

# COVID-19 AND ITS IMPACT ON MICRO, SMALL, AND MEDIUM ENTERPRISES IN INDIA

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## ABSTRACT

*Micro, small, and medium enterprises (MSMEs) are playing a critical role in the economic development as well as acting as an important source of livelihood for millions of Indians. They are a vital source of gainful non-farm employment for people, particularly those living in rural areas. According to the Ministry of MSME, the sector absorbs around 111 million workforce and is the second largest job creator after agriculture. Being a highly unorganised sector consisting of large number of micro-sized units, the sector is highly prone to economic crisis. The lockdown, which was declared in the last week of March 2020 owing to the spread of COVID-19 and continued till 3 May 2020, considerably impacted the economic activities of MSMEs. Some initial assessments show that the sector faced an acute cash crunch, shutdown of businesses, and large-scale job loss across all types of units irrespective of their size.*

**Keywords:** COVID-19, Employment, Lockdown, MSMEs, Workforce

## 1. Introduction

The coronavirus disease, 2019 (COVID-19) is a highly transmissible and pathogenic viral infection caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). COVID-19 originated from Wuhan City, China and quickly spread to every corner of the world. Almost all countries having human habitation were infected with COVID-19. More than 60% of the world

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population was either under severe or partial lockdown. In the absence of a medical solution for the coronavirus, the economic activity has either stalled or significantly decelerated, taking away millions of livelihoods across the world. Consequently, the global economy contracted sharply by more than 3% in 2020 over the previous year, which is considered worse than the economic growth rate achieved during the global financial crises in 2008–09 (IMF, 2020).

Being the second most populated country in the world, the lockdown was probably the only solution for controlling the spread of COVID-19 in India. The Indian government declared a nationwide lockdown in the third week of March 2020 and continued it for a couple of months. This lockdown adversely impacted the mobility and functioning of economic and business activities. Both supply and demand chains were disrupted due to the prolonged lockdown. Every major sector reported loss of output, and millions of workers lost their jobs due to the pause in economic activities.

Like any other major sector, the MSME sector also witnessed a considerable decline in economic activities and loss of jobs due to the nationwide lockdown. Declining output of the MSME sector is not a good sign for the economy as the sector provides gainful non-farm employment to millions, especially in rural areas. Almost 36 million units of this sector provide employment to around 80 million workforces in the country (Kumar, 2017). The MSME clusters account for 40% of the country's industrial output and 35% of exports (IBEF, 2012). Further, the sector plays a greater role in decentralisation of industries in India (Kwadwo, Naveen and Nagaraju, 2019).

In the light of the above, this paper has attempted to analyse the impact of COVID-19 lockdown on the economic activities of the MSME sector. Although it is early to assess the real impact of COVID-19 and the lockdown on the MSME sector, the present study makes an effort to assess the affect by using the real data information and studies available in the public domain. The rest of the paper is structured as follows. In the next section, the paper presents a brief summary on the progress of the MSME sector over the years. The impact of the lockdown on the sector has been presented in the third section. Measures taken by the government and important issues and key suggestions are discussed in the fourth section, followed by the conclusion in the final section.

## **2. Performance of the MSME Sector**

As per the latest MSME census data published in 2015–16, there are 63.39 million enterprises in the country, of which 36% are engaged in trade, 33% are in other services, and the remaining 31% are involved in manufacturing activities. The aforementioned data clarify that MSMEs are engaged in almost

all Indian economic activities. The data also show that the majority (51.2%) of MSMEs are located in rural areas. After agriculture, the MSME sector is the second largest job creator, providing employment opportunities to a whopping 110.99 million Indian people (GoI, 2020)<sup>1</sup>.

