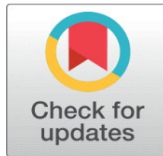
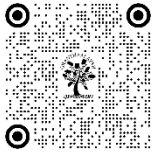


COVID - 19 AND ITS IMPACT ON MSMES IN INDIA

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ABSTRACT

Micro, Small and Medium Enterprises (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 micro, small and medium enterprises as a whole form a major chunk of manufacturing in India and play an important role in providing large scale employment and also in the country's exports. Recent annual reports on MSMEs indicate that the sector contributes around 30% of India's GDP and based on conservative estimates, employs around 50% of industrial workers. Over 97% of MSMEs can be classified as micro firms (with an investment in plant and machinery less than Rs. 25 lakhs) and 94% are unregistered with the government. Many of the micro enterprises are small, household run businesses. Now the world is battling with modern horrors like the Covid-19, which has left the entire world befuddled and in the lurch as to how one virus has brought the entire world to a standstill. The Covid-19 pandemic has left its impact on all sectors of the economy, but now here is the hurt as much as the MSMEs of India. MSMEs have been the worst casualty of Covid-19 induced lockdown.

1. INTRODUCTION

Micro, Small and Medium Enterprises (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 micro, small and medium enterprises as a whole form a major chunk of manufacturing in India and play an important role in providing large scale employment and also in the country's exports. Recent annual reports on MSMEs indicate that the sector contributes around 30% of India's GDP and based on conservative estimates, employs around 50% of industrial workers. Over 97% of MSMEs can be classified as micro firms (with an investment in plant and machinery less than Rs. 25 lakhs) and 94% are unregistered with the government. Many of the micro enterprises are small, household run businesses. Now the world is battling with modern horrors like the Covid-19, which has left the entire world befuddled and in the lurch as to how one virus has brought the entire world to a standstill. The Covid-19 pandemic has left its impact on all sectors of the economy, but now here is the hurt as much as the MSMEs of India. MSMEs have been the worst casualty of Covid-19 induced lockdown.

COVID-19 or more popularly known as Novel Corona virus, is associated with the respiratory disorder in humans which has been declared as a global epidemic and pandemic in the first quarter of the year 2020 by the WHO. This devastating virus which is declared by the WHO as the pandemic has taken over almost 195 countries in its grip. Now the world is battling with modern horrors like the Covid-19, which has left the entire world befuddled and in the lurch as to how one virus has brought the entire world to a standstill. The outbreak of COVID-19 in different parts of the world is a major concern for all the administrative units of respective countries. India is also facing this very tough task for controlling the virus outbreak and has managed its growth rate through some strict measures.

How are MSMEs defined?

Formally, MSME, are defined in terms of investment on plant and machinery. But this criterion for the definition was long criticized because credible and precise details of investments were not easily available by authorities.

That is why in February 2018, the Union Cabinet decided to change the criterion to “annual turnover”, which was more in line with the imposition of GST. According to the proposed definition, which is yet to be formally accepted, a micro enterprise will be one with an annual turnover less than Rs. 5 crore, a small enterprise with turnover between Rs. 5 crore and Rs. 75 crore; and a medium enterprise with turnover less than Rs. 250 crore.

Table – 1 Definition of MSME

Classification	Manufacturing Enterprises	Service Enterprises
Micro	Up to Rs. 25 lakh	Up to Rs. 10 lakh
Small	Above Rs.25 lakh to Rs. 5 crore	Above 10 lakh to Rs.2 Crore
Medium	Above Rs.5 Crore to Rs.10 Crore	Above Rs.2 Crore to 5 Crore

Annual Report of Department of MSMEs (2018-19)

Table – 2 Estimated Number of MSMEs (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	324.888	309.00	633.88	100%

Annual Report of Department of MSMEs (2018-19)

Table – 3 Estimated Employment in MSME Sector (in lakh)

Brand activity category	Rural	Urban	Total	Shares
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%

Annual Report of Department of MSMEs (2018-19)

Table – 4 Distribution of Enterprises Category wise (in Lakh)

Sector	Micro	Small	Medium	Total	Shares
Rural	324.09	0.78	0.01	324.88	51%
Urban	396.43	2.53	0.04	309.00	49%
All	630.52	3.31	0.05	633.88	100%

Annual Report of Department of MSMEs (2018-19)

How many MSMEs does India have, who owns them, and where are they situated?

