

A LITERATURE REVIEW ON COVID-19 PANDEMIC IMPACT ON MSMEs IN INDIA

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Department of Economics,
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Over the past two years, the Covid-19 pandemic has been seen all over the world. Unprecedented chaos has been caused by the unknowable and unexpected calamity. The negative effects of this pandemic are widely acknowledged, and it spread like a virus that adversely affected international trade. India, the second-most populous nation, is not exempt from this hardship. Since March 2020, our nation has been on lockdown, which is one of the measures being taken to stop the pandemic's spread. However, the unlock scenario is being introduced gradually. Even while lock down was successful in stopping the pandemic's spread, it allowed the economy to stagnate. Industries in the manufacturing and service sectors struggled to remain under lockdown and fell into a rut. The majority of the businesses sustained significant losses and were in danger of folding. Due to this lock down step, the MSME (Micro, Small and Medium Enterprise) sector has been severely impacted. The current paper summarises a review of MSMEs-related literature published during the previous two years. The research was compiled from a variety of journal articles, official reports, newspaper pieces, etc.

Keywords: MSMEs, Covid19, Impact, lockdown

INTRODUCTION

All sectors were negatively impacted by the unprecedented COVID-19 pandemic, including micro, small, and medium-sized businesses (MSMEs). The untested lockdown limited the MSMEs sector's business operations and caused shocks and stresses in the form of reduced supply and production of final products, reduced production and supply of raw materials, and a lack of workers to work in the production process. Wide-ranging consequences include job loss, decreased revenue creation, decreased sales, and a decrease in working-class income (Hariharan, Thomas, & Viswanathan, 2021).

Since they rely on inherited, traditional skills and a preponderance of local resources, MSMEs have been crucial to the economic and social growth of India (Indrakumar, 2020). In practice,

MSMEs expand their market in rural and industrially undeveloped areas in particular by developing entrepreneurial in resource-poor groups and producing more than 6,000 high-quality items for domestic and international markets. The significance of MSMEs has grown over the past few years as a result of their consistent addition to employment and income generation through export revenues, as well as their capacity to adapt to market change and creative practises in local or global domains (World Bank Group, 2018). According to the 73rd wave of the National Sample Survey (NSS), which was performed in 2015–2016, MSMEs were the only sector outside of agriculture to create large employment prospects, creating 6.34 crore MSME units and 11.10 crore jobs. By encouraging non-agricultural livelihood and luring additional investment to the sector, it creates backward and forward links in the economy (Ministry of MSMEs, 2018–2019).

Given its wide-ranging effects on the economy, it is commonly acknowledged that the MSMEs sector is the backbone of the Indian economy. However, the devastating impact of COVID-19 has forced this industry to struggle for its survival. In the MSMEs sector, the threat of lockdown has become well-known, bringing with it a variety of issues such as the financial crisis, demand, supply chain issues, suspension of import and export opportunities, etc. (Banu & Suresh, 2020). This industry needs immediate stimulus in order to combat health crisis difficulties and preserve their growth process. The government has expressed its need for monetary and fiscal assistance to encourage economic development in the industry.

The goal of the study is to draw attention to how the pandemic outbreak's onslaught appears to have exacerbated the problems and difficulties faced by MSMEs. The discussion is supplemented with a few ideas that may help MSMEs in their battle for survival during these trying times.

MSMES IN INDIA: A DEFINITION

Every economy adheres to a different set of principles for categorising small and medium-sized businesses. Most nations do not distinguish between micro and small enterprises because they are both taken into account; the only distinction is between small, medium, and large businesses. The amount of employees, annual revenue, turnover, and investments in equipment and machinery are all examples of differentiating characteristics. The MSMEs

Development Act of 2006 established the MSMEs classification in India. On June 1, 2020, the Cabinet Committee approved a revision to the definition of MSMEs to accommodate the COVID-19 pandemic. The updated definition might lure new entrepreneurs into the industry, increasing output, investment, and employment overall (Vaishnav & Surya, 2020)

Definition of MSMEs	According to 2006		Revised, 2020	
Criteria	Investment in Plant & Machinery Equipment		Investment and Annual Turnover	
Classification	Manufacturing enterprise	Service enterprise	Manufacturing and Service	
Micro	Investment <Rs.25 lakh	Investment <Rs.10 lakh	Investment <Rs.1 Crore and Turnover < Rs. 5 Crore	
Small	Investment <Rs.5 Crore	Investment <Rs.2 Crore	Investment <Rs.10 Crore and Turnover < Rs. 50 Crore	
Medium	Investment <Rs.10 Crore	Investment <Rs.15 Crore	Investment <Rs.20 Crore and Turnover < Rs.100 Crore	

Source: **MSMEs Development 2006 Act, PIB updated on cabinet approval ; PRS**

OBJECTIVES

The paper highlights as follow:

- The review on output, employment, income, investment, and export contributions of the MSMEs sector to the Indian economy.
- The review on challenges and issues MSMEs faced during COVID-19.
- A review on the impact of Covid-19 on MSMEs in term of production.