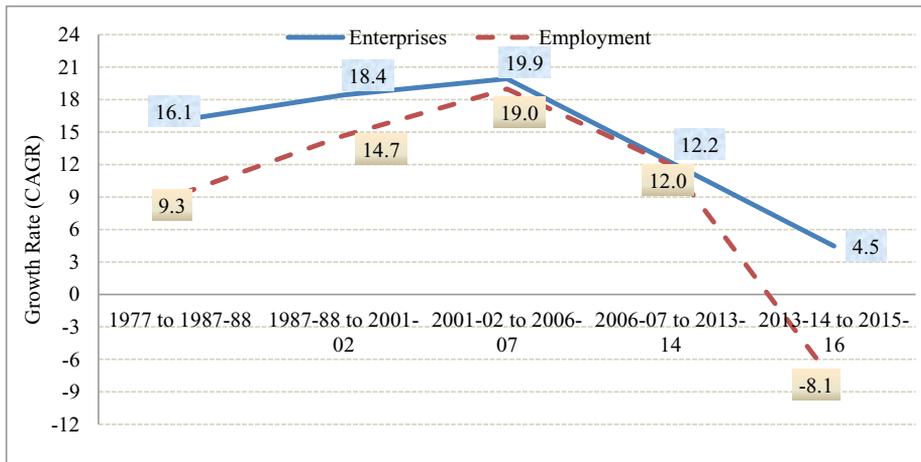
At the state level, 2015–16 MSME census data show that of the 6.38 crore enterprises in the country, approximately 15% (8.78 million) enterprises are in Uttar Pradesh. West Bengal has shown a tremendous progress in registering new MSME enterprises during this period and has 8.48 million enterprises with a share of 13.9%. Tamil Nadu and Maharashtra have a share of 7.8% and 7.6% enterprises, respectively. Karnataka stands at the fifth position with a share of 6%. Interestingly, Bihar has shown an impressive growth in registering new enterprises under MSME during this period with 3.41 million enterprises (**Table A1**).

The number of MSME units has increased significantly over the years, particularly during the post-reform period compared with the pre-reform period. The unorganised segment of manufacturing industries has expanded rapidly during the post-reform period possibly due to a greater expansion of large industries during that period, in turn creating a larger scope for outsourced and contract-based business activities. This has also encouraged the growth of ancillary and subsidiary units around big companies. The second reason could be that an increase in foreign direct investment cap allowed multinational companies to flourish during the post-reform period, and subsequently, they outsourced their manufacturing and services activities to smaller subsidiary units owing to cost effectiveness.

Trends of the growth rate of MSMEs presented in **Figure 1** show a steady increase in the number of enterprises from 1977–78 to 2006–07; the enterprises grew to an average of more than 15% during the aforesaid period. However, a rate below the double-digit growth rate was registered between 2006–07 and 2015–16. The 2015–16 MSME census data show only a nominal growth (4.5%) of MSME units in 2015–16 over 2013–14. Similar to the trends of growth rate of MSME units, employment in the sector had recorded on an average a double-digit growth during 1977–78 and 2006–07. However, employment growth recorded a sharp fall during the post-2006–07 period, registering a negative growth rate of 8.1% between 2015–16 and 2013–14.

1 <https://pib.gov.in/PressReleasePage.aspx?PRID=1617900>

**Figure 1: Growth Trends of MSME Enterprises and Employment since 1977**



Source: Report of the Census of Small Scale Industries/Micro, Small, and Medium Enterprises, DC, MSME, Different Periods, Government of India

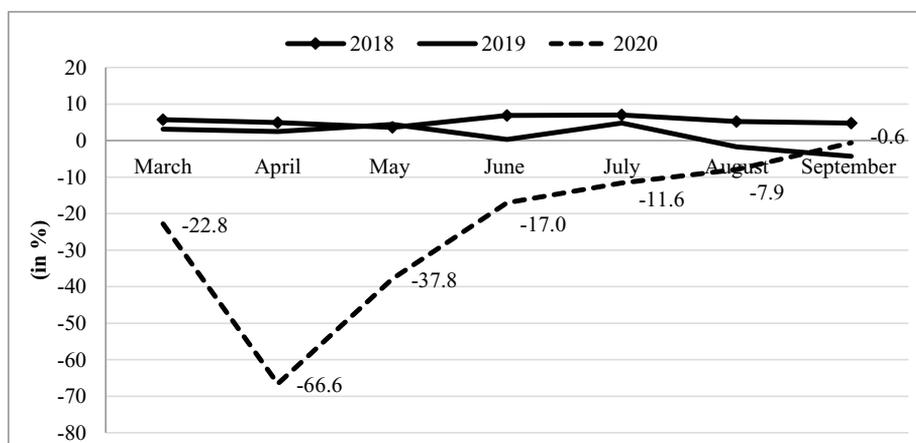
### 3. Impact of COVID-19 Lockdown on MSMEs

