

# COVID-19 and the India's Micro, Small and Medium Enterprises Sector

Dr.Hiral Sheth

Assistant Professor, Department of Economics, Kishinchand Chellaram College, Churchgate, Mumbai-400020, Maharashtra, India

---

## **Abstract:**

The COVID-19 pandemic is the greatest global humanitarian challenge the world has faced since World War II. The virus has spread widely, and the number of cases is rising daily as governments work to slow its spread. India had moved swiftly, implementing a proactive, nationwide lockdown, with the goal of flattening the curve and using the time to plan and resource responses adequately. India's effort to combat COVID-19 virus has been praised over the globe. However, the lockdown came with an economic cost and cascading impact on all the sections of society. The Covid-19 induced lockdown in India was a huge economic shock. It started across the country on 24 March 2020 and is still ongoing with restrictions in one form or other. It stalled the economy with complete closure imposed on enterprises across all sectors. Micro, Small and Medium Enterprises (MSMEs) sector too, was not an exception. While other sectors are reported to be under significant stress, it is important to analyse the impact on MSME sector which provides livelihood to a large section of the population in India. This is because like any other sector, the MSME sector also witnessed a considerable decline in economic activities and loss of jobs due to the nationwide lockdown. This research study is an attempt to cast light on several aspects of this sector.

**Keywords:** MSME, pandemic, Indian economy, sector, COVID-19.

---

Date of Submission: 11-01-2022

Date of Acceptance: 26-01-2022

---

## **I. Introduction**

The novel Coronavirus (COVID-19) pandemic has rapidly spread across the world, adversely affecting the lives and livelihoods of millions across the globe. India reported its first infection on 24 March 2020, prompting the authorities to soon initiate various measures to contain the spread of the epidemic. Given that the disease is highly contagious, the much-needed nation-wide lockdown was enforced starting 25 March 2020 in order to contain the spread of COVID-19 pandemic. During the initial few weeks, the restrictions were strict and all non-essential activities and businesses, including retail establishments, educational institutions, places of religious worship, across the country were prohibited from operating. Subsequently, these restrictions are being gradually eased in a phased manner in most parts of the country. As the restrictions imposed due to the lockdown are being lifted, it is an opportune moment to analyse the impact of COVID-19 on different sectors of the economy. A number of reports have pointed towards the possibility of contraction of Indian GDP in 2020-21. This is a worrisome indication, since a higher GDP contributes immensely towards achieving better living standards, reduced poverty as well as improvement in other socio-economic indicators. While other sectors are reported to be under significant stress, it is important to analyse the impact on MSME sector which provide livelihood to a large majority of the population in India.

Micro, small and medium enterprises are playing a critical role in the economic development as well as acting as an important source of livelihood for millions of Indians. They are a vital source of gainful non-farm employment for people particularly those living in rural areas.

## **II. Methodology**

The present paper is based on the secondary data collected from the secondary source i.e. published literature of the subject concern. Descriptive and analytical method has been applied in the entire study.

## **III. Objective of the Research Study**

The specific objective of the study was to assess the impact of COVID 19 on MSME sector.

#### **IV. Rationale**

Micro, Small and Medium Enterprises (MSMEs) are considered to be the backbone of the Indian economy. It is the second largest employment generating sector (after agriculture), employing nearly 120 million people. It contributes over 40% of the overall exports from India. An analysis of the impact of COVID-19 on rural economy is incomplete without considering its impact on MSMEs. This research study is an attempt to cast some light on the impact of COVID-19 on MSME sector.

#### **V. Literature Review**

Dhar 2016, says, "In recent years, several policy initiatives and procedural simplification have been undertaken by the government to support the small scale sector and enhance its competitive growth." Mukharjee (2017), says, "Reason for sickness of MSMEs are both internal and external. In sum, these are : limited financial resources, non availability of raw materials, power shortage skill deficit, marketing problems etc."

