

# Economic Impact of COVID-19 on Micro, Small and Medium Enterprises (MSMEs) in India

Tarunima Agarwal\*

Modern School, Delhi, India

**Abstract:** The Micro, Small and Medium Enterprises (MSMEs) sector in India is contributing significantly to country's economy and people's livelihood. It is contributing to approximately 30% of Indian GDP. Due to Covid-19 pandemic and lockdowns, this sector has been impacted adversely but rebounded back and redefined its strategies and priorities, with the support of various government economic reforms and packages. It was examined how these disruptions manifested and how the various government policies that have been implemented over the past year, have impacted the Indian economy, through the lens of macroeconomic concepts. The MSME sector will continue to play critical role in country's economy and therefore, deserves central attention in government policies.

**Keywords:** COVID-19; MSMEs; Economic impact

## 1. Introduction

MSME sector plays an important role and contributes to the Indian Economy as it is the second largest sector after agriculture which is generating employment in the country. As per the annual report of Ministry of Micro, Small and Medium Enterprises, Government of India, MSME provides employment to around 110 million people in the country. The MSMEs in the country produce more than 6,000 products for global and local consumption and this sector contributed to 30% of GDP in 2019. After agriculture, MSME sector is the second largest job creator in the country (1).

As per report of Directorate General of Commercial Intelligence & Statistics (DGCIS), during 2017-18, the value of products of MSMEs was 147,390.08 million dollars (2) and it contributed to 48.56% of the total exports (3). Therefore, the role of MSMEs as powerful engine of growth of Indian economy is well appreciated and it is a proven fact that this sector has played a catalytic role in the development of economic as well as social sector of the country. The current paper analyses the economic impact of COVID-19 on the MSMEs in India, and how the various government policies and measures that have been implemented over the past year have impacted the Indian economy through the lens of macroeconomic concepts.

## 2. Impact of COVID-19 Pandemic and Lock-Downs

The closure of the enterprises due to the lockdowns led to a financial impact and due to the slowing economic activity had impacted all kinds of payments, including wages/salaries, interest, loan repayments, and taxes. In India, the COVID-19 pandemic and lock-downs impacted the MSMEs and opened new opportunities and pathways of economic progress at the same time. Amidst the crisis, innovations and new strategies and steps took over to revitalize the Indian economy. Many of these new strategies were focussed on MSMEs also.

The impact of disruption caused by the pandemic and lock-down can be understood by the following facts:

There is decrease in earnings of MSMEs by 20-50%, more in micro and small enterprises. Though the enterprises working in essential goods and services were better off, even then, they faced interrupted cash-flows. At the peak time of national lock-down, there was a significant fall in the production in MSME sector, from average 75% of capacity to mere 13% capacity. About 54% firms were producing nothing at all during lock-down period. A significant downsizing of human manpower and retention rate by firms was approximately 44%. About 69% of the firms showed inability to survive for more than 3 months during lock-down period. Another estimate indicates that between 19% to 43% MSMEs might have closed down due to lock-down. On the other side, unemployed increased during lock-down which continued in post lock-down period. As per one estimate, hospitality industry lost 12 million jobs and retail industry lost 11 million jobs (4).

### 1) Challenges

The COVID-19 pandemic and lockdowns have adversely impacted this sector especially during the early months of the pandemic. Some key challenges faced by the sector include difficulty in procurement of raw material, unavailability of employees, break in supply chain of raw material and finished goods, liquidity crunch and credit need, decreased demand, lower disposable income and lock-down led to less spending by consumers, unpredictability and ambiguity in future trade due to continuous and repeated lock-down, inter-state lock-down provisions hampered supply of raw and finished material, and

\*Corresponding author: tarunimaagarwal@gmail.com

complete shut-down of the businesses. Diversification by MSMEs to meet the demand- supply gap of COVID-19 products in India

Few of the strategies used by MSMEs were:

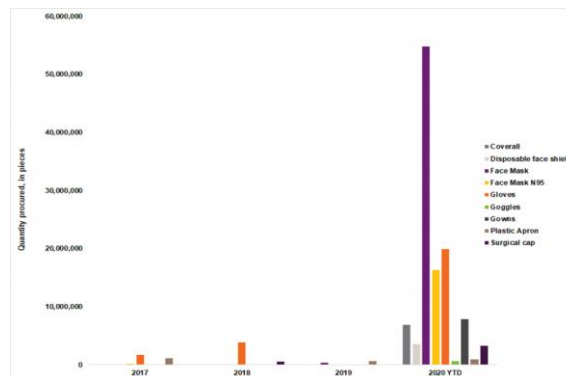
- Shift from non-essential commodities to essential commodities like face masks, PPE kits, hand sanitizers etc.
- Rapid digitization of operations, processes, sales and supply chain
- Government of India also announced relief packages to boost MSMEs growth post-COVID-19 period.

