

PalArch's Journal of Archaeology of Egypt / Egyptology

"A STUDY ON PROJECTIONS OF ECONOMIC IMPACT OF COVID-19 ON MICRO, SMALL & MEDIUM SCALE INDUSTRIES IN INDIA"

Mr. Prasad Ghodke¹, Dr. Vijayalakshmi Srinivas²

¹Research Scholar, Savitribai Phule Pune University, Pune.

²Director, P.E. Society's Modern Institute of Business Management, Pune.

E-mail: prasadsppu1@gmail.com¹, directormibm@gmail.com²

Mr. Prasad Ghodke, Dr. Vijayalakshmi Srinivas, A STUDY ON PROJECTIONS OF ECONOMIC IMPACT OF COVID-19 ON MICRO, SMALL & MEDIUM SCALE INDUSTRIES IN INDIA, -- Palarch's Journal Of Archaeology Of Egypt/Egyptology 18(10), 2473-2480. ISSN 1567-214x

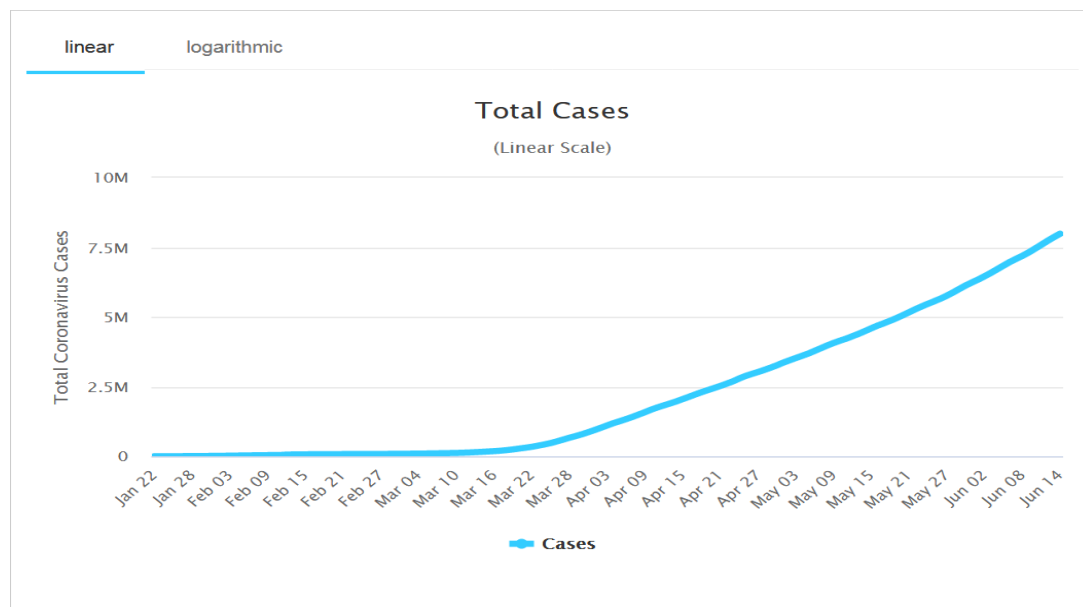
Keywords: MSMEs, Covid-19, Economic impact, Relief package, GDP.

ABSTRACT

MSME is one sector in India that has suffered badly due to the Covid-19 pandemic. A huge cut in demand, non-availability of labor, problems with finance and other resources for supplies has put the sector right on the mat. Unfortunately, the MSME has the most vulnerable business model for failure as they are quite dependent on the large-scale sector. So if the large-scale sector goes down, MSMEs will have to bear a larger brunt at the hands of the large-scale sector. This paper reviews the short-term, medium-term and long-term repercussions of Covid-19 on the Indian MSME sector. It also reviews the relief package of the Government for the revival and support of the MSME. Short-term, medium-term and long-term projections of the economic impact have been made in the light of various macro and microeconomic factors.

