

MSMEs: An Analysis of the Covid-19 Epidemic, Financial Damage, and MSMEs Recovery

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Abstract:- In developing countries like India, the role of micro, small, and medium enterprises (MSMEs) is very vital in the all around development of its people. As most of the jobs are created by MSMEs in developing countries. However, the extraordinary pandemic unleashed by Covid-19 has wreaked havoc on the MSMEs sector, crippling many of them and needing immediate action to resurrect them. The Covid-19 pandemic has posed a danger to the MEs (Micro Enterprises) sector, and any restart will inevitably face insurmountable challenges such as a lack of funds, a dispersed and transitory staff, communication difficulties, supply-chain stalemate, halting of trade in goods routes, and so on. This paper is an attempt to analyze the significance of MSMEs in the complete development of the Indian economy to determine the magnitude of damage incurred in various sectors as a result of the breakout of the Covid-19 pandemic and to propose some beneficial solutions to alleviate the difficulties using secondary data collected.

Keywords:- MSMEs, the Covid-19 Epidemic, Financial Damage, and me Recovery

I. INTRODUCTION

The Covid-19 outbreak also caused chaos on Indian economy's diverse sectors, particularly SMEs. MSMEs are said to be the backbone of the developing country, which was nearly devastated during the COVID-19 pandemic the impact of which can be felt in almost all the sectors Micro Enterprises (MEs) have made a significant contribution to the economy of India in terms of job creation, regional inequalities reduction, equitable economic growth, and increased export potential. MEs are an important economic sector because they are an essential part of the product supply chains. Before the COVID-19 epidemic, these firms produced roughly 30% of the country's GDP, 40% to 50% of exports, and then helped nearly 114 million people, or about 30% of the gross workers. In the non-agricultural sector, there were around 63 million unincorporated MEs, most of whom were micro-enterprises within the unorganized sector" (EPW, 2020).

The increase in the expansion of the MSME sector should be the emphasis of the Goods and Services Tax. With the advent of the Goods and Services Tax, SMEs are excluded first from the country's services tax. Advantages include ease of doing business and its growth. Playing with the Goods and

Services Tax major contribution to the enhancement of the MSME sector.

It will take the place of complicated taxes like VAT, Service tax, entry tax, and other indirect taxes. MSMEs assist to financial growth of developing countries by getting innovations. As well as producing new investment and employment possibilities. The Micro, Small, and Medium Enterprises Act of 2006 defines micro, small, and medium enterprises. The current study aims to determine the influence of MSMEs in India. After the 1930s Great Depression, the year 2020 is regarded as the worst in world economic history. According to the IMF and World Bank, most countries' GDP per capita would be lower than in December 2019.

➤ Objectives and Methodology of the Study

- To focus briefly on the importance of MSMEs in the development of the economy of India;
- To assess the degree of losses incurred in various sectors as a result of the breakout of the Covid-19 pandemic; and
- To offer some beneficial ideas for the restoration of the micro enterprise sector.

The study made use of secondary data obtained primarily through access to many government "agencies", websites, policies, and programs, such as the printed Annual Survey Report, Journal articles, and handbooks.

II. LITERATURE REVIEW

According to Mills and McCarthy (2014), investigated both the recurrent influence of the depression on small businesses and credit access, as well as various structural concerns that are impeding the complete recovery of commercial bank markets for short-term loans. Small trades were hit hard by the expulsion, contributing to more than 60% of all employment losses, as the crisis wreaked havoc on the banking system, particularly small enterprises.

MSMEs, according to Chandraiah and Vani (2014), face a variety of challenges, including productivity loss, an inaccessibility to banking and loans, infrastructural issues, reversed tariff structures and availability of raw materials, manufacturing equipment obsolescence, marketing issues, a lack of skilled workforce, extreme competitive pressure, and late payment. With low ability to recover, these businesses find it difficult to take risks and deal with competition, which

is due to the result of internal and external market dynamics and might risk expected profits.

According to FICCI (2015), the largest hurdle for Indian MSMEs to develop, create, and produce the jobs has been access to capital. Small and medium enterprises (SME) credit ever has assisted firms in meeting all of their business needs that arise along the way without a problem. Credit control is essential in the long and good run of the firm, but it is especially necessary in SMEs, as the degree of risk of bankruptcy is much higher.

According to Singh and Wasdani (2016), knowing the capital lifespan of a small company is relevant here in case of MSMEs as they expand through personal loans, self-equity, and either short- and long-term loans. The challenges also being experienced by them in obtaining financing, such as difficulties in obtaining collateral, hectic loan application processing times, a lack of awareness of various plans, and other obstacles in determining the proper solution.

