



# A Review on the Impact of Covid-19 on MSMEs in India

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**Abstract:** Micro, Small and Medium Enterprises (MSMEs) which are considered to be the backbone of Indian economy has been worst hit by Covid-19 pandemic. In this lockdown period like some other industries they are not able to carry on their production, cannot pay wages to their labourers and creditors. They are facing an acute problem of lack of financing. Most of the MSME firms are not registered. They do not maintain proper accounts, pay taxes or follow the regulatory norms. Even if Government is taking initiatives to push more liquidity towards the MSMEs it has a limited impact. According to a recent survey it has been found that only 7% of the small and medium firms will be able to survive for more than three months with their cash in hand if their business remains closed. Along with financial crisis another problem of lack of labour availability has been added as the migrant workers are going back to their hometown. This paper focuses on the current status of MSMEs, the problems they are facing and Government initiatives taken to provide them support in order to save their existence.

**Key words:** MSME, Covid 19, financial crisis, labour crisis, government support.

**Introduction:**

- **Micro, Small and Medium Enterprises (MSMEs):**

MSMEs are the heart of Indian Industry. Their contribution to a developing country like India is very valuable. The MSMEs play a vital role in the Indian economic structure due to its significant contribution in terms of output, exports and employment. They not only contribute in generating employment but also encourage low skilled level workers to start as entrepreneur level in rural as well as in urban areas. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services and levels of technology. It helps in industrialization of rural and backward areas, reducing regional imbalances and assuming more equitable distribution of national income and wealth.

The MSME sector consisting of 0.161 million registered units as well as a huge number of unregistered units, as of today, provides employment to over 114 million persons. The sector with its various products contributes about 30-35% of GDP and export of almost USD 125 billion from the country. The MSMEs sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth.

Classification of Firms

SECTOR	MICRO ENTERPRISES	SMALL ENTERPRISES	MEDIUM ENTERPRISES
Manufacturing	Up to Rs. 25 lakhs	Above Rs. 25 lakhs but does not exceed Rs. 5crores	Above Rs. 5 crores but does not exceed Rs. 10 crores
Service	Up to Rs. 10 lakhs	Above Rs. 10 lakhs but does not exceed Rs. 2 crores	Above Rs. 2 crores but does not exceed Rs. 5 crores

- **Disadvantages of MSME Sector**

Though MSME sector is considered to be the backbone of Indian economy there are few disadvantages of this particular sector which are listed below:

- (i) Absence of adequate and timely banking finance.
- (ii) Limited capital and knowledge
- (iii) Non availability of suitable technology
- (iv) Low production capacity
- (v) Ineffective marketing strategy
- (vi) Constraints on modernisations and expansions
- (vii) Non availability of skilled labour at affordable cost
- (viii) Follow up with various Government agencies to resolve problems due to lack of man power and knowledge
- (ix) A huge number of unregistered firms
- (x) High ratio of bad loans
- (xi) Delay in payment to MSMEs from buyers including government and things like GST refunds.

- **Covid-19:**

On 31<sup>st</sup> December, 2019, the World Health Organisation (WHO) got information about cases of pneumonia of unknown cause found in Wuhan city of China. On 7<sup>th</sup> January 2020, Chinese authorities identified a new strain of Corona virus as the causative agent for the disease. The virus has been renamed by WHO as SARS- Cov-2 and the disease caused by it as Covid-19. Though the disease was first detected in China has now spread all over the world and has been declared as a pandemic by WHO on 11<sup>th</sup> March, 2020. Almost 7.27 million confirmed cases and death of 4,13,000 people all over the world has been reported till 12<sup>th</sup> June,2020. In India there are positive cases of 2,98,000 and death of 8,498 people.

## Impact of Covid-19 on MSMEs

### • The Global Scenario :

The MSME sector provides employment to a huge section of the population and serves as generator of the vulnerable workforce. With already existing problems sufficient focus needs to be given to this sector before the workforce dives deeper into poverty. A survey conducted across several countries throws light on the impact of Covid-19 on SME's worldwide (Indian Revenue Service, 2020).