The study used secondary data that was gathered from a variety of secondary sources, such as annual reports on MSMEs.

CONTRIBUTION OF MSMEs SECTOR

MSMEs hold a crucial and important position, mostly in developing nations. MSMEs' function in the Indian economy was designated and followed from the start of the planned economy in 1951 (Vashisht, Chaudhary, & Priyanka, 2016). The MSMEs in India produce nearly 6,000 products, ranging from conventional commodities to cutting-edge products. Compared to India's overall industrial sector, the growth rate of MSMEs has been higher recently. The MSMEs industry saw average growth of 13% during the past year. Nearly 114 million individuals were employed in the MSMEs industry (Sipahi, 2020). MSME placed 2nd to agriculture in terms of employment (Kishore, 2016; Raney, 2020; Vaishnav & Surya, 2020). The successful developments in the MSMEs sector highlighted in Table 2 can be monitored by a few key metrics.

Year	MSMEs GVA	Growth (%)	Total GVA	Share of MSMEs in GVA (%)	Total GDP	Share of MSMEs in GVA (%)
2011-2012	2,622,574	-	8,106,946	32.35	8,736,329	30.0
2012-2013	3,020,528	15.17	9,202,629	32.82	9,944,013	30.4
2013-2014	3,389,922	12.23	10,363,153	32.71	11,233,522	30.20
2014-2015	3,658,196	7.91	11,504,279	31.8	12,467,958	29.34
2015-2016	4,059,660	10.97	12,574,499	32.28	13,771,874	29.48
2016-2017	4,502,129	10.9	13,965,200	32.24	15,391,669	29.25
2017-2018	5,086,493	12.98	15,513,122	32.79	17,098,304	29.75
2018-2019	5,741,765	12.88	17,139,962	33.5	18,971,237	30.27

Source: Ministry of MSME, Annual Report (2020-2021).

The gross value added (GVA) sector's contribution to the nation has been steadily rising. The proportion of the MSMEs sector in total GVA and total GDP has been rising over time. There are 633.88 lakh MSMEs in the nation working in a variety of economic sectors. For example, 31% of MSMEs are reported to be involved in manufacturing, 36% in commerce, and 33% in other services.

The small and medium-sized sectors make for only 0.52% and 0.01% of all estimated MSMEs, respectively, while the micro-sector enterprises accounted for more than 99% of the total

estimated numbers within the identified sectors. Another factor to keep in mind is that 51% of India's estimated MSMEs are located in rural areas, while 49% are found in cities. Below is a presentation of the ownership share of MSMEs in several regions:

Male dominance in business ownership is visible in all sectors; 79.63% of businesses are owned by men, compared to 20.37% by women. Female ownership is more prevalent in rural than urban regions, and it is more prevalent in microbusinesses. Below is a presentation of the ownership distribution of MSMEs in terms of socioeconomic categories:

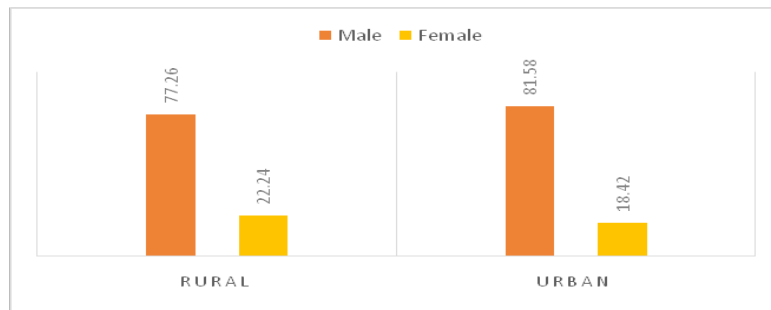


Figure 1. Ownership Distribution of MSMEs

Source: Ministry of MSMEs, Annual Report (2020-2021)

