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Study on Impact of COVID- 19 Crisis and Lockdown on MSMEs and Path Ahead

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Abstract

After the influenza pandemic, the whole world is again shaken by the Coronavirus pandemic. Many people have lost their lives from covid-19. Although both pandemics affected the world, the pattern of effect was different. During the Influenza pandemic, most of the world was not much economically developed, even most of the current developed nations were in their developing phase, and India was underdeveloped at that time. So, influenza pandemic didn't affect the world economically as much as the Coronavirus pandemic did, as most nations are now developed or in their developing phase. It would not be wrong to say pandemic economically affected India severely as compared to the rest of the world, as India is a labour rich country and needs a labour-based sector along with a capital-based sector. More than 110 million Indians are employed in the MSME sector which highlights the significance of MSMEs in India. This study aims at examining the current situation of the MSME sector and steps that the Ministry of Micro, Small & Medium Enterprises can take to bring MSME sector growth back on road. The paper discusses the problems faced by MSMEs during Corona lockdown and Government schemes and steps that affected the MSME sector. The paper also puts forth suggestions and opportunities highlighting the path ahead for growth.

Keywords - MSMEs, Coronavirus, Labour- based sector, Government schemes

Introduction

MSMEs are considered the backbone of the Indian economy as they have contributed substantially to the social and economic development of the nation. These enterprises generate employment opportunities and works that contribute to the development of backward and rural areas. During

COVID- 19, many people lose their fight against death, many lose their loved ones. COVID- 19 affected the world both emotionally and economically, as many people lose their jobs and livelihood during COVID- 19 situation. Because of lockdown during COVID- 19, MSMEs couldn't operate their functions normally and efficiently.

Economically India is one of the worst affected nations in the world from COVID, as India is a labour rich country and needs a labour-based sector along with a capital-based sector for growth and to reduce unemployment. For employment Micro, Small & Medium Enterprises (MSMEs) growth is of utmost importance. The importance of MSMEs can be signified by the fact that more than 110 million Indians are employed in MSMEs. Already MSMEs were facing many issues such as credit facility, issues of equity capital, issues of infrastructure, issues of Govt. support, issues related to technology and issues related to skill gap, these problems intensified (Patnaik, 2016) during COVID- 19 lockdown time due to reverse migration of labour- force, fall in demand, disruptions in input supply chain, liquidity crises. These all factors collectively almost crippled MSMEs. MSMEs are dominant in unorganised structures. As per MSME annual Report 2020- 2021, "Micro sector with 63052 thousand estimated enterprises accounts for more than 99% of the total estimated number of MSMEs. The small sector with 331 thousand and the Medium sector with 5 thousand estimated MSMEs accounted for 0.52% and 0.01% of total estimated MSMEs, respectively, 51% of these MSMEs are operating in rural areas and remaining 49% MSMEs are operating in urban areas" (MSME, 2021) and for micro-enterprises, it was very difficult to sustain their business during crippling CORONA lockdown. Export from MSMEs needs to be regionally MSMEs performance differs, like MSMEs north India perform.

According to research conducted by the All-India Manufacturers Organisation (AIMO), 70% of MSMEs are intending to trim the workforce as a measure of cost-cutting because of COVID- 19 situation which will result in further unemployment. So, it's very important to study the impact of COVID- 19 crises and lockdown on MSMEs, and what necessary steps are needed to bring MSMEs growth back on track.

Meaning of MSMEs: MSME stands for Micro, Small and Medium Enterprise (MSME), as introduced by the Government of India in agreement with Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, these units are primarily engaged in the business of production, manufacturing, processing and preservation of goods and commodities i.e., these are primarily labour based enterprises that operate either in the secondary sector or facilitates primary and tertiary sectors.

These entities are classified into three categories, i.e., Micro, Small and Medium enterprises based on capital investment and turnover as:

Table 1: Definition of MSME

Micro Enterprise	Small Enterprise	Medium Enterprise
• Investment< 1 crore • Turnover< 5crores	• Investment<10crores • Turnover< 50crores	• Investment<50crores • Turnover< 250crores

Objectives of the study

This study is descriptive and exploratory with the following objectives:

- Describing problems faced by MSMEs during Corona lockdown
- Describing schemes and major steps of government that affected MSMEs
- Exploring opportunities and path ahead for MSMEs given business environment both nationally and internationally.

