

CHALLENGES FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) DURING COVID-19 PANDEMIC TIMES IN INDIA

Kavita Kumari

Assistant Professor, RGGC, Saha (Ambala)

Abstract

One of the crucial pillar of Indian economy is MSMEs (Micro, Small and Medium Enterprises). This sector is significantly contributing towards GDP, employment generation, mitigating poverty, entrepreneurship development, capital formation, equal distribution of wealth, balanced regional development and much more. But the spread of COVID-19 Pandemic led to crisis in this sector with demand & supply shock. To hold the breakout of COVID-19 Govt. of India has taken many policy measures like complete lockdown, currently partial lockdown, prohibition on border movement, self-isolation, social distancing and locking borders. All these measures have been adversely affecting the various sectors of economy including MSMEs, the backbone of Indian economy. The purpose of this study is to explore the challenges on India's MSME sector and proposing the actions to regain the situation

Keywords: MSME, COVID-19, employment, GDP

Introduction

MSMEs plays vital role in providing large number of employment opportunities, eradication of regional disparities, lower capital cost than large industries, industrialization of rural & ignored areas, assuring more equitable distribution of national income and wealth. Thus MSME is a solution to big problems of country like poverty, unemployment, Lack of entrepreneurial skills, regional disparities, economic concentration etc. As per National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs in India& According to MSME report of 2018-19, MSMEs are providing employment to more than 11 crore people in the country, there are 6.34 crore of MSMEs in India, in which 51 percent are situated in urban areas and 49 percent are situated in rural areas. Apart from this, the MSME sector contribution in the total exports of the country is 48%. Outbreak of COVID-19 has disastrously affected the economy of entire world after great depression of 1930. In India, to hold the breakout of COVID-19 Govt. has declared complete lockdown

which was extended time to time, currently partial lockdown. Many other precautionary measures are also taken like prohibition on border movement, self-isolation, social distancing and locking borders. All these measures have been adversely affecting the various sectors of economy including MSMEs, the backbone of Indian economy.

Overview of MSME before COVID-19 Pandemic

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, revised definition, announced in the Aatmanirbhar Bharat Package on 13th May, 2020, the Micro, Small and Medium Enterprises (MSME) are classified as below:

- (i) a micro enterprise, where the investment in plant and machinery or equipment up to one crore rupees and turnover up to five crore rupees;
- (ii) a small enterprise, where the investment in plant and machinery or equipment up to ten crore rupees and turnover up to fifty crore rupees; and
- (iii) a medium enterprise, where the investment in plant and machinery or equipment up to fifty crore rupees and turnover up to two hundred and fifty crore rupees.

Due to this new composite criteria of classifying manufacturing and service units which has been notified on 26.06.2020, to provide the benefits & facilitate large in numbers, there will be no difference between manufacturing and service sectors.

As per Central Statistics Office (CSO), M/o Statistics & Programme Implementation, the contribution of MSME sector in Country's Gross Value Added (GVA) and Gross Domestic Product (GDP) at current prices from 2014-15 to 2018-19 is as below

Figure -1: Share of Gross Value Added (GVA) of MSME in all India GDP

Figures in Rs. Crores adjusted for FISIM at current prices						
Year	Total MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	All India GDP	Share of MSME in All India GDP (in %)
2014-15	3658196	-	11504279	31.80	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

Source: Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 0.07 lakh in Non-Captive Electricity Generation and Transmission, 387.18 lakh in Trade and 362.82 lakh in Other Services) in the rural and the urban areas across the country. Figure shows the distribution of MSMEs activity wise.

Figure -2
Estimated Employment in the MSME Sector (Activity Wise)

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	186.56	173.86	360.41	32
Electricity*	0.06	0.02	0.07	0
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
All	497.78	612.10	1109.89	100

*Non-captive electricity generation and transmission

The highest number of Micro units are in rural area in India, which comprises 324.09 lakh, i.e. 99.76 percent of units are Micro units, followed by Small units & Medium units which consists 0.78 lakh units and 0.01 lakh units respectively. The total numbers of Micro units are 306.43 lakh units, in case of urban areas, which comprise 99.17 percent, followed by Small units & Medium units 2.53 lakh units & 0.04 lakh units respectively. The total numbers of Micro units in both rural and urban areas are 630 lakh units, followed by small units and Medium units 3.31 lakh units & 0.05 lakh units respectively with 51 percent share in rural area and 49 percent share in urban area.

