

Covid 19: Impact of Msmeson Indian Economy

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ABSTRACT

In developing countries like India, entrepreneurship in MSMEs has gained much significance in the economy than large industries in the market just because of the contribution of these MSMEs to the GDP of the country, generation of employment opportunities, balanced regional development, localization of the products, less marketing costs and etc. This paper concentrates on the issues faced by MSMEs during COVID 19 pandemic period, relief measures offered by the Government and the alternatives to be taken by the concerned sectors. Secondary data from various reports, updated news materials and earlier research studies were taken into account to extract the necessary details to give this write up. The old definition used during 2006, new definition given by our new Union finance minister and the updated definition during the COVID 19 period were also considered for the study.

KEY WORDS: MSMEs, COVID 19, Relief Measures, Economic Development, Atmanirbhar Bharat Scheme.

INTRODUCTION

MSME is known as Micro, Small, and Medium Enterprises. The Micro, Small and Medium Enterprises Development (MSMED) Act in 2006 categorized the enterprises into two:

1. **Manufacturing Enterprises** – engaged in the manufacturing/production of goods in any industry
2. **Service Enterprises** – engaged in providing/rendering services

TABLE 1

Old MSME definition based on investment, MSMED Act, 2006

	Manufacturing Sector	Services Sector
Enterprises	Investment in plant and machinery	Investment in equipment
Micro Enterprises	≤ Rs 25 lakhs	≤ Rs 10 lakhs
Small Enterprises	> Rs 25 lakhs < Rs 5 crores	> Rs 10 lakhs < Rs 2 crores
Medium Enterprises	> Rs 5 crores < Rs 10 crores	> Rs 2 crores < Rs 5 crores

Source: www.rbi.org.in

In accordance with the new bill passed by the Government in 2018, the MSMEs are classified based on turnover not based on its investment and it is common for both Manufacturing/production and Services sector. This new classification is welcomed by both businesses and by industries as it becomes easy to recognize the business as an MSME and

the Government can match the actual turnover of the organization with the turnover mentioned in the GST database.

TABLE 2
New MSME classification based on Turnover, MSMED (Amendment) Act, 2018

Enterprises	Manufacturing Sector/Services sector
Micro Enterprises	UptoRs. 5 Crores
Small Enterprises	Rs. 5 Crores to Rs. 75 Crores
Medium Enterprises	Rs. 75 Crores to Rs. 250 Crores

Source: www.rbi.org.in

Working of MSME's

In Indian Economy, MSMEs are occupying a significant position by contributing to the country's socio-economic development. It not only creates employment opportunities but also operates for the development of the backward and rural areas in India. As per 2018-19 Annual Report of the Government, around 6, 08,41,245 MSMEs are there in India.

Generally, MSMEs are considered as the 'Backbone of the Country'. Because, MSMEs contribute approx. 8% of the country's GDP, around 45% of the manufacturing output and 40% of the country's exports.

Importance of MSMEs for the Indian Economy

For promoting balanced development MSMEs are considered as a means of economic growth around the globe as they are generating high growth rate in the economy. The secret behind the success of MSMEs in India is its less investment requirement, flexibility in its operations and capacity to develop and utilize own technology.

1. After Agriculture, MSMEs are generating employment around 120 million people;
2. MSMEs are contributing approx. 6.11% of GDP from manufacturing and 24.63% from service sectors with the help of 45 lakh units all over India;
3. MSME ministry targets to increase the contribution toGDP up to 50% by 2025;
4. MSMEs contributes around 45% ofIndian exports;
5. MSMEs promote balanced economic development and growth by providing employment opportunities to the people in rural areas.

Cities having population between 50000 – 100000 and 20000-50000, are creating employment opportunities due to the establishment of MSMEs. It provides opportunities for the entrepreneurs to offer creative products to manage the competition among the businesses.

As it is rightly said, MSMEs are considered as the 'Backbone of India', thatcontribute towards growth of the Indian economy and acts as a defensive mechanism against competition among the global businesses.

Role of MSMEs in Indian Economy

From the inception of MSMEs in India, they have proved themselves as a dynamic business sectors that helped in the growth and development of Khadi, Village &Cottage industries.

They offer creative products with native technology in both national and international markets by sustaining the competition across the globe. For the betterment and development of rural and backward areas, MSMEs coordinate with the appropriate ministries, state governments and other stakeholders.