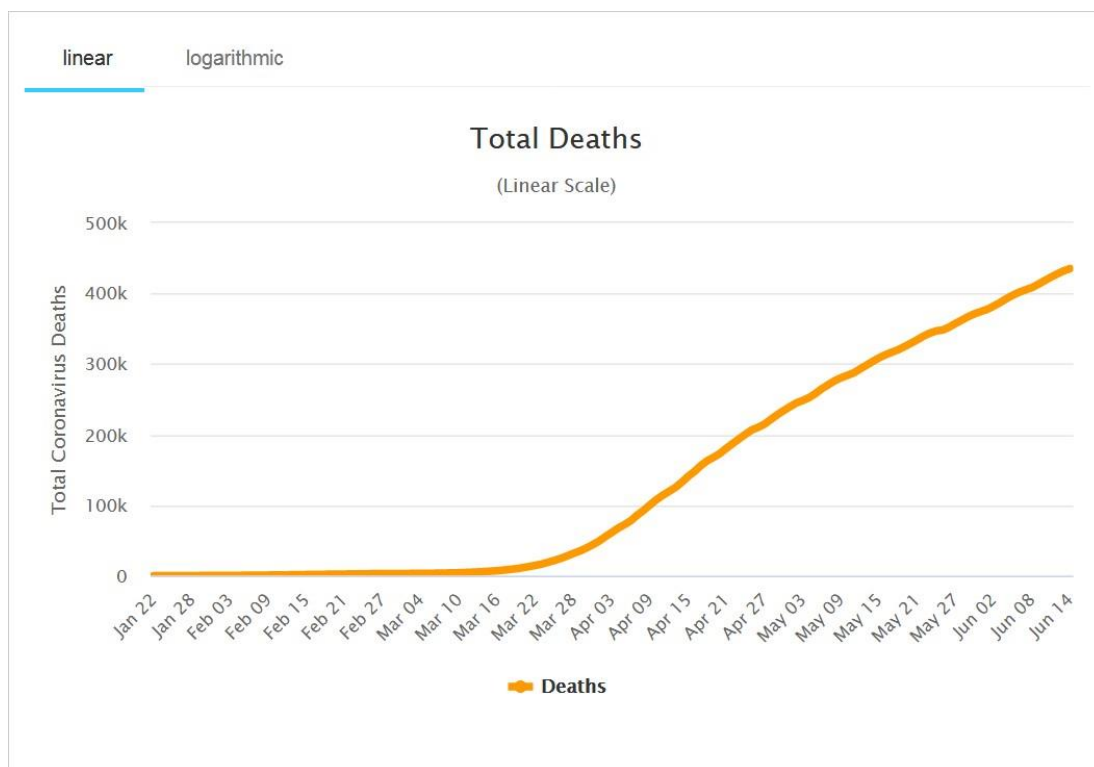
1. INTRODUCTION

Since February 2020, the world has been brought down to its knees by a virus called Covid-19. It has been a method-less madness. The virus came, it saw and it has shell-shocked all of us. Even after four months of the break-out, no one knows what is going to happen. Two graphs tell the horrible story:



Source: Worldometer - www.worldometers.info 

As on the date of writing this article (14th June 2020), the total number of cases count across the globe is about 80 million.



Source: Worldometer - www.worldometers.info 

The death toll has crossed 400,000. The worst thing is there is no respite as yet. MSME is one sector that has suffered badly. Major cut in demand, non-availability of labor, finance and other resources for supplies have taken a heavy toll on this

sector. MSME has a most vulnerable business model for failure as they are quite dependent on the large-scale sector. So if the large-scale sector is hit, MSMEs will have to bear a larger brunt at the hands of the large-scale sector. This paper reviews the short-term, medium-term and long-term repercussions of Covid-19 on the Indian MSME sector. Operational definitions are - short-term means the ongoing situation marked by lock-downs; medium-term means the financial year 2020-21 and long-term means the period from 2020-21 to 2024-25. The paper will also take stock of the reliefs announced by the Government for MSMEs.

2. REVIEW OF LITERATURE

The defining parameters for SME/MSMEs across the world are different. While the World Bank uses several employees as the criteria these range from investment in machinery to sales turnover. A summary of such parameters for SME/MSMEs is as given in Table 1 below (Gautam and Sondhi, 2020):

Table 1: Defining global parameters for MSMEs	
Country	Defining parameters
Australia	Strength of employees
Brazil	Strength of people employed and gross annual income
China	Sector-specific, Strength of employees, total assets, annual revenue
India	Investment in plant and machinery
Indonesia	Strength of employees
Korea	Strength of workers, capital or sales
Malaysia	Sales turnover and the number of full-time employees
United Kingdom	Turnover, balance sheet and Strength of employees
United Nations	Strength of employees, turnover
Source: Gautam and Sondhi, 2020	

Amidst the overall impact on business organizations of the pandemic, the MSME sector would be seriously hit by decreased incomes brought about by the across the nation lockdown. Their supply chain would be disturbed, and they would be influenced by the departure of migrant laborers, limitations in the accessibility of raw materials, by the interruption to supply chain and likewise by the total travel bans, closure of shopping centers, lodgings, theaters and instructive organizations and so on. This, thus, would hugely hamper the MSME organizations. As an outcome, countless individuals who work for these small organizations may wind up with occupation and salary losses (Dev and Sengupta, 2020).

