

IMPACT OF COVID-19 PANDEMIC ON MSMES IN INDIA

Dr. Madhu

Assistant Professor Commerce
Govt. P.G. College for Women Sector-14, Panchkula

Introduction

MSME stands for Micro, Small and Medium Enterprise (MSME), introduced by Government of India in agreement with Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 are entities engaged in the production, manufacturing, processing or preservation of goods and commodities. MSME sector is considered as the backbone of Indian economy that has contributed substantially in the socio-economic development of the nation. It generates employment opportunities and works in the development of backward and rural areas.

According to the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two classes i.e. Manufacturing Enterprises and Service Enterprises. The enterprises are further categorized based on investment in equipment and annual turnover.

As per Act the MSMEs are defined as “all enterprises engaged in production of goods pertaining to any industry specified in first schedule of Industrial (D&R) Act, 1951 & other enterprises engaged in production and rendering of services subject to limiting factor of investment in plant & machinery and equipment respectively”. The government changed the criterion for defining MSMEs in response to the COVID-19 crisis namely:—

- (i) a micro enterprise, where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- (ii) a small enterprise, where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees;
- (iii) a medium enterprise, where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.
(https://msme.gov.in/sites/default/files/MSME_gazette_of_india.pdf)

Role of MSMEs in Indian Economy

In 1961, with the merger of the Ministry of Small Scale Industries and the Ministry of

Agro and Rural Industries; the Ministry of Micro, Small and Medium Enterprises (M/o MSME) was formed.

MSMEs produces and manufactures a wide variety of products for domestic, as well as international markets. MSMEs help in the promotion of growth and development of Khadi, Village and Coir industries, in co-operation with concerned ministries, state governments and stakeholders.

MSME sector in India is second largest employment generator after agriculture, and acts as a breeding ground for entrepreneurs and innovators with considerable support in strengthening business ecosystem. The estimated number of MSMEs in India is 63 million and employs 110 million individuals. Indian MSMEs produce more than 6,000 products for local and global consumption. According to DGCIS data, the value of MSME related products in India is \$147,390.08 million and contributed 48.56% of total export during 2017-18. MSMEs exposed to higher level of integration with global value and supply chains are playing critical role in global trade systems. Data from 2019 shows that sector contributed 29% to overall GDP. Various reports, researches and surveys have proved again and again that this sector act as a catalyst for socio-economic development of the country. All this becomes more important with government's new mission of achieving \$5 trillion economy target by 2025. Within this target the role of MSME sector is going play an important role, with expected contribution to GDP above 50% mark. The potential of Indian MSME sector is still untapped and that is one of the reasons why government policies are now more convergent towards building resilient ecosystem with better breadth and depth. The announcement of country wide lockdown dragged MSME owners, employers and external stakeholders in unexpected times, where no one had experience to handle this kind of situation.

Covid -19 Pandemic and Nationwide Lockdown

The COVID-19 pandemic in India is a part of the worldwide pandemic of coronavirus disease 2019 (COVID-19) caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The first case of COVID-19 in India, which originated from China, was reported on 30 January 2020. Currently, India has the largest number of confirmed cases in Asia .As of 12 June 2021, India has the second-highest number of confirmed cases in the world (after the United States) with 29.3 million reported cases of COVID-19 infection and the third-highest number of COVID-19 deaths (after the United States and Brazil) at 367,081 deaths.

On the evening of 24 March 2020, the Government of India under Prime Minister

[Narendra Modi](#) ordered a nationwide lockdown for 21 days, limiting movement of the entire 1.38 billion (138 crore) population of [India](#) as a preventive measure against the COVID-19 pandemic in India. It was ordered after a 14-hour voluntary public curfew on 22 March, followed by enforcement of a series of regulations in the country's COVID-19 affected regions.

Impact of covid-19 pandemic on MSMEs in India

1. More than 82% of businesses have suffered a negative impact on account of COVID-19 and 70% expect it will take almost a year for demand to recover to pre-pandemic levels, a survey showed. The survey covered responses from more than 250 small businesses (50% each in manufacturing and services sectors) with annual revenue between 100 crore and 300 crore across seven major cities in India. The data indicated that about 95% of firms were impacted in April 2020 when the nationwide lockdown was imposed. Even with progressive unlocking, 70% of businesses remained disrupted till August 2020 and 40% till the end of February 2021.
2. As per a survey done by MCCIA Pune, close to 65% of the MSMEs reported that they looking at the reduction in the orders and 21% of those surveyed believed that the customers would ask for reduced rates.
3. About 59 per cent of the startups and micro, small and medium enterprises (MSMEs) in India are expected to scale down, shut down or sell themselves this year due to the impact of the second wave of Covid-19 pandemic, according to a survey by community platform LocalCircles. The survey said only 22 per cent of Indian Startups and MSMEs have over 3-months of runway. About 41 per cent are either out of funds or have less than 1 month of funds left.
4. A rapid survey of 1,416 microenterprises across the country was conducted that covered various sub-industries in manufacturing, services, and trade. A first round telephonic survey was conducted between 29 May and 10 June. The median age of businesses in the sample was 12 years, with a median of 2 employees; 67% of the enterprises employ 1-4 people, and 24% employ 5-15 people, while the remaining 9% had more than 15 employees. Overall, the majority of microenterprises were closed, with only 17% partially or fully operational during the lockdown. It is notable that this survey was conducted in midst of the national lockdown. It found that 52% of the essential businesses remained shut, as they were not aware of government classification. In terms of non-essential businesses, 92% of the

surveyed respondents remained completely shut. Among those who are fully or partly operational, 72% of the surveyed businesses have reported a significant decline in profits compared to the pre-COVID scenario. The decline is more pronounced in manufacturing and service sectors, where profits suffered a hit of 78% and 81%, respectively. The impact was less pronounced for the trading sector, with 62% businesses reporting a decrease in profits. The microenterprises that were operational during the lockdown reported that their revenue was only 28% of regular pre-lockdown revenues, on average.