Bhattacharya, 2020, says "The \$ 130 billion outs sourcing industry was one of the least prepared to shift to a work from home model when the Indian Govt. announced a nationwide lockdown in March. So far the past two months the sector which employs over 4 million people in India, operated with a makeshift hybrid model where most of the staff worked remotely but many workers was forced to come office".

Rastogi, 2020 says, "Covid-19 will change the way the world works, just like the great depression, dot-com bubble, and the 2008 financial crash did in the past. The question on everyone's mind is, will things go back to normal?"

The Standing Committee on Industry (Chair: Dr. K Keshava Rao) submitted its report on the subject 'Impact of COVID-19 Pandemic on MSME Sector and mitigation strategy adopted to counter it' on July 27, 2021. The committee made several key observations and recommendations on the impact of lockdown, stimulus package, emergency credit line guarantee scheme, promotion of start-ups, UDYAM portal for registration of MSMEs and reducing Trade Receivables Discounting System (TReDS) registration limit for PSEs with annual turnover of 500 crores to 250 crores, and that every tax invoice raised by GST registered MSMEs should reflect automatically on TReDS platform.

#### **VI. COVID-19 and the MSME Sector**

The government of India has always been taking positive attitude towards the development of MSME sector. The industrial policies 1948, 1956, 1977, have given special thrust to the development of MSMEs sector. A number of institutions have been set up by the governments to help in functioning of MSMEs. To meet the needs of MSMEs the government of India had already set up KVIC, Coir Board, All India Handloom Board, All India Handicraft Board, The Central Silk Board, The Small Scale Industries Board, The National Small scale Industries Corporation (NSIC) Ltd., The Small Industries development Organisation(SIDO), The Programme of District Industries Centres(DIC),The National manufacturing Competitive Programme(NMCP), Implementation of MSMED Act 2006, Marketing Development Assistance Scheme, Udyog Aadhaar Memorandum(UAM), SFCs, SIDBI, CGTSME, CLCSS, MUDRA Bank, PMEGP, SFURTI etc. All this institutions Schemes and Acts have been set up and implemented to fulfil the shortage and backlog faced by these MSMEs especially in the field of Finance and marketing, technology up-gradation etc.

The union cabinet on May 2020 cleared Rs. 3 lakh crore Micro, Small, Medium Enterprise (MSME) funding scheme to mitigate the economic distress being faced by the small business in the light of the Covid-19 pandemic. Under the scheme 100 percent guarantee coverage will be provided by the National Credit Guarantee Trustee Company Limited (NCGTC) for additional funding of up to Rs.3 lakh crore to eligible MSMEs and interested MUDRA borrowers, in the form of a Guaranteed Emergency Credit Line (GECL) facility. In a major boost to the MSMEs, collateral free loan of 3 lakh crore rupees has been announced with a moratorium of 12 months. These loans will benefit 45 lakh small and medium units. Another package of 20 thousand crore rupees for stressed MSMEs benefiting 2 lakh units have also been announced. Finance Minister informed that 50 thousand crore rupees will be infused in the MSMEs through the equity channel. E-market linkage for MSMEs has been announced to ensure wider reach for sale of product from the small and medium enterprises. (ET)

The key features of the impact of COVID- 19 pandemic is the uncertainty about length of time it will sustain, invention of medicine and treatment, also uncertainty about the ability to adept in such a manner that minimise the Covid-19 risk down the line. Uncertainty also prevails in labour availability especially migrant workers as they are not readily available to work at this point of time. There is also uncertainty about supply chain because of prolong lockdown due to which companies are facing difficulty to restart their firms. Uncertainty also prevails in demand for products as consumers have cut their consumption even export demand has been suffering a lot because of this crisis. At this point of time the task of the governments is to give guarantee to the investors that their money is safe and they will be able to earn a descent returns in spite of this crisis. This will not only strengthen the liquidity but also able to attract surplus global fund that was released during the time of financial recession. The government can also provide credit guarantee scheme for MSMEs

and also give interest rate subvention to these companies as far as possible. Moreover the government has to take initiative for power sector reform so that power companies become a profitable venture and able to provide enough power to the rural areas so that majority of MSMEs can be set up in rural and remote areas.

