

## **IMPACT OF COVID-19 ON MSMEs**

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### **Abstract**

This study investigated how the Coronavirus Disease 2019 (COVID19) pandemic affected MSMEs' financial results. The entire globe is undergoing a revolution, but not this time as a result of advancements in science or alterations in governmental regulations. In response to the unwarranted pandemic scenario brought on by the COVID 19 virus, the entire globe has transformed. The Indian economy is not an exception to the global trend of low economic growth. The micro, small, and medium-sized business sector in India was the worst hit and suffered several difficulties. The study looks at the issues these MSMEs (Micro, Small, and Medium scale Enterprises) encountered during the pandemic and what the government can do to help this sector recover through crisis management. The study examines government reforms and the adjustments Indian MSMEs must make to survive in trying times.

### **INTRODUCTION**

The world economy, which is already in terrible danger, is facing a very serious threat from this virus. There is no denying that the already faltering Indian economy is expanding at one of the slowest rates in the previous six years. And today, a fresh set of economic difficulties brought on by this virus are destroying many different industries. All areas of the economy have felt the effects of COVID-19, but the Indian Micro, Small and Medium Enterprises (MSMEs) have been hit the hardest. All available anecdotal evidence indicates that MSMEs have been the worst victims of the Covid-19-induced lockdown, including the hundreds of thousands of stranded workers. Lockdown in India has caused a number of problems, including decreased exports, a halt in production, a lack of labour, uncertainty over consumer demand, and a shortage of market liquidity. The bulk of India's 70 million traders are MSME, according to the Confederation of All India Traders (CAIT), which represents them. It is predicted that India will see a trade effect of about Rs 380 lakh. Due to a protracted economic slump, demonization, and GST, the micro, small, and medium enterprise sector was already experiencing severe suffering. COVID-19, the worst of all, has made the situation in this particular sector even worse.

The MSME sector is one of the most important ones that has allowed the Indian economy to grow rapidly and serves as the foundation of the country's economy. According to data from the Directorate General of Commercial Intelligence and Statistics (DGCIS), the sector that employs more than 114 million people, contributes more than 30% of India's GDP, and accounts for about half of exports is the MSMEs sector. MSMEs are important to the economy, but the majority of them continue to be the most vulnerable due to the lockdown and a drop in demand.

## OBJECTIVES

The objectives of the research are as follows:

- i. To explore the impact of COVID 19 on MSMEs in India
- ii. To explore whether the Government Schemes related to Industries have been effective or not, and also to create awareness among the industries.

### Factors responsible for affecting the MSMEs due to COVID-19

- **Shortage of Manpower** Organisations throughout the State have encountered unheard-of workforce disruption due to a shortage of workers. Almost all businesses are still figuring out how they will operate in the short and long terms due to the staffing crisis, which has primarily impacted MSMEs. Due to a stagnant economy and a decline in market demand, consumer demand patterns have changed, disrupting supply chains and putting pressure on them. Fundamental shifts in consumer behaviour and distribution channels brought on by the COVID-19 crisis have thrown MSMEs in the state off balance.
- **Shortage of supplies/input materials** Small businesses in the State have experienced a raw material shortage as a result of the ongoing national shutdown. As a result, production was stopped, which ultimately had an impact on the entire supply chain. Therefore, a factor that negatively impacted the MSMEs during the pandemic was the lack of raw materials.
- **Logistics** The supply chain has essentially stopped as a result of shutdown. Because factories and warehouses were immediately closed in response to the worldwide health emergency, supplies are currently pending. Both the supply and demand of transport services have been adversely impacted by the crisis. Additionally, due to the close coordination of logistics, manufacture of commodities, and freight transport activities, these disruptions soon had a negative impact on business, revealing the weakness of the entire supply chain.
- **Export Issues** Exports of goods have fallen by more than 60%, while imports have shrunk only slightly less. The sudden collapse of international trade was not unexpected given the number of regional, national, and global lockdowns that have significantly impacted supply chains and shipping lanes in addition to denting demand and investment.
- **Shortage of Funds** The MSMEs are unable to raise money. Due to the countrywide shutdown, small businesses are suffering from a lack of cash flow. MSMEs are unable to pay their creditors due to a stop in output and a decline in demand. While income production is still on hold, MSMEs still have a number of expenses they need to pay for, including staff salaries, tax deposits, warehouse and office space rent, among other things.
- **Temporary Shutdown** As a result of activities being stopped due to a lack of raw materials, MSMEs have been particularly hard hit by workplace closures during the COVID crisis, placing the businesses at a high risk of going out of business. Therefore, it is clear that one of the main causes that has impacted MSMEs is the slowdown or temporary shutdown.
- **Shortage of Market Credit** Due to a lack of cash flow to cover fixed costs, the nationwide lockdown has had a significant negative impact on the MSME segment's capacity to sustain its operation. The abrupt decline in economic activity first struck business credit, disproportionately hurting the industries.

