as factories and warehouses were shut in a prompt response to the global health emergency. The crisis has severely affected transport services. And because freight transport operations, logistics, and the production of goods were so tightly synchronized, these interruptions have quickly had a ripple effect on commerce, exposing the fragility of the entire supply chain.
- **Export Issues:** Merchandise exports have fallen by over 60% and imports contracted only slightly less. The trade collapse was not surprising as the spate of regional, national as well as lockdowns around the world have not only dented demand and investment, but also severely disturbed supply chains and shipping routes.

- **Shortage of Funds:** The MSMEs stare at a lack of capital. Small enterprises are hit by zero cash flow because of the lockdown. As there was a halt in the production and slump in demand, MSMEs are unable to pay their creditors. While the revenue generation remains on hold, there are several expenses that the MSMEs sector can't get their hands off such as salaries of employees, tax deposit, rent of warehouses and office spaces, among many others.
- **Temporary Shutdown:** Workplace shutdown has been a key factor in hitting MSMEs hard during the COVID crisis as operations get ceased due to unavailability of raw materials and leave the enterprises at a high risk of insolvency. So, it is indicative that the slowdown or the temporary shutdown is one of the major factors that have affected the MSMEs in North Odisha.

How MSME can Survive during post Epidemic

The business environment during post pandemic will be totally different from today's business environment specially MSMEs. The following changes we can expect in field of MSMEs sector.

- India has 63 million MSMEs but only 32% of them are digitally engaged and remaining are too far to adopt digital practices. The untapped portion of MSMEs must change their strategy to survive in long run. To adopt digital practices is really difficult for MSMEs but without adopting it, it will be very difficult to survive during post epidemic.
- High credit support.
- Availability of working capital.
- Implementing more sustainability practice which leads to environment conscious.
- MSMEs should be given more importance on innovation.

Research Methodology

Objectives of the Study

- To investigate the issues and challenges of MSMEs sectors during COVID-19 pandemic.
- To examine the issue and challenges of MSMEs sector during COVID 19 pandemic

Research Design

- Research design is the arrangement of conditions for collection and analysis of data in manner that aims to combines relevance to the research purpose with economy in procedure. In this study, Descriptive research design is selected for the research.

Data Collection

The objective of this paper is to study the impact of Covid-19 on Micro, Small & Medium Enterprises. The current study is based on secondary sources such as literature reviews, articles, research studies, periodicals etc.

Data Analysis & Interpretation

Table 1

Revised Classification applicable with effect from 1st July 2020			
Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover; not more than Rs. 5 crores	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover; not more than Rs. 50 crores	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover; not more than Rs. 250 crores

Source:<https://msme.gov.in/know-about-msme>

MSMEs are defined in terms of investment in plant and machinery (chart 1) but criterion for the definition was long criticised because credible and precise details of investment were not easily available by authorities. That's why in February, 2018, the union cabinet decided to change the criterion to "Annual Turnover", which was more in line with the obligation of GST.

According to the proposed definition the categorisation would be:

Micro Enterprise

A micro enterprise, where the investment in Plant and Machinery or Equipment does not surpass one crore rupees and turnover does not exceed five crore rupees;

Small Enterprise

A small enterprise, where the investment in Plant and Machinery or Equipment does not surpass ten crore rupees and turnover does not exceed fifty crore rupees;

Medium Enterprise

A medium enterprise, where the investment in Plant and Machinery or Equipment does not surpass fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

Table 2: Estimated numbers of MSME (In Lakh)

Activity Category	Rural	Urban	Total	Share
Manufacturing	114.14	82.50	196.65	31%
Trade	108.71	121.64	230.35	36%
Other Services	102.00	104.85	206.85	33%
Electricity	0.03	0.01	0.03	-
All	324.88	309.00	633.88	100%

Source: Annual report - <https://msme.gov.in/relatedlinks/annual-report-ministry-micro-small-and-medium-enterprises>

Table 3: Estimated Engagement in MSME Sector (In Lakh)

Broad activity Category	Rural	Urban	Total	Share
Manufacturing	186.56	173.86	360.41	32%
Trade	160.64	226.54	387.18	35%
Other Services	150.53	211.69	362.22	33%
Electricity	0.06	0.02	0.07	-
All	497.78	612.10	1109.89	100%

Source: Annual report - <https://msme.gov.in/relatedlinks/annual-report-ministry-micro-small-and-medium-enterprises>

According to the annual report of department of MSMEs (2018-19) there are 6.34cr MSMEs in the nation. Around 51% of this are situated in the rural India. Together, they employ a little over 11cr people but 55% of the employment happens in the urban MSMEs. These numbers recommend that, on average less than 2 people are busy per MSME.

In India, right now, there are nearly 56 million such enterprises in various industries, employing close to 125 million people. Of these, nearly 14% are woman-central enterprises, and close to 60% are based in rural area. In all, the MSME sector accounts for 8% GDP of India and 45% of merchandise exports. Due to this, the MSME sector is called "The Growth Engine of The Nation"

The pandemic comes at a time when economy was experiencing sharp contraction in demand. Given the situation of banking sector, the economy's immune system is not ready to respond to malign impacts of corona virus. The government is armed with limited policy stimulus because of lack of fiscal headroom.

Conclusion

The RBI is trying to pump money into the MSMEs sector and the government should offer tax relief, give rapider refund and provide liquidity to rural India to boost demand for MSME products. Government of India announces 20 lakh crore economic packages on 12.05.2020. It is around 10% of country GDP which will help India to become Self Reliant and boost Make in India initiative. It's time to "Be Vocal for the Local". Collateral free assistance or sovereign credit guarantees to the micro, small and medium enterprises (MSME) will ease the financial crunch. However, the government should device this scheme in such a way that issue of moral hazard can be averted.

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