

## **Effects of Covid-19 Pandemic on Medium, Small and Micro Enterprises in India**

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### **Introduction:**

Currently India has more than 7.5 crore MSMEs, of which 25 percent of the firms will face closure, if the lockdown imposed due to covid-19 goes beyond four weeks. If the lockdown will continue more than eight week 43 percent of the shops will shut down (according to all Indian Manufactures Organization), (Rajath Mishra, 2020). These sector employment over 114 million people and contributes more than 30% of GDP. The immediate concerns in the mind of MSMEs are cash flows and working capital, which concerned that, survival, is only possible with substantive financial support and fiscal support packages from government. Some MSMEs believes that a financial stimulus will be enough but others recognizing that Covid-19 is a wakeup call to change to change and improve different aspects of MSMEs operations as well as eco-system and value chain of MSMEs (Rene, V, B, 2020). UditMisra (2020) has explained, why are MSMEs worst hit by Covid-19 lock down? And identified that, MSMEs will face lack of financing and job losses, which also effects economic condition of the country. Small industries are the most vulnerable ones. This is because of their size, scale of operation, limited financial managerial resources. They are not able to cope with difficulties that are forced on them. It is difficult even in normal times for them to survive, but they don't have the capacity to deal with something so unexpected, ( SureshPrabhu, 2020) . In this back drop, the present study exploresthe effects of Covid-19 Pandemic on MSMEs.

### **Methodology:**

The objective of the study is examining the impact of covid-19 lockdown on MSEM. To meet objective of the study the required information has been collected from secondary sources like, Articles, reports, websites.

### **Definitions of Micro, Small & Medium Enterprises:**

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

- a. Manufacturing Enterprises-**The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are**defined in terms of investment in Plant & Machinery.**

**b. Service Enterprises:-**The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment..

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, [vide S.O. 1642\(E\) dtd.29-09-2006](#) are as under

Enterprises	Manufacturing Sector (Investment in plant & machinery)	Service Sector (Investment in equipment's)
Micro Enterprises	Does not exceed twenty five lakh rupees	Does not exceed ten lakh rupees:
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees	More than two crore rupees but does not exceed five crore rupees

Source: (<https://msme.gov.in/know-about-msme>)

**EFFECT OF COVID-19 PANDEMIC MSMES:**

**a. Lack of financing:**

According to a 2018 report of international IFC, the formal banking system supplies less than one two third of credit need by MSMEs in India. Total credit demand of MSMEs is 36.7 trillion out of which SCBs financed 8.8 trillion, NBFCs financed 1.5 trillion and other bank or government institutions provides 0.61 trillion, total amounts to Rs. 10.9 trillion. Hence there is credit gap of 66.66 percent of total demand. The same is presented in fig-1:

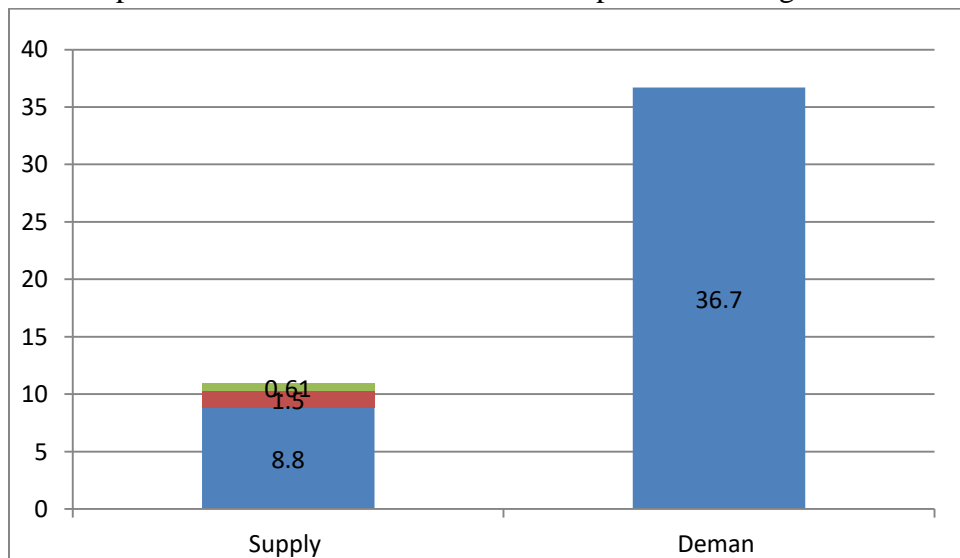


Figure 1: Demand and Supply of finance to MSMEs; Source: UditMisra (2020)