According to the latest available (2018-19) Annual Report of Department of MSMEs, there are 6.34 crore MSMEs in the country (Table-2). Around 51% of these are situated in rural India. Together, they employ a little over 11 crore people (Table-3) but 55% of the employment happens in the urban MSMEs. These numbers suggest that, on an average, less than the people are employed per MSME. At one level that gives a picture of how small these really are. But a break up of all MSMEs into micro, small and medium categories is even more revealing.

As Table-4 shows, 99.5% of all MSMEs fall in the micro category. While micro enterprises are equally distributed over rural and urban India, small and medium are predominantly in urban India. In other words, micro enterprises essentially refer to a single man or a woman working on their own from their home.

The medium and small enterprises that is, the remaining 0.5% of all MSMEs, employ the remaining 5 crore – odd employees. The distribution of enterprise by caste further completes the picture. About 66% of all MSMEs are owned by people belonging to the Scheduled Caste (12.5%), the Scheduled Tribes 4.1% and other Backward Classes 49.7%. The gender ratio among employees is largely consistent across the board at roughly 80% male and 20% female.

In terms of geographical distribution, seven Indian states alone account for 50% of all MSMEs. These are – Uttar Pradesh – 14%, West Bengal – 14%, Tamil Nadu – 8%, Maharashtra – 8%, Karnataka – 6%, Bihar – 5% and Andhra Pradesh – 5%.

Problems of MSMEs in India:

Given the shape and form of MSMEs, it is not hard to envisage the kind of problems they would face.

- To begin with, most of them are not registered anywhere. A big reason for this is that they are just too small. Even GST has its threshold and must micro enterprises do not qualify. This apparent indivisibility tends to work for enterprises as well as against them.
- Being out of the formal Network, they do not have to maintain accounts, pay taxes or adhere to regulatory norms etc. This brings down their costs.
- Many aspects of government policy are at best scale neutral and do not explicitly favor these enterprises.
- The single-biggest hurdle facing the MSMEs – lack of financing? According to a 2018 report by the International Finance Corporation (part of the World Bank), the formal banking system supplies less than one-third (or about Rs. 11 lakh crore) of the credit MSME.
- This sector does not have access to adequate, timely and affordable institutional credit. More than 81% MSMEs are self-financed with only around 7% borrowing from formal institutions and government sources (Economic Census, 2013).
- Most of the MSME funding comes from informal sources and this fact is crucial because it explains why the RBI's efforts to push more liquidity towards the MSMEs have had a limited impact.

Covid-19 and its Impact on MSMEs in India:

The Covid-19 is mounting a very serious threat to the Indian economy. There is no doubt that the Indian economy, which is already sputtering, is growing at one of the lowest rates in the last six years. And now, a new set of economic challenges unleashed by this virus is leaving many sectors in totters. 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% of their ingredients from Chinese, factories and Chinese goods worth \$ 30 billion. Thus complete lockdown of China and partial lockdown of India has led to various issues ranging from shrinkage of exports, cessation of production, non-availability of man power, the uncertainty of consumption, and liquidity squeeze in the market as well.

Taking into consideration the widespread havoc wreaked by the Covid-19, the government needs to come up with a constant tracking mechanism and should announce immediate relief measures to shore up the confidence in this very important sector which has taken a beating due to a flurry of disruptions introduced by the government. A stimulus financial package is required to reenergize the market economy. Many countries like the USA and China have rolled out many new measures to save MSMEs from the Covid-19 threat.

Table – 5 Growth in Industry-wide Deployment of Bank Credit by Major Sectors *YOY, %)

Item	March-15	March-16	March-17	March-18	March-19	Nov – 19
Non-food credit	8.6	9.1	8.4	8.4	12.3	7.2
Industry	5.6	2.7	-1.9	0.7	6.9	2.4
Micro and Small	9.1	-2.3	-0.5	0.9	0.7	-0.1
Medium	0.4	-7.8	-8.7	-1.1	2.5	-2.4
Large	5.3	4.2	-1.7	0.8	8.2	3.0
Textiles	-0.1	1.9	-4.6	6.9	-3.0	-6.1
Infrastructure	-10.5	4.4	-6.1	-1.7	18.5	7.0

Source: Economic Survey 2019-20; November 22, 2019

The MSMEs are present in manufacturing trade and service sectors. Table-5 provides growth rate of industry wise deployment of bank credit by major sectors. It shows that growth of credit was either low or negative for the MSMEs.