5. A survey by the All India Manufacturers' Organization (AIMO) has revealed that about 35% of micro, small and medium enterprises and 37% of self-employed individuals have started shutting their businesses. AIMO is reported to have stated that such a “mass destruction of business” was unprecedented. The survey was based on over 46,000 responses from various associations and industry groupings in the country. The respondent MSMEs in the survey also said (32%) they would take about six months to recover from the shock.
6. According to the National Restaurant Association of India (NRAI) over 20 lakh, Indians may lose their jobs in the restaurant industry amid the coronavirus pandemic. The NRAI represents over 5 lakh restaurants across India. Dushyant Singh, a Jaipur based entrepreneur who runs three restaurants, informed that the restaurant business involves a lot of overhead expenses and eateries would fire employees to cut down expenses and it would be difficult to start again with the same workforce.

Digital transformation of MSMEs

Digital transformation is the use of digital technologies to significantly impact all aspects of the business - people, process, technology and metrics.

Digital transformation, along with policy reforms, is the need of the hour to enable MSMEs recover from the economic crisis caused by the Covid pandemic, as well as unlock their potential and help them thrive by becoming more agile, efficient and resilient. Thus, technology presents a huge opportunity to drive MSME growth in India, and it has never been a better time to use it to the fullest to make our economy truly self-reliant.

Digital transformation offers SMEs possibilities to innovate and grow. With the current disruption in technology and the availability of low-cost apps, a micro or small business

owner can deploy and use cloud managed services with little or no help.

A business is said to be digitally transformed when they are making use of digital technology in all areas of their business. It has changed the way of business operations and delivering valuable services to its customers or clients.

Due to COVID-19, there has been a complete lockdown of institutions and businesses all over the country. The pandemic resulted in some unprecedented changes that forced businesses to upgrade their business models and find new ways to deliver valuable services to the customers.

Be it a small retail sector, pharma industry, Agri industry, banking industry, or educational sectors, everyone has adopted digital platforms for the smooth running of its business operations. The use of platforms like Facebook, LinkedIn, or Zoom has increased to a large extent to communicate with customers or create brand awareness or increase customer base. All the MSMEs are using digital technology to survive the current crisis.

BEST EXAMPLES OF DIGITAL TRANSFORMATION – MSMES AND SMALL BUSINESS

1. There is a person named Shiv Kumar. He is the owner of a Kirana store in Kolar district, Bangalore. He is known for converting his 180 square feet Kirana store to a virtual supermarket by installing Kiosk. It is the technology that allows customers to shop on their tablet device. By implementing digital transformation, now Shiv Kumar is not only selling coffee but also dealing with a wide range of products such as cosmetics, gadgets, apparel, and much more.
2. Reliance Jio and Facebook have made a collaboration for offering seamless digital payment facilities to their clients and businesses. In this deal, Reliance Jio has joined hands with WhatsApp, which is a part of Facebook. The aim is to expand the business reach of its new venture, JioMart to small business sectors. The main features of JioMart are free home delivery, express delivery, no minimum order value, no questions to be asked at the time of return, and much more.

Benefits that MSME is getting with the digital transformation

- **Improve the customer experience:** When you are adopting digital technology, then you are available 24×7 for the customer because you are making use of artificial intelligence, chatbots, and machine learning. It maintains a strong relationship between the customer and the organisation. The business needs to have smooth and seamless functioning.

- **Better operational efficiency:** According to a Tech Mahindra Report, by adopting the new digital technologies, the operational cost of running SMEs goes down to approx 20-30%. It would result in a better labour utilisation ratio and improvement in the capital as well.
- **Reduction of cost:** With the help of machine learning and productive business analytics, one can easily identify production defects. It is the best way of enabling cost reduction, as you are using the best high-end technology software at a lower cost.
- **Accurate decision making:** You can easily collect data about the existing customers or potential customers, or your competitors in the market. By tracking all these, you can make wise decisions in various areas such as production, marketing, sales, understanding customer behaviour, purchase decisions, or current market trends.
- **Get accessibility to a higher customer base:** If you have an only offline presence, it limits your market reach. Always prefer to make use of customised technology and create an online presence. It will result in bringing you a remarkable business opportunity. The digital engagements help SMEs in exploring a new market and competing with the top giants.
- **Higher profits:** Making use of advanced technologies, MSMEs can easily upgrade and improve the quality of products and services, resulting in earning higher profits.

Conclusion

The MSME industry forms the backbone of our economy, generating employment for over 100 million people, contributing about 29% of India's GDP, which is poised to reach 50% by 2025. To ensure that MSMEs continue to lead the country towards economic growth, the Government of India has from time to time announced various schemes to support the development of this sector. Recently, in view of the economic hardship caused by covid 19, the government has announced few schemes under 'Aatmanirbhar Bharat' i.e. Self-reliant India initiative. The announcement of country wide lockdown dragged MSME owners, employers and external stakeholders in unexpected times, where no one had experience to handle this kind of situation. Digitally engaged MSMEs are more likely to grow their customer base as it makes them more accessible by the users. They also find themselves more eligible for bank loans and can easily scale up their business. Thus, digitization of MSMEs is of utmost importance for the economy.

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