

## Impact of Lockdown during Covid-19 on MSME sector : A review

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**Abstract :** Lockdown was the only option to stem the spread of the Corona Virus after millions of lives were affected by the virus. According to a poll conducted by the All-India Manufacturers' Organization, 35 percent of micro, small, and medium firms and 37 percent of self-employed persons have begun closing down their operations because they see little hope for recovery in the aftermath of the Covid epidemic. In accordance with the results of an AIMO survey (economic times). As of today, June 2021, a harsh lockdown has been enforced in several sections of the United States, aggravating the situation for small and medium-sized businesses (MSME). The ATMA NIRBHAR BHARAT programme has offered some assistance, but it is not enough to address the problems that millions of small company owners confront. Even in the corporate world, change is inevitable.

**Keywords:** Covid-19, MSME, Lockdown

### Introduction

MSMS is the second-largest source of employment in India, behind agriculture. Before the Covid-19 Pandemic, new entrepreneurs and inventors were exploring the tremendous untapped potential of MSME's, which eventually helped to enhance the business environment. More than 63 million small and medium-sized enterprises (SMEs) in India employ around 110 million people. It is estimated that there were 630.52 lakh MSME's in India, with more than 99 per cent of them being in the Micro Sector (630.52) followed by Small (3.31), and Medium Sector (0.05). About 6000 different items are produced in India by MSME's for local and worldwide consumption. In the five years from 2014-15 to 2018-19, the contribution of MSME to India's GDP has been in the 29-30% area, which is a considerable figure as one-third of GVA. Small and medium-sized enterprises (MSME) are usually seen as being of critical importance in reducing regional disparities, both in terms of geography and income. Rural India is home to 51% of MSME establishments, while metropolitan regions are home to 49%. The distribution of resources is well-balanced, which helps India's developing regions and industrial sector grow. To build India's economy \$5 trillion by 2025 seemed impossible before the Covid-19 Pandemic. Now, the partial and complete lockdown in various regions of the State's has made it much more harder. Virus cases were first discovered in Wuhan in December of this year. Acute Respiratory Syndrome (A.R.S.) is an infectious respiratory disorder caused by the

coronavirus. By today's date, June 2021, the illness has spread to almost every country, making it an ongoing pandemic. On March 30th, 2020, the first case of Covid-19 was recorded in India. On March 24, 2020, the Indian Prime Minister imposed a 21-day statewide lockdown, which exacerbated the predicament of MSME businesses in India by bringing all sectors to a halt. There was no option but to shut down businesses, manufacturers, and service providers in the early phase of the lockdown due to the immediate nature of the situation. Majority of the employment losses occurred in the unorganised sector, with 40 million individuals losing their positions. As a result of the Pandemic and the poor implementation of the GST system, the MSME sector is now in even worse shape. In April 2019, exports fell by 60% as a whole. During the first three quarters of fiscal year 2019, GDP fell from 5.1% to 3.1%. According to the International Monetary Fund (IMF), the world economy is expected to contract by 4.9%, with India seeing negative growth of 4.5%.

### **Impact of COVID-19 Lockdown on MSMEs**

Some initial evaluations based on brief surveys performed by researchers and market participants show that the MSME sector has been significantly affected during and during the shutdown of COVID-19. The lockdown's effect on the MSME sector is assessed in two ways in this article. The first method is to use monthly manufacturing sector data from March 2020 and onwards to examine the trends in industrial output. Another option is to discuss the conclusions of several research that have examined the effect of COVID-19 on the industry. The index of industrial production (IIP), one of the most important parameters, is monitored at a high frequency (monthly) to assess the present and future trends in industrial output. The first six months' worth of publicly accessible statistics (from April to September) show a sharp decline in industrial output during the lockdown and the months that followed. These statistics are just for registered/organised manufacturing, but they also fairly reflect the final tendencies of the industrial sector for a given time. MSME sector development is also influenced by the success of the registered manufacturing sector since the latter sector is an auxiliary or attached unit of the former sector. Figure 2 shows the Y-o-Y growth rate of IIP for the most recent months. In April 2020, IIP decreased dramatically as compared to the same month the year before. When compared to the same month last year, output fell by a stunning 66.6 percent. Since September 2020, the IIP growth rate has been negative, even though it has steadily improved in succeeding months. Compared to capital-intensive sectors like metal, petroleum, and chemical manufacturing, the decline in the IIP growth rate was substantially greater in food

processing and textiles (Table 1). The severe decline of IIP in these sectors may also directly reflect the effect of COVID-19 on the MSME sector, given that small and micro-sized businesses make up the majority of firms in the labor-intensive manufacturing industry.

After the lockdown period, factory production decreased, resulting in employment losses. Manufacturing sector employment losses during the lockdown period have been substantial and recovery has been delayed, according to Was (2021).<sup>2</sup> The manufacturing industry produced 40 million jobs in 2019-20 according to statistics from the Centre for Monitoring Indian Economy (CMIE). A loss of almost 15 million jobs was estimated for the first quarter of 2020-21 when the employment number decreased to 24.6 million from the previous year. During the second and fourth quarters, it rebounded to 27.1 million and then to 28.8 million. At a deficit of \$11.4 million, this is still a significant problem. It is also significant to note that the employment of every major industrial business except for pharmaceuticals would decrease in 2020-21. The rise in unemployment rates during the lockdown may be attributed to the loss of jobs in the industrial and service sectors. Figure 3 illustrates the CMIE monthly unemployment rate statistics, which reveal that in April and May of 2020, the unemployment rate was over 20%, compared to below 10% in the same months in the prior two years. As economic activity built up in the second half of the post-lockdown era, unemployment fell and followed a path that was substantially identical to the prior two years.

