

## **The Impact of Covid- 19 Pandemic on MSME Sector of India- Challenges and Prospects**

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**ABSTRACT:** *The Covid -19 Pandemic was occurred as health crisis but as a part of strategic manoeuvre to cope with such pandemic a prolong lockdown has to be adopted by the governments due to which this health crisis gradually turns into an economic crisis. Loss of GDP, high rate of unemployment , disruption of supply chain -are the many more problems occurred at a time in such a way that this crisis can break the record all the previous economic crisis in the world. Under such circumstances this paper is an attempt to find out the impact of Covid-19 pandemic on MSMEs sector which has been lifeline of rural and semi urban economy of India .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 becomes 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.*

**KEYWORDS:** Pandemic , Disruption, Moratorium, Lockdown, Quarantine.

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### **I. INTRODUCTION**

The Covid -19 Pandemic was started as health crisis but as a part of strategic manoeuvre to cope with such pandemic a prolong lockdown has to be adopted by the governments due to which this health crisis gradually turns into an economic crisis . Loss of GDP, high rate of unemployment , disruption of supply chain - are the many more problems occurred at a time in such a way that this crisis can break the record all the previous economic crisis in the world .GDP growth of the country last quarter of the last financial has been the lowest of last fifty years of record. People those who went outside their state in search of their job hoping for establishment in their working place even many of them have done so have to come back to their own native place adding new dimension in already existing problem of high rate of unemployment in the home state. How can these migrants worker be absorbed in the environment of new normal will be the major cause of concern for the respective state government. Cultivators were share their miseries in front of their piles of unsold agricultural product as they faced uninsurable loss incurred due to lack of demand that are arising out of lack transportation . Big industrialists are somehow manage their loss as they have diversified resources to cope with such a setback but employers of MSME sector loss their path of progress as they have very low fixed as well as working capital. Exports were very low as foreign countries stop their demand of foreign product because of either lack of transportation or changes in their taste and preference. Everywhere redundancy has been seen accept a few products of health and IT sectors.

In a developing country like India MSME Sector has been playing a crucial role specially in the field of employment and contribution to the GDP. The Economic survey 2015-16 says, “Due to comparative low capital cost and their forward and backward linkages with other sector MSME will play a crucial role in the success of the make in India Initiative.”MSME are the major source of income for the rural and urban poor communities it also become indispensable adjunct to the big industries. Due to the requirement of very low capital base and labour intensive technique in a labour surplus country like India it has become a major source of income as well as engine of growth for the country during the recent past. But the outbreak of Covid -19 Pandemic has broken the very backbone of these industries due to prolong lockdown resultant supply chain disruption.

**OBJECTIVE OF THE STUDY:** The objective of the present paper is to examine the impact of Covid -19 pandemic on MSME sector of Indian Economy and also to the policy perspective and strategy to find out a way out of such pandemic.

## **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. Moreover classification and tabulation of data have been prepared by applying various mathematical and statistical methods.

## **III. REVIEW OF LITERATURE**

During the period of study, the writer had the privilege to go through numerous online and offline publications of different sources. However it is not claimed that that all the available literature on the subject were exhausted .In the study, review confined only to the areas covering the objective of the study which is represented in the following pages-

Bhattacharya (June2020), 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 were forced to come office”

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.”

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?’ I’ve been pondering, like many have, what fundamental changes will take place in how people, businesses, and economies function. The next 12 months will be difficult. Many businesses will struggle, some may even die. But as with economic adversities of the past, new industries will emerge bringing with it renewed hope of recovery. Eventually, things will go back to normal. Just that we’ll have to change the definition of normal.”

Sundharam (2003), says, “A change of policies from protectionism to liberalisationhas helped large Indian industries and multinationals to enter in areas reserved for MSMEs. This extreme path should be avoided since this has done more harm than good. The country should move to a middle path and permit selective liberalisation with necessary safeguard”

The economic Times (June 2019).says ,“ Union Minister Nitin Gadkari on Friday welcomed the announcements for MSMEs in the Budget and said his ministry has decided to raise the sector's contribution to 50 per cent of the country's GDP in the next five years from 29 per cent currently and provide jobs to 15 crore people. "The speciality of this Budget is that our small-scale and medium-scale industries have received maximum encouragement. MSMEs have a contribution of 29 per cent in our country's GDP and the department has decided that we will increase the contribution to 50 per cent of the GDP," said Gadkari, Union Minister for MSME and Road, Transport and Highways.”

## **THE DEVELOPMENT OF THE DEFINITION OF MSMES IN INDIA –A HISTORICAL PERSPECTIVE:**

Since the inception of economic planning the major thrust has been given towards the development of SSI sector of the economy. The industrial policy resolution 1948, 1956, and 1977 gave impetus towards the development of this sector. In Industrial Policy 1977, SSI was classified on the basis of investment made by these industries. The unit which had 1 lakh investment was defined as tiny unit, for 10 lakh as small scale unit and for 15 lakh of investment was termed as ancillary unit. This limit was raised upto 20 Lakh for small scale unit , for 25 lakh for ancillary unit where tiny unit was remain same. This limit was further raised upto 35 lakh in case of small scale unit and 45 lakh for ancillary unit in 1985.These limit were further enhanced as 5 lakh for tiny unit, 60 lakh for small scale unit and 75 lakh for ancillary unit in 1990. These limits were further revised as 25 lakh for tiny unit, 3 crore for small scale sector and 5 crore for ancillary unit. However, the limit of small scale sector was reduced to 1 crore from 3 crore in the year 2000.