Although it is too early to conclude on the real impact of COVID-19 on the MSME sector, some initial assessments based on short surveys conducted by researchers and market players indicate that the sector has been impacted considerably during and after the lockdown. This paper follows two approaches to assess the impact of the lockdown on the MSME sector. The first approach is to analyse the trends of industrial production by using the high-frequency (monthly) data of the manufacturing sector from March 2020 and onwards. The second approach is to discuss the findings of various studies that have analysed the impact of COVID-19 on the sector.

The high-frequency (monthly) data on the index of industrial production (IIP), which is one of the most relevant parameter, is being used for analysing the current and future trends of output of the industrial sector. The initial 6 (April to September)-month data available in the public domain highlight a drastic fall in industrial production during the lockdown and subsequent months. Although the IIP data entirely represent the registered/organised segment of the manufacturing sector, they fairly also reflect the ultimate final trends of the industrial sector for a particular period. Further, the performance of the registered manufacturing sector determines the growth prospects of the MSME sector as the latter sector acts as an auxiliary or attached unit of the former sector. The year-on-year (Y-o-Y) growth rate of IIP for the recent months is illustrated in **Figure 2**. The figure shows a sharp decline in IIP during April 2020 compared to the same month in the previous year. A whopping 66.6% contraction of production was recorded compared with a positive growth rate of 2.5% in the corresponding

month of the previous year. Although IIP growth gradually recovered in the subsequent months, the growth rate however remained in the negative territory until September 2020. The fall in the IIP growth rate was much higher in labour-intensive industries such as food processing and textiles than capital-intensive industries such as metal, petroleum, and chemical industries (Table 1). Because firms under the labour-intensive manufacturing industry are largely micro and small in size, the significant contraction of IIP of these sectors may also directly reflect the impact of COVID-19 on the MSME sector.

**Figure 2: Growth Trend of Monthly IIP (%Y-o-Y)**



Source: Government of India, Ministry of Statistics and Programme Implementation, 2020

**Table 1: Growth Rate of Index of Industrial Production during the Lockdown Months**

Description of Industries*	March		April		May		June		July		August		September	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Metal industry	17.1	-19.3	2.6	-70.7	20.8	-38.2	18.1	-19.9	20.3	-8.3	11.8	1.4	8.4	3.7
Coke and petroleum	4.7	-1.7	3.9	-28.3	-2.1	-24.5	-7.7	-13.8	0.7	-17.1	3.3	-21.4	-5.3	-10.4
Chemical products	1.6	-21.6	2.8	-54.3	-0.8	-19.3	-0.4	1.1	7.0	-3.3	-4.5	-0.9	-1.2	5.1
Food products	8.2	-14.9	11.3	-22.3	16.2	-17.2	15.9	-6.0	22.1	-5.0	5.5	-2.2	1.3	0.4
Pharmaceuticals	-1.7	-25.9	4.1	-53.8	7.6	4.8	6.0	18.0	3.2	11.4	6.4	-1.6	-2.1	7.0
Textiles including apparels	15.5	-56.9	34.8	-184.9	5.6	-126.9	4.4	-79.4	9.5	-45.4	1.0	-40.7	-3.9	-25.8
Motor vehicles	-6.5	-48.9	-5.0	-99.4	-6.4	-82.5	-14.7	-49.1	-12.7	-31.9	-25.0	-11.7	-26.0	2.1
Machinery & equipment	-5.8	-37.6	-0.9	-91.3	-0.7	-61.7	-6.8	-31.2	-4.9	-18.2	-22.0	-8.7	-18.3	-3.6
Non-metallic mineral	8.2	-23.7	0.2	-86.6	-0.1	-27.3	-3.8	-10.0	6.9	-13.5	-4.7	-12.5	-2.3	-7.1
Electrical equipment	-7.6	-34.2	-0.5	-94.5	-5.0	-69.8	-11.7	-37.3	1.3	-22.4	-0.4	-12.8	1.3	10.0