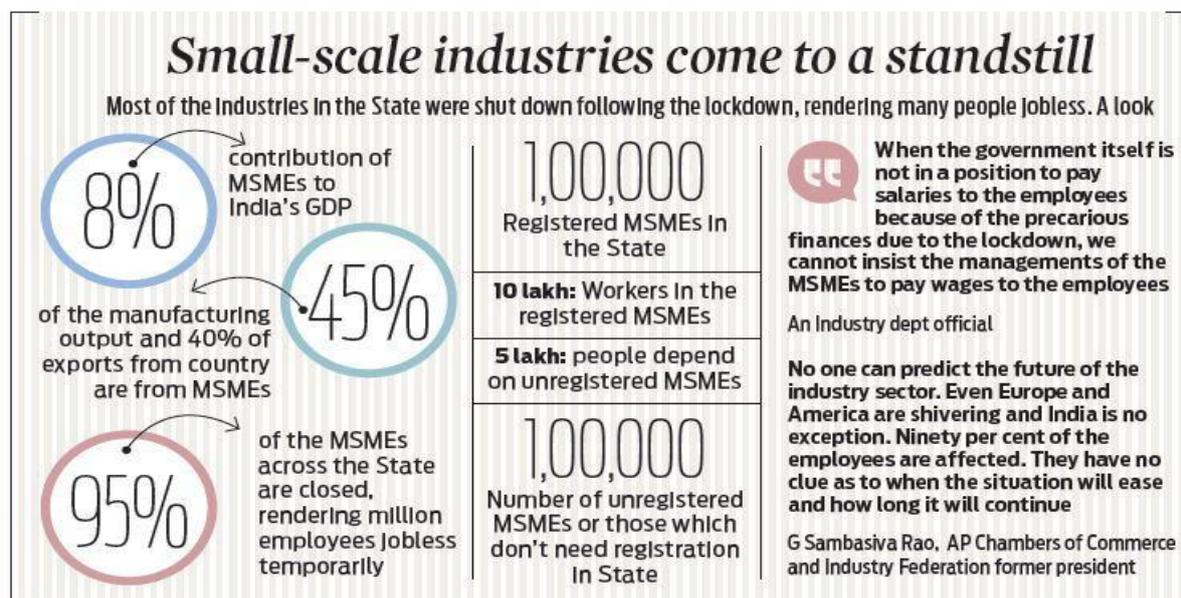
For the balanced development of rural and backward areas, MSMEs are providing employment opportunities and by less capital investment requirements it helps in the industrialization of rural areas. It contributes to the India's economic development in different spheres like less investment requirement, flexibility in its functions, discouraging rate of imports through quality contribution to local production. In these ways, MSMEs contribute to the balanced regional development of the economy.

Impact of COVID 19 on the functioning of MSMEs

Almost all sort of businesses has affected by this pandemic corona virus, MSME sectors were worst hit by shortage cash flows due to the nationwide lockdown announced by the Government. All MSME owners, employees and other stakeholders of the sector were helpless due to this unprecedented situation and they did not even have experience to handle this worst situation never before.

The consequences faced by MSMEs behind the announcement of extension of lockdown nation wide were difficulty in the procurement of raw materials, presence of employees to production and supply functions and foremost shortage in the supply of finished goods as per the order received due to the disruption in the production function. It even gave threat to the lives of small owners and few employees due to the burden of debt repayments, non-receipt/payment of wages/salaries and etc. Especially the migrant workers suffered a lot due to this COVID 19. They were forced to go back their towns even without proper transportation facilities and the people stayed back in the place were affected worst by the non-availability of food and shelter. This COVID 19 made a standstill of this MSME sector.

