

Impact of Covid-19 Crisis on MSME Sector in India

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Abstract :After World War II, the entire nations of the world are now facing simultaneously one of the biggest health and economic crisis, which is known as Covid-19 crisis. Although there is a long history of pandemics of diseases in the past, which includes smallpox, tuberculosis, influenza pandemic (Spanish flu 1918), influenza pandemic (H1N1 2009) and many others. However, the outbreak of these pandemic diseases has not affected so devastatingly as much as Covid-19 has affected in the entire nations world. The outbreak has started from Wuhan city of China and has spread sharply throughout the world and has led to shutdown of world economy. Covid-19 is not only now a global health crisis, but it has become an economic crisis, in the entire world and same is case with India. Nonetheless, Indian economy was already in a crunch of slow growth rate from last 2 years. However, the shutdown of economic activities with this Covid-19 crisis will further worsen the economic growth rate of India. The growth rate of Indian economy has already declined to 4.5 percent in Jan 2020, which was 7.7 percent in 2018. The World Trade Organization (WTO) has projected that global trade in goods is set to decline steeply between 13 percent and 32 percent in 2020 as the entire nations of the world are battling with the Covid-19 pandemic. However, India will suffer very badly as the biggest impact will be on the MSME sector, because it contributes 48 percent to the total export basket of the country This sector is the largest employment providing sector and are contributing more than 30 percent to the GDP of the country .Therefore, the present paper explores the impact of Covid-19 crisis on MSMEs in India.

Keywords: Covid-19, MSMEs Crisis, Exports and Employment.

Introduction

Spread of pandemic diseases is not merely a new concept. Throughout history, there have been a number of pandemics of diseases, which includes smallpox, tuberculosis, influenza pandemic (Spanish flu 1918), influenza pandemic (H1N1 2009) and many others. Nonetheless, the outbreak of these pandemic diseases has not affected so disastrously to the world economy as much as Covid-19 has affected in the entire world. The current pandemic outbreak of corona virus, which is known as Covid-19 has led to the shutdown of world economy. The Pandemic of Covid-19 has been declared as a Public Health Emergency of International Concern (PHEIC) as well as a pandemic on 11th March by World Health Organization (WHO). The outbreak has started from Wuhan city of China and has spread sharply throughout the world... The virus is primarily spreading between people through close contact, often via small droplets produced by coughing, sneezing etc. Currently, there is no available vaccine for Covid-19. However, World Health Organization (WHO) have issued guidelines to prevent from the spread of Covid-19, which includes social distancing, isolation from the infected persons, covering mouth with mask, washing hands often with soap etc. In view of this, majority countries have issued guidelines for imposing lockdown in their respective countries and same is case with India. The prime minister of India has announced country wide lockdown on from 25th March and same has been extended from time to time in the entire country. Nonetheless, this lockdown has led to economic shutdown, which has adversely affected all the sectors of Indian economy. However, the economic shutdown has devastated more hardly the MSME sector of India, because this sector acts as a backbone for Indian economy.

Micro, Small Medium Enterprises which is also known by MSMEs is cornerstone of Indian economy. This sector plays a crucial role in employment generation, poverty alleviation, and creation of wealth with equitable distribution of income and thus brings the local and regional development in the economy (Sharma, 2014). The role of MSMEs in-terms of easing industrial development, increasing exports, eradicating regional disparities and bringing socio-economic development is widely recognized in the country (Srinivas, 2013). Nonetheless, in India MSME sector performs a key role in the development of effective, efficient, and innovative entrepreneurial spirit of the country. MSME sector is indispensable for India, because this sector is the solution for the major economic problems, such as the problems of unemployment, poverty alleviation, economic disparities and lack of entrepreneurship and skill development in the country (Rathore, R., & Mathur, A. 2019). Moreover, MSME sector in India is highly heterogeneous in terms of its size and is having diversified products and services. Nonetheless, this sector is labor intensive in nature and can be established at any place with very low capital ratio, with higher employment opportunities. This sector also decentralizes industrial activity, utilization of locally available resources and widens the entrepreneurial base of the country. Apart from this, MSME sector are the supplement to large scale industries and are considered as ancillary for them (Muthu, 2015). The growth rate recorded of this sector is much higher than the large scale industrial sector. However, the majority of the enterprises among MSMEs are Micro units, which constitutes 99.5 percent in the country. Nonetheless, as per MSME report of 2018-19, there are 6.34 crore of MSMEs in India, in which 51 percent are situated in urban areas and 49 percent are situated in rural areas and are providing employment to more than 11 crore people in the country. Apart from this, the MSME sector of India contributes 48 percent in the total exports of the country. However, with this current pandemic of Covid-19, production of goods and services in this sector has been curtailed and this sector has started suffering from the shortage of necessary inputs, which led to supply shock. On the other side decline in the demand of its products due to pandemic has started sickness in this sector, which results job losses, export crisis and also credit crisis in this sector. Therefore, the present paper explores the impact of Covid-19 crisis on MSMEs in India.