## 2) The Case Example of PPE Production Scale Up in India: Role of the MSME Sector

The first case of COVID-19 was detected in the country on 30 Jan 2021, and the Indian manufacturers did not have the capacity to produce high quality Personal Protective Equipment (PPE) kits, the one required as Class-3 protection under ISO 16603 standards. The country was dependent on imports for the PPEs. Government played a key role in this. Ministry of Health and Family Welfare (MoHFW) and Ministry of Textiles (MoT) with the support of MSMEs came together for planning and understanding the gaps in infrastructure, resources, production, quality, supply chain and packaging. The concerted efforts of two ministries along with other government agencies like DRDO, Alternative Energy Promotion Centre (AEPC), Bureau of Indian Standards (BIS)) supported in overcoming the hurdles and levelling the gaps. India, which was importing PPE kits became self-sufficient in producing PPE kits of WHO quality standards, within a period of 60 days. Within this period, India witnessed 56 times growth in PPE industry and production increased to 4.5 lakh units per day. MSMEs played a key role in this and all the stakeholders turned this crisis into a valuable opportunity, which, not only saved the industry, but also put an example for other manufacturers under Atmanirbhar Bharat Mission. (6, 7).

The demand of PPE kits and masks became high across the globe. Similarly, there was high demand for the material and component of making face masks and PPE kits. This is because of sudden high requirement of these items during the COVID-19 pandemic. National stockpiling by many affected countries had further driven up the demand and created global shortage. Annual procurement for various PPEs by UNICEF has shown multi-fold increase between 2017 and 2020 (8).

The MSME Technology Centres (TCs) under Ministry of MSME were engaged in the manufacturing of sanitizers, masks, gowns, face shields and hospital furniture. The TCs affirmed their commitment for ramping up their in house manufacturing and also assisting the MSMEs in the manufacture of these items (9). The Ministry of MSME runs numerous schemes targeted at providing credit and financial assistances, skill development training, infrastructure development, marketing assistance, technological and quality upgradation and other services for MSMEs across the country.



The pandemic and shutdown brought the apparel market to almost a shutdown. In March 2020, there was 70% fall in sales of fashion brands due to closure of malls. But the opportunity in the form of face masks allowed companies to utilize available stocks and drive cash flow. Initially, several apparel makers and fast-moving consumer goods companies produced facemasks and PPE kits more as a philanthropic act. But, as it is clear that lifestyle has been altered and few things like masks are going to be a part of life, companies started to take it as one of the products in their businesses. As per Nielsen report, demand of masks at chemists has increased by 50-80% and size of an average order at e-commerce platforms increased by more than four times during 30-days period in mid-March 2020.

Government Enabling Ecosystem and Fiscal Policies for the MSMEs in India. Government of India also announced relief packages to boost MSMEs growth during and post-COVID period. Indian government tried to bring back the confidence in the economy through focus on swadeshi (Indian made) and self-sustainable values. Country's economic and fiscal packages were a mix of various reforms, support to businesses, bringing liquidity and cash in the market and support to infrastructure building.

Atmanirbhar Bharat Mission, introduced the concept of 'Local to Global' under the policy umbrella of 'Make in India', was launched which focused on two related things simultaneously:

1. Boost to MSMEs and home production
2. Less dependency on foreign goods and imports

The various provisions recast for MSMEs under the relief packages included the following:

- The definition of MSMEs was modified and broadened so that more companies can avail benefits of various government schemes
- Government also modified FDI rules to provide more protection to Indian industries and provided a shield against 'opportunistic takeovers/acquisitions' of Indian companies
- Amendment in Essential Commodities Act (1958) was proposed so as to deregulate cereals, edible oils, oil seeds, potato and onion and the storage limit was removed
- Provision for collateral free loans and bank guarantees
- Provision of partial credit guarantee scheme for non-bank lenders

- Operation Greens, which was previously applicable to tomatoes, onions and tomatoes (TOP), was extended to all vegetables and fruits

Various other schemes were announced for different sectors:

- Matsya Sampada Yojana for fisheries
- Animal husbandry infrastructure fund
- Agri-infrastructure fund
- Agricultural marketing reforms for farmers
- Fair price legal framework support for farmers
- A fund for farm-gate infrastructure

In June, 2020, government also launched Garib Kalyan Rojgar Abhiyaan for ensuring livelihood for labourers and migrants.

