Impact of Covid-19 crisis on Indian MSME sector: A study on remedial measures

Arundhati Roy* | B.C.M. Patnaik | Ipseeta Satpathy

School of Management, KIIT University, Bhubaneswar, India

The study highlighted that a higher number of MSMEs comprising manufacturing and retail firms have shut down their businesses temporarily during the nationwide lockdown. We analysed literature related to the topic addressed by this study. It was found that the relief package was not sufficient to compensate for the losses faced by business entrepreneurs of MSMEs in India. Furthermore, many people migrated from rural regions to urban regions in search of better job opportunities, which worsened the situation.

In this research, a secondary qualitative analysis has been applied. With the aid of a narrative thematic description based on the role of the relief fund and nationwide lockdown pandemic situation, we probed into the disruptive situation of the Indian MSME sector. Additionally, the preparation of keywords was realized through a Boolean table and an illustration of PRISMA helped to define the search strategy for this research. Other perceptions of the research method were also discussed. The results showed that manufacturers of both non-essential goods as well as essential goods suffered loss close to 50% during the pandemic. Furthermore, small businesses in India experienced a drastic contraction in business due to a negative growth rate of net sales. It was discussed that the strategy of providing facilities of credit would enable business entrepreneurs to adopt the latest technology such as e-commerce. Probable recommendations included disbursement of credit guarantee schemes, provision of subsidies and extension of tenure of repayment of loans.

KEYWORDS
MSME; pandemic; credit guarantee; subsidies; E-commerce.

Introduction

MSME sectors include micro-enterprises that incur annual turnover worth below Rs. 5 crore, small enterprises with turnover worth between Rs. 5 crore and Rs. 75 crore and medium enterprises with an annual turnover below Rs. 250 crore. This study aimed at investigating impact of Covid-19 crisis on India’s MSME sector. It focused on the discussion of methodology and results derived from secondary research. we proposed suitable recommendations for the welfare of the MSME sector in India.

There were 6.34 crore firms in the MSME sector in India during FY 2018-19. Moreover, 51% of such SMEs were established in regions across rural areas in India.
As Figure 1 illustrates, there are 186.56 lakh people employed in the rural manufacturing MSME sector compared with 173.86 lakh people working in the urban MSME sector. On the other hand, the share of the population involved in trading services in the MSME sector in rural India was 160.64 lakhs while 224.54 lakh people were engaged in trading services in the urban MSME sector in 2019. A survey that was conducted by Endurance International Group in India with 500 respondents employed in the MSME sector in India. One-third of total respondents stated that they were compelled to shut down their businesses for a temporary period during the period of nationwide lockdown. They waited to resume business operations until the tenure of lockdown completed [2]. A higher number of MSMEs comprising manufacturing and retail firms, especially in metropolitan cities in urban India shut down their businesses for a temporary period during the nationwide lockdown. The major section of the respondents, by 60%, believed that it would be up to six months of returning to normality [2].

The primary research aim of this study was to explore whether COVID-19 pandemic was choking MSME sector in India, as a result of nationwide lockdown and absence of relief measures. The secondary aim was to propose remedial measures for the betterment of the MSME sector in India.

The research objectives addressed by the current study were as follows:
- To identify implications of an absence of appropriate relief measures on the Indian MSME sector during COVID-19 pandemic;
- To determine how nationwide lockdown affected the Indian MSME sector during the COVID-19 crisis; and
- To propose optimal remedial measures for the welfare of the Indian MSME sector amidst the crisis.