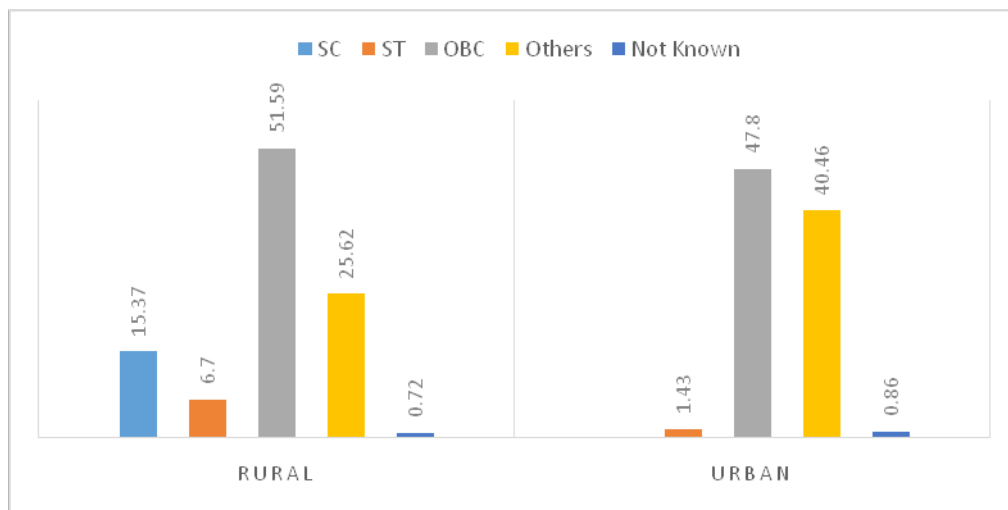


Figure 2. Social Category Wise Distribution

Source: Ministry of MSMEs, Annual Report (2020-2021)

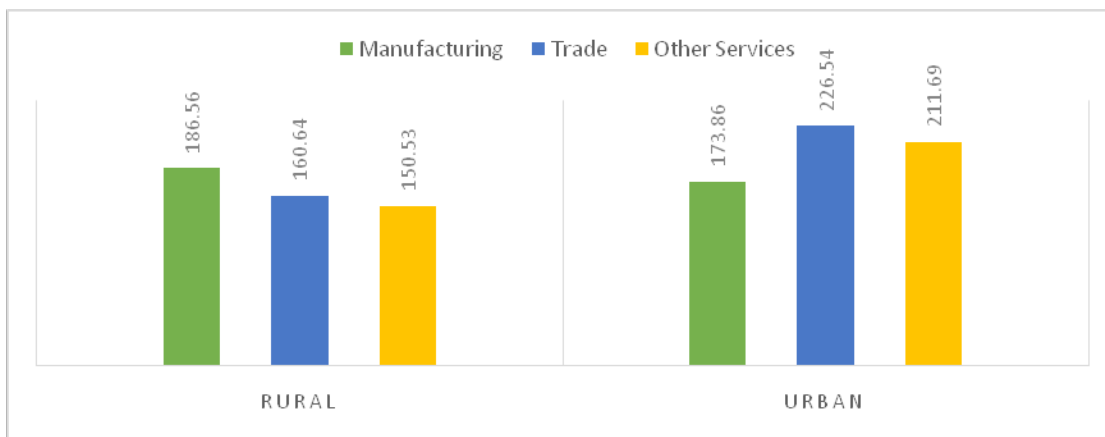


Figure 3. Activities wise Employment

Source: Ministry of MSMEs, Annual Report (2020-2021)

YEAR	TOTAL EXPORT	EXPORTS BY SHARE OF MSMES	BY SHARE OF MSMES EXPORT (%)
2012-2013	300,400	127,992	43
2013-2014	314,415	133,313	42
2014-2015	310,352	138,896	45
2015-2016	262,291	130,768	50
2016-2017	275,852	137,068	50
2017-2018	303,376	147,390	49

SOURCE: RBI AND PIB/DGCIS

The total 66.27% of all MSMEs are held by socially disadvantaged groups (SC, ST and OBC). OBC ownership of numerous MSMEs is specifically ascribed to rural and urban areas (49.72%). The figure 2. Shows category-wise distribution is perceptible in different segments of the sector. According to NSS's 73rd round report states that 1109.89 million workers in the MSMEs sector are employed in a variety of jobs, including 364.41 lakh in manufacture, 387.18 lakh in commerce, 362.22 lakh in other services, and 0.07 lakh in the nation's non-captive energy generation and transmission.