Country	Condition of MSME's	Steps Taken
<b>China</b>	60 percent of the SME's are back in business but have extremely reduced demand, many of them have cash to sustain one or two months at the maximum	Social security premium incentives, refunds of unemployment insurance premiums and exemption of SME's from certain insurance premiums. Government is encouraging and promoting buying from SME's
<b>Italy</b>	Demand downfall has severely affected mainly the transport, tourism, fashion and agro-food industry	30 percent of tax deduction for donations related to Covid-19
<b>United States</b>	51 percent of small business owners cannot survive more than 3 months in the current conditions	Increased the limitations on deductions for charitable contributions.
<b>UK</b>	Major cash-flow problems are faced by around 69 percent of the SME's. More than one-third require support for survival	1) 100 percent business rates tax holiday has been provided for 1 year for hospitality, retail and leisure businesses. 2) No interest is being charged for delayed payments. 3) GBP 1.2 million "Corona virus Business Interruption Loan" has been provided for MSME's affected by the pandemic.
<b>Israel</b>	One-third of the companies are considering of firing their workers	Government is encouraging and promoting buying from SME's
<b>South Korea</b>	42.1 percent cannot continue their business for more than 3 months and 70.1 percent for more than 6 months	Introduced measures to digitalize local shops.

Besides the above mentioned examples several countries have taken major steps in order to support their MSME sector such as :-

1. Reduction of working time and temporary unemployment.
2. Providing wage support in the form of wage subsidies.
3. Providing sick leaves related to Covid-19.
4. Deferral of payments associated to tax, social security, debt, rent and utility.
5. Measures taken to enable bank lending to the SME's.
6. Provision of loans, direct lending, grants and subsidies to the SME's.
7. Structural policies for alternative market options and digitalisation to continue operations.
8. Measures to support enhanced cash flows to the SME's

### **(ii) The Indian Scenario :**

The pandemic of Covid-19 has led to a worldwide health and economic crisis affecting every strata of the society. India is no exception to this global phenomenon and is currently facing the worst economic crisis since 2008. Besides the danger to the health, safety and lives of people this pandemic has done unimaginable damage to the economy through widespread unemployment, increase in poverty, reduction in the standard of living and huge decrease in the growth rate of almost all the countries. The crisis has mostly affected the poor and under privileged sections of the society like the migrant labourers and daily wage workers. Amongst the corporate sector, the MSME sector has been the worst hit.

The MSMEs are affected at several levels. With the national lockdown the production facilities and retails has been badly affected. Micro enterprises specifically in the service sectors are considerably impacted. In the beginning of April 2020 it was estimated that over 25% of India's 6.9 crores of MSMEs may close down if the lockdown extends beyond 4-8 weeks. Due to this global pandemic and extended lockdown for the past few months MSME sector is facing the following consequences:

- (i) Mass scale shut down
- (ii) Acute cash crunch due to sharp fall in business
- (iii) Disruptions in supply chain
- (iv) Operational challenges with low or zero manpower as migrant workers has gone back to their hometown.

## Different surveys analysing the impact of Covid-19 on MSMEs:

Various surveys have been conducted to study the impact of Covid-19 on MSMEs. The reports of few of those studies are discussed below:

### (A) Dun and Bradstreet Report:

According to Dun and Bradstreet, Covid-19 has a high impact on MSMEs which will take a long recovery period. According to them the various impacts of Covid-19 are listed below:

1. Recessionary pressures across the globe are expected to have a direct impact on the level of global exports. Given that MSMEs contribute to over 40% of India's exports, the impact will be severe and linger for a longer time.
2. MSMEs are expected to experience severe liquidity problems due to delayed payments from their customers.
3. The strain in the banking system is expected to increase the credit gap for MSMEs.

### (B) KPMG Report:

According to KPMG report the current and potential impact of Covid-19 on MSME sector has been discussed by considering different parameters:

1. Price variations of key raw materials- Both domestic raw material supplies and those imported will suffer in respect of availability and cost.
2. Production shutdown- There will be a cascading effect due to fall in global demand even after the lockdown restrictions are removed.
3. Cash flow constraints- There will be a high impact on working capital requirements during lockdown and supply chain, future investment and expansion.
4. Labour force- There will be a high impact on labour force specially contractual labourers.
5. Consumer sentiment- Negative sentiment and diminishing liquidity will impact most of the consumer goods industries, retail or service enterprises.
6. Exports- There will be a huge impact on exports as global demand is expected to come down significantly.