**Literature Review**

*Role of relief measures for better business prospects of MSME sector*

According to the literature [3], the Indian Government has not concentrated on providing relief measures to help business entrepreneurs of MSMEs to manage the threat of the COVID-19 pandemic. Additionally, the status of the national budget could not favour the Indian Government to announce relief measures for protecting business entrepreneurs of MSMEs, operating in rural and urban regions. However, the need for the provision of relief measures was felt when the decision of extending the tenure of nationwide lockdown was made. The Indian Government announced a fiscal stimulus package worth a nominal amount and withdrew distribution of dividend taxes up to 0.3% of GDP. The relief package was not sufficient to compensate for the losses that were faced by business entrepreneurs of MSMEs in India.
On the other hand, the Government failed to realise the importance of providing relief measures in the form of income support schemes to rural business entrepreneurs under the MSME sector [4]. Many people became jobless soon after the nationwide lockdown was announced. Hence, it was imperative for the Indian Government to announce relief measures in the form of employment guarantee programs for supporting unemployed rural youths during the crisis period.

**Choking MSME sector in India due to nationwide lockdown**

As stated in the literature [5], the Indian Government declared a nationwide lockdown for limiting the spread of corona virus. However, the consequences of a lockdown were catastrophic. The MSME sector in India was badly hit. For example, the MSME sector suffered from lack of manpower as a majority of workers returned to their hometowns. Many people migrated from rural regions to urban regions in search of better job opportunities. Therefore, it became difficult for managers of MSMEs in rural regions to persuade such workers to return and join their earlier workplaces.

On the other hand, the nationwide lockdown led to a complete freeze of economic activities to a large extent [6]. The manufacturing firms and service providing firms were highly affected by the COVID-19 pandemic. Conversely, the firms under MSME sector producing agricultural goods were the least affected due to the nationwide lockdown. The lockdown resulted in a complete freeze of 60% of economic activities that were carried out by the MSME sector in India.

Besides, as commented by the researcher in his article [7], the nationwide lockdown adversely affected the MSME sector in India because a majority section of commercial and industrial outlets of small business enterprises was shut down. The lockdown resulted in distortions in the supply chain for which it was getting difficult for business managers of MSMEs to procure raw materials at affordable rates.

![Figure 2: Adverse impact of nationwide lockdown on MSMEs](image)
instruments of digital payments. The monetary policy should reduce the rate of interest on investment and enable a scope to business entrepreneurs of MSMEs to deposit monthly interest payments. Commercial banks deter from lending financial credit to firms under MSME sector due to rising bad loans [11].

On the other hand, the role of remedial measures in the fiscal packages is to facilitate “Ease of doing business” and attract the attention of foreign investors [9]. The fiscal packages should be distributed among MSMEs on the basis of their annual turnover rates. This gives a scope to ensure optimum allocation of resources such as amounts of subsidies such that business entrepreneurs of MSMEs are benefitted.

**Methodology**

**Research Design**

The implementation of a positivism research philosophy is beneficial for logically evaluating and representing relevant data prominently. With the aid of positivism philosophy, the major impacts of COVID-19 on Indian MSME were reviewed through an intensive analysis of a broader series of resources. The presentation of phenomenalism and logical realism as the main specifications of positivism is underlined in the literature [10]. These two specifications were relied upon to confirm genuine knowledge from existing literary sources regarding the impact of a pandemic on MSME. Besides, the use of a deductive approach helped to develop a conclusion by analyzing the role of nationwide lockdown and shortage of relief funds in choking Indian MSME during COVID-19. As stated previously in by the researcher in another study [11], a deductive approach is applied to draw a conclusion by analyzing relevant and surrounding trending social phenomena. Additionally, application of a descriptive research design is useful in elaborating different relevant variables, such as relief fund impacts, role of nationwide lockdown and many others. In this research, secondary research method was applied to evaluate the topic with existing and reliable literary sources.

**Sampling**

A purposive sampling technique was used based on PRISMA network. After final selection with the aid of inclusion and exclusion criteria, 15 journals were selected for the research. We relied on Google Scholar, Proquest, CQ researcher and Government websites as reliable databases. The required data were also taken from reliable newspaper articles. The selected articles were published on or after 2016. This aspect is helpful for generating recent data regarding COVID-19 crisis on Indian MSME. Keywords for search included the impact of pandemic crisis, role of lockdown and relief fund, recent challenges of the Indian MSME sector and many others.