Demonetization and GST also contributed to the low performance of MSMEs. The recent problems with the NBFC sector have further hampered credit allocation to this sector.

Although all businesses have been affected by the pandemic the MSME sector could be badly hit by reduced cash flows caused by the nation-wide lockdown. Their supply chain would be disrupted, and they would be affected by the exodus of migrant workers, restrictions in the availability of raw materials, by the disruption to exports and imports and also by the widespread travel bans, closure of malls, hotels, theatres and educational institutions etc. This in turn, would massively hamper the MSME businesses. As a consequence, hundreds of thousands of people who work for these small businesses may end up with job and salary losses.

According to the confederation of All India Traders (CAIT) which represents 70 million traders in India and the majority of them are MSME. The trade impact for India is estimated to be around Rs. 380 lakh and the chemical sector is expected to take a big hit of Rs.12 crore 90 lakh. Micro, small and medium enterprise is the sector which was already reeling under huge distress firstly because of demonetization, these because of poorly implemented GST allowed by the prolong economic slowdown and finally the biggest of all the Covid-19 which is going to aggravate the crisis in this specific sector. According to a study commissioned by All India Manufacturers Organization (AIMO), India is currently house to over 75 million MSMEs and close to 20% of these firms will face closure, if the lockdown imposed due to the Covid-19 goes beyond four weeks while a whopping 43% will shut stop if panic extends beyond eight weeks.

Government Initiative Programmers' and Policies:

- The MSME sector is the second largest employment generating sector in India, government help to sustain the labour incentive industries and thereby help in leveraging India's comparative advantage. Given the importance of MSMEs for Indian economy, the 31 lakh crore rupees of collateral-free loan facility for MSMEs under the package will help this finance starved sector and thereby provided kick start to the dismal state of the economy.
- The MSME in India, they do not have to maintain 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 ability to help them. For instance, in some of developed countries, the government has tried to directly provide wage subsidy and extra credit to smaller firms but that could happen because even smaller firms were being mapped.
- MSMEs have responded enthusiastically to centre's guaranteed emergency credit line, within 10 days or rules for the scheme being notified, more than 15 lakh beneficiaries have reportedly availed of the facility.
- The emergency credit line facility mandates banks to provide term loans to MSMEs and business with Rs.100 crore turnovers and Rs.25 crore amounting to 20% of their outstanding credit as on February 29, 2020.
- The key factor of the scheme is that government stands guarantee for the loans disbursed to MSMEs. The schemes aim to benefit 45 lakh MSMEs and will continue till October 31, 2020 or till Rs. 3 lakh is disbursed. The loans have tenure of 4 years and a moratorium of 12 months on repayment of principal amount. No guarantee fee or fresh collateral is required for the emergency credit line.
- New schemes, up to Rs. 500 crore, which have already been appraised by the departments and ministries, would also be suspended in the current financial year. The government has also decided to extend the subsidy benefit provided to companies for their EPF contributions for three months, from June to August.
- The first relief package, called the '**Pradhan Mantri Garib Kalyan Yojana**' (PMGKY), which was announced by the government on March 26, the second package, too, would primarily focus on the MSME sector, the government has announced funding the entire EPF contribution made by employers for companies with less than 100 workers

CONCLUSION

The Covid-19 pandemic has left its impact on all sectors of the economy. Due to the lockdown several businesses and industries have taken a hit in terms of revenue and employment. Despite several measures undertaken by the government to improve the MSMEs' condition, there seems no respite due to this unprecedented contingency. Even before the onset of this pandemic, the global economy was confronting turbulence on account of disruptions in trade and diminished growth. The situation has now been aggravated by the demand, supply and liquidity shocks that COVID-19 has imposed. Once the pandemic is controlled, the shape and speed of the recovery in the US and China will be key factors, determining the nature and traction of global economic recovery.

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None.

CONFLICT OF INTEREST

None.

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