

Impact of COVID-19 pandemic on MSME sector of Indian Economy

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Abstract

COVID-19 impacted on all the sectors in the economy but MSME sector is one among most affected sectors. This paper attempts to assess the impact of COVID-19 on MSME and identify the challenges facing by MSME during COVID-19. The major issues faced by MSMEs during COVID-19 is decrease in the demand for non-essential goods, shortage of working capital, delay in the supply of raw material, problem in repaying loan, not able to pay salaries to the employees, existence of huge unregistered firms and non-availability of manpower etc. The Government and RBI announced the relief measures worth is Rs.12.88 lakh crore. Under this RBI liquidity infusion worth is Rs.5.24 lakh crore. The important steps needs to be taken by Government are emphasis on rural entrepreneurship development to create self employment in rural area, Mobile skill development centre at village/block level, purchasing of products from MSME.

Keywords: COVID-19, MSME, Indian Economy, Government, Relief package

Introduction

The outburst of the COVID-19 pandemic is one of the greatest calamities in the history of mankind. It affected every country, every sector and every individual in the world. UNCTAD (2020) rightly points out that "COVID-19 has affected mankind physically, economically and psychologically". To contain the spread of the corona virus outbreak, the Government of India announced the national wide lockdown on 24th March 2020 and extended up to 31st May 2020. The lockdown is further extended in containment zones. This biggest lockdown devastated the economic activities and put a hold on growth of the economy. According to a rough estimate a day of lockdown Indian economy is losing on an average 32000 crore. COVID-19 impacted on all the sectors in the economy but most affected sectors are MSME, Tourism, Retail, Transportation, Automobile industries, Textiles, Construction, Entertainment, Electronics, Village and Cottage Industries, Agro based industries, E-Commerce, and all other services etc.

Micro Small Medium Enterprises (MSME)

Micro, Small and Medium Enterprises sector are playing an important role in Indian economy. As per the 73rd round National Sample Survey (NSS), in 2015-16 there were around 633.8 lakh MSME in the country and they were providing employment to 1109.89 lakh workers. Among 633.8 lakh MSME 99.46 percent of MSMEs fall in the micro enterprises category, 0.52 percent of them fall in the small and only 0.02 percent of them fall under the category of medium enterprises. Around 51 percent of MSME situated in rural area.

: 1.1- New Classification of MSME – June, 2020

Classification	Micro Enterprises	Small Enterprises	Medium Enterprises
Manufacturing & Service	Investment less than Rs.1 Cr. and turnover less than Rs.5 Cr.	Investment less than Rs.10 Cr. and turnover less than Rs.50 Cr.	Investment less than Rs.20 Cr. and turnover less than Rs.100 Cr.

Source: MSME.gov.in

The contribution of MSME is very crucial to Indian economy. It is considered as the growth engine of the nation. It contributes 6.11% to manufacturing GDP, 24.63 % to service GDP, 33.4 % to manufacturing output and 45 % to India's exports. From the above data it is evident that MSME's are playing an important role in creating employment, increasing exports, achieving comprehensive growth and Make in India etc in India.

Objectives of the Study

The important objectives of the study are:

1. To analyze the impact of COVID-19 on Indian MSME sector.
2. To identify the challenges facing by MSME during COVID-19.



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Review of the Literature

MSME sector exists in both the nature of businesses and the relationships between workers. The number of enterprises in the unorganized sector [is estimated](#) to be 99.7% of all unincorporated non-agricultural enterprises. It is also significant to note that around 84.17% of these universes of unincorporated businesses are the owner-managed/self-employed firms and the next highest share is of units that employ up to 5 workers (micro units). Various government sources state different levels of informal employment, what is agreed on however is that it has persistently hovered well above the 90% mark. With respect to arrangements between businesses and workers, the conditions of employment look gloomy. The International Labor Organization has specifically highlighted how economies with large informal sectors will need to acknowledge and act on the fact that workers in such sectors have no income replacement.

Methodology

The present study is based on a secondary source of data consisting of Government publications, namely Economic Survey, RBI reports and official website of Ministry of Statistics and Programme Implementation. Simple statistical tools namely percentage, average used to analyze the data.