### Schemes announced by the Government for MSMEs

The government has announced a number of measures to help micro- and small businesses that are struggling with a lack of cash or credit, as well as steps to increase liquidity for non-banking financial

companies (NBFCs) and offering tax measures for both individuals and corporations, in an effort to lessen the virus's negative economic effects.

The COVID-19 pandemic has prompted the Finance Minister to announce a number of economic measures as part of the Rs 20 lakh crore ATMANIRBHAR BHARAT Abhiyaan. The package includes radical changes to help businesses grow, with a particular emphasis on the Micro Small and Medium Enterprises (MSME) industry.

➤ **Subordinate debt for stressed MSMEs**

- Stressed MSMEs need equity support.
- GoI will facilitate provision of Rs. 20,000 cr as subordinate debt.
- Functioning MSMEs which are NPA or are stressed will be eligible.
- Govt. Will provide a support of Rs. 4,000 Cr. to CGTMSE.
- CGTMSE will provide partial Credit Guarantee support to Banks.
- Promoters of the MSME will be given debt by banks, which will then be infused by promoter as equity in the unit.

➤ **Liquidity through TDS/ TCS rate reduction**

In order to provide more funds at disposal of the taxpayers, the rates of Tax Deduction at Source (TDS) for non-salaried specified payments made to residents and rates of Tax Collection at Source (TCS) for the specified receipts shall be reduce by 25% of the existing rates.

- Payment for contract, professional fees, interest, rent, dividend, commission, brokerage, etc shall be eligible for this reduce rate of TDS.
- This reduction shall be applicable for the remaining part of the FY 2020-21 i.e. from 15th May to 31st March, 2021.
- This measure will release liquidity of Rs. 50,000 crore.

➤ **Interest Subvention for MUDRA-Shishu loans**

- Small businesses under MUDRA have been disrupted the most & have also impacted their capacity to pay EMIs.
- Loan moratorium has already been granted by RBI.
- The current portfolio of MUDRA-Shishu loan is Rs 1.62 Lakh crore (Maximum loan amount of 50,000 Rs).
- Government of India will provide interest subvention of 2% for prompt payees for a period of 12 months.
- Relief of Rs 1500 cr to MUDRA-Shishu loanes.

➤ **Liquidity Facility for NBFCs/ HCs/ MFIs**

- NBFCs/ HFCs/ MFIs are finding it difficult to raise money in debt markets.
- Government will launch a Rs 30,000 crore Special Liquidity Scheme
- Under this scheme investment will be made in both primary and secondary market transactions in investment grade debt paper of NBFCs/ HFCs/ MFIs
- Will Supplement RBI/ Government measures to augment liquidity.
- Securities will be fully guaranteed by GoI.
- This will provide liquidity support for NBFCs/ HFCS/ MFIs and mutual funds and create confidence in the market.

➤ **Equity infusion for MSMEs through fund of funds:**

- Fund of Funds with Corpus of Rs 10,000 crore will be set up.
- Govt. Will provide equity funding for MSMEs with growth potential and viability.
- Fund structure will help leverage Rs. 50,000 cr of funds at daughter funds level.
- It will help to expand MSME size as well as capacity.
- It will encourage MSMEs to get listed on main board of Stock Exchanges

➤ **Other Interventions for MSMEs**

- E-market linkage for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions.
- Fintech will be used to enhance transaction based lending using the data generated by the e-marketplace.
- MSME receivables from Government and CPSEs to be released in 45 days.

➤ **CONCLUSION**

The Micro Small and Medium Enterprise (MSME) sector has been facing exceptional difficulties as a result of the ongoing COVID-19 epidemic since this sector has substantially weaker liquidity reserves and fewer access to finance. Therefore, the nationwide lockdown that began on March 24th, 2020 will undoubtedly break the MSME sector's back. We may draw the conclusion that the MSME sector is strong enough to withstand the pandemic's problems and has been less severely affected because the majority of participants do not face the possibility of permanently closing their businesses. The primary element that has adversely impacted the MSME sector's business is the temporary closure of those companies, which ultimately has an impact on revenues. Many businesses have postponed their plans for business growth and expansion in order to properly plan, while many more have discovered creative ways to diversify into other business ventures in order to weather the crisis.

➤ **REFERENCE**

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