Current Scenario of Micro Small and Medium Enterprises in India

MSME acts as a pillar of Indian economy and is one of the most critical segments that let the economy grow by leap and bounds. The sector which provides employment to over 114 million people and contributes to more than 30 per cent of the GDP is going through one of the tough phases, thus actions are required immediately. Nonetheless, MSMEs constitute about 80 percent of the total number of industries in India. Micro, Small and Medium Enterprises offers a heterogeneous and varied nature of fabric in terms of the size and structure of the units, variety of products and services, scale of production and application of technology in India (Das, 2016).

Therefore, table 1 shows that in case of rural areas the highest number of units are Micro units, which comprises 324.09 lakh, i.e. 99.76 percent of units are Micro units, followed by Small units, which consists 0.78 lakh units and Medium units which consists 0.01 lakh units respectively. Similarly, in case of urban areas, the total numbers of Micro units are 306.43 lakh units, which comprise 99.17 percent, followed by Small units 2.53 lakh units, which comprises 0.82 percent and Medium units 0.04 lakh, which comprises 0.12 percent respectively. The total numbers of Micro units in both rural and urban areas are 630 lakh units, followed by small units 3.31 lakh units and Medium units 0.05 lakh units respectively with 51 percent share in rural area and 49 percent share in urban area.

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
	(99.76)	(0.24)	0.01	(100.00)	
Urban	306.43	2.53	0.04	309	49
	(99.17)	(0.82)	(0.12)	(100.00)	
Total	630.52	3.31	0.05	633.88	100
	(99.47)	(0.52)	(0.01)	(100.00)	

Source: MSMEs Annual Report 2017-18

Table 1: Distribution of Micro, Small & Medium in Rural and Urban Areas (in Lakhs)

Percentage Distribution of Male/ Female Ownership of MSMEs in India

Table 2 shows the distribution of enterprises among Male and female wise in rural and urban areas in India. Therefore, table 2 highlights that in case of rural areas 77.76 percent of enterprises are owned by male entrepreneurs and 22.24 percent of enterprises are owned by female entrepreneurs, while in case of urban areas 81.58 percent of enterprises are owned by male entrepreneurs and 18.42 percent of enterprises are owned by female entrepreneurs, which is 3.82 percent less as compared to rural female entrepreneurs. Therefore, the overall results show that in both rural and urban areas, MSME units are dominated by male entrepreneurs in India.

	Male	Female	Total
Rural	77.76	22.24	100
Urban	81.58	18.42	100
Total	79.63	20.37	100

Source: MSME Annual Report 2017-18

Table 2: Percentage Distribution of Male/ Female Ownership of MSMEs in India

Enterprises Wise Percentage Distribution of Ownership of MSMEs in India

Present section explores enterprises wise percentage distribution of ownership of MSMEs in India. Therefore, table 3 highlights that in case of Micro units 79.56 percent of units are owned by male entrepreneurs and 20.44 percent of enterprises are owned by female entrepreneurs. Similarly, in case of Small units 94.74 percent of enterprises are owned by male entrepreneurs and 5.26 of enterprises are owned by female entrepreneurs. Moreover, in case of Medium units 97.33 percent of enterprises are owned by male entrepreneurs and 2.67 percent of enterprises are owned by female entrepreneurs. Therefore, the overall results shows that MSMEs are male dominant, but in case of female entrepreneurs only Micro enterprises are owned by a significant number of female entrepreneurs, while the ownership in Small and Medium enterprises are insignificant i.e. the ownership among female entrepreneurs is very less in Small and Medium as compared to Micro enterprises ownership in India

Enterprise Type	Male		Female		Total
Micro	79.56		20.44		100
Small	94.74		5.26		100
Medium	97.33		2.67		100
Total	79.63		20.37		100

Source: MSME Annual Report 2017-18

Table 3: Enterprises Wise Percentage Distribution of Ownership of MSMEs in India

Percentage Wise Distribution Ownership among Social Groups in India

The Table 4 depicted below shows that in rural areas the highest ownership among social groups is among OBC category, which comprises 51.59 percent, followed by other category 25.62 percent, SC category 15.37 percent and ST category which comprises 6.70 percent. Similarly, in urban areas the highest ownership is also among OBC category, which comprises 47.80 percent, followed by other category 40.46 percent, SC category 9.45 percent and ST category which comprises a marginal ownership of 1.43 percent respectively