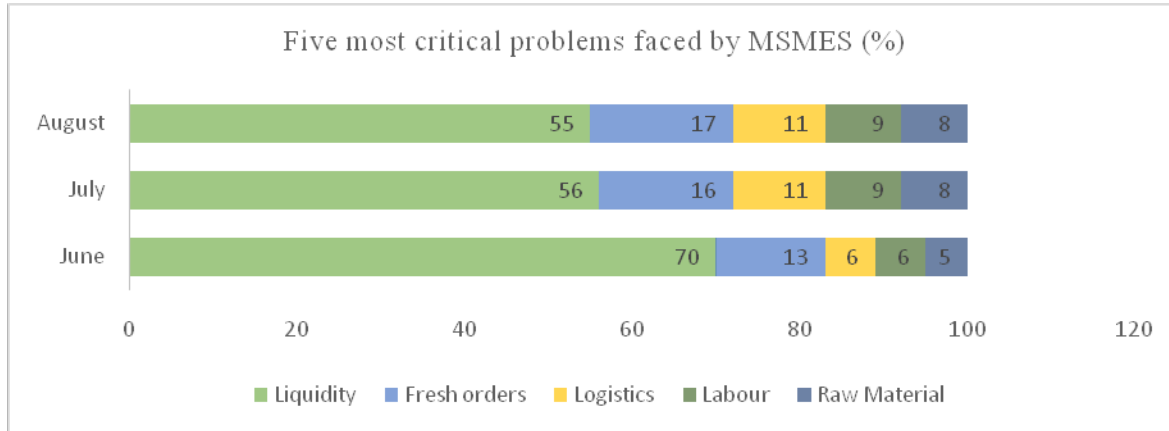
Only the micro-sector, which employs 1076.19 lakh people and accounts for almost 97% of all employment among the various MSME sector divisions, has a higher employment rate than the

small and medium sectors, which have employment rates of 2.88% and 0.16%, respectively. Male employees comprise 844.68 lakh (76%) of the overall workforce, while female employees make up 264.92 lakh (24%).

The export from the MSMEs sector is very important in determining the overall export of the nation. Table 3 makes clear that when exports from the MSMEs sector drop, overall exports also decline. Nearly half of all exports from India are made up of MSMEs.

CHALLENGES AND ISSUES MSMEs FACED DURING COVID-19

The MSME sector contributes significantly to the growth of the Indian economy. It is important to remember that this industry has been growing slowly since the end of 2016 though. Historically, this sector had few options for accessible institutional financing, so the majority of businesses relied on their own resources and only a small minority were able to obtain access to institutional credit. The 2013 Economic Census a Additionally, the Goods & Services Tax (2017), demonetisation (2016), and the protracted economic slowdown all had negative effects on how well MSMEs performed in the economy. Such a crisis has the potential to make their problems worse and further worry those at a time when not just these sectors but the Indian economy as a whole are dealing with several difficulties. MSMEs are predicted to be the worst affected sector of the Indian economy, leaving a large number of people without work and causing a large number of these industrial outlets to close. The Government of India and RBI have resorted to rapid both short-term and long-term policy choices to revive the economy and provide assistance to the vulnerable economic agents in light of the extraordinary crisis released as a result of the COVID Contagion outbreak. To speed up the nation's economic recovery, the government will introduce a relief stimulus package on May 12th, 2020, with the name "Atmanirbhar Bharat Abhiyan Package," totalling 20 lakh crores, or roughly 10% of our GDP. This will complement previous liquidity and fiscal stimulus measures the government had already implemented. Literally speaking, the aforementioned package that encourages self-reliance represents a turn in policy towards domestic manufacturing while also assisting in increasing supply chain diversification. The five significant problems that important businesses have been dealing with during the past three months as the economy has been unlocked are depicted in the figure below. These numbers are from a National Small Industries Corporation (NSIC) online survey of MSMEs that included about 6000 respondents.



Sources: National Small Industries Corporation (NSIC) Suvery

In August, only about 55% of businesses said that liquidity was their most pressing problem, down from 70% in June. The chart makes it evident that the share of all other difficulties, including fresh orders, logistics, labour, and raw materials, has somewhat increased over the same period of time. Because of their size, scope of operations, and other factors, MSMEs have experienced disruptions to their regular operations that have increased their stress levels. Lack of funding, a cash crisis brought on by COVID, logistical problems, and their incapacity to deal with the fallout from such an unplanned calamity.

Additionally, the pandemic has made things worse for these enterprises since they are the ones that are most burdened. Micro Enterprises are prone to shutting down due to a lack of resources to weather a crisis of this magnitude, which is likely to result in the loss of livelihoods for those employed here and extend to a loss for the economy in terms of increased unemployment.

