

# The Impact of MSMEs and COVID-19– An Empirical Study

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## **Abstract**

The study aims to make an assessment of COVID-19 on Indian economy by analysing its impact on growth, manufacturing, trade and micro, small and medium enterprises (MSME) sector, and highlights key policy measures to control the possible fallout in the economy. The impact of the pandemic across sectors and in different scenarios of complete, extended and partial lockdown, and at different levels of capacity utilization is massive on the Indian economy. India's economy may barely manage to have a positive growth of 0.5 per cent in an optimistic scenario but also faces the possibility of a 3–7 per cent negative growth in worst case scenarios for the calendar year 2020. The impact is severe on trade, manufacturing and MSME sectors. The likely impact (deceleration) of COVID-19 from best case scenario to worst scenario are as follows: manufacturing sector may shrink from 5.5 to 20 per cent, exports from 13.7 to 20.8 per cent, imports from 17.3 to 25 per cent and MSME net value added (NVA) from 2.1 to 5.7 per cent in 2020 over previous year. The economy is heading towards a recession and the situation demands systematic, well targeted and aggressive fiscal-monetary stimulus measures.

**Keywords :** COVID-19, lockdown, gross value added, manufacturing and trade

## **Introduction**

The COVID-19 pandemic has probably given the biggest blow to the world economy after the great depression of 1930s. Around 60 per cent of the world population is either under severe or partial lockdown without having medical solution to the coronavirus and economic activity across countries has either stalled or significantly decelerated taking away millions of livelihoods. As a result of the pandemic, the global economy is projected to contract sharply by –4.9 per cent in 2020, much worse than during the 2008–2009 financial crisis (International Monetary Fund [IMF], 2020).<sup>1</sup> India being densely populated country with inadequate medical facilities was left with no option but to follow the policy of lockdown. World economy is heading for a recession and India is no exception. The current pandemic is working its way through a highly globalized world with interconnected production networks and financial markets. The fall out of the COVID-19 on Indian economy is going to be huge because of its own lockdown, which was necessary to contain the spread of coronavirus, and also because of India's integration with the rest of the world. Here is an assessment of the likely fall out of lockdown and restrictive policy measures owing to the pandemic on India's gross value added (GVA), manufacturing, trade and micro, small and medium enterprises (MSME) sector. The study has five sections which are as follows: the second section presents the review of literature; the third section covers the research methodology; the fourth section discusses the impact assessment; and the fifth section concludes with policy implications.

The uncertainty of the spread, pace and impact of the COVID-19 pandemic across societies and economies, globally, has confounded policy initiatives to get back on the track to recovery. According to the International Monetary Fund (IMF) estimates, India's growth might slide to a meagre 1.9 percent (or, even less to 0.9 per cent as per the Confederation of Indian Industry (CII)) during this fiscal year even as with targeted fiscal support the economy might recover sooner than several others. Production, distribution and consumption of goods and services have been severely hit and so have been supply chains, logistics and trade. That this crisis is unlikely to be sorted out soon is obvious from the fact that health concerns would dominate alongside declining opportunities of employment and income, particularly for those

in the overwhelming informal sector that forms the backbone of the micro, small and medium enterprises (MSMEs) in India. As per official claims, the MSMEs have not only been contributing to about 30 percent of the GDP but also over 45 percent of manufacturing exports. MSMEs have emerged as the conduits of inter-regional trade agreements. Engaged in manufacturing over 8000 highly diverse products the Indian MSMEs have been striving to improve product quality and enhance market access in both domestic and global spheres. This is the sector that needs careful policy attention through institutional innovations to accommodate the concerns of the vast number of informal enterprises vital to the sector.

Notwithstanding the absence of reliable and updated official statistics on MSMEs (the latest census was done for 2006-07), it may be held that around 90 percent of these over 63 million enterprises are classified micro (with <`2.5 million investment in plant and machinery) with over 94 per cent of these enterprises belonging to the informal sector. With the closure of factories across the country, around an estimated 111 million workers are directly or indirectly affected. As we have seen media reports, thousands have returned home, many walking! There is a business crisis but also an unprecedented human crisis, where state support for the sector as a whole has been too little and largely missing.

In suggesting mechanisms to revive the MSME sector one is conscious of the fact that informal workers have been unaccounted for and typically fall outside the ambit of intervention as has been the case all these decades. Here are a few policy suggestions.

### **Fiscal Proposition**

As the firm details are already available through the registration under the GST, based on a calibrated approach (turnover figures for the last year, for instance, could be used for the purpose) 1-3 percent subvention on GST for small and medium enterprises and complete GST write-off for the micro enterprises would be a major relief for the MSMEs. Additionally, and importantly, the subvention/waiver process may be undertaken without asking firms to fill another set of forms. A concession in power tariff and surface transportation of inputs/finished goods for a time bound period (say, two months) would infuse dynamism in MSMEs, where revenue has dried up due to no movement of goods. This step would also rev-up both backward and forward linkages Steps to make credit access easier have to be seriously planned as previous similar strategies, including the much-publicised Mudra scheme, have fallen much short of their targets. Despite the Udyog-Aadhaar initiative, the latest information suggests that a little above 14 percent enterprises have registered under the scheme. The steady decline in credit availability, to the micro and small enterprises, especially,

since the mid-1990s from the formal sources has rendered it imperative to address the fund crisis of MSMEs urgently. Reduction in lending rates, non-insistence on collaterals (even as it is not formally required) and easier terms of repayment of loans post-moratorium are some of the mechanisms that need rethinking.

### **Protecting Workers' Livelihoods**

MSMEs would not function without the huge engagement of workers and job workers who are often not on their rolls or not acknowledged formally. Often these workers (skilled, semi-skilled and unskilled) who make important contributions to both manufacturing and related services are migrants from poorer regions of the country. Thousands of such workers had to return to their places of origin due to the pandemic and lack of protection/wages/job assurances provided by the enterprises or state. The most crucial component of the revival strategy package of MSMEs (both for domestic and export markets) must include setting aside a fund to pay for their return (transport and incidental expenses) and reimbursement or concession of wage

guarantee. As most MSMEs are most unlikely to pay for the workers, the state must share the burden, at least partially. Policy to enlist every worker in the MSMEs needs to be designed as only through such a process payments and state benefits to workers could be both accessed by workers and assessed by the state and/or subsector for financial support required.

### **Conclusion**

A long neglected aspect of revitalising rural industries for exports (as, for instance, achieved by several East and Southeast Asian nations pursuing OVOP/OTOP type business plans) needs to be thought through to boost local economies and also enhance participation in trade. Ensuring process standards would be an important policy initiative. Decongesting the urban centres of MSMEs and shifting entire or partial operations to small and medium towns to create manufacturing and storage hubs by ensuring reliable supply of electricity and road connectivity to these hubs would facilitate broad-basing trade activities.

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