Various reports have suggested measures and policies to overcome the crisis in the MSME sector caused due to the pandemic and its associated lockdown. Some of them are mentioned below :-

(FICCI, 2020) emphasises on the severe impact of the lockdown on the numerous MSME's which is faced with both cash flow disruption and business losses besides having an adverse impact on the lives of the people working in this sector in its report. In order to lower the risk involved in the survival of this sector, FICCI recommends ensuring the flow of money into their working capital. Few other suggestions provided for surviving this extreme situation are clearing of all sorts of dues and payments to the

MSME's by the central and state government undertakings, clearing of GST refunds, providing the healthy MSME's a subvention of 3 percent interest rate on standard loans, RBI should direct the banks to provide unrestricted working capital credit to MSME's and also relax to a certain extent the categorisation MSME loans as NPA's , deferring the time of debt repayment, tax payments and interest payment by minimum of six months and the rules and regulations involving tax returns of MSME's should also be deferred by a few months.

(PHDCCI, 2020) in its report "Mitigating the Impact of Pandemic COVID-19 on Trade & Industry" has suggested all PSU's and Government departments to release their payments to all vendors including the MSME's to ensure proper functioning of their factories and industries after the lockdown period is over. Since a large number of people from the MSME sector are directly involved in the production and supply of essential goods and services to the population and are working tirelessly at the grass-root level, it is of utmost importance that their salaries are paid in due time and necessary steps are taken for their safety in workplace. It has also suggested the Government to set up a separate fund for the MSME's of Rs.25,000 crore with no collateral to help out the units that have had a severe impact due to the lockdown. The requirement of collaterals by the banking sectors for sanction of loans should be removed to help the MSME sector survive this difficult time.

(Indian Revenue Service, 2020) has made several recommendations to fight the global crisis caused due to Covid-19 pandemic through the mobilisation of revenue and economic impetus. The report suggests the Government to establish a form of wage support for the MSME sectors rather than lowering their tax rates selectively which might lead to a problem in proper reporting of income or turnover. Exemption from tax audit for this fiscal year can be provided to assesses having income upto 10 crores. A tax moratorium for one year can be granted to MSME's with total tax liability less than 5/10 lakhs.

### **MSME Demands:**

To fight back this situation MSME sector has placed the following demands in front of the Government:

1. The Confederation of Indian Industry (CII) has sought additional ad-hoc sanction of working capital of up to 25% of sanctioned limit to help the cash starved MSMEs.
2. Setting up of a special MSME Factoring Fund to enable them to discount their bills to approved retailers in 15 days and permitting retailers to pay in 120 days.
3. Government should create a corpus to help MSMEs pay wages.
4. To allow payment of GST arrears in instalments along with the current due, with a 6 month moratorium without cancelling the GST registration.
5. Penalty or interest should be waived for the delayed payment.

### **Packages given by Government:**

With focus on Aatma Nirbhar Bharat Abhiyaan the Government has set the target of building a new India which is self-reliant. Initiatives are being taken to help and enable employment of people with starting of production. The Government of India has announced several measures for reviving the economy that has been severely hit by the Covid-19 pandemic (Press Information Bureau, 2020). Besides the Samadhaan Portal launched in 2017 to help MSME's in problems related to delayed payment and the Fund of Funds initiative under SIDBI that was set up to encourage entrepreneurship and smooth flow of credit to MSME's few of the recent measures targeted towards the MSME sector in the light of Covid-19 pandemic are as follows :-

1. Emergency Working Capital Facility of Rs.3 lakh crore has been announced for businesses that includes more than 45 lakh MSME's.
2. For around two lakh of stressed MSME's Rs.20,000 crore of subordinate debt has been provided for.
3. The Government plans to mobilise equity of Rs.50,000 crores through MSME fund of Funds.
4. The definition of MSME will have a new dimension including the criteria of turnover and the raised limit of investment.

Since the Covid-19 pandemic has put a temporary stall to markets, exhibitions and trade fairs, as a replacement the Government will provide an e-market linkage.

### **Conclusion:**

No economy in the world can hope to survive without a robust MSME ecosystem. This sector forms a key component of the Government's "Make in India" and "Skill India" programme. In this crucial time only Government can help them to recover by providing tax relief, by providing them swifter refunds, by providing them liquidity or by acting as a guarantor for taking loans from bank. It is our belief that with all the supports provided by Government MSME sector will again revive and will continue to strengthen our economy.



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