



IMPACT OF COVID-19 on MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA- A CASE STUDY

Dr. SHAMA YASMEEN

Associate Professor, Global Education Centre(MBA), Moinabad

Mobile no: 9985872883 Email.Id: shamayasmeen@gmail.com

ABSTRACT

SMEs form the backbone of the Indian manufacturing sector and have become engine of economic growth in India. It is estimated that SMEs account for almost 90% of industrial units in India and 40% of value addition in the manufacturing sector. This paper closely analyses the growth and development of the Indian small scale sector from opening of the economy in 1991. Third part looks into the present scenario of SMEs and the problems they face like lending, marketing, license raj issues in detail. The Micro, Small and Medium Enterprises Act, 2006 is intended to boost the sector. The provisions of the Act are examined closely. The final part provides some future policy framework for the sustainability of the sector.

Keywords: SMEs, India, Small and Medium Enterprises

INTRODUCTION:

India is still in the process of “flattening the curve” of the COVID-19 pandemic. The first case of COVID-19 in India was reported on 30th January (1/30/2020) and the number of reported cases has exceeded five million as of September 21, 2020. The pandemic has expectedly had a far-reaching impact on the economy and the intensity of its effects has not been well understood. Small-scale enterprises, central to the functionality of India’s manufacturing and services sectors have suffered the most. This paper focuses on the impact of COVID-19 on the micro, small and medium enterprises (MSMEs) in these two major sectors of India’s economy.

The Micro Small and Medium Enterprises (MSMEs) sector is a major contributor to the socio-economic development of the country. In India, the sector has gained significant importance due to its contribution to Gross Domestic Product (GDP) of the country and exports. The sector has also contributed immensely with respect to entrepreneurship development especially in semi-urban and rural areas of India.

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 number of MSMEs in India increased by a CAGR of 18.5% from 2019 to 2020. In financial year 2021, the loan disbursements to MSMEs stood at Rs. 9.5 trillion, a 40% increase compared with Rs. 6.8trillion in financial year 2020.

The MSME ministry heads five statutory bodies- KVIC, COIR board, NSIC, Ni-MSME and the MIGRI. These bodies are responsible for aiding MSMEs with respect to government schemes and policies. In November 2021, the Indian government launched the special credit linked capital subsidy scheme (SCLCSS) for the service sector. This scheme will help enterprises in the service sector meet various technology requirements.

In July 2021, the Indian government announced inclusion of retail and wholesale trades as MSMEs to strengthen the sector and boost economic growth. Budget allocation for MSMEs in FY22 morethan doubled to Rs. 15,700 crore vis-à-vis Rs. 7572 crores in FY21.

ROLE OF MSMEs in INDIA

- SMEs employ a good chunk of India's workforce. This amounts to almost 40%, which makes up around 80 million workers.
- They make up almost 40% of India's export business and a significant chunk of the country's manufacturing output (45%).
- India has the second-largest number of SMEs in the world, eclipsed only by China.

IMPACT OF COVID-19 on MSMEs

The International Monetary Fund (IMF) has projected a sharp contraction of 4.5 per cent for the Indian economy in 2020, a "historic low" (IMF World Economic Update June 2020). The governor of India's central bank, the Reserve Bank of India (RBI), has indicated negative growth rate of GDP in the financial year 2020-21. The consumption of petroleum products, proxy for transport activity and oil demand, during the period April to July 2020 recorded a decline of 22.5% as compared to consumption in the same period in 2019. The impact of the lockdown on industrial production in the first quarter of 2020-21 has been severe. The Index of Industrial Production (IIP) was 35.9 per cent lower compared to its level a year ago. India's overall exports (Merchandise and Services combined) in April-July 2020-21* are estimated to be USD 141.82 billion, showing a negative growth of (-) 21.99 per cent over the same period last year. Lockdown affects the economy first through labor supply shocks as it restricts people's mobility and forces them to work from home. In a large number of occupations, particularly manufacturing and traditional services, workers would not be able to work from home. Second through demand shocks as workers incur loss of wages, salaries and income either due to job loss or inability of

enterprises to pay their employees. One recent study has estimated that 116.18 million (25%) and 78.93 million (17 %) of India's workers were affected in Lockdown 1.0 and Lockdown 2.0. A large majority of them are found to be those in the unorganized segments of manufacturing and services. The likelihood of working from home is very low for workers employed in occupations within the manufacturing and services sectors. According to the Centre for Monitoring Indian Economy (CMIE), at least five million salaried people have lost their jobs in the month of July, taking the total count of job losses in the category to 18.9 million since April 2020. With all industrial and transport activities shutting down, the coronavirus lockdown has crippled the country's economy. As per the CMIE data, 17.7 million salaried employees had lost their jobs in April. In May, another 0.1 million jobs were lost. 3.9 million persons had gained jobs in June, but five more million employees went jobless in July.