**Data collection**

The comprehensive application of thematic data analysis helped to illustrate the significant role of lockdown, relief fund and pandemic situation for disrupting the financial perspective of Indian MSME sector.
**TABLE 1** Boolean Table

<table>
<thead>
<tr>
<th>Themes</th>
<th>Keywords</th>
<th>Boolean operators</th>
<th>Articles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of an absence of proper relief measures for improving Indian MSME sector</td>
<td>MSME, relief, support</td>
<td>(MSME and relief) or (support and relief) or (MSME and support)</td>
<td>“Covid-19 relief: Government announces Rs 3-lakh crore collateral-free automatic loans for MSMEs”</td>
</tr>
<tr>
<td>Impact of nationwide lockdown on the MSME sector in India</td>
<td>MSME, Covid-19, lockdown</td>
<td>(MSME and Covid-19) or (lockdown and Covid-19) or (MSME and lockdown)</td>
<td>“Small businesses bear maximum Covid brunt as net sales’ growth plunge this much in Q1 FY21”</td>
</tr>
<tr>
<td>Remedial measures for the welfare of the MSME sector in India</td>
<td>Pandemic, MSME, relief package</td>
<td>(pandemic and relief package) or (MSME and pandemic) or (MSME and relief package)</td>
<td>“Explained: Why are Medium, Small, Micro Enterprises worst hit by Covid-19 lockdown?”</td>
</tr>
</tbody>
</table>

**PRISMA diagram**

![PRISMA Diagram](image)

**Figure 3** Systematic review
Ethical considerations

Prime ethical considerations were observed throughout the study. Required secondary resources were protected with passwords in laptops and USBs. Additionally, existing literary sources were utilized only for academic purposes. Further, risks of plagiarism were considered. No information was directly pasted from existing resources. For ensuring data safety, Personal Data Protection Bill (2018) was applied IV.

Results

**FIGURE 4** Gross value of fiscal deficit with respect to GDP

**Impact of lack of proper relief measures on improving Indian MSME sector**

The Indian Government was not in a position to disburse relief packages due to a high gross value of fiscal deficit. As Figure 4 shows, the gross value of fiscal deficit reached 3.30% of GDP in June 2020, compared with 3.40% of GDP in FY 2019 [13].

**FIGURE 5** national budget deficit figures between 2016 and April 2020
Furthermore, Figure 5 illustrates that the Indian Government suffered a budget deficit of around 4.60% in April 2020, compared with 4.59% in FY 2019 [13]. As stated by the researcher in his previous study [14], the national budget deficit of GDP spiked up to 4.59% within April 2020, overshooting the revised target close to 3.8% of GDP. The gap widened due to the halt of major economic activities and disruption of trade as a result of nationwide lockdown. These statistics suggest that the Indian Government was not in a position to apply relief measures to safeguard MSME sector during the COVID-19 pandemic.

Around 50% of firms under the MSME sector in India witnessed a loss of 20-25% due to lack of adequate measures of relief. Manufacturers of both non-essential goods and essential goods suffered loss close to 50% during the pandemic. The margin of accrued losses spiked up by abnormal margins as the Indian Government failed to take proper relief measures for reviving the health of their businesses [15].

According to a study [16], the Indian Government understood the intensity of the current situation and decided to take appropriate relief measures in May 2020. For example, automatic loans worth Rs. 3 lakh crore were earmarked for the MSME sector against zero collateral. Borrowers with an annual business turnover worth Rs. 100 crore and outstanding debt of Rs. 25 crore were eligible for grant of the collateral-free loan. However, prior to an announcement of allocation of the loans, the Indian MSME sector had experienced serious problems due to unfair competition by multinational foreign companies operating in India.