Our country is confronting a tough situation of adapting to this pandemic just as to revive the economy. As of now, it is beyond the realm of imagination to anticipate that to what extent it will affect our economy. We need to attempt to live with COVID 19 by embracing distance working and playing it safe. The MSME sector isn't just confronting supply-side requirements yet additionally demand side. The government needs to face a balanced challenge to revive the economy just as to contain this pandemic (Choudhary, 2020).

Authors posit how MSME has forward linkages to the growth of GDP, increasing the output, consumption and production, besides generation of employment, reduction in poverty, overcoming regional imbalances and increasing the number

of registered units. The study revealed that the Government will have to continuously pay attention to the growth and development of MSMEs by initiating and implementing various schemes relating to the sector thus boosting the national economy as a whole (Nandeeswaraiah and Ramana, 2019).

The Micro, Small and Medium Enterprises in India are a catalyst for the economic growth of the country. The micro, small and medium enterprises play a key role in the economic development and employment generation in the country. The MSME sector has emerged as an extremely vibrant segment of the country and has played an important role in economic regional balancing in the country (Kumar *et al.*, 2017).

Garge and Agarwal (2017) have concluded that many factors influence the performance of the Micro, Small, and medium enterprises in the country. They include marketing, finance, infrastructure and technology human resource, etc.

Mohan and Savithri (2013) evaluated the role of small scale industries in the development of the economy. The scholarly work of the authors found that the establishment of SSIs resulted in employment generation, facilitating rural industrialization, growth of exports, and the rise of production. The article showed that the manufacturing industries in the MSME sector contribute to a larger extent to employment generation next to agriculture.

Singh (2012) was studied on the overall performance of small scale sector in which he contributed about to change the policy related to small scale industries that results in to providing many benefits to this sector. His study actually proposed about using new technologies that helps to improvement in firm's performance.

Muthiah and Venkatesh (2012) also researched about importance of small scale industries in overall industrial sector. They highlighted the important role of these small scale industries in economy of our country.

In this way above literature highlights the various aspects viz. Performance, growth & problems of MSMEs in the Indian economy and induces for continued research in this field. The importance of MSME in the Indian economy has been widely appreciated by researchers all the time. Articles on the impact of Covid-19 on MSMEs are also found. But a holistic review covering short-term, medium-term and long-term impact projection is not found.

3. ASSESSMENT OF IMPACT

Short-term impact (lock-down period)

The short-term impact on MSMEs is not difficult to project. The problems are well known. The problem is from both demand and supply side. Reduction in income, expenditure, employment and overall activity on one hand and a spurt in health care expenditure on the other is a precarious situation that has been faced by India and the entire world. MSMEs have been badly hit. A major blow has been taken on the demand front. Their customers, either the large-scale industries or individual consumers, both have stopped spending directly and sharply cutting the demand for the MSMEs. At the same time since labor mobility was also halted, the MSMEs had to stop producing as well. Otherwise, at times, inventories can be created in times of short-term demand crisis. But with a severe restriction on the physical mobility of men and goods, this has also not been possible. It has been one of the worst times for the MSMEs.

Medium-term impact (FY20/21)

The impact in the medium-term for the entire financial year 2020/21 will depend on the recovery. 1st quarter of the year has already almost ended with zero economic activity. Signs of recovery are not so strong as yet. However, the Government has announced the 20 lakh crore relief package with some thrust on relief to MSMEs which is a positive sign. The package is expected to give confidence to the MSMEs. An analysis of the package for MSME is as under (www.msme.gov.in, 2020):

Table 2: Relief package for MSME		
Sr. No.	Relief	Expected impact: Demand/Supply
1	Guarantee free and collateral-free loans amounting to total Rs. 3.00 Lakh crores	Supply
2	Setting up of a Sub-ordinate Debt Fund, with partial guarantee support - Rs.20000 crores	Supply
3	Setting up Fund of Funds Rs.10000 crore fund	Supply
4	A new definition of MSME #	Supply
5	No global tendering up to Rs. 200 crores.	Demand
6	Promotion of e-marketing linkage	Demand
7	Mandatory for the Departments of Government of India and the CPSEs to pay the receivables to MSMEs within next 45 days	Supply
8	The announcements that TDS and TCS will be reduced by 25%	Supply
9	Extension in the compliance date of various income-tax related deadlines	Supply
Source: www.msme.gov.in , # Change in definition of MSME		