NEW DEFINITION OF MSMEs:

The definition of MSMEs is provided by the Micro, Small, and Medium Enterprises Development (MSMED) Act of 2006. 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 earlier definition of MSMEs was in terms of threshold level of investment in plant and machinery equipment, and the suitability of investment criterion was under the scanner much before the onset of COVID-19. The government changed the criterion for defining MSMEs in response to the COVID-19 crisis. It revised the definition of MSMEs and added the criterion of annual sales turnover in addition to investment, as given in Table 1. The introduction of turnover has facilitated the verification of turnover declared by the MSMEs under the new Goods and Services Tax Network (GSTN).

The enterprises are further categorized based on investment in equipment and annual turnover.

Criteria	Manufacturing		Service	
	Turnover	Investment	Turnover	Investment
Micro	Rs. 5 crores	Less than Rs. 25 lakhs	Rs. 5 crores	Less than Rs. 10 lakhs
Small	Rs. 50 crores	More than Rs. 25 lakhs but less than Rs. 5 crores	Rs. 50 crores	More than Rs. 10 lakhs but less than Rs. 2 crores
Medium	Rs. 250 crores	More than Rs. 5 crores but less than Rs. 10 crores	Rs. 250 crores	More than Rs. 2 crores but does not exceed Rs. 5 crores

The idea of revising the MSME definition has been under the consideration of the central government even before the onset of the COVID-19 pandemic. It was reportedly opposed by small-scale industrialists who perceived the threat of competition from larger enterprises who would also become eligible for size-dependent incentives like concessional bank credit. The economic crisis situation created the right time to bring about the change without facing opposition from certain interest-groups. The prevailing definitions of MSMEs that used only the investment were widely believed to have discouraged the size expansion of small enterprises. The new common definition of MSMEs hikes the threshold investment level for the category Micro units to one crore (approximately US\$133,000 at current exchange rates) and brings in the turnover criterion of INR Rs.5 crores (approximately US\$667,000 at current exchange rates). Under the modified composite definition an industrial/service establishment will be classified as belonging to the Micro/Small/Medium category if it falls below either of the two criteria, namely, investment or turnover. In practical terms all units with turnover value below ₹250 crores (approximately) US\$33 million at current exchange rates) constitute the MSME sector. If an establishment crosses both the investment limit as well as turnover limit of the respective category then that unit goes out of that particular category. The intent of higher threshold is to encourage the growth of MSMEs by inducing them to undertake greater investment and achieve economies of scale and cost competitiveness.

It is hard to estimate the exact number of enterprises and workers in the MSME sector at present. A reliable source is the survey of unincorporated enterprises that was held last in the 2015-16. One could get based on 2015-16 survey results some orders of magnitude of MSME enterprises and workers affected by the pandemic COVID-19. In 2015-16 there were 63.4 million enterprises out of which 19.6 million were in manufacturing, 20.6 million enterprises were in the services sector and the remaining 23 million were in the business of retail and wholesale trade. The MSMEs provided employment to 101 million workers that include owner-managers (Own Account Enterprises). Manufacturing and other services had almost equal share of 36 percent each with the remaining 38 percent in retail and wholesale trade. In short MSMEs provide employment and livelihood to 25 percent of India's total workforce and contribute about 30 percent of India's GDP.

More importantly, MSMEs contribute significantly to India's exports. Their share in total exports has hovered around 42% to 48% in the last few years. The five major export products are Gems & Jewellery, Ready Made Garments (RMG), Electrical & Electronic equipment, Organic Chemicals, and Pharmaceuticals. Global slowdown in international trade has severely affected the very survival of MSMEs. Major commodities which have recorded negative growth during July 2020 vis-à-vis July 2019 Petroleum products (-51.54%), Gems & jewellery (-49.61%), Leather & leather products (-26.96%), Man-made yarn/fabrics/made-ups etc. (-23.33%), RMG of all textiles (-22.09%), Cashew (-21.25%), Marine products (-20.14%), Tobacco (-19.49%), Electronic goods (-17.42%), Spices (-11.38%), Mica, Coal & other ores, minerals including processed minerals (-8.21%), Handicrafts(-6.12%), Tea (-3.97%) and Organic & Inorganic Chemicals (-0.05%). The extended lockdown is reported to have severely

impacted the import of raw materials (sports goods, silk, rubber, etc.,) and their transport from the ports to manufacturing units.