**Impact of nationwide lockdown on the MSME sector in India**

According to a study [17], small businesses in India experienced a drastic contraction in business due to a negative growth rate of net sales. There were 747 small business enterprises which experienced a reduction in the growth rate of net sales by -66.7% in Q1 of FY 2020-21. The situation worsened further when the Indian Government announced a nationwide lockdown amidst the COVID-19 crisis. It was reported that business organisations with an annual turnover of Rs. 25 crore and below experienced a decline in the growth rate of net sales by -25.3% during Q1 of FY 2020-21. The lockdown forced business entrepreneurs of the MSME sector to narrow down their businesses to reduce the margin of loss. The reason for shutting down their businesses was plunging in effective demand and shortage of labourers. The nationwide lockdown forced workers to return to their home towns situated far away from their workplaces.

It was estimated that 25% of firms comprising the MSME sector in India were on the verge of collapsing if the Indian Government extended the tenure of nationwide lockdown for more than eight weeks starting from April 2020. It would then become difficult to continue running their business operations during the pandemic situation and the best solution would be to shut down their business units permanently [15].

As attested by previous research [18], the reason why the Indian MSME sector failed to survive the threat of COVID-19 pandemic was that the Indian Government announced the nation-wide lockdown within a notice of short period. The MSME sector was categorised as most vulnerable to COVID-19 pandemic because workers do not have the capacity to tackle the unprecedented crisis. Furthermore, small business enterprises that comprised the MSME sector in India suffered massive losses due to the lockdown because they had to run their regular business operations with only a handful of labourers. They lacked managerial expertise and worked with limited financial resources to sustain business operations. However, the lockdown mounted difficulties
that were faced by business entrepreneurs of the MSME sector in India.

Remedial measures for the welfare of the MSME sector in India

According to a study [1], relief measures were implemented by the RBI. It has tried to pump in additional monetary resources into the Indian economy for improving production activities of firms under the MSME sector in India. Additionally, tax reliefs could have been provided by the Indian Government to business entrepreneurs of MSMEs in India so that they could earn a higher share of return. The tax relief measure would be an ideal fiscal strategy that would guarantee accrued profit required for compensating huge losses. As argued by the researcher in a study [19], the Indian Government could help entrepreneurs of MSMEs in India to increase output by providing facilities of online e-commerce. Furthermore, they should be provided with opportunities to access credit facilities. They should be able to get access to loans that are guaranteed by the Government, so that credit appetite is fulfilled. The Government should help business entrepreneurs of MSME sector to enter into trade agreements with developed nations so that they could import advanced technological equipment for maximising production.

The other remedial measure would be to provide cash liquidity to business entrepreneurs of MSMEs operating in rural regions in India. As commented by the researcher in his study [20], the problem of liquidity has agitated entrepreneurs of MSMEs in rural regions. The problem has led to emergence of associated problems such as lack of employment creating opportunities, high debt in the market, procuring required raw materials and manage skilled human resources. They are unable to sustain the competitive pressure from leading multinationals due to acute shortage of liquid cash.

Discussion

This section discusses the inter-relationship between findings derived from secondary resources and corresponding research objectives of the study.

The first aim of the present research was to identify effects of shortage of relief measures on MSME sector in India. It was discovered that there was a disruption of key business activities such as trade and procurement of raw materials as a result of non-disbursement of appropriate measures of relief. Nearly 50% of business units under the MSME sector in India suffered a loss equivalent to 20-25% during the COVID-19 pandemic situation. Manufacturers of non-essential and essential goods and services incurred losses equivalent to 50% due to non-disbursement of appropriate relief measures [21]. Therefore, the researcher discussed adverse effects were discussed in great detail in response to the first objective.

The second research objective focused on determining the impact of a nationwide lockdown on MSME sector in India. It was found out that business enterprise with an annual turnover equivalent to Rs. 25 crore experienced deterioration of volume of net sales by a margin of -25.3%. At the same time, a major section of small business enterprises was shut down during the lockdown due to dual reasons. The first reason was the lack of effective demand for goods and services. Besides, the second reason was the mortality of the workforce [17]. It was anticipated that 25% of total firms operating under the MSME sector would collapse of the lockdown sustained for more than eight weeks, starting from April 2020. This illustrated the intensity of the critical situation that emerged due to an imposition of a nationwide lockdown, amidst the COVID-19 pandemic. The degree of negative impact rose heavily because existing workers were unable to manage regular tasks. They lacked the necessary expertise and skill
to manage business activities during the crisis period.