Literature Review

Scarcity of finance and credit instruments, limiting regulatory policies, inaccessibility of modern & affordable technology, lack of basic infrastructure facilities, lack of exclusive marketing platforms and circulation networks and inflexible labour laws and availability of affordable skilled labour are major challenges that emerged to MSMEs. (Rao.R & Chary.D, 2016) An ever-changing customer demand rapidly changing technology coupled with national and global level has pressurized MSMEs to develop strategies in enhancing their innovation capability and thus taming their status of innovation. (Raghuvanshi et al., 2017) Effective implementation of Technology innovation can help in boosting manufacturing performance in MSMEs in India (Singh, 2019). With the $5 billion current market value of Indian MSMEs, this sector accounts for about 45% of the industrial output, 45% industrial units, 42 million employment, 40% of total exports of the country, and more than 8000 products in the Indian economy as per projections.(Zanjurne, 2018)

COVID- 19 affected the Indian economy severely and manufacturing sector productivity may fall by the rate of 5.5% to 20%, exports by the rate of 13.7% to 20.8%, imports by the rate of 17.3% to 25%and MSME net value added by the rate of 2.1% to 5.7% in 2020 over the previous year (Sahoo & Ashwani, 2020). The MSME sector may help in achieving targets of national manufacturing policy, which should contribute 25% to India's GDP by 2022.

Unlike the past few crises, the COVID-19 crises did not spare any country in the world. It's stated with a health crisis and later, turned into an economic crisis. Covid-19 has affected adversely both demand and supply in the world because which the economic growth rates have started declining

drastically in the world (Ahmad Bhat & Meher, 2020). Various schemes and Special Economic regime and structural reforms need to be introduced by the government of India through several legislatures bills in parliament for immediate recovery from Corona lockdown impacts (Muthukrishnan, 2020). MSMEs are facing various challenges such as collapsing demand and liquidity access, accessing inputs, and managing inventory, policy uncertainty and disrupted supply chain, accessing emergency relief, so the government needs to take measures to minimize impact (Saikia & Dey, 2020) (Ganjoo & Aslekar, 2021). Half of MSMEs suffered a loss of 20-25% during COVID- 19, producers of essential and non-essential goods suffered loss up to 50% due to non- disbursement of relief. A major section of small business was shut down during corona lockdown and units with annual turnover equivalent to 25crores faced a reduction in sales by -25.3%. The government should use the talent of the opposition for tackling the economic situation and the COVID-19 crisis.(Dubey & Sahu, 2020)

An adequate provision of finance from banks and financial support from the government should be ensured along with a supply of raw material to promote export.(Bandopadhyay & Khan, 2020) MUDRA will be hugely beneficial to small manufacturing units and self-employed individuals in rural and urban areas by catering for the financial problems of MSMEs and giving moral support to the vast pool of a young population.(Basak, 2020)

Problems faced by MSME during Corona lockdown

MSMEs faced many problems during COVID- 19 period mainly because of a fall in demand, disrupted input supply, liquidity crises, and reverse migration of labour and government unstable policies. And when 2021 started on a positive note, there comes the second wave which again result in a second lockdown. According to the Retailers Association of India, retail sales in May 2021 is -79% in yearly comparison to retail sales in May 2019. MSMEs are one of most affected with nearly 60% addition in NPA's in April and May 2021 which is nearly twice it was before COVID. The Corona lockdowns have severely hit MSMEs. Problems that MSMEs must face during Corona lockdowns are summarised as follows:

Halting Production

With nationwide lockdown, several MSMEs faced burnt of it in form of reduction in demand and no input supply. Labour was going back in hometown and already manufactured products were in warehouse hence increase in the cost of storing.

Cash flow restraints and Liquidity crises

Nearly 99% of MSMEs are micro i.e., they have very limited funds with a capital investment of up to 1crore and during Corona lockdown they were not able to generate revenues because of no sale.

Disruptions in Input supply

During Corona lockdown, MSMEs must face burnt of disruptions in the input supply chain. During the lockdown, boundaries of every country were closed and inside the country, transport from one place to another was banned because of which there were disruptions in input and raw material supply chain.

Reverse migration of Labour force

During the lockdown, workers were going back to their hometown, because of which there was reverse migration of labour force. Many MSMEs must trim their workforce as a measure of cost-cutting.

Perceptions and sentiments about Consumption products

There was growing suspicion among consumers regarding consumption products because of the inherent nature of COVID- 19. The consumer was more cautious about purchasing consumer products, hence MSMEs which was in the consumer products business must face burnt of it.

Increasing cost of storing and managing inventory

During the lockdown, retail stores were shut down and already produced products needs to be stored safely because of which there was an increased cost of storing and managing inventory.

Uncertainty about Government policies

Government policies were changing considering the situation of COVID- 19 spread and the pattern of spread. So, there was uncertainty in government policies during the lockdown.

Difficulty in accessing emergency support

Although there was emergency relief for MSMEs to help them, on the ground, accessing this relief was difficult than being said.