Fabricated metal	-15.4	-35.0	-10.0	-96.0	-8.4	-55.1	-11.6	-30.5	-10.0	-13.8	-19.1	-4.4	-22.8	6.1
Rubber and plastic	-2.0	-28.6	-4.4	-70.9	-2.4	-35.5	-4.5	-11.6	-0.7	-5.7	-8.1	-2.6	-12.8	9.1
Other transport equipment	-19.1	-11.8	-4.7	-99.9	1.4	-84.8	-3.5	-50.2	-4.2	-25.3	-11.9	-2.6	-8.6	7.7
Computer, electronic, etc	11.4	-43.5	12.1	-92.6	9.6	-68.1	-15.8	-23.8	3.7	-19.0	-2.0	-11.0	-10.8	-7.5
Beverages	-1.7	-27.7	6.0	-94.2	2.0	-59.5	6.3	-32.8	2.2	-26.1	-6.0	-21.1	-3.9	-15.3
All manufacturing	3.1	-22.8	2.5	-66.6	4.4	-37.8	0.3	-17.0	4.8	-11.6	-1.7	-7.9	-4.3	-0.6

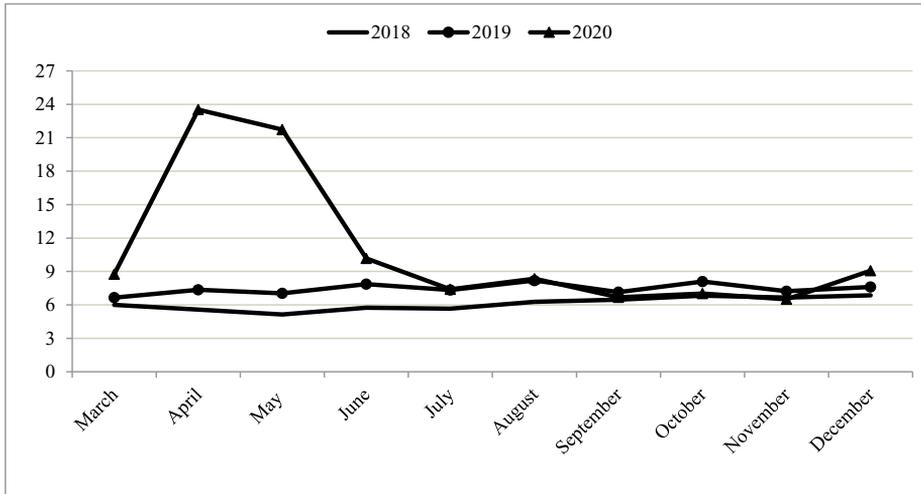
Source: Government of India, Ministry of Statistics and Programme Implementation, 2020

Note: \*Industries are arranged according to weightage

Declining manufacturing output adversely impacted jobs in the sector during and after the lockdown period. According to Vyas (2021),<sup>2</sup> job loss has been significant in the manufacturing sector during the lockdown period and recovery has been very slow during the post-lockdown period. The household data published by the Centre for Monitoring Indian Economy (CMIE) indicate that the manufacturing sector created 40 million jobs in 2019–20. In the first quarter of 2020–21, the previous year employment figure dropped to 24.6 million, implying a loss of over 15 million jobs. It recovered to 27.1 million in the second quarter and then to 28.8 million in the December quarter. The shortfall is still quite high at 11.4 million. More importantly, every major manufacturing industry, except pharmaceuticals, employed less people in all three quarters of 2020–21 compared with the employment in 2019–20.

The loss of jobs in the manufacturing and services sectors can be corroborated with an increase in unemployment rates during the lockdown. The monthly unemployment rate data published by CMIE are presented in **Figure 3**, which shows that the unemployment rate was more than 20% during April and May 2020 compared to below 10% during the same months in the previous 2 years. Importantly, as the economic activities picked up in the latter part of the post-lockdown period, the unemployment rate subsided and followed nearly a similar trend as during the previous 2 years.

