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RESEARCH ARTICLE

IMPACT OF COVID-19 PANDEMIC ON MICRO, SMALL AND MEDIUM SCALE INDUSTRIES IN INDIA

Sheetal Jaikar

Asst. Prof., Perna College of Commerce, Nagpur, Maharashtra.

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Abstract

Among other sectors the Industrial sector has not been any exception during the pandemic that shook the entire world. In India especially the fourth cadre people of Industries i.e the laborers faced the harsh situations in their life to even survive without employment. Many sectors along with the business sector where Medium and small scale Industries faced a very crucial times during the lock-down that was imposed in India where remarkable changes were seen in almost every employee's life. Many of the laborers were compelled to leave the job and migrate to their hometown as there was a layoff in their Enterprises and some were even closed or are on the verge of closure due to no production and money crunch as well. This Research paper encompasses those parameters on the bases of which the Small and Medium scale Industries were running short of finance or were temporarily closed. Studies and surveys shows that approximately 95% firms were impacted negatively due to national lockdown imposed in April 2020, 70% of businesses remained disrupted till August 2020. Even after progressive unlocking, reports suggest that almost 40% businesses remained interrupted till the end of February 2021.

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Introduction:-

The MSMEs sector has been one among the foremost vulnerable sectors during pandemic because of its size, scale of business and availability of monetary resources. Studies and surveys showed that approximately 95% firms were impacted negatively due to national lockdown imposed in April 2020, 70% of businesses remained disrupted till August 2020. Even after progressive unlocking, reports suggest that almost 40% businesses remained interrupted till the end of February 2021. The three critical barriers faced by MSMEs are market access, overall productivity and getting access to more finances. An average 11% decline in business volume of Indian MSMEs has been recorded because of lockdown in 2021 in comparison to 46% decline during nationwide lockdown in year 2020.

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The apparel manufacturing units of the export sector realized business loss of over Rs. 150 crore from March 2020 to May 2020. Loss of India's leather industries has been valued to be Rs. 11,210 crore in global market. All India Manufacturers Organization conducted survey on MSMEs and confirmed that the self-employed MSME units,

Corresponding Author:- Sheetal Jaikar

Address:- Asst. Prof., Perna College of Commerce, Nagpur, Maharashtra.

predominantly 35% of MSMEs sector, do not have any scope of recovery for their businesses and have already started winding up their units.

Review of Literature:-

From the days of the National Planning Committee, it had been emphasized that the MSMEs would play a crucial role; hence, they need to be promoted on a sustainable basis and their vital issues to be addressed (Das, 2008). The growth of the MSMEs sector is a precondition for the growth of a developing economy like India as it comprises more than 50% of the manufacturing output of the economy (Ali & Husain, 2014; Eniola & Entebang, 2015). In recent years the MSMEs sector has been growing at a higher growth rate compared to the industrial sector. The foremost advantage of the sector is its employment prospective at low resource base. The MSMEs sector provides the maximum employment opportunities in terms of both self-employment and jobs after the prime agricultural sector (Kumar & Sardar, 2011). MSMEs sector had an important contribution towards employment generation and rural industrialization, encouragement to entrepreneurial instinct and truncating regional disparities (Bhuyan, 2016). Communications bottlenecks are not yet completely resolved, so it's the responsibility of the ministry of MSMEs to support the state governments for promoting the growth and development of MSMEs to make them able to compete in the changed global scenario (Ali & Husain, 2014; Kumar & Sardar, 2011).

This sector has immense potential in investment with generating infrastructure base, making more employment, developing innovative skills and proficiency, ensuring a fair regional development, developing backward areas, making the economy self-contained through import substitution and making possible the nation's development process. At the same time, the MSMEs sector is the most vulnerable one in the era of the COVID-19 pandemic because of its size, the scale of business, limited financial executive resources and notably they do not have the capacity to compact with something so unexpected (Sipahi, 2020). COVID-19 has enormous depressing impacts on the MSMEs sector through disruption in demand chain problems of the production process and raw material and labour availability, which resulted in shrinking revenue generation (Singh, 2020). This unfamiliar incident forced the enterprises to either cut down their business activities due to lack of financial strength, lack of raw material availability, labour shortage, etc., or to switch according to the need from non-essential to essential commodities such as mask, PPE kits, sanitizers, etc. (Tripathy, 2020). A survey conducted on MSMEs by the All India Manufacturers Organization confirmed that the self-employed MSME units, predominantly 35% of MSMEs sector, have no chance of recovery for their businesses as they have already initiated the shutting down procedure (Tripathy & Bisoyi, 2021). The apparel manufacturing units of the export sector were under the business loss of over ₹ 150 crore from March 2020 to May 2020 due to the pandemic aftermath situation (Roy, 2020). The export loss to India's leather industries is estimated to be \$1.5 billion due to the slowdown of the global market. The MSMEs sector is struggling for its payment to workers, payment for fixed variables such as electricity, rent and interest, reduced cash flow in the economy, labour force migration, controlled material supply, etc. (Tripathy & Bisoyi, 2021).