Impact on Indian MSME Sector

In this paper we will try to overview the probable impact of Covid19 on Indian MSME. It is too early to estimate how deeply the pandemic will affect MSME. Covid-19 has moved from a health crisis to an economic crisis. This pandemic destroyed the business cycle all over the world. Around 100 countries have closed national border. During the past month global supply chain has been collapsed. Global economy could shrink by almost 1% in 2020 due to Covid19 pandemic.

India is a developing country. MSME play important role to accelerate the growth of Indian economy. But the position of MSME will be very unthinkable and unforeseeable after this epidemic. The state of Uttar Pradesh has the largest number of estimated MSME with share of 14.20% of total MSME's in the country. West Bengal comes as close second with a share of 14% followed by Tamil Nadu and Maharashtra at 8%. Indian economy needs immediate assistance in Micro, Small and Medium enterprises to survive. In India there are over 63 million MSME units in India. India's growth may fall below 3% in financial year 2021.

The RBI recently introduced long term repo operation (LTRO) worth 100000 crore, as a result bank can increase lending at cheaper interest rate. This type of initiative will give help to MSME sector. Those SME's which are listed in BSESME exchange there is a possibility to decline the share price. People will hesitate to invest in SMEs stock after this epidemic. The impact of lockdown will be very discomfort for Indian MSME. In India most of the small business transactions are done in cash and payment to the workers and laborers 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 and without liquidity the small business might be close down in coming future.

As a result workers will face unemployment in near future. There is a very fragile situation for workers during this time. 19% to 43% of the MSME may disappear if epidemic persist 4 or 8 weeks. MSMEs have gone through most difficult time in the last 3 year. They faced one setback after another. Sign of red alert are already visible. MSME will have to face huge financial burden which lead to loss of employment. Due to lockdown, movement of goods from one country to another country has been stopped. One of the positive thing due to this crisis is that those enterprises who deal with import and export business, they can be self reliant and will try to produce goods within India instead of import .

There is a great opportunity for SME which belongs to chemical sector. They can extend its product line by making hand sanitizer product whose demand is to increase in right now. Poultry firm is facing lots of problem due to shutdown. Demand of chickens has been decrease with falling rate 20 per kg from prevailing market price 90 per kg. To alive the poultry, the owner of firm will have to maintain fixed cost as a feed for poultry even there is no sale. Starvation situation will arise if lockdown continue to around 8 weeks.

As a result price of flour may be increase after this epidemic due to lower supply. This will be crucial for keeping the supply chain of food grains alive. The major concern for MSME will be liquidity crunch due to the covid-19 outbreak. Lack of liquidity will disrupt supply chain and labour availability.

Many units have paid their workers' wages for March in full and are prepared for April payment while there is no revenue now. In addition there are bills like electricity bill, water bill that also have to be paid but without revenue or substantial government support, there is no way they can carry on in May and beyond. Major big concern of MSME units are delay in launch of new product, inability to meet demand from essential industries, tough social distancing. State bank of India has set a target to distribute 700 crore to MSME in Mumbai. The government is working on 1 trillion packages. There is a possibility to change the definition of MSME. The proposal is still to be approved. The Indian government will also need to increase insolvency limit for SMEs and MSME to 1 crore from 1 lakh.

Analysis and Findings**Table: 6.1 - MSME affected by Lockdown**

Sector	Total workforce(million)	Expected job loss in key industries (%)	Sectors with low percentage of formal employees (%)
MSMEs	114	43	Manufacturing (machinery) 47% and (non-machinery) 21%

Source: Mahesh Kulkarni, Deccan Herald, May 3, 2020

Delay in supplying raw materials from china:

Indian MSME sectors are also hugely dependent on China for their raw material. For example, Indian drug makers imports 70 per cent of their ingredients from Chinese factories. But due to lockdown in China, partial lockdown in Indian MSME's were not able to get supply of raw material from China. This results in a shortfall in the production.

Problem of repaying loan

Due to lack of working capital MSMEs were not able to repay their loans. MSME loans worth Rs. 2.3 lakh crore are at a higher risk of becoming non-performing assets (NPA).

Not able to pay salaries to the employees

In the lockdown period due to the stop page of economic activity majority of the MSME's facing difficulty in paying salaries to the employees. According to a survey conducted by All India Manufacturers' Organization (AIMO), 71 percent of the businesses are not able to pay salaries in March.