2 <https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=2021-01-19%2010:45:34&msec=233>

**Figure 3: Month-wise Unemployment Rate (%)**

Source: Monthly Series of Unemployment Data, CMIE, 2020

The lockdown also resulted in a complete freeze of more than 60% of economic activities that were carried out by the MSME sector in India. However, the MSME manufacturing firms, which produce agriculture-related goods, have not been considerably affected due to the lockdown. Moreover, the growth rate of net sales of micro and small business units declined significantly during the post-lockdown period. A study conducted by Roy, Patnaik and Satpathy (2020) for 747 small business enterprises found a drastic fall in the growth rate of net sales by (-)66.7% in the first quarter of the financial year 2020–21. The situation worsened further when the government announced the extended nationwide lockdown amidst the COVID-19 crisis. An initial estimate shows that small business organisations with an annual turnover of INR 25 crores and below experienced a sharp decline in sales by (-) 25.3% during the first quarter of 2020–21.

According to a report published in the Business Line, a 5% fall in GDP during 2020–21 will lead to a drastic fall in the revenue of the Indian corporate sector. The MSME sector will especially face more severe fall in revenues. The MSME sector will see a revenue fall of more than 21% during this fiscal. A profit margin of only 4%–5% will be observed for the MSME sector, which will lead to an existential crisis for the sector. Revenue fall will also impact the operation level of MSME enterprises, which in turn will again affect the creditworthiness of the enterprises (Merwin, 2019).

Mishra (2020) calculated the impact of COVID-19 on the MSME sector by using the contribution of the sector to gross value addition of the total manufacturing during the past years. The author found that the sector registered a growth of more than 7% per annum during 2015–16 and 2016–17. Later the

growth rate was quite normal around 6% up to the pre-COVID-19 periods. They estimated a substantial decline in the growth rate of the MSME sector up to a maximum of 8.3% during the post-COVID period. They also pointed out that the impact will be much more on the manufacturing segment of the MSME sector than the trades and services segments. A fall in the domestic demand and supply chain constraints was highlighted as the main reason for the declined growth rate of the sector. At the disaggregated sectoral level, reduction in the exports of labour-intensive products such as gems and jewellery, garments and apparels, and sea food also contributed to the reduction in the MSME sector output (Ashwani and Sahoo, 2020).

Due to cash crunch, a vast majority of the MSMEs faced a severe slowdown in business activities, which could force them to shut their units in future. At least 19% to a maximum of 43% of the existing MSME enterprises may disappear due to liquidity crunch because of the lockdown. They also forecasted that the hospitality industry alone could lose at least 12 million jobs and the retail industry, which employs more than 46 million persons, could lose at least 11 million jobs due to the lockdown (Pramanik, 2020). The continuous lockdown also impacted revenue flow to the MSME sector. A study conducted in Tamil Nadu reported a possible revenue shortfall of more than 60% in the MSME sector of the state (The Economics Times, 2020)<sup>3</sup>. The KredX Editorial Team (2020) pointed out that COVID-19 has put the MSME sector into a stage of extinction because of the prolonged lockdown and slowdown. The cash flow and working capital of these MSME sectors had completely collapsed during the last few years due to demonetisation, and before making a complete recovery from the crisis, COVID-19 worsened the situation. Pandey and Pillai (2020) conducted a study covering 5000 MSME enterprises during the lockdown and found that 71% of them could not pay salaries/wages to their employees for March 2020. Being one of the highly labour-oriented sectors providing more than 114 million employment opportunities, the MSMEs are to be safeguarded with required provisions.

A study by Kulkarni and Varma (2019) on Peenya Industrial Area, in Bengaluru, one of the largest industrial cluster in the country, found completely crippled MSME units in the area. This cluster has more than 10,000 MSME units, of which a vast majority of the units are working only one shift in a day or working for only 3 days in a week due to the slowdown. Many of the companies are working for big automobile companies such as Ashok Leyland, TVS TAFE, and Toyota; due to their slowdown, almost all the MSME units are being largely affected continuously for the past 2–3 years.