	SC	ST	OBC	Others	Not known	Total
Rural	15.37	6.70	51.59	25.62	0.72	100
Urban	9.45	1.43	47.80	40.46	0.86	100
Total	12.45	4.10	49.72	32.95	0.79	100

Source: MSME Annual Report 2017-18

Table 4: Percentage Wise Distribution Ownership among Social Groups in India

Activity wise estimated Employment in Rural and Urban area (in Lakh)

This sector explores the activity wise estimated number of employment in MSMEs in rural and urban areas in India. Table 6 depicted shows that in case of employment in manufacturing activities in rural areas, it is providing employment to 186.56 lakh persons, which comprises 51.80 percent of manufacturing employment of MSMEs in rural areas and in urban areas it is providing employment to 173.86 lakh i.e. 48.20 percent of manufacturing employment of MSMEs in urban areas. Similarly, in case of Trade activities in rural areas it is providing employment to 160.64 lakh persons i.e. 41.5 percent of employment of trade activities in rural areas and in case of urban areas it is providing employment to 226.54 lakh persons i.e. 58.5 percent of Trade related activities employment from MSMEs in urban areas. Moreover, in case of other services of MSMEs it is providing employment to 150.53 lakh persons in rural areas, which comprises 41.6 percent of employment from other services and in case of urban areas it is providing employment to 211.69 lakh persons with 58.40 percent of employment from other services.

	Rural	Urban	Total
Manufacturing	186.56 (51.80)	173.86 (48.20)	360.42 (100.00)
Trade	160.64 (41.50)	226.54 (58.50)	387.18 (100.00)
Other Services	150.53 (41.60)	211.69 (58.40)	362.22 (100.00)
Total	497.73 (44.80)	612.09 (55.20)	1109.82 (100.00)

Source: MSME Annual Report 2017-18

Table 5: Activity wise estimated Employment in Rural and Urban area (in Lakh)

Employment Distribution of MSMEs in Rural and Urban areas in India

The table 6 shows that in case of Micro enterprises of rural areas it is providing employment to 489.30 lakh persons, while Small enterprises are providing employment to 7.88 lakh persons and Medium enterprises are providing to 0.60 lakh persons. Similarly, in urban area, Micro enterprises are providing employment to 586.88 lakh persons, while Small enterprises are providing to 24.06 lakh persons and Medium enterprises are providing to 1.15 lakh persons respectively. Therefore, the overall result shows that MSMEs are providing highest employment in urban areas as compared to rural areas. Moreover, results also show that Small enterprises are providing a significant employment in urban areas as compared to rural areas in India.

	Micro	Small	Medium	Total
Rural	489.30	7.88	0.60	497.78
Urban	586.88	24.06	1.15	612.10
Total	1076.19	31.95	1.75	1109.89

Source: MSME Annual Report 2017-18

Table 6: Employment Distribution of MSMEs in Rural and Urban areas in India

Male/Female Wise Employment Distribution in India

This section explores the male/female wise distribution of employment in India. The table 7 highlights that in case of rural areas, MSMEs are providing employment to 360.15 lakh male persons, which comprises 72.40 percent of total male employment of MSMEs in rural areas and for female it is providing employment to 137.50 lakh females, which comprises 27.60 percent of employment from MSMEs in rural area. Similarly, in case of urban areas, MSMEs are providing employment to 484.54 lakh male persons i.e. 79.18 percent of male employment and for urban females it is providing employment to 127.42 lakh females, which comprises 20.82 percent of employment of MSMEs for females in urban areas.

	Male	Female	Total
Rural	360.15	137.50	497.78
	(72.40)	(27.60)	(100.00)
Urban	484.54	127.42	612.10
	(79.18)	(20.82)	(100.00)
Total	844.68	264.92	1109.89
	(76.10)	(23.90)	(100.00)

Source: MSME Annual Report 2017-18

Table 7: Male/Female Wise Employment Distribution in India

Distribution of Top Ten States in MSMEs Units and Employment

This section explores the distribution of top ten states in-terms of MSME units and employment. Table 8 shows that the highest number of MSME units are in Uttar Pradesh i.e. 89.99 lakh units, which is providing employment to 165.26 lakh persons, followed by West Bengal 88.67 lakh units, with an employment to 135.52 lakh persons, Tamil Nadu which is having 49.48 lakh units and are providing employment to 96.73 lakh persons. However,

from table it has been observed that West Bengal and Tamil Nadu are the two states where, disparities in terms of employment among male and female is very low as compared to other top ten states, while in Uttar Pradesh, Bihar and Rajasthan they having higher disparities in-terms of employment in MSMEs, the employment ratio of male workers are much higher than female workers.