After the shutdown, more than 60 percent of all economic activity in the MSME sector in India was halted. As a result of the lockout, MSME manufacturing companies that make agricultural items have not been significantly impacted. Micro- and small-business net sales growth rates also dropped sharply after the lockdown. There was a (—)66.7 percent drop in first-quarter net sales growth for 747 small businesses, according to a Roy, Patnaik, and Satpathy (2020) investigation. The government's decision to extend the lockdown throughout the country exacerbated the problem. In the first three months of 2020-21, sales at small businesses with annual revenues of INR 25 crores or less are expected to have fallen by (—) 25,3 percent, according to an early estimate.

India's business sector's income is expected to decline by as much as 5 percent in 2020-21, according to a Business Line article. Revenues in the MSME sector are expected to decline significantly. This fiscal year, the MSME sector is expected to lose more than 21% of its

income. The MSME sector would face an existential dilemma due to a profit margin of barely 4 percent to 5 percent. Lower revenues will have an effect on MSME operations, which will have an influence on the companies' creditworthiness (Merwin, 2019). Covid-19's effect on the MSME sector was determined by comparing its contribution to overall manufacturing gross value addition in recent years with that of COVID-19. In 2015-16 and 2016-17, the author observed that the industry saw annual growth rates of above 7% each year. Up to the pre-COVID-19 era, the growth rate was roughly 6%. They predicted a significant drop in the MSME sector's growth rate of up to 83% in the period after the COVID. This will have a disproportionately larger effect on the MSME manufacturing sector than on trades and services. The industry's slowed expansion was attributed mostly to a drop in domestic demand and supply chain restrictions. Reduced exports of labor-intensive items including gems and jewellery, clothing and textiles, and seafood have also contributed to the decrease in the production of the MSME sector at the disaggregated sectoral level (Ashwani and Sahoo, 2020). Due to a lack of funds, the vast majority of MSMEs have seen their operations slacken to the point where they may be forced to close their doors in the near future. Some 19 percent to 43 percent of the existing MSME enterprises may be forced out of business due to a lack of cash flow, as a result of the shutdown. There were also estimates that the shutdown might result in the loss of at least 11 million jobs in the retail sector, which employs more than 46 million people (Pramanik, 2020). As a result, the MSME sector's income was negatively affected by the ongoing lockdown. More than 60 percent of the state's MSME sector may be at risk of revenue shortfalls, according to a recent study in Tamil Nadu (The Economics Times, 2020) 3. Because to COVID-19's protracted lockout and delay, the KredX Editorial Team (2020) has concluded that the MSME sector is on the verge of extinction. COVID-19 deteriorated the cash flow and working capital of these MSME sectors, which had plummeted owing to demonetisation in the previous two years, prior to a full recovery. For March 2020, 71 percent of the 5000 MSME companies studied by Pandey and Pillai (2020) couldn't pay their workers' wages because of the lockout. With more than 114 million jobs, the MSMEs are a highly labor-intensive sector that must be protected with adequate measures. MSME firms in Bengaluru's Peenya Industrial Area, one of the country's major industrial clusters, were found to be entirely crippled in a research by Kulkarni and Varma (2019). There are about 10,000 MSME units in this cluster, however most of them either operate one shift a day or only work three days a week because of the slowdown. Almost all of the MSME units have been adversely impacted

by the downturn of major car manufacturers like Ashok Leyland, TVS TAFE, and Toyota during the previous two to three years.

### **Conclusion :**

Final thoughts Millions of Indians rely on small and medium-sized enterprises (MSMEs) for their livelihoods. Non-farm jobs are also plentiful in rural regions because to the industry. However, the sector is vulnerable to both foreign and internal crises because of its lack of organisation and small scale. Because to COVID-19, there is uncertainty in almost every aspect of economic activity, from raw material supply to end products demand to job prospects themselves. The drop in production, income, and capital flow to the industry has resulted in the loss of a significant number of employment during and after the lockdown, according to data analysis and studies done by people and organisations. Many small and micro businesses were compelled to close their doors owing to a long-term decline in sales. As a result, financial assistance for this industry is critical. Atma Nirbhar Bharat Abhiyan, the federal government's MSME initiative, has possibly come at the appropriate moment and with a noble aim of revitalising the sector and bringing them "local to global" under the umbrella concept of "Make in India" Structure changes in land, labour laws, and infrastructure have been high on the Hon'ble Prime Minister's priority list in order to support the 'Make in India' vision and assist India play a larger part in the global value chain. Many international corporations have expressed a desire to move their manufacturing operations out of China, creating an opportunity for India to seize the initiative and establish itself as a global manufacturing powerhouse.

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