As per the Annual Report (2017-18), of the Government of India provides an overview and performance of the MSME sector, as well as major findings from the NSS in 73rd round survey on MSMEs during (2015-16), legal entities, as well as other authorities under the MSME Ministry. The cluster development approach has been chosen by the Ministry as a significant strategy for improving the efficiency and competitiveness in MSEs as well as cooperative in the country.

As per UK Sinha-led RBI Committee's report (2019), recommended a stressed asset fund of Rs. 5,000 crores for domestic micro, small, and medium companies, among other things (MSMEs). The development of a small value fund will be organized to support units, as a help to small enterprises affected by demonetization, Goods and Services Tax (GST), and a continuous cash. Money will go toward rescuing MSMEs that have become non-performing assets (NPA) due to changes in the external environment.

The aforesaid analysis indicates that, while several studies on the MSMEs sector have been undertaken, research on the effect the Covid-19 epidemic over MSMEs and, challenges of getting back to normal position is exceptionally restricted.

Kumari (2017), stated that the Goods and Services Tax will have an influence on working capital requirements, financing costs, and pricing policy for small and medium businesses. In the long run, the goods and services tax is expected to assist micro, small, and medium businesses.

Mishra (2020), recommends taking significant policy actions to ensure long-term growth of the economy. He predicts a decline in FDI and capital, as well as far-reaching consequences for local businesses and multinational corporations.

III. COVID-19 PANDEMIC NEGATIVE IMPACT ON MSMEs

The catastrophic pandemic produced by COVID-19 has resulted in massive losses in the MEs sector, with a lot of them disabled or on the edge of extinction. In a poll performed by All India Manufacturers Organization (AIMO, 2020) on micro, small and medium firms (MSMEs), 35 percent of MSMEs, the majority of which are self-employed, believe their businesses have little hope of recovery and have begun shutting down operations. MSMEs have been struck particularly hard by the COVID-19 pandemic lockdown, which has resulted in the interruption and closure of their production plants, bringing economic activity to a halt.

According to Roy (2020), as the employment provided by cloth manufacturing units in the export sector is nearly 12.9 million and in them most of the workers (70%) are women. From March 2020 to May 2020 they sustain a loss of Rs 150 crore due to the COVID-19 Pandemic.

As per the (Financial Express 2020) a loss of nearly Rs 35000 crore in the snacks and sweet industry of India. The world market has been gripped by the COVID-19 Pandemic cost India's leather firms \$1.5 billion in exports. Except for the leather premises in Kolkata and Unnao (Uttar Pradesh), which got clearance to re-operate, the country's leather clusters were shuttered. The nationwide lockdown caused by the pandemic has a substantial short-term volume impact on the cement business, with volumes expected to drop by 35-40% in March 2020 based on present conditions. As a result of disruptions in the worldwide supply chain and normal operations, important sectors like electronics, vehicles, entertainment, transportation, and exports were in danger. The value of the Covid-19 shutdown is estimated to be US\$ 120 billion (almost Rs. 9 lakh crore).

Wage payments to employees have grown nearly unmanageable. Electricity, rent, and interest are all fixed costs that should be met. The company's working capital has been depleted. It's easier said than done to restart production. Although the devastating pandemic has impacted all industries, the MEs sector would be hit especially hard by the countrywide lockdown's diminished cash flow. The removal of migrant labor, limits on access to raw materials, disruptions to exports and imports, and extensive travel limitations, as well as the shutdown of malls, hotels, theatres, and academic facilities, have all harmed their supply chain.

In construction activities, there was almost complete shutdown for two weeks. During the 15-day shutdown on March 20, the loss faced by Mumbai Metropolitan Region amounts between (Rs. 5050 to Rs 6500 crore), with a "1/4" percent drop in property registrations. Between January 1 and March 15, 2021, the region only managed 9,300 home registrations, compared to 12,800, in the 1st quarter of 2019.