SUPPLY-DEMAND DISRUPTIONS STRIKE TWICE

The COVID outbreak's invasion has caused a disruptive appearance of the twin supply-demand shock, which has had a domino impact on the potential growth prospects for the entire country. The lockdown caused abrupt halts in manufacturing and service operations, which in turn caused supply-side disruptions that subsequently expanded into a demand shock. The global pandemic-driven halt of all non-essential economic operations created the conditions for a supply-side crisis that affected both the domestic and global economies. The increasingly globalised and interconnected world we live in today has encouraged the growth of international value chains that link nations in a variety of ways. The social segregation policies, as well as the lockdown of national borders and transportation

networks, announced by most countries, have all been forced to fall primarily on the world's production and supply chains. The pandemic has also made it more difficult for countries to trade freely for both raw materials and finished commodities because manufacturing has been severely affected worldwide.

In the context of India, MSMEs import a significant amount of their raw materials from China and other nations, but this practise has recently fallen by the wayside, compounding MSMEs' problems with raw material supply. At the same time, the pandemic has affected India's capacity to export to foreign markets. Evidence suggests that the Covid19 had a negative impact on the industrial sector's supply side immediately after the lockdown was implemented, as suppliers' delivery times increased for the first time in months. Constraints on supply have also led to possible inflationary pressures in most nations, which has prompted central banks to implement inflation management.

INSUFFICIENT LABOUR FORCE

As a result of containment efforts taken by COVID19 to stop its spread, employment levels have drastically decreased both globally and in India. The threat of partial or complete workplace closure is crippling up to 81% of the worldwide workforce (International Labour Organisation, 2020). Nearly 92% of India's workforce is dependent on the informal, non-agricultural sector in urban areas, which primarily employs migrant and day labourers. This prevalence of informality in the labour market has become the foundation for extreme economic hardship for about 300 million people who are facing a dire lack of adequate living conditions. Up until May (when the whole lockdown took effect), official estimates put the jobless rate at 23.81%; a large portion of this increase was ascribed to the decline in employment in metropolitan regions. The people who were left to fend for themselves, enveloped in the unknown of the future, and staring at growing financial difficulty and instability in the face were the migrant and daily wage employees. Without a means of support, this section of our society was left with no choice but to slog back to their hometowns, often walking for days at a time and travelling huge distances. The everyday operation of important industrial and commercial outlets, particularly MSMEs, has been impeded by this infamous migration of migrant employees and labourers. It still acts as a kind of structural bottleneck that prevents enterprises from running at maximum capacity.

LOGISTICS ISSUES

MSMEs are not exempt from the pandemic's continuous cascading consequences on the economy. The effective operation of the global supply chain has been hampered since the lockdown was implemented in major nations. Supply lines have already experienced disruptions, the impacts of which could be felt throughout the nation, even before the obligatory installation of total lockdown in India to stop the extraordinary effects of Covid-19. The logistics industry has been devastated by this.

According to the Indian Chamber of Commerce (ICC), the expected losses to the logistics sector total 50,000 crores. Namely, The Financial Express (2020). Despite logistical difficulties, States have hoisted 84 lakh metric tonnes of food grains, and more than 3.4 lakh metric tonnes of pulses have been sent to various States Press Information Bureau (2020). Business and manufacturing activities have still not picked up pace to reach full capacity utilisation levels as the Indian Government prepared to launch the economy's gradual unlocking process with strict social distance norms in place (According to government estimates, only one in four MSME outlets are producing at least 50% of their maximum capacity).

CONCLUSION

There is no doubt that the emergence of the coronavirus pandemic has left key economic players suffering across the more interdependent global economy that we now live in. The crisis has subtly but obnoxiously inflicted fatal blows to human life, affected lives, businesses, economies, and broken traditional behavioural patterns (particularly our notions of shared welfare or well-being, freedom, mobility, needs, etc.) that we all mostly took for granted. MSMEs are undeniably praised for their contributions to a nation's domestic manufacturing sector, which in turn boosts the GDP and, as a result, becomes a major source of new jobs for the general populace. Given the foregoing, a sudden impediment like the Coronavirus pandemic not only has the ability to halt the expansion of MSMEs but also to have cascading multiplier effects in nearly every sector of the economy, endangering a nation's prospective economic prospects. However, if adequately implemented and implemented, government consolation measures can revitalise the MSME sector by fostering economic resilience that can further speed up sectorial expansion and the process of technology and infrastructure development. The way forward now would undoubtedly require forging a new path aiming for the strengthening of the foundation of our fragile

economies and enhancing its resilience to avoid exposure to such vulnerabilities in the coming times, in open cognisance of the COVID-induced adverse economic shock having transgressed into a slew of other domains.

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