Migration of workers and non-availability of manpower

Due to the lockdown, daily-wage workers especially migrant labourers left with no work and they are moving towards their native places. As per Indian Railway nearly fifty seven lakh migrant workers transported so far by Sharamik Special Trains as on 3rd June 2020. This results in scarcity of skilled workers to MSMEs especially in major production cities.

Shortage of Working Capital and Credit

In the lockdown period due to stoppage of economic activity majority of the MSME's facing shortage of working capital. They are facing difficulty in paying salaries, raw materials and it is difficult for them to start their production again. According to survey conducted by All India Manufacturers' Organization (AIMO) 43 percent MSMEs shutdown if panic extends beyond eight weeks.

Government and RBI Relief Package

The Government and Reserve Bank of India announced several policy measures to control the impact of the COVID-19 pandemic on economy. The following are the important among them which will also help MSMEs.

Table: 7.1 - COVID-19 Stimulus Package by Government

Sl. No.	Particulars	Amount (Rs. In Crore)
1.	Equity infusion into fund of fund for MSMEs	50000
2.	Collateral Free Loan for Standard MSMEs	300000
3.	Special liquidity scheme which guarantee the instruments to be floated by NBFCs/HFCs/MFIs	30000
4.	Employees Provident Fund	2500
5.	Subordinate Debt	20000
6.	Reduction of EPF burden	6750
7.	Infusion of liquidity to DISCOMs through PFC & REC	90000
8.	Partial credit guarantee for NBFCs	45000
9.	Tax Deducted at Source (TDS) reduction by 25% up to 31.03.2021	50000

The Government and RBI announced relief measures worth is Rs.12.88 lakh crore to face impact of COVID-19. Under this RBI liquidity infusion worth is Rs.5.24 lakh crore. The finance Minister on 13th May 2020 announced the stimulus package to control the impact of Covid-19 on economy. The important among them which helps MSME is Collateral free loan of Rs.3 lakh crore for standard MSMEs. Under this free loans will be given for a period of 4 years with one year moratorium on repayment of installment till 31st October 2020. Government will provide 100 percent credit guarantee cover to banks and NBFCs for providing these loans. For this purpose Rs.4000 crore will be provided to credit Guarantee Fund Trust for Micro and Small Enterprises. It will benefit over 4.5 million MSMEs. The Government has planned Rs. 50000 crore equity infusion into MSMEs. For this purpose fund of funds will be established with a corpus of Rs. 10000 crore.

Government also supports MSMEs by cancelling global tender for procurement up to Rs.200 Crore and it will be reserved only for domestic MSMEs. It will increase the demand for domestic MSMEs products by curbing the global competition and help to achieve Make in India concept. Along with the above Government also announces collateral-free automatic loan which will be funded by up to Rs 3 lakh crore.

RBI announced many relief measures to increase the liquidity infusion in the economy. Important among them are a substantial cut in the repo rate by 75 basis points to 4.4%. This is the lowest policy rate in this century. Three months moratorium on payment of installments on the existing term loans, Reduced the liquidity coverage ratio from 100 percent to 80 percent. Government TDS reduction by 25 percent will also give temporary relief to MSMEs. Under this Government provided Rs.50000 crore liquidity through TDS reduction for the remaining period up to 31.03.2021. But interest on these delayed installments on three months moratorium is not justifiable.

To meet the short-run credit concerns emergency credit lines announced by Public Sector Banks as per the instruction given by RBI and SIDBI to help the MSME, under this scheme at 5 percent low rate of interest loan were sanctioned within 48 hours. RBI opened Rs.50000 crore to the refinancing window for NABARD, SIDBI and NHB. Under this banks will be required to make these investments within one month from receiving funds from the RBI.

Conclusion

MSME sector is the major contributor to Indian economy. Therefore, there is a need of helping this sector to come out of this pandemic situation. To inject the lifeblood to the MSME sector, along with the temporary relief programme the Government must plan for medium and long term requirements of MSMEs to strengthen this sector. The relief package must also quickly reach to MSMEs. Almost every country in the world is being affected from devastating outbreak of Covid-19. Every sector is being affected due to the pandemic. Work from home concept is going to be new culture of India. As a result use of digital practice will be increase in near future. Make in India and Digital India will be encouraging more.

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