Figure -3
Distribution of Enterprises (Rural and Urban area wise) In Lakhs

Sector	Micro	Small	Medium	Total	Share (%)
(1)	(2)	(3)	(4)	(5)	(6)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

Apart from this, the MSME sector of India in different sizes structures offers different kind of fabrics, goods & services contributing 48 percent in the total exports of the country as per Report of the Expert Committee on Micro, Small and Medium Enterprises, June 2019.

Challenges for micro, small and medium enterprises (MSMEs) during COVID-19 Pandemic Times in India

COVID-19 has been affecting every sphere of economy including economic growth of country, international trade, employment, per capita income, financial markets trends, income, poverty and many other components of economy. All these results in unrecoverable losses to global economy. Some big challenges MSME facing due to current going COVID 19 situation are highlighted here.

Due to lockdown full or partial, prohibition on border movement, self-isolation, social distancing and locking borders there is fall in demand of various goods including supplies by MSME leading to fall in the income of MSME. The lockdown also resulted in a complete shutdown of more than 60% of pecuniary activities that were carried out by the MSME sector in India (Banu, 2020). A fall in the domestic demand as well as fall in international trade is underlined as the key reason for the falling growth rate of the sector. If we see on sectoral level, decrease in growth rate of industrial production was much higher in labour-intensive industries such as food processing, jewellery, apparels, sea food, gems etc. than capital-intensive industries such as metal, petroleum and chemical industries. As Labour intensive firms largely operate on micro, small and medium level. significant contraction in production of these sectors is reflection of impact of COVID-19 on the MSME sector.'-(Sahoo & Ashwani, 2020).

On Micro, Small, and Medium MSMEs (India Report, 2020) 37% of enterprises reported an increase in moving costs. While urban initiatives reported a median 20% increase in moving costs, semi-urban and rural enterprises reported a 10% and 18% increase respectively. In rural areas, 63% enterprises had to go and pick supplies themselves. This is one of the contributors to increased transportation cost. Moreover, about 75% of the women-owned enterprises mentioned have further affected income that they have to pick supplies on their own. Due to this disrupted supply chain many MSME shut down and many others running into losses.

Both supply and Demand are badly crushed. Along with cost of operations, demand & supply forces, credit receivables also play dominant role in success of every enterprise. The various methods to assess the credit worthiness of different borrowers also becoming obsolete suddenly after Pandemic COVID-19. The previous data available to evaluate the creditworthiness was of no use immediately after COVID-19 crisis.

In this current pandemic of Covid-19, production of goods and services in this sector has been cut down and this sector has started suffering from the shortage of necessary inputs,

which led to shudder of supply. The sector which provides employment to over 114 million people and contributes to more than 30 per cent of the GDP is going through one of the hard-hitting stages, thus actions are required immediately. In findings of a survey carried out by MSME industry associations in Tamil Nadu, it was found shortfall of revenue by 44.7 per cent during the lockdown period. Therefore, it becomes demand of the situation on the part of government and financial sector to develop and implement a strong support systems for MSME'(Suhail Ahmad Bhat, 2020).

Concluding remarks & suggestions

To cope with this pandemic situation effort are needed from entrepreneurs as well as govt. From entrepreneur's side innovative and creative efforts are much needed. They could start new ventures as per need of time. New sources of supply of inputs could also be explored. Creative approach is also needed to acquire the data for demand of their products.

Talking about government initiative, government as already allowing filling of Goods and Services Tax (GST) returns by 30th June without any interest & penalty for late fee. E-markets should be promoted. Till restoration of economy the government should encourage banks to increase lending to MSME sector with uniform and lower rates of interest so that they could only focus on their business instead of funds availability. MSME should also be provided relaxation in repayment of loans. Government can also provide wage support to MSME to retain their workers even in pandemic times to avoid can be given to labour intensive MSME units to incentivize them to retain their employees and to avoid immense number of layoffs by firms. (Berger & Behn, 2020).

Bibliography and references.

- Banu, S. (2020). COVID-19 and its Impact on Micro, Small and Medium Enterprises. LIV(3).
- Berger, K. P., & Behn, D. (2020). Rin T N Ot Pe Er Re Vie We T N Ot Pe Er. 6(4).on micro , small , and medium MSMEs during India report. (2020).on micro , small , and medium MSMEs during India report. (2018-19).
- Sahoo, P., & Ashwani. (2020). COVID-19 and Indian Economy: Impact on Growth, Manufacturing, Trade and MSME Sector. Global Business Review, 21(5), 11591183. <https://doi.org/10.1177/0972150920945687>
- Suhail Ahmad Bhat. (2020). NDIM s Journal of Business and Management Research New Delhi Institute of Management. II(2).