### VII. Problems faced by MSME sector

In spite of the contribution made by this sector as an engine of growth to the country, this sector has been facing various obstacles before the outbreak of COVID- 19 pandemic. The majority of the MSMEs operated through the self finance mode as banks are showing reluctant to provide loan to these sector even if Government of India declares this sector a priority sector. Moreover access to alternative source of capital like equity capital is very limited. Due to which MSMEs have been facing acute shortage of working capital and this lock down has created a severe problem for the smooth operation of such firms. The majority of MSMEs have been facing problem of delay in the settlement of dues by the large firms as well as the Government. This has created problems in running their business smoothly. MSMEs cannot bargain with the large firms for their dues. Payment from the government is also not satisfactory due to red tapism and corruption on the part of the government. Because of small capital base and lack of provision finance majority of the firms are operating through outdated technology because of which they are not able to compete with the product produced by the large firms or the products imported from other countries. Marketing ability of these firms is also very weak. Small firms could not able to afford large distribution channel due to which they are forced to sell their product to the middlemen in a very low price and ultimately affect their profitability and creation of surplus fund for generating fixed as well as working capital. MSMEs are also facing the problem of poor infrastructural facility like road, power and water supply as majority of MSMEs are settled in rural and semi- urban areas.

### VIII. Conclusion

The coronavirus pandemic has triggered a massive reverse migration from the urban to rural areas in large parts of the country. Times of crisis is a great teacher as along with the inherent challenges it can throw open many new opportunities. In the present corona virus pandemic also, the immediate challenge was restoration of the supply chains for essential commodities as well as reducing the plight of the distressed migrant worker. The government, through its various interventions specifically through the Prime Minister Garib Kalyan Yojana and MNREGA has provided timely relief to migrants in these difficult times. While most of the challenges presented by the pandemic have been efficiently handled it is also important to make use of the opportunities the crises provides. A case in point is the new opportunities the crises have thrown open in the MSME supply chain network. The Government of India through it 'Atmanirbhar' package has rolled out many path breaking reforms particularly in the MSME sector. It is now important for all institutions to step up and engage all stakeholders to take forward the vision of a rejuvenated, ambitious and self-reliant Bharat.

### References

- [1]. Bhattacharya, Ananya (June 2020): Social distancing apps face and facial recognition are the new normal at Indias IT firms.Quartz India.
- [2]. Das, Goutam (30 March 2020): 136 million jobs at risk in post-corona India. Livemint.
- [3]. Dhar, P. K. (2016): The Economy Of Assam Including The Economy Of North East. New Delhi: Kalyani Publisher.
- [4]. IMF (2020), "Policy responses to Covid-19", International Monetary Fund, Washington DC.
- [5]. Mukherji ,Biman (23 March 2020): Coronavirus impact: Indian industry seeks relief measures to aid economy. Livemint.
- [6]. Ray, Debraj and S. Subramanian (2020), "India's lockdown: An interim report", Working Paper Series, National Bureau of Economic Research (NBER), No. 27282, May.
- [7]. Sundaram K P M (2003): Indian economy.New Delhi: S Chand & Company Ltd.
- [8]. Subramanian A (2009): India turns: Understanding the Economic transformation. New Delhi: Oxford University Press
- [9]. Sharma, Yogima Seth (24 June 2020): Unemployment rate falls to pre-lockdown level: CMIE, The Economic Times.
- [10]. The Economic Times (June 2019): MSMEs to contribute 50% to India's GDP, provide 15 cr jobs in 5 years: Gadkari .Mumbai, India .
- [11]. Prsindia.org accessed on 01.01.2022

Dr.Hiral Sheth. "Perspectives of Bilateral Relationship of Indo-China: Social, Ecological and Economic Parameters." *International Journal of Humanities and Social Science Invention (IJHSSI)*, vol. 11(01), 2022, pp 05-07. Journal DOI- 10.35629/7722