The study also found that the sector faced :

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3 <https://economictimes.indiatimes.com/small-biz/sme-sector/it-m-industry-bodies-to-study-covid-19-impact-on-msmes/articleshow/75738629.cms?from=mdr>

- One of the worst slowdown in the past 20 years
- More than 70% drop in business
- Over 50,000 temporary and contractual labourers were dismissed, which will increase to 2–2.4 lakh workers in the coming quarters of 2019–20
- Even permanent and regular workers are receiving only 50% of their salaries

United Nations Industrial Development Organization, Regional Office, Delhi contacted some MSME enterprises during the lockdown. They conducted a telephonic survey covering sectors such as automobile components, bicycle, paper, textile, ceramic, foundry, tea, and rice milling enterprises across the nation. The survey results indicated a bad shape of the MSME sector in the country. MSME enterprises especially the manufacturing ones were already in crisis, much before the COVID-19 lockdown. Except the rice milling industries (where the production has reached the half mark), all other sectors had shown a decline in their business activities. The continuous slowdown has affected the business prospects of these industries (Berkel, 2020).

Anand et al (2020) analysed the present status of the MSME sectors in the country. The results showed the critical condition of the MSME sector during this lockdown period. Some of the major findings of the study are as follows:

- A sharp decline in demand with the disturbed supply issues, resulting in a great decline in income of the MSME enterprises
- Adverse cash flow among the MSME enterprises in the country
- An increase in the transportation cost, which has led to an increase in the operational cost of the MSME enterprises, resulted in a decline in the profit margin of the MSME units.
- Micro enterprises, especially unregistered micro enterprises, are not included in government relief packages due to the non-availability of information about these enterprises.
- The future course of action of the MSME sectors in the country is uncertain due to the prolonged lockdown under COVID-19. The purchasing power of the consumers has also declined due to the fall in income.
- MSMEs in the country are forced to think of existence issues due to this lockdown.

In a nutshell, the analysis of high-frequency IIP data and studies conducted by researchers and institutions point to the fact that the MSME sector was

adversely affected during the lockdown period. The data suggest a decline of output, employment, revenue generation, and capital flow to the sector. To address the unprecedented challenges faced by the sector, the government of India and industrial bodies have announced key policy measures for the survival and revival of the sector.

#### 4. Policy Measures to Revive the MSME Sector

The Confederation of Indian Industries (CII) took several measures to fund MSME units in the country. CII announced infusion of at least 25% of the working capital of the MSMEs, which will increase the cash flow in the sector. In addition, it also declared to support its MSME members (67% of its members are from the MSME sector) in receiving bank loans at the earliest and to assist in filing the GST of its MSME members (CII, 2020)<sup>4</sup>

To allow the revival and survival of the MSME sector from the impact of the lockdown, the central government announced a much needed economic stimulus package on 13 May 2020. It includes measures such as INR 3 lakh crore collateral-free automatic loans, INR 20,000 crore subordinate debt, and revision of the definition of MSMEs to boost the capital flow to the sector. A brief outline of these policies is given below.

**Change in Investment Criteria:** The government changed the investment limit of micro enterprises to INR 1 crore from INR 25 lakh earlier, small enterprise to INR 10 crores from INR 5 crores earlier, and for medium to INR 50 crores from INR 10 crores earlier in order to make the sector more viable and competitive in the international market.

**Fiscal Stimulation:** The government declared INR 3 lakh crore collateral-free automatic loans for the sector. The INR. 3 lakh crore emergency credit line was aimed at ensuring that 45 lakh units will have access to working capital to resume business activity and safeguard jobs. For 2-lakh MSMEs, which are stressed or considered non-performing assets, the government allocated INR 20,000 crores as subordinate debt. The government also announced a INR 50,000 crore equity infusion through an MSME fund with a corpus of INR 10,000 crores.

**Loan Moratorium:** Other than the central government, the Reserve Bank of India announced a 3-month moratorium on term loan installments during March 2020 for all industrial sectors. This was again extended to another 3 months up to September 2020.