Factors Responsible for Vulnerability of MSMEs:-

Crisis of Capital – SMEs in India are largely unorganized, most of the transactions carried by them are in cash and not entered properly in accounting books within the absence of accurate transaction data, these businesses don't get the mandatory credit score and find it difficult to access business loans from the formal sector.

High Cost of Transaction – Business volumes of MSMEs remain low in most of the cases and hence cost of transactions remains high, both in offline and online modes of payment. This affects company's profit margin significantly in medium to long run.

Risk perceptions by banks & financial institutions – In absence of high credit score or collaterals, most of the banks perceive MSMEs as risky clients. This problem amplifies when the client is any start-up. Even if banks get convinced to disburse loan, rate of interest remains higher than normal. Different MSMEs have different financial requirements, depending upon the size of business, cash flow pattern and vendor engagements. All this requires tailor made services and products.

Cybercrime – In absence of adequate awareness and knowledge about handling digital banking and transaction activities, SMEs are found to be more vulnerable for cybercrime and phishing.

Managing the Crisis:-

There is an urgent requirement for MSMEs to assess their financial status and security. To support MSMEs during pandemic crisis, government may come forward to provide soft loans with longer term of repayment and increased credit limit. MSMEs need to re-strategize its overall value proposition, through improving quality of products, strengthening distribution channels and using innovative promotion methods etc. There is a need to create a strong digital ecosystem to increase the outreach among buyers and suppliers in market.

Government of India started its e-market place (GeM) to increase the share of MSMEs in Government procurement. A digitally activated market ecosystem is capable to reduce cost, improve work efficiency, foster product development and improve safety of workers. Collaboration with research institutions, tech start-ups, existing foreign players may prove an effective business strategy for MSMEs to develop a low-cost production base and penetrate in Indian market. Indian Governments supportive programme from SMEs like Emergency Credit Line Guarantee Scheme, low repo rate, e-market linkages, PF and EPF support for both businesses and workers etc. have started showing positive results.

It is substantial from the above analysis that although there exists surplus of studies on MSMEs sector and its significance for the development of Indian economy but the outbreak of this crisis has negatively crashed the MSME units in terms of production, distribution, investment, employment, revenue generation, social integration, monetary needs, etc., and studies related to impact analysis of COVID-19 on MSMEs sector is partial in all Indian context. Also evaluation relating to policy response by the government and revival strategies is strangely limited. Through this article, a clear assessment will be prepared on finding a statistically significant relationship among the key variables of MSMEs sector like the volume of MSMEs, investment, production and employment and the long-run relationship between variables will be recognized. The study will have its own significance in the field of assimilating the experimental COVID-19 situation with the MSMEs sector

Objectives:-

This article highlights as follows:

- a. The contribution of the MSMEs sector to the Indian economy in terms of output, employment, income, investment and export
- b. The challenges encountered by the MSMEs segment before and during the COVID-19 pandemic
- c. The policy initiatives to revive the MSMEs sector by the government
- d. To suggest revival strategy of MSMEs to sustain in post-pandemic situation

Data and Methodology:-

The article is an analytical one. The data in relation to this has been collected primarily from secondary sources, including the published sources such as the annual report of Ministry of MSMEs, data by Central Statistics Office, Ministry of Statistics and Programme Implementation, RBI and Press Information Bureau (PIB)/Directorate General of Commercial Intelligence and Statistics (DGCIS), data released by CIBIL, Report of Regional Development Bank, the press release of the various news agency, etc.

The variables for deducing the proposed linkage are numbers of MSMEs, employment, investment and production, which has been assembled for the period 1992–1993 to 2015–2016. The study has confined its analysis period up to 2015–2016, as in further annual reports of Ministry of MSMEs, the said variables are not in same set-up as earlier. The study has made use of descriptive statistics, correlation and co-integration analysis. Correlation has used to know the degree of association between variables. Co-integration has been applied to check the long-run relationship between variables that whether they are integrated or not. So we have used the time series data to obtain the long-run relationship and trend among the variables. The statistical tools are the unit root test, augmented Dickey–Fuller test, Johansen’s co-integration test, the trace test and the maximum eigenvalue test estimated using the statistical software package E-views 7.