State	Units	Employment		
	In Lakh	Female	Male	Total
Uttar Pradesh	89.99	27.27	137.29	165.26
West Bengal	88.67	43.51	91.95	135.52
Tamil Nadu	49.48	32.27	64.65	96.73
Maharashtra	47.78	17.97	51.11	70.84
Karnataka	38.34	19.73	51.11	70.84
Gujarat	33.16	13.71	47.44	61.16
Andhra Pradesh	33.87	21.01	34.98	55.99
Bihar	34.46	4.79	48.26	53.07
Madhya Pradesh	26.74	10.13	38.61	48.80
Rajasthan	26.87	8.01	38.31	46.33
Total	261.03	35.69	262.81	287.86

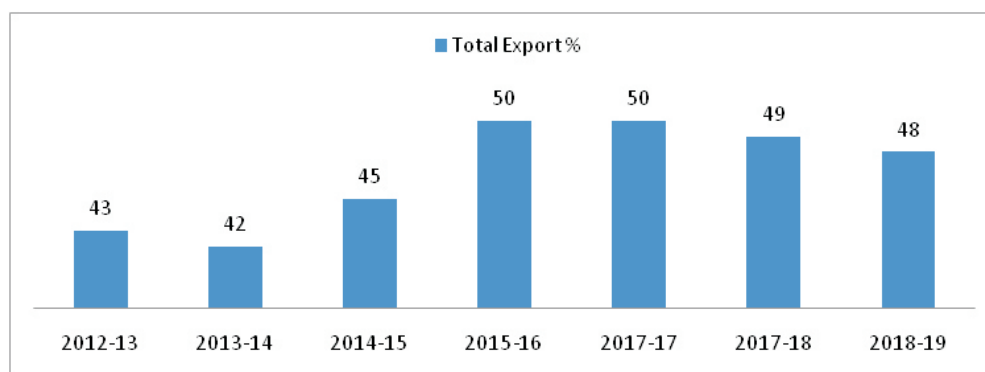
Source: MSME Annual Report 2017-18

Table 8: Distribution of Top Ten States in MSMEs Units and Employment

Share of MSME Exports in Total Exports (in %)

The graph depicted below shows that the MSMEs sector is contributing significantly in the export basket of the country. However, the total export contribution of MSMEs have increased sharply from 2015-16 but its contribution in total export basket has declined from 50 percent in 2016-17 to 48 percent in 2018-19. Although the total exports of MSMEs have declined in India but still its contribution to total exports stood at 48 percent. Nonetheless, the declined percentage is mainly attributed with Demonetization and implementation of GST in this sector, due to which the export percentage of MSMEs in India have declined.

Figure 1. Share of MSME Exports in Total Exports (%)



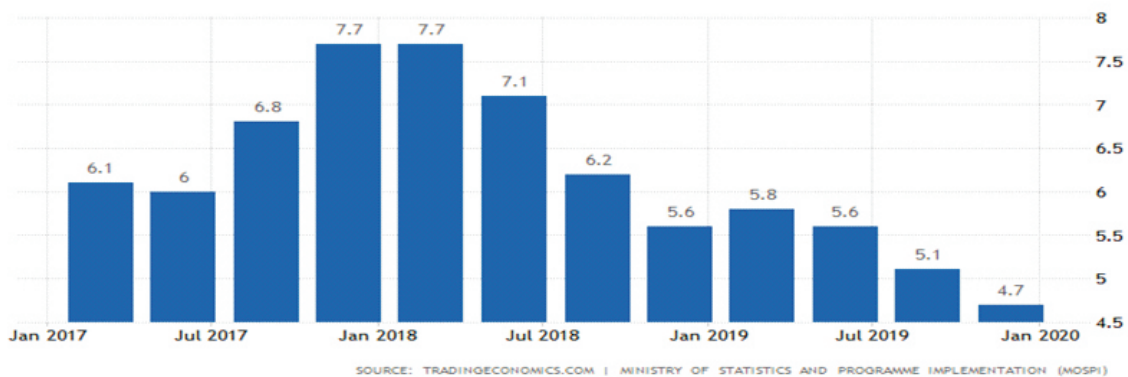
Source: Report of the Expert Committee on Micro, Small and Medium Enterprises, June 2019