### 3) New Definition of MSMEs

The Ministry of MSME had notified a composite criteria of classification based on investment in plant and machinery and annual turnover as an initiative towards achieving the goal of Atmanirbhar Bharat. Also, the revised definition removes the distinction between manufacturing and service enterprises. A notification in this regard has been issued by the Ministry of MSME and the revised definition was applicable from 1st July, 2020:

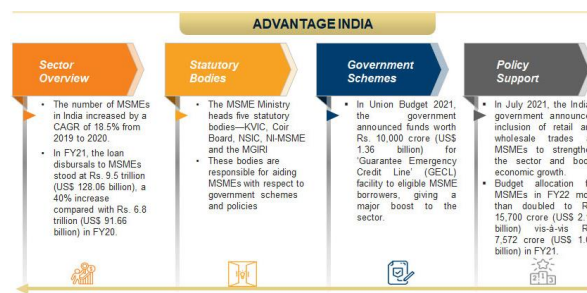
| Category | Investment | Turnover (in crores) |
|----------|------------|----------------------|
| Micro    | 1          | 5                    |
| Small    | 10         | 50                   |
| Medium   | 50         | 250                  |

The new criteria is said to be a growth inducing criteria, which entails a non-discretionary, transparent and objective classification system for MSMEs. This change in criteria for classification is expected to bring about many benefits that will aid MSMEs to grow in size and expand their business.

### 3. India's Economic Package during Pandemic

| The Government of India has designed various policies for the growth of MSMEs in the country. |   |
|---|---|
| •   | In July 2021, Lok Sabha passed a bill on 'Factoring Regulation (Amendment)' to expedite the payments ecosystem for MSMEs.   |
| •   | In July 2021, the Indian government announced inclusion of retail and wholesale trades as MSMEs to strengthen the sector and boost economic growth.   |
| •   | Under the 'Startup India' initiative, the government recognized 50,000 start-ups that created 5.5 lakh jobs, as of June 03, 2021.   |
| •   | Budget allocation for MSMEs in FY22 more than doubled to Rs. 15,700 crore (US\$ 2.14 billion) vis-à-vis Rs. 7,572 crore (US\$ 1.03 billion) in FY21.  |
| •   | The government also announced Rs. 3 lakh crore (US\$ 40.85 billion) collateral-free automatic loans for businesses.   |
| •   | In Union Budget 2021, the government announced funds worth Rs. 10,000 crore (US\$ 1.36 billion) for 'Guarantee Emergency Credit Line' (GECL) facility to eligible MSME borrowers, giving a major boost to the sector. |

India's total economic package during pandemic is ₹20 lakh crore (US\$280 billion), which is 10% of India's GDP. On one side, the relief measures are targeted to boost the production, on the other side, there are efforts to increase public spending and consumption. To boost the demand, government announced perks for central government employees to increase their spending on consumer goods. Government also tried to boost capital expenditure by centre and state government. Union government provided interest free loans to states for capital expenditure. Government of India is also targeting to attract companies which are planning to move out of China and searching for an alternative option.



<https://www.ibef.org/industry/msme.aspx>

### 4. Summary

The MSME sector has always played a key role in Indian Economy. It has been impacted in early part of the COVID-19 pandemic due to spread and containment (lockdowns), but has revived itself with the help of new strategies, innovation, digitization and supportive economic and fiscal policies of the government. MSMEs are also concentrated in few states such as Uttar Pradesh and West Bengal (30%) and ten states accounting for around 75% of MSMEs. State and central governments both need to therefore work and strengthen the sector jointly. Supply-side interventions, in particular strengthening supply chains for MSMEs, and the access to raw materials and robust downstream supply chains would help mitigate production shortages but also potentially slowdown the adverse impact on the Indian economy as a whole. This sector should be viewed as a critical driver of the economy and therefore, deserves central attention in government policies including in the context of policy planning and an enabling ecosystem for the MSMEs sector.

### 5. Conclusion

This paper presented an overview of Economic Impact of COVID-19 on Micro, Small and Medium Enterprises (MSMEs) in India.

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