Existing and Revised Definition of MSMEs

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment < Rs. 25 lac	Investment < Rs. 5 cr.	Investment < Rs. 10 cr.
Services Enterprise	Investment < Rs. 10 lac	Investment < Rs. 2 cr.	Investment < Rs. 5 cr.
Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < Rs. 1 cr. and Turnover < Rs. 5 cr.	Investment < Rs. 10 cr. and Turnover < Rs. 50 cr.	Investment < Rs. 20 cr. and Turnover < Rs. 100 cr.

Source: MSME ministry

Nine out of the seven steps are directed towards the supply factor. At the same time,

the Government has also taken a couple of steps to take care of the demand side. The MSMEs sector's recovery in the medium-term will largely depend on to what extent the large-scale industries who are the customers of the MSMEs revive. It can be expected that things will settle down in quarter two of the financial year and a bounce-back will be seen in the second half of the fiscal 20-21. Thus effectively, the performance of the MSME sector for FY 20-21 can be logically projected at around 50% levels as of the last year, that is, FY 19-20 subject to a recovery of the large-scale sector.

An important macro factor for MSMEs' performance is its contribution to the overall national GDP. Business Standard (2019) has stated that MSMEs contribute around 30% of the national GDP. India's national GDP projections for the fiscal 20-21 have taken a big beating. RBI Governor in May 2020 has made it clear that there are all possibilities of the GDP growth going negative in the year 20-21 (The Hindu, 2020). "The biggest blow is to private consumption that accounts for 60% of domestic demand", said the Governor. For the MSMEs share in the overall national GDP in percentage terms, it might remain at the levels of around 30%, but in absolute terms, it will certainly come down significantly.

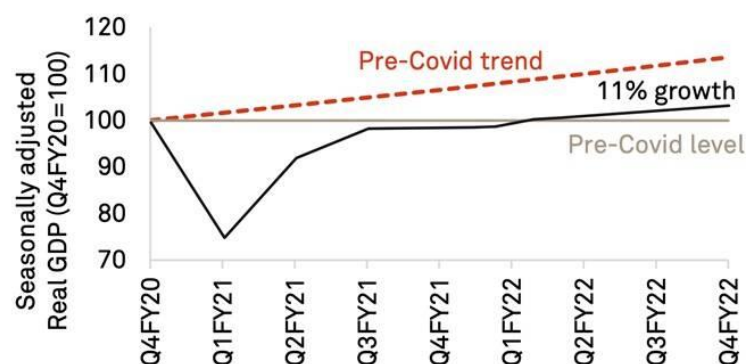
Long-term impact (21-22 to 24-25)

Long-term recovery of the MSME sector is expected to be driven by the following macro factors:

- Overall global economic recovery
- Recovery of the national large-scale sector
- The revival of private consumption
- Control over the spread of the Covid-19 Pandemic
- Key global parameters like crude oil rate and exchange rate

At the same time following micro factors in the long-run will also impact the long-term performance of the MSME sector –

- Restoration of uninterrupted supply by the MSMEs
- No hindrances in the mobility of labor and goods
- Continued support to the sector by the Government



Note: The flat line refers to the indexed level of GDP in Q4FY20

Source: Ministry of Statistics and Programme Implementation (MoSPI), CEIC, CRISIL

A positive for the MSME sector is the likelihood of generation of additional internal

demand in the long-run in the wake of the “Aatmanirbhar Bharat” policy of the Government. Steps like curtailing of global tendering below Rs.200 crore projects are expected to step-up local demand in which the MSME sector can make a valuable contribution.