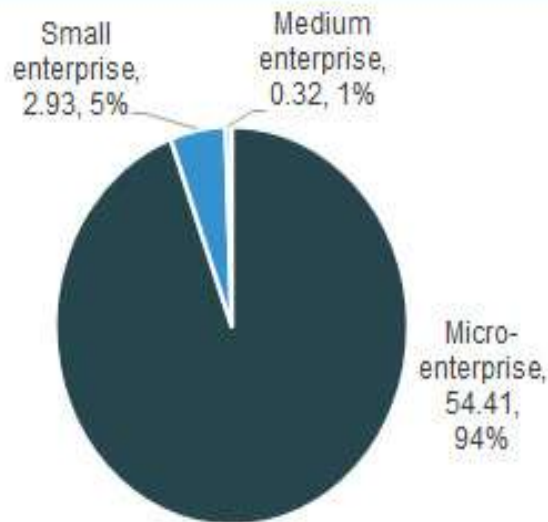
Contribution of MSMEs Sector:-

Micro, small and medium Enterprises (MSMEs) are the growth accelerators of the Indian economy, contributing about 30% of the country's gross domestic product (GDP). In terms of exports, they are an integral part of the supply chain and contribute about 40% of the overall exports.

Criteria	Manufacturing		Service	
	Turnover	Investment	Turnover	Investment

Micro	Rs. 5 crore	Less than Rs. 25 lakh	Rs. 5 crore	Less than Rs. 10 lakh
Small	Rs. 50 crore	More than Rs. 25 lakh but less than Rs. 5 crore	Rs. 50 crore	More than Rs. 10 lakh but less than Rs. 2 crore
Medium	Rs. 250 crore	More than Rs. 5 crore but less than Rs. 10 crore	Rs. 250 crore	More than Rs. 2 crore but does not exceed Rs. 5 crore

Registered MSMEs in India in FY22* (lakh units)



MSMEs are being encouraged to market their products on the e-commerce site, especially through Government e-Marketplace (GeM), owned and run by the government, wherefrom Ministries and PSUs (public sector undertakings) source their procurement. As of March 24, 2022, the GeM portal has served 9.63 million orders worth Rs. 219,071 crore (US\$ 28.70 billion) from 4 million registered sellers and service providers for 59,259 buyer organisations.

Domestic business requires a strong financial stimulus with concessional working capital loans to ensure adequate liquidity is maintained in business operations from the government and financial institutes.

Indian Micro, Small and Medium Enterprises (MSMEs) are rapidly adopting digital payments over cash, with 72% payments done through the digital mode compared with 28% cash transactions. Rise in digital adoption presents prospects for further growth in the sector.

The contribution of MSMEs sector in country's gross value added (GVA) has been continuously increasing. The share percentage of MSMEs sector in total GVA and in total GDP is increasing over the years. There are 633.88 lakh MSMEs in the country engaged in different economic activities like 31% MSMEs are found to be engaged in manufacturing activities, while 36% are in trade and 33% in other services.

The micro-sector enterprises account for more than 99% of total estimated numbers within the defined sectors, where the small and medium sectors account for only 0.52% and 0.01% of total estimated MSMEs, respectively. Another point to consider is that out of the total estimated MSMEs, 51% are in rural India, and 49% are in urban areas. The ownership distribution of MSMEs in different areas can be presented as follows:

In ownership of enterprises, male dominance is noticeable irrespective of areas, as 79.63% of enterprises are male-owned compared to 20.37% owned by females. In comparison to urban areas, female ownership is concentrated in rural areas and more particularly in microenterprises. Ownership distribution of MSMEs in social category-wise has been presented as follows:

Conclusion:-

MSMEs has played a vital role in providing livelihood to millions of Indians. This sector also renders a substantial gain in non-farm employment in rural areas. However, because of its nature of being unorganized and small size, this sector is highly prone to internal and external crisis. The Covid-19 pandemic has created a sort of uncertainty in almost segments of Economic activities including the supply of raw materials, demand for finished goods and even employment opportunities. The data analysis and studies conducted by every individual and institution focus that the sector has almost lost a very large amount of jobs during the lockdown and even beyond owing to the decline of output, revenue and capital flow to the sector. Many units particularly those in the micro and small segments of this sector were forced to desolute from the market due to persistent loss of business. Therefore, financial support require to be urgently extended to this sector.

The measures announced by the central government for the MSME sector under the ‘Atma Nirbhar Bharat Abhiyan’ have probably reached at the right time and with a worthy intention of invigorating the sector and making them ‘local to global ‘ under the umbrella of ‘Make in India’.

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