**b. Job losses:**

According to Uditmisra, due to covid-19 crises small and medium enterprises manufactures on 7 percent of their total production capacity, and they can survive for more than three month with their cash in hand. This definitely affects the employment opportunities if business remains closed. All Indian Manufactures organization has found that, 71% of the MSMEs could not pay salary to their employee in the month of march 2020. It is expected that than 50% of employees will lose their jobs, this may let rise in social violence.

**c. Identification issues:**

RadhikaPandey and Amrita Pillia (2020); The lack of a comprehensive dataset on MSME units and their employment profiles will exacerbate issues of targeted relief delivery in this crisis situation. Absent a dedicated census for this sector in the last 13 years – the fourth and last census on Indian MSMEs was conducted as far back as 2006-07 – information regarding these enterprises is presently known to be scattered across datasets such as the *UdyogAadhaar* Memorandum (UAM), MSME Databank, and the Goods and Services Tax Network (GSTN). The first two datasets contain self-certified, voluntary information provided by businesses that wish to register on these portals, while the GSTN has a statutory requirement that only businesses with a turnover of more than Rs. 4 million need to be registered on it. An RBI Expert Committee on MSMEs, in June 2019, has also noted the absence of reliable (and updated) information on this key sector of the economy. In the event that the government decides to directly aid workers in micro-businesses or provide a separate set of relief measures for say self-employed/owner-managed enterprises, it will have to first figure a way to ensure the relief reaches its target. With no end in sight by when the virus spread will be contained and the lockdown eased, it is clear that only currently available structures/mechanisms can be utilised to identify MSMEs and drive home relief measures.

**d. High Prices:**

This sector already suffered severe hardships due to twin impact of demonitisation and introduction of a flawed Goods and Service Tax (GST) regime. This double whammy leads to distress and defaults on bank loans. As a corollary many of MSMEs were shutdown and numerous others were forced to levy of employees. However, even if global economics times back than expected, Indian MSMEs are likely to pay high prices. Indian MSMEs are too small to have enough of potential to last through pandemic like this one add to this the fact that many of these companies have been asked to down shutter curtail operations while still paying employees and that's apart from the meeting cost to taxes, power and other utilities. Most of the MSMEs depend on agricultural production. But because of Lockdown in whole country the MSMEs are unable to purchase the Rabi crops from the farmers. So we can say that the down shutter of MSMEs will directly effect on agricultural sector too. It takes time to settle the chain of supply and demand

**e. Other factors:**

Other factor also effected like, problems of import and export, decrease in demand, migration of workforce, working capital management.

**What needs to be done?** (Sukhesh M (2020); though government has taken favourable measures, it needs to think innovatively to save the sector that has been growing tremendously and contributing considerably to the economy. Even if banks have given moratorium options, they are still adding interest for the months we are not paying. Banks can avoid charging interest for these months when we are not able to pay EMIs. Also, some exemptions in GST will be a great relief. It is important that the government introduces a policy framework to soften the economic blow rendered to the MSME sectors, not just in the short-term but also for the long term, considering both supply and demand side impacts. There shall be measures to mitigate impact on MSME labour workforce, defer utility and social security payments, enhance access to credit and specific measures for self-employed.

#### **CONCLUSION:**

Impact of novel coronavirus continues to evolve, though government and other institutions in India are taking enormous steps to curb loss incurred due to global pandemic, MSMEs are grappling for stability, when turnover remains at standstill, whereas it is difficult to get hold of expenses. It is observed in the study is that, MSMEs having lot of effects due to covid-19 lockdown in the country like, lack of financing, job losses, identification issues, problems of import and exports and other problems.

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