Considering a three-way optimistic-most likely-pessimistic model of forecasting, projections for the MSME sector for the long-term (2021-22 to 2024-25) for some key parameters are as under:

Table 3: Projection of long-term economic impact on MSMEs					
Sr. No.	Parameter	Current Level (normal) (CII, 2019)	Optimistic scenario projection	Most likely scenario projection	Pessimistic scenario projection
1	Employment in the MSME sector	120 million	160 million	130 million	120 million
2	Share in GDP	30%	40%	35%	30%
3	Share in exports	45%	60%	50%	45%
4	Growth rate of MSME	10%	15%	12%	10%

The optimistic scenario projections are based on positive assumptions of a strong global and national economic recovery coupled with a boost in the demand and strong supply management by the MSMEs. The most likely scenario projections are based on a moderate positive shift in the macro and microeconomic factors. The pessimistic scenario projections are based on the premise that the status quo will be just maintained even in the long-run given a highly depressed state of the global and national economy.

Evaluation of the relief package

The relief package announced by the Government of India on 13th May 2020 has nine major direct initiatives to boost-up the MSME sector. A major aspect of the package is the breather in finance to the MSME sector. Capital is one of the major constraining factors for MSMEs. The Government has taken a strong positive step in this regard and has given a big relief by relieving it of financial worries so that it can concentrate on two core activities, namely supply and demand. Steps like making it mandatory for the Departments of Government of India and the Central Public Sector Enterprises to pay the receivables to MSMEs within the next 45 days and cut in the TDS rates are measures to ease out the working capital problems faced by the MSMEs. Importantly, the Government has taken a couple of initiatives to push the demand for MSMEs. Steps like local tendering in projects up to Rs.200 crores and promotion of e-marketing linkages are significant as they address the biggest problem for the MSMEs – shrinking demand. The new definition of MSMEs will bring more units in the ambit of the sector and these units will be eligible for the benefits to the sector announced by the Government. Thus the Government has taken a major step to widen the very base of the MSME sector itself. To what extent these measures will augur well on the ground will depend however on support from several implementing agencies like banks, taxation authorities, PSEs and others. The relief package is indirect support to the MSMEs to enable them to sustain themselves in the crisis period and also march ahead in the long-run.

4. CONCLUSION

The battle is tough. Amid projections of global worst economic recession by leading agencies and experts, the Indian Government has taken some courageous steps in holding the hand of one of the most vulnerable sectors, that is, MSME. The MSME sector on its part will have to respond well. It will have to keep a long-term perspective and use Government support in the right spirit. Government supports at times are misused. Controls from the Government often are weak and tendency to siphon off the benefits is quite common in India. Genuine and sincere efforts from the MSMEs are a must. They need to appreciate the fact that the Government has a much bigger challenge to tackle and the MSME sector is the 2nd biggest beneficiary next only to agriculture from the Rs. 20 lakh crore stimulus package. They will have to keep in mind that the Government has to take care of 100s of several other things, yet, it has given a top priority to the MSME sector in a benevolent spirit. To what extent they can respond, time will tell. The projections of the economic impact certainly do not look good in the short-run. But in the long-run, the sector is expected to bounce back strongly.

5. BIBLIOGRAPHY

1. Business Standard (2019), "MSMEs Contribute 29.7% Of India's GDP", accessed from https://www.business-standard.com/article/news-cm/msmes-contribute-29-7-of-india-s-gdp-119120200888_1.html.
2. Choudhary, M. V. K. (2020). A Framework for Revival of MSME Sector Post COVID 19. Tathapi with ISSN 2320-0693 is a UGC CARE Journal, 19(10), 288-295.
3. CII (2019), Micro, Medium & Small Scale Industry retrieved from <https://www.cii.in/Sectors.aspx?enc=prvePUj2bdMtgTmvPwvisYH+5EnGjyGXO9hLECVtuNuXK6QP3tp4gPGuPr/xpT2f>.
4. Dev, S. M., & Sengupta, R. (2020). Covid-19: Impact on the Indian economy. Indira Gandhi Institute of Development Research, Mumbai April.
5. Garge S, Agarwal P. Micro, Small and Medium Enterprises in India: A Review of Growth and Challenges in the Present Scenario. International Journal of Applied Business and Economic Research. 2017;15(4):569-580.
6. Gautam, N., & Sondhi, A. (2020). MSMEs in India: A Vision for the Future. In Handbook of Research on Increasing the Competitiveness of SMEs (pp. 172-191). IGI Global.
7. Kaur, Hardeep (2018), "Study of the Entrepreneurial Competencies for the Business Success in MSMEs", MERC Global's International Journal of Management, Vol. 6, Issue 1, pp.13-23.
8. Kumar A, Shaik M, Ramesh K, Babu G. (2017), Performance of MSME sector in India. International Journal of Economic and Management Studies;4(3):11-14.