1. Money transfer to infuse the working capital of MSMEs through the direct transfer mode

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4 <https://www.cii.in/PressreleasesDetail.aspx?enc=yyACb78onutb4jh0ys5LLuOY00tSiabdNEEaT7hlfzc=>

2. Increase the short-term liquidity through cash flow
3. Expand the procurement under government contract
4. Allow MSMEs to a maximum extent to participate in the bidding/tender process
5. Increase and provide subsidies in utilities such as power supply and water.

## **5. Concluding remarks**

MSMEs have been playing a key role in providing livelihood to millions of Indians. The sector also offers a substantial gainful non-farm employment in rural areas. However, due its nature of being unorganised and small size, the sector is highly prone to external and internal crises. COVID-19 has created an uncertainty in almost all segments of economic activities including the supply of raw materials, demand for final goods, and even employment opportunities. The data analysis and studies conducted by individuals and institutions indicate that the sector has lost a large number of jobs during the lockdown and even beyond owing to the decline of output, revenue, and capital flow to the sector. Many units particularly in the micro and small segments of the sector were forced to extinct from the market due to persistent loss of business. Therefore, financial support needs 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 arrived at the right time and with a noble intention of reviving the sector and making them ‘local to global’ under the umbrella policy of ‘Make in India’. The Hon’ble Prime Minister has emphasised on implementing structural reforms in land, labour laws, and infrastructure in order to strengthen the ‘Make in India’ vision and help the country play a bigger role in the global value chain. Many foreign companies have shown interest in shift their manufacturing base out of China, which in turn has created a golden chance for India to grab the opportunities and make the country truly a global manufacturing hub.

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**Table A1. State-wise Distribution of MSME Enterprises and Employment in 2015–16**

States/UTs	Total Units	Employment	State-wise Share	
			Units	Employment
Andhra Pradesh	2998351	5598878	4.9	5.0
Bihar	3408044	5305034	5.6	4.8
Chhattisgarh	798403	1685507	1.3	1.5
Delhi	913977	2300267	1.5	2.1
Goa	67948	160351	0.1	0.1
Gujarat	3202499	6115595	5.3	5.5
Haryana	929953	1905369	1.5	1.7
Himachal Pradesh	379963	642748	0.6	0.6
Jammu Kashmir	698841	1087551	1.1	1.0
Jharkhand	1561341	2490794	2.6	2.2
Karnataka	3621374	7083735	6.0	6.4
Kerala	2143816	4463350	3.5	4.0
Madhya Pradesh	2645678	4874459	4.3	4.4
Maharashtra	4599536	9074600	7.6	8.2
Odisha	1862856	3325621	3.1	3.0
Punjab	1408056	2478902	2.3	2.2
Rajasthan	2641134	4632279	4.3	4.2
Tamil Nadu	4726752	9671945	7.8	8.7
Telangana	2432046	4015787	4.0	3.6
Uttar Pradesh	8873728	16519294	14.6	14.9
Uttarakhand	400964	659880	0.7	0.6
West Bengal	8484462	13545924	13.9	12.2
<i>North Eastern States</i>				
Arunachal Pradesh	22427	40844	0.04	0.04
Assam	1195076	1814541	2.0	1.6
Manipur	172987	292215	0.3	0.3
Meghalaya	111653	190549	0.2	0.2
Mizoram	34137	62359	0.1	0.1
Nagaland	86643	176610	0.1	0.2
Sikkim	25916	44696	0.04	0.04
Tripura	207212	294983	0.3	0.3
<i>Union Territories</i>				
Andaman N. Islands	18328	38890	0.03	0.04
Chandigarh	49881	128910	0.08	0.12
Dadra Nagar Haveli	15529	36329	0.03	0.03
Daman Diu	7441	14438	0.01	0.01
Lakshadweep	1872	2765	0.003	0.002
Puducherry	92422	183882	0.15	0.17
All India	63841245	110959881	100.0	100.0

Source: NSSO Report No. 581 (73/2.34/1)