Government schemes and steps that affected MSME sector

Indian government takes many timely measures to combat the adverse effect of COVID- 19 on MSMEs. These measures can be summarised through some categories. These measures are as follows:

Monetary and Financial support measures

As the name suggests, these measures were to combat the liquidity problem that MSMEs were facing during lockdown time. Rs.20 lakh crores economic stimulus package was announced in May 2020 which was offered following as follows:

- **Automatic loans up to Rs.3 thousand billion without any Collateral security**

  MSMEs can borrow emergency credit up to 20% of their total outstanding credit on 29 Feb 2020 from Banks and NBFCs. For these loans, MSMEs needs to have Rs.25 crores outstanding and Rs.100 crores turnover. This arrangement was stretched up to 30-06-2021.

- **Subordinate Debt and Credit guarantee scheme**

  This scheme was launched on 24 June 2020. Under this scheme, the government announced Rs.200 billion as subordinate debt. MSMEs which are declared as NPAs or are stressed will be eligible for equity support under it.

- **Self- reliant India fund**

  The government on 5 august, 2020 issued guidelines about the Self-reliant India fund, containing an amount of Rs.100 billion to leverage equity infusion of Rs.500 billion for MSMEs. On 3 June 2021 MSMEs and other small businesses were allowed for maximum exposure of Rs.50crore.

- **Special long-term repo operation (SLTRO) for small finance banks**

  RBI conducted SLTRO of Rs.100 billion for SFB to lend small businesses up to Rs.10 lacs per borrower. It will be available till 31 October 2021.

Business Environment Measures

- **Restricting Foreign companies**

  To avoid competition from large foreign companies, the government banned global tenders worth Rs.200crores. Because of this measure, MSMEs will be benefited from an increase in domestic company's representation in the Indian economy.

- **Relaxing and suspension of Labour laws**

  Many state governments have relaxed or suspend major labour laws which were stopping MSMEs from growing for a certain period. Now it will be easy for MSMEs to operate their functions smoothly without taking too much pressure of compliance with labour laws. Hence this will further help MSMEs to get back on the path of growth.

- **Revised definition of MSMEs**

  Now manufacturing and service sectors both will be evaluated by the same parameters for being recognised as MSMEs. Along with the investment, now turnover criteria also got added.

Moral Persuasion Measure

- ***Introduced CHAMPIONs portal***

Launched by the MSME ministry, the CHAMPIONs portal is a technology-driven centralized control room, to manage grievances and an information platform with objectives to help MSMEs in terms of finance, raw material, labour permissions etc., and in capturing new opportunities in manufacturing and identifying bright MSMEs which can become national and international champions.

Suggestions

For the growth of MSMEs, although the government is doing and taking all measures that they think can help MSMEs in combat this crisis. But following steps can further help in improving MSMEs productivity and getting over COVID-19 crises:

- Along with the procurement of funds, there needs to be an effective utilization of these funds as well. If funds are not properly utilized, then MSMEs may not be able to overcome COVID-19 crises and back on the growth path again.
- MSMEs productivity is mainly based on their labour force so they need to manage their labour force effectively and efficiently. There is a need for HR practices in MSMEs to increase labour satisfaction.
- Big business needs to help MSMEs as they have better management and a more efficient work environment along with large funds as well. Hence MSMEs can learn many things from big businesses. Public banks alone can't help MSMEs overcome this crises situation. We need to work collectively.
- MSMEs need to provide training to their labour to enhance labour productivity and efficiency.
- MSMEs are operating mostly in clusters and more than 99% of them are micro-enterprises. As they are working individually, at the micro-level there is low-scale production with high cost with earning minimal profit. So, they need to think about amalgamation and join hands and scale up their production, with increased production, there will be more profit in hands of the owner as a result of economies of scale.
- MSMEs needs to expand their market out of their traditional and regional market, they need to expand and think about exporting, by expanding market they will get benefits in form of increased price in different market and by having more security because of not too much dependence on a single market.
- MSMEs need to adopt the use of technology and FinTech to access funds smoothly, and government should incentivise the adoption of FinTech.

- MSMEs need to invest in innovation as well, as that will help them in becoming competitive in this ever-changing environment.

Opportunities (Path ahead for growth)

With the ageing population of China, many companies are exiting China because of an increase in labour costs. But India has a large section of labour which is young as well. India needs to utilize its young population. There are many opportunities for Indian MSMEs in the International market as well as in the National market. But Indian labour is largely unskilled and Indian Business laws are one of the main constraints that MSMEs are facing. So, India needs to work on that otherwise there is a large pot of opportunities available for India.

Conclusion

Although the government has already taken many measures to help MSMEs in overcoming these COVID-19 crises. But still, MSMEs will take time to get back. As of now, MSMEs are facing a very difficult time and with difficulties there comes to some opportunities as well. So MSMEs needs to regularly scan their environment and search for opportunities. The government needs to take regular measures and consider uplifting MSMEs for a long time, as the damage is very deep, and it will be very difficult for MSMEs to overcome all the losses they have to face in the COVID-19 situation. Although the change in labour laws will hurt low-income labour, to combat a problem, we need to make some difficult decisions and face difficulties as well.

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