



Impact of Pandemic on the Small and Medium Scale Industries in India

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Abstract :

This study highlights how pandemic has affected small and medium enterprises in India. The study shows that firms of all sizes are harshly affected in multiple dimensions. Small and medium enterprise sales shrink by more and their cash drains faster than large firms in the same sector and country. COVID-19 had impacted largely on most of the SMEs in India. Many individuals who are skilled, semi-skilled and unskilled became jobless during pandemic. This paper focuses on how pandemic had impacted on the SMEs in India.

Keywords : SME, Pandemic, Economy

Introduction

COVID-19 had shackled the world economy and it is a pandemic making a great distractions to life of the entire mankind. The pandemic had also impacted on the social and economic systems across the world. Based on different reports, it is the most dangerous global crisis after World War-II. This COVID-19 is highly transmittable and has spread with inconsistent progress across the world without any variance. COVID-19 is a massive health crisis BUT also much more. It is a total shock with profound implications, both in the short- and medium-to long-term on every aspect of livelihood. This COVID-19 has triggered a substantial short-term economic reduction, closed down many firms, irrespective of sizes, tens of millions became jobless, and has other impact on business activities. To prevent unemployment, poverty, and food uncertainty rates from further rise steeply during any time, small and medium enterprises around the globe can and had played a crucial role.

Small businesses are the backbone of any economy, and with the ripple effect of pandemic on economies all over the world, their protection has become important more than ever. The government has been taking many sweeping health and economic measures to mitigate impact of pandemic. Recognized by the government as a driver for economic growth and job creation, small businesses, or more commonly referred here as small and micro enterprises, the sector has been growing steadily for the past decade or so. However, facing the impact of the pandemic, most of these firms face difficulty surviving in the current climate for even above 6 months and more. Many of them had closed their shutters. Much skilled, semiskilled and unskilled manpower became jobless.

Small and Medium Scale Enterprises

The Micro, Small, and Medium Enterprises (MSMEs) sector plays a critical role in creating employment opportunities and is often called the strength of the economy which employs a significant number of workers, after agriculture sector. This sector has ability to create employment opportunities in rural areas with low capital cost which help in reducing the regional imbalance in the economy. The MSMEs sector contributes 45% of India's total export, produces more than 114 million jobs and accounts for 33.4% of India's manufacturing output (EPW; 2020). The sector is highly susceptible to external factors. COVID-19 pandemic has impacted every sector of the economy and the MSMEs sector has been mainly affected due to supply-side disruption and reduction in demand. The demands for the ready-to-wear garment, furniture, tobacco, leather, electronics, and rubber & plastic products have been very low in the economy in the last few months. In order to address lethargy in the economy and MSMEs sector specifically, Union Government announced a special package of INR 3 lakh crores Collateral free Automatic Loans along with six reforms under the Atmanirbhar Bharat Abhiyaan (Self-Reliant) to revive the MSMEs. Among many reforms, one was related to the change in the definition of Micro Small & Medium Enterprises (MSMEs) firms. Additionally, on 12th November 2020, Government of India announced Atmanirbhar Bharat Package 3.0 and allocated INR 1.46 lakh crores for ManufactureLinked Incentives Scheme to boost the manufacturing sector.

MSMEs are the most common form of business enterprise found throughout the world, yet their key characteristics are not well understood. There is no single, globally accepted definition of MSMEs, and their characterization can vary significantly between nations. Some countries use a singular quantitative feature, such as the number of employees or annual turnover of an enterprise. Others use more complex permutations, including industry sector, capitalisation, asset base, staff and/ or revenue. Terminology also varies. In some nations, such entities are referred to as "MSMEs"; in other jurisdictions, the more commonly used term is "Small and Mediumsized Enterprise" (SME); whilst in yet others the simple term "small business" is employed. Throughout this report, the terms are used interchangeably.

COVID-19 Era

The coronavirus disease (COVID-19) pandemic, which originated in the city of Wuhan, China, has quickly spread to various countries, with many cases having been reported worldwide. As of May 8th, 2020, in India, 56,342 positive cases have been reported. India, with a population of more than 1.34 billion—the second largest population in the world—will have difficulty in controlling the transmission of severe acute respiratory syndrome coronavirus 2 among its population. Multiple strategies would be highly necessary to handle the current outbreak; these include computational modeling, statistical tools, and quantitative analyses to control the spread as well as the rapid development of a new treatment. The Ministry of Health and Family Welfare of India has raised awareness about the recent outbreak and has taken necessary actions to control the spread of COVID-19. The central and state governments are taking several measures and formulating several wartime protocols to achieve this goal. Moreover, the Indian government implemented a 55-days lockdown throughout the country that started on March 25th, 2020, to reduce the transmission of the virus. This outbreak is inextricably linked to the economy of the nation, as it has dramatically impeded industrial sectors because people worldwide are currently cautious about engaging in business in the affected regions.

Impact of COVID-19 on SME

The Indian start-up ecosystem was considered booming, thriving and progressive until the outbreak of Coronavirus. The beginning of the year 2020 saw the growth of the ecosystem continuing from 2019. But the COVID-19 pandemic hit the world and India was put under lockdown which affected the start-ups. Start-ups had to eventually downsize and reduce their teams. Around 40% of start-ups had to shut down or halt their operations and 70% claimed that their survival is at stake, while revenues have declined 90% for over 250 start-ups as per a survey conducted by NASSCOM in April 2020. As per another report by TiE Delhi-NCR and Zinnov, there was an adverse impact on around 40% of the start-ups, and 15% were forced to discontinue their operations. As per another survey conducted by the Federation of Indian Chambers of Commerce and Industry and the Indian Angel Network, around 43% of the startups were required to cut salaries up to 40% in the months of April to June 2020. The effect of the pandemic situation can be noticed from how the ranking of the Indian start-up ecosystem had fallen from the 17th position in 2019 to the 23rd position in 2020 according to a ranking system by StartupBlink, which ranks the start-up ecosystems of countries based on the quality of the start-ups, business environment and the quantity. Thus, initially, when the lockdown was imposed in the country, the start-ups in India faced many hurdles for survival. But the pandemic has provided many different opportunities and encouraged innovation in India.

Conclusion

The overall impact of COVID-19 on the MSME sector is somewhat difficult to assess, as it fluctuates based on the rate of infection and patient recovery, the current movement restrictions put in place in various regions, and of policy responses in different countries. Comprehensive real-time global data on the state of the MSME sector is hard to come by, but the COVID-19 crisis has sparked interest and incentivized such investigations on MSMEs. The pandemic has changed the definition of normal. SME who can understand the true meaning of the new normal will be able to bring the best in them by identifying new opportunities with their innovative ideas and unique solutions. Those who are willing to adapt to the changing dynamics of the business environment by thinking out of the box will be successful in creating new opportunities for businesses in future.

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