The second research objective focused on remedial measures that could be implemented for welfare of businesses of firms under the MSME sector in India. This objective was also addressed by as the research proposing measures such as financing liquid cash to rural business entrepreneurs. The researcher claimed that providing facilities of credit would enable business entrepreneurs to adopt latest technology such as e-commerce. The role of tax reliefs for protecting entrepreneurs of MSMEs in India was also stated.

**Conclusion and recommendations**

It can be deduced that the nationwide lockdown led to deterioration of the business prospects of business entrepreneurs of the MSME sector in India. The researcher concluded that non-disbursement of relief measures affected production of both essential and non-essential commodities. Moreover, there was a gradual spike in the amount of losses incurred by small and medium business enterprises due to non-availability of relief measures. However, it was shown that the Indian Government took steps thereafter, and disbursed automatic credit worth Rs. 3 lakh crore against no collateral. It was deduced that the announcement of nationwide lockdown choked the Indian MSME sector because a majority of firms were shut down permanently. There were no alternative options whatsoever as financial resources were reducing workforce and workers returned to their home towns. However, the workers who remained lacked managerial expertise to tackle crisis. The study thus proposed remedial measures such as flow of cash liquidity and tax relief for safeguarding the interests of entrepreneurs of MSMEs during the COVID-19 pandemic. Besides, some other probable recommendations for protecting the business entrepreneurs of MSME sector in India are discussed below:

- **Disbursement of credit guarantees:** The Indian Government should take the initiative to provide credit guarantee scheme for MSMEs in India. The firms operating under the MSME sector have incurred massive losses amidst the pandemic and the subsequent period of lockdown. As a result, a huge volume of assets was drained away from generating liquid cash and continuing business operations. Therefore, there is a high chance of default of payment of loans that are sanctioned by commercial banks. This is where the role of the Indian Government comes into action. The Government would guarantee payment of the loan amount to the respective commercial bank in case of default.

- **Provision of subsidies to MSME sector:** The Indian Government should provide subsidies to business enterprises so that they could overcome the losses and continue their business operations. Subsidies provide a positive boost to the economy by stimulating business activities.

- **Provision of scope for borrowing cash from multiple informal channels:** Informal channels are considered as an optimum means for the supplying liquid cash to business entrepreneurs of MSMEs. When business entrepreneurs face a dearth of liquid cash, cash requirements can be immediately satisfied by borrowing credit from multiple informal channels. However, the rate of interest charged against disposal of such loans is higher, yet personal connections can be leveraged optimally for meeting liquidity goals.

- **Extending tenures of repayment of loans:** The Indian Government could impose regulations that would provide an extended tenure for repayment of loans by MSMEs. This would be deemed as a key financial support that would facilitate entrepreneurs to recollect amounts equivalent to incurred losses.
• **Controlling the competitiveness of foreign multinationals:** The Indian Government could impose restrictions on the business activities of foreign multinational firms. This would provide an opportunity to MSMEs to survive the competitive threat and conduct business activities. Limiting the scope of foreign firms to sell within India would therefore provide a huge consumer market to domestic MSMEs. [Refer to appendix]

**Acknowledgements**

The authors would like to thank KIIT School of Management and the fellow researchers for their relentless support in doing this study. There is no conflict of interest.

**Orcid:**
- Arundhati  Roy: https://orcid.org/0000-0001-9075-3169
- B.C.M.  Patnaik: https://orcid.org/0000-0002-5979-0989
- Ipseeta  Satpathy: https://orcid.org/0000-0002-0155-5548

**References**


---

**How to cite this article:** Arundhati Roy*, B.C.M. Patnaik, Ipseeta Satpathy. Impact of Covid-19 crisis on Indian MSME sector: A study on remedial measures. Eurasian Chemical Communications, 2020, 2(9), 991-1000. [Link](http://www.echemcom.com/article_114672.html)