The lower and middle-income housing market has been severely damaged, as its viability is dependent on large crowds and foot traffic. Some of the most eagerly anticipated project releases have been further delayed, while others have been cancelled. The situation for ongoing initiatives has become similarly bleak. The loss in the IT sector is projected to be in billions of dollars monthly losses. Rs. 15-17 lakh in revenue and Rs. 15 lakh thousands each month. Indian software services organizations like Tata Consultancy Services and Infosys rose to popularity by offering low-cost solutions to common computer problems to Western clients. They rose to prominence in many worldwide corporations throughout time. Ascent HR, on the other hand, believes that the shutdown situation has been hampered. It has placed a significant load on the industry, forcing it to adopt a new innovative way of redefining work practices. To help minimize the obstacles, the Indian government announced and then implemented Prime Minister Garib Kalyan Yojna of Rs 1.7 Lakh Crore as an immediate relief measure.

As of Keelery (2020), the government relief is nearly Rs 1.7 Lakh Crore and a package of worth 5% of GDP is also provided. In the financial year of 2019-20 it is estimated that 110 million people were employed in 63 million MSMEs firms throughout the country. There is lack of employment in rural areas as compared to cities.

IV. RECOMMENDATIONS AND FINDINGS

Based on the foregoing conversations, we found that financial as well as social consequences of the Covid-19 epidemic would be more severe in the coming time unless we devise an effective plan to get back the position and bring economy on normal track. The economy's negative consequences looming large, government intervention and relief measures were urgently needed to limit harm to industry, the business, and the livelihoods of many people. As a result, we can propose certain policy steps that can be adopted to avert an unusual pandemic catastrophe. In the lack of a clear line among business and personal money, it is possible that business excess will be utilized by the entrepreneurs to meet their personal needs, hurting the business's growth and viability. Before lending, it is necessary to determine the possible returns on an investment. Furthermore, continuous monitoring and assistance support for entrepreneurs is required to ensure that their business processes run smoothly. It is critical to gain access to the entrepreneur's payment capacity. As there is the issue of non-availability throughout the year, payments and cash inflows in the firm might assist entrepreneurs in successfully managing their enterprises.

Aside from these additional tax deductions, there is a need to set aside additional money specifically for MEs to allow them to live. Industry groups have been asking for a stimulus package worth 4% to 5% of GDP. It is unquestionably necessary to support the MEs industry, not only for narrow alleviation, but also for middle- and long-term development and resurrection. However, because MSMEs are distributed among numerous industries and different part of states, and operate mostly in the informal

sector, identifying enterprises in desperate need of finance and those most affected by the new crisis would be difficult. Due to lack of resources the government was unable to extent the duration of lockdown as government cannot completely disrupt the supply chain. A delay in the GST returns was permitted by the government from February to April which further extended to June 2020 without any interest

The findings show that GST revenue fell drastically and was distributed unevenly in the months after the lockdown declaration. April and May 2020 saw the lowest GST revenue collections, with shortfalls of Rs. 81,571 crores and Rs. 38,280 crores, respectively, compared to the pre-lockdown announcement period. With the relaxation of lockdown measures and the resumption of economic activity after September 2020, revenue collection will increase and GST revenue distribution will remain stable.

Micro, small, and medium-sized businesses benefit from the single tax idea that underpins the Goods and Services Tax. A Goods and Services Tax would result in increased production, job opportunities, economic development, and national progress. MSMEs benefit from the Goods and Services Tax. The impact on MSMEs will be beneficial. The Goods and Services Tax alleviates the burden on both producers and end users, as well as offering the benefit of an input tax credit. This will make the federal government financially healthy, which will aid in the economy's overall balanced growth.

V. CONCLUSION

The COVID-19 pandemic has undeniably inflicted severe damage on the micro, small, and medium enterprises (MSMEs) sector in India, disrupting various industries and causing widespread economic challenges. The MSMEs considered the backbone of the developing country, faced unprecedented hurdles such as financial losses, supply chain disruptions, communication difficulties, and workforce instability. The repercussions were felt across sectors, from manufacturing and exports to construction and services.

This paper highlights the crucial role MSMEs play in the overall development of the Indian economy, emphasizing their contributions to job creation, regional development, and economic growth. The study underscores the immediate need for focused attention and effective policy measures to resurrect the MSME sector, which has suffered immensely during the pandemic.

The recommendations put forth include government intervention, relief measures, and policy steps aimed at mitigating the impact of the crisis. Addressing financial and social consequences, supporting entrepreneurs, and ensuring smooth business operations are essential components of the proposed strategies. The implementation of measures such as additional tax deductions, stimulus packages, and support for GST compliance is suggested to facilitate the recovery of MSMEs and, consequently, the broader Indian economy. In essence, the revival of the MSME sector is imperative for the holistic recovery of the Indian economy post the Covid-19

pandemic, necessitating concerted efforts from policymakers, industry stakeholders, and the government.

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