FIGURE 1
Position of MSMEs during COVID 19 in Andhra Pradesh

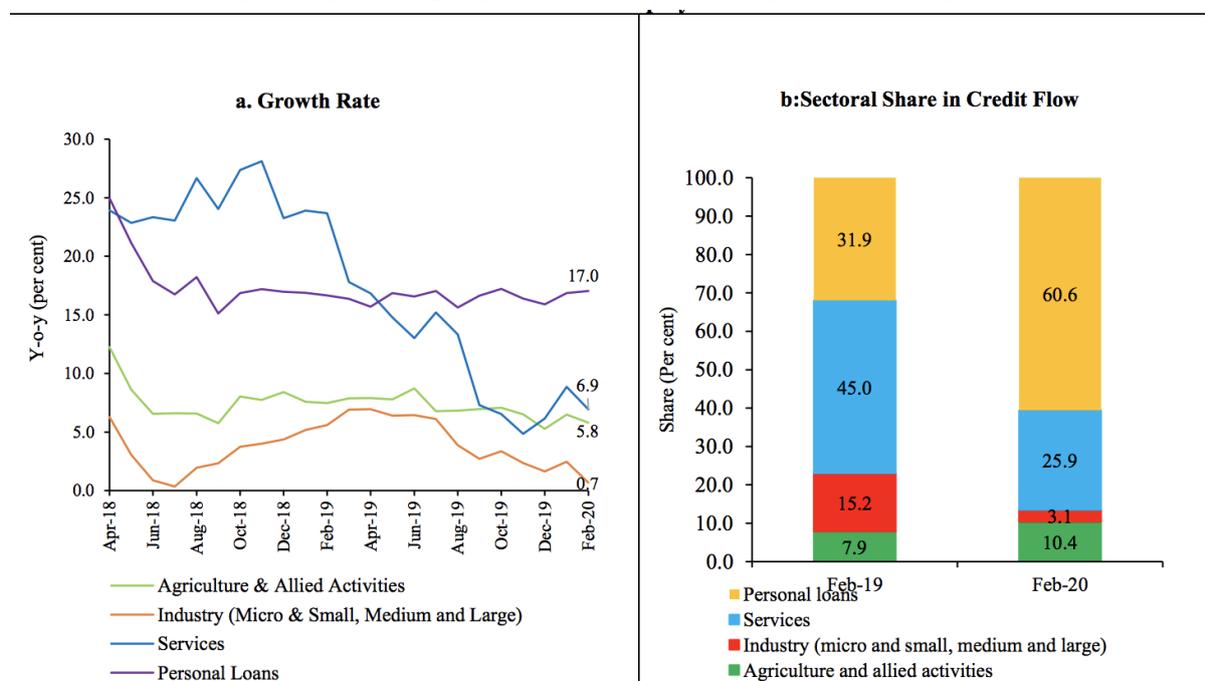


Source: New India Express, 09/04/2020

As per the survey conducted by AIMO (All India Manufacturers Organisation) during June 2020, 35% of MSMEs and 43% of the self-employed persons expressed that, it is very difficult for them to recover their business back to the original position and they have decided to shut down their business operations. Because their earnings impacted by 20%-50% than before during this COVID 19. As a consequence of this, thousands of people were left out of their employment that worse hit the economy as a whole.

MSMEs that contributed more than 90% of the employment opportunities to over 114 million people and 30 % contribution towards national GDP were at a risk of severe shortage of cash flows due to extended lockdown. MSME owners suffered out of fixed costs during shut down period and employees suffer out of fixed EMIs. They are demanding moratorium for loan repayments. In turn, RBI has released funds to NBFCs to provide finance to MSMEs to safeguard their position to some extent.

FIGURE 2
SECTORAL GROWTH RATE AND CREDIT FLOW



Source: RBI (2020)

On the other side, few of the forerunners in MSMEs have shifted their business to essential commodities of the period like manufacturing of masks, sanitizers, hand washes tissue papers, distribution of necessary medicines needed to survive in tough times.

New definition for MSMEs as per Self-Reliant India Scheme of 2020

Highlighting features of new MSMEs are as given below,

1. Offer of Collateral Free Loans to MSMEs
2. Loan arrangement to MSMEs worth of Rs. 3 lac crores
3. Offer of Loan repayment moratorium period of 12 months to MSMEs
4. Combining both Manufacturing and Service MSMEs based on its turnover
5. Grant of repayment tenure for a period of 48 months

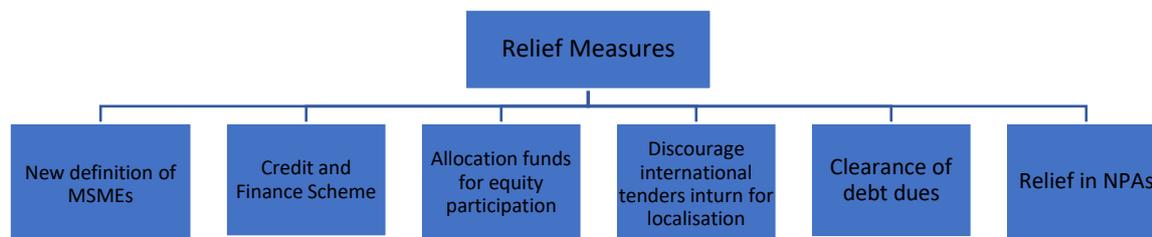
6. Assurance of 100% Credit Guarantee to MSMEs
7. Beneficial to 45 Lac units approx. due to reclassification of MSMEs.

Relief measures taken by the Government

The Atmanirbhar Bharat Mission was launched to face two significant issues i.e., to boost MSMEs and to make them less dependent on imports.

The Government of India is taking few measures to make these MSMEs global and to improve their business environment and those steps are conducive and transparent. MSMEs are the sectors which gives solutions to all the important issues like unemployment, balanced economic development, fiscal deficit, development in financial sector, balance in trade and etc. But due to COVID 19 affected the balance in all the above issues. So, it demands the coordination of fiscal and monetary policy measures. The fiscal measures include the compensation for the amount spent on providing masks, gloves, testing kits, ventilators, quarantine costs, medical expenses and other healthcare spending.

FIGURE 3
Initiatives of Govt. of India



Source: Atmanirbhar Bharat Mission, 2020

In addition to this, the industries like MSMEs suffer from lack of raw materials due to transportation problems, non-availability of credit, quality of materials received, disturbance in business timings, non-availability of migrant of labourers and etc. for this, the above-mentioned new steps have also been taken by GoI to rescue these MSMEs from this pandemic crisis to face the bright future.

Conclusion

The unprecedented COVID 19 pandemic situation has distorted world's economy in an unpredictable and challenging terms. Out of all the business sectors the worst hit is MSMEs due to the break of supply chain system. The situation has forced the Government to put forward few relief measures and simultaneously urged the MSME stakeholders also to identify the alternative sources i.e., from their current commodities to the commodities essential for the survival and to face the Pandemic situation. Government of India has supported these MSMEs in a number of ways to tackle the situation and to face the bright future as these enterprises are contributing a major part towards the GDP and employment opportunities in turn increases the per capital income of the individual. This COVID 19 pandemic has brought forth the unbalanced development in the country to the forefront and it makes the enterprises to prepare for the bright, sustainable and structured future.

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