Covid-19 and its Impact on Indian Economy

The Covid-19 pandemic crises are much devastating than the Global Financial Crisis of 2008. Nonetheless, after Global Financial Crisis of 2008 considered, which was known as the latest series of economic crises and which has adversely affect world economies have surpassed by Covid-19 crisis of 2019-20. Unlike the past few crises, the current crisis of Covid 19 has not spared any country in the world. It has started with health crisis, which sooner and bigger has turned into economic crises. Covid-19 has adversely affected both demand and supply in the world, due to which the economic growth rates have started declining drastically in the world. Nonetheless, Indian economy was already in the growth rate crunch from last 2 years. However, the shutdown of economic activities with this Covid-19 crisis will further worsen the economic growth rate of India. The growth rate of Indian economy was already facing a huge slowdown from 2018 onwards. The growth rate of India has declined to 4.5 percent, which was 7.7 percent in 2018. However, these lockdowns will further, led to economic slowdown of country and there are predications that the growth rate may further decline and it may reach to zero or negative in the first quarter of Covid-19.

Graph 2: Growth rate of India from 2017 to 2020.

The graph 1 below shows the growth rate of India from Jan 2017 to Jan 2020. The graph is clearly indicating that Indian economy is already facing more economic crises from Jan 2018 to onwards. Earlier the growth of Indian economy was equally with the growth of its neighboring country China but the economic shocks has led to declining economic growth in the country.



COVID-19 and Crisis of MSME Sector in India

The global recession has started in 2020, as the entire countries of the world has shut down its economic activity to prevent their citizens from the spread of the infection. Nonetheless, as the result of this pandemic the production of goods and services has been curtailed in entire nations of the world, many firms have started suffering from the shortage of necessary inputs. Therefore, severe demand shock is underway, particularly across discretionary spending. This pandemic of Covid-19 has disrupted manufacturing supply chains and led to crisis in both services and manufacturing sector. Nevertheless, All India Manufacturer's Organization (AIMO) has conducted a study in which they stated that India is a home of more than 75 million MSMEs and if the lockdown will go beyond one month 25 percent of them will face closure and it will touch 43 percent, if lockdown will go beyond 2 months. However, its impact will be much negative on the employment situation. As a matter of fact MSMEs are providing employment to more than 114 million people in the country and contributing around 30-35 percent to the Gross Domestic Product. Nonetheless, MSMEs are affected at various

levels with this ongoing lockdown especially Micro enterprises in the services sector are considerably impacted. Moreover, MSMEs engaged in hotel industry, tourism sector and logistics have been witnessing a drastic decline in their business with this covid-19 pandemic. However, MSMEs which are engaged in essential services are still operational but they are unlikely to remain isolated from the slowdown owing to liquidity constraints and purchasing capacity. The MSMEs engaged in consumer goods, footwear, utensils, garments, automotive segments have drastically hard hit by this covid-19. Moreover, the MSMEs, which are dependent on direct imports of raw material such as electronics, pharmacy etc. are facing huge bottlenecks and have already shut down their business and so are the export oriented MSMEs. Nonetheless, the MSMEs sector in India are contributes over 40 percent of India's exports. However, the global recession will put negative impact on the exports of MSMEs in India

Similarly, according to the Confederation of All India Traders (CAIT), which represents 70 million traders in India and majority of them are from MSME sector stated that the chemical industrial sector is expected to take a big hit of Rs 12 crore 90 lakh . Moreover, the Micro, small and medium enterprises sector was already reeling under huge distress, firstly because of demonetisation, then with the poorly implemented of GST and by the prolonged economic slowdown. Now finally, the biggest challenge of COVID-19, which is going to worsen it further. A survey carried out by MSME industry associations in Tamil Nadu reports 44.7 per cent revenue shortfall during the lockdown period. Therefore, it becomes imperative on the part of government and financial sector to develop and implement multiple support systems for the enterprises in this sector.

Conclusion:

Undoubtedly, the Micro, Small and Medium Enterprises have become a cornerstone of Indian economy. This sector is playing an essential role in providing employment generation, entrepreneurship development, and poverty alleviation. Moreover, MSME sector also helps in bringing socio-economic development in India. However, MSME sector in India was already facing problems by demonization and with the implementation of GST in the country. But with this current pandemic of Covid-19, production of goods and services in this sector has been curtailed and this sector has started suffering from the shortage of necessary inputs, which led to supply shock. On the other side decline in the demand of its products due to pandemic has started sickness in this sector, which results job losses, export crisis and also credit crisis in this sector.

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