With the inception of new act known as Micro , Small And Medium Enterprise Development (MSMED) Act 2006, a new enterprise emerged which is known as medium enterprise. An enterprise with high expenditure in plenty and machinery and has a greater jurisdiction of market is considered as medium enterprise.

In this act enterprises were further classified as manufacturing enterprise and service enterprise. The definition of MSME as per the Act 2006 as follows:

**Table -1: Definition of MSME as per 2006 Act**

Nomenclature and classification of MSME	Ceiling on investment in Plant And Machinery for	
	Manufacturing Enterprises(Rs.)	Service Enterprises(Rs.)
Micro	2.5million/25lakh	1million/10 lakh
Small	50 million/5crore	20 million /2 crore
Medium	100 million/10 crore	50million/5 crore

Source : MSMED Act 2006.

In the year 2020 , the government of India had revised the definition of MSME as follows:

**Table -2: Revised the definition of MSME**

Revised Classification applicable w.e.f 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 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover ; not more than Rs. 50 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover ; not more than Rs. 250 crore

Source :Ministry of Micro Small and Medium Enterprise ,Govt of India (GOI), 2020

**CONTRIBUTION AND PERFORMANCE OF MSME IN ECONOMIC DEVELOPMENT IN INDIA BEFORE COVID-19 PANDEMIC:** During the planning period it was expected that MSME would play a crucial role in absorbing surplus labours available in the country and would also achieve a legitimate distribution of income. But gradually as days progress more and more emphasis has been given towards the big industries as a result MSMEs showed declining trend. However government of India has tried their level best to revive these industries by implementing laws for the protection of these industries. Due to which some firm have been developed in the space of production and marketing .The performance of MSME Sector can be represented with the help of following table:

**Table -3:The Parameters of performance of MSME**

Year	Number of Units numerated (in Lakh)	Employment (In Lakh)	Market value of fixed assets (crore)	Share of MSME in GDP(%)	Share of MSME manufacturing output in total manufacturing output(in %)
2006-07	361.76	805.23	868543.79	35.13	42.02
2007-08	377.36	842	920459.84	35.41	41.98
2008-09	393.7	880.84	977114.72	36.12	40.79
2009-10	410.8	921.79	1038546.08	36.05	39.63
2010-11	428.73	965.15	1105394.09	36.09	38.05
2011-12	447.64	1011.69	1182757.64	37.97	37.47
2012-13	467.54	1061.40	1268763.67	37.54	37.33
2013-14	488.46	1114.29	1363700.54	30.64	33.27
2014-15	510.57	1171.32	1471912.94	30.74	33.24
2015-16	534.34	1001.54	-----	30.12	28.77
2016-17	540.21	1054.23	-----	31.89	28.89
2017-18	565.19	1089.76	-----	28.35	29.53
2018-19	633.00	1110.00	-----	29.00	29.83

Source : Compiled from Annual reports, Ministry of MSME Government of India.

The above table shows that the number of MSME units has been increased from 3.6 crore units to 6.33 crore units in 2018-19. The employment generated by this sector increased significantly from 805.23 lakh to 1110 lakh in 2018-19. The gross value of output of MSME units rose from Rs. 868543.79 crore to 1471912.94 crore in 2014-15. However, share of GDP of MSME sector has been decreased from 35.13 % in 2006-07 to 29% in 2018-19. Besides MSMEs helps in attainment of equitable distribution of income as large number of people are involved in this sector. It also helps spread the enterprises all over the country especially in rural and semi urban areas contrary to the big industries thereby reducing the rural urban migration. The small enterprises require very low amount of capital and they do not require massive infrastructural facilities. Due to which MSMEs have

been set up quickly in different parts of the country that helps in the attainment of regional balance of these enterprises. MSMEs also help reducing inflation by producing consumer goods at very short period of time.

**THE MAJOR OBSTACLE FACED BY THE MSMEs BEFORE AND DURING THE COVID -19 PANDEMIC:** 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.

**GOVERNMENT OF INDIA'S INITIATIVES FOR THE REVIVAL AND GROWTH OF MSMEs BEFORE AND DURING THE COVID -19 PANDEMIC:** 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)

**RECOMMENDATION CONSIDERING THE PREVAILING SITUATIONS:** 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.

#### IV. CONCLUSION

The MSMEs which plays a pivotal role the Indian economy in terms of employment and also recorded a high rate of growth since independence in spite of stiff competition from the large sector and not so encouraging support from the governments. But at the same time these MSMEs are facing certain kind of bottlenecks like inequitable allocation system of scarce raw materials and imported components, lack of provision of credit and finance, low level of working capital, low technical and managerial skill, and lack of initiative towards improving technology. Therefore to overcome such difficulties certain efforts needs to be taken towards improving technology, in-house technological innovation, promotion of inter firms linkages, improvement of financial infrastructure and support system. So we can conclude that Caring of this emerging sector means caring the economy in the context of outbreak of Covid-19 pandemic.

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