SCHEMES FOR MSMEs in INDIA:

The government provides several schemes to give Indian SMEs a push: -

- **Make in India:** This much-celebrated initiative has played a key role in promoting businesses and pushing Indian SMEs to manufacture, develop, and assemble products made in India.
- **Financial Assistance to Small and Medium-Sized Enterprises in the ZED Certification Scheme:** The scheme aims to instil Zero Defect & Zero Effect (ZED) principles in Indian MSMEs' manufacturing. Under this scheme, the Government of India (GoI) grants up to an 80% subsidy to MSMEs.
- **The Prime Minister's Employment Generation Programme:** This scheme, set up by Khadi and Village Industries Commission (KVIC), was to finance MSMEs.
- **Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE):** This scheme was implemented to eradicate the financing issues faced by Indian SMEs. It provides collateral-free loans to individual, micro and small enterprises.
- **Government Initiatives for Technology Advancement and Innovation:** The central government is trying to improve the conditions of MSMEs in India and has implemented several initiatives to help advance the technology and promote innovation among Indian SMEs. They are A scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE), National Manufacturing Competitiveness Programme (NMCP) etc.

These schemes for SMEs in India help them overcome issues like financing, technology etc. A strong SME sector helps drive employment and technological advancement and grow the Indian economy.

MAJOR DEVELOPMENTS IN MSMEs IN INDIA:

- As per the estimation in 2022, the Indian government will be allocating Rs. 6,062.45 crore (US\$ 808 million) for the scheme Raising and Accelerating MSME Performance (RAMP). The programme aims to improve market and credit access, strengthen institutions and governance at the centre and state levels, improve centre-state connections and partnerships, resolve late payment difficulties, and green MSMEs.
- In November 2021, the Indian government launched the Special Credit Linked Capital Subsidy Scheme (SCLCSS) for the services sector. This scheme will help enterprises in the services sector meet various technology requirements.
- In November 2021, the Ministry of Micro, Small and Medium Enterprises launched SAMBHAV, a national-level awareness programme to push economic growth by promoting entrepreneurship and domestic manufacturing.

- In November 2021, the Small Industries Development Bank of India (SIDBI) inked a pact with Google to pilot social impact lending with financial assistance up to Rs. 1 crore (US\$ 133,939.60) at subsidised interest rates to micro enterprises. To reinvigorate the Indian MSME sector, Google India Pvt. Ltd. GIPL, will bring a corpus of US\$ 15 million (~Rs. 110 crore) for micro enterprises as a crisis response related to COVID-19.
- In November 2021, digital freight forwarder Freight Walla, launched a shipment tracking service for MSME exporters and importers based on predictive analytics to help businesses tackle risks associated with shipment delays and improve supply chain efficiency.
- In November 2021, Cash invoice, a supply chain financing (SCF) platform, announced that it will aid MSMEs with over Rs. 10,000 crore (US\$ 1.33 billion) worth of financing in the year ahead, as it has raised Pre-Series A funding of US\$ 1 million from Accion Venture Lab.
- In October 2021, Sundaram Finance and the MSME Development Institute (Chennai), provided marketing assistance to MSMEs. Entrepreneurial and managerial development of MSMEs will be done through an incubator scheme, that will give innovators opportunities to develop and nurture ideas for the production of new products.
- In September 2021, Aerospace Engineers Private Limited, a Tamil Nadu-based MSME, secured a contract from Boeing to produce and supply critical aviation components.

CONCLUSION:

The role that SMEs play in India's economy is understated. There are SMEs in the manufacturing and the service sector, and they are powering India forward while creating jobs, opportunities and economic growth. There are various schemes implemented by the government that promote SMEs. It is important that this sector thrives, given the fact that if it stagnates, the common man will feel the brunt. The trickle-down effect on the common man is higher when it comes to SMEs, and when this sector thrives, the quality of life of the common man improves.

The economic and financial problem of MSMEs in India is unprecedented and threatens their very existence, simply because the extent of damage inflicted on MSMEs due to supply and demand shocks have turned out to be far in excess of what has been anticipated, and it is still evolving. The information on damages to the functioning of MSMEs and to the larger Indian economy is slowly trickling in. The impact of the change in the definition of MSMEs on their economic performance has not yet been investigated and remains an area for future research. Whether it will reduce the access to bank credit to micro and small enterprises relative to medium enterprises is another big issue. Some have argued that commercial banks will be biased against small-scale enterprises because of higher transaction costs. No data is available to evaluate this argument. The policy makers are seriously handicapped by the delayed information filings by the entire spectrum of economic entities including enterprises, corporates, commercial banks, non-banking financial institutions (NBFCs), and statistical agencies due to the pandemic situation. Demand shocks due to second order effects of the pandemic could perhaps result in

deeper damage to the economy in general and the MSMEs in particular. The actual damage to the MSMEs and the wider economy will be known perhaps after a few more months

REFERENCES:

1. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1080505
2. <https://www.ibef.org/industry/msme>
3. <https://unacademy.com>.
4. <https://libjournals.mtsu.edu/index.php/jsbs/article/view/1690>
5. <https://sabpaisa.in/role-of-smes-in-the-indian-economy/>
6. <https://www.smechamberofindia.com/about-msme-in-india.php>
7. <https://www.cii.in/Sectors.aspx?SectorID=S000000007>
8. <https://smeventure.com/role-smes-economic-development-india/>

