

CHALLENGES AND PROSPECTS OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN INDIA AT POST COVID-19

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ABSTRACT

MSME sector in India is second largest employment generator after agriculture, and acts as a breeding ground for entrepreneurs and innovators with considerable support in strengthening business ecosystem. The estimated number of MSMEs in India is 63 million and employs 110 million individuals. Indian MSMEs produce more than 6,000 products for local and global consumption. Data from 2020 Micro, Small & Medium Enterprises (MSME), sector contribute 30% to Gross Domestic Product (GDP) and export from it is 48%. "Presently MSME is the most important sector for the country, it's backbone of Indian economy. That means MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities as well as 33.4% of India's manufacturing output. The more important with government's new mission of achieving \$5 trillion economy target by 2025. Within this target the role of MSME sector is going play an important role, with expected contribution to GDP above 50% mark. The potential of Indian MSME sector is still untapped and that is one of the reasons why government policies are now more convergent towards building resilient ecosystem with better breadth and depth.

KEYWORDS: *Micro, Small and Medium Entrepreneurs' (MSMEs), Post Covid19, Prospects, India, GDP.*

INTRODUCTION

1. Background:

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are

complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. [1]

✓ **MSME definition is making news ever since October 2019.**

With a hope to create five crore job opportunities in the MSME sector, the Government had announced about making changes to the MSME definition, where turnover will define an MSME, and not the investment put into it.

✓ **New MSME definition based on investment and turnover (June 2020)**

On 1st June, Monday, the Union Cabinet headed by Prime Minister **Narendra Modi** officially revised the MSME definition. The recent changes in the definition of micro, small, and medium-sized enterprises made as a part of the **Atma Nirbhar Bharat Abhiyaan** relief package were approved. The investment and turnover figures were changed to larger values, thereby resulting in a larger number of medium-sized enterprises. [2]

Update MSMEs Definition		
Type of Enterprise	Investment	Turnover
Micro	Rs 1 Crore	Rs 5 Crore
Small	Rs 10 Crore	Rs 50 Crore
Medium	Rs 50 Crore	Rs 250 Crore

In October 2019, Union Minister Nitin Gadkari had said that the revised definition of micro, small, and medium enterprises may grant a unified description for all things related to taxation, investment, and more. The changed definition was to be implemented via an amendment that would further refine the business scenario for Indian enterprises. The Union Cabinet had approved the amendment to change the criteria to classify MSMEs from “investment in plant and machinery” to “annual turnover.” [3]

Micro, Small and Medium Enterprises (MSMEs), erstwhile Small Scale Industrial Sector (SSIS), emerged to be an important force playing a pivotal role in bringing about quick economic recovery during post globalization era in India. The MSMEs sector has proved to be an effective contrivance not only in generating employment but also encouraging semi-skilled and ambitious workers to become entrepreneurs. MSMEs has roughly been observed to have employed about 40% of Indian workforce and as an enabling industrial engine for Indian manufacturing sector which is the major constituent of Export Oriented Units (EOUs) in India. It is an empirical observation that the Indian MSMEs sector has been playing a prominent role in manufacturing variety of products and generating wide range of services. This has been observed to be an efficient instrument for bringing about industrialization in rural, semi-urban, backward and hardly industrially empowered and covered areas. Moreover, this sector plays an important role in reducing regional imbalances in terms of socio-economic development. The country has been passing through an acute economic sluggishness which is adversely eclipsing the process of socio-economic sustainability. Now the MSMEs sector should get to be identified as the most effective enabler of economic recovery from the recent on-going COVID-19 Pandemic. The MSMEs sector has been observed to make contribution enormously to employment generation for the semi-skilled employment seekers over a period of last five decades and for Indian economic rejuvenation and quick recovery, it needs to be strengthened further in order to achieve

a quick range of sustainability besides recovery of the economy from the ongoing Pandemic crisis. The MSMEs sector has empirically been observed to be contributing to National Income otherwise known as Gross Domestic Product (GDP) to the extent of 7 to 8 % of GDP. Besides, it has been an important vehicle and enabler of export leading to earning foreign exchange. The MSMEs in conjunction with large and heavy industrial sector has been playing as a catalyst for contributing in bringing about socio-economic progress of India. It is a well-known fact India is burdened with huge population of 1.35 or more billion and it is hardly possible for any Government to provide gainful employment to each and every job seeker. [4,5]

The MSME Development Act, 2006, is a very important legislation which has lessened bureaucratic impact on registration procedure and financing assets, and introducing ease of governance in this sector through providing unambiguous definitions of Micro, Small and Medium Enterprises in terms of investment in Plant and Machinery in case of Manufacturing Sector and investment in Equipment's in case of Service Sector. It is interesting to note that efficient cost management mechanism has been introduced by Government of India by introducing mandatory maintenance of cost records and audit thereof by the Practicing ACMAs/FCMAs for the large size industries but it is not understandable why this sector is, by and large, not mandated for professional approach to cost management. but they prefer the thumb rule in the place of adopting systematic and scientific method of cost projection and cost determination for the products meant for facing challenges stiff completion under globalization scenario. Where there is manufacturing of products and generating service, professional approach to cost management is a must because cost besides quality as mentioned elsewhere of this write up is the determinant of price irrespective of the extent of markets. Product costing and pricing thereof is an algorithmic scientific process and it is so relevant for the Indian MSMEs as elsewhere and those countries as mentioned above are empirically observed to be sustaining the in international competitive markets because of producing the products at sustainable costs. Only those costs needs to identifiably be incurred which can add to value. There is an enormous scope for cost management in the areas of competition, through appropriate technology usage, infrastructure development, and modern training and development for providing skilled manpower. The economic crisis caused by the novel corona virus pandemic in 2019-2020 has thrown open policy making challenges before the policy formulators and decision makers. Investment in infrastructure development is need of the hour which should have critical consideration in order to produce goods and services at sustainable cost. For instance, good metal roads can reduce the cost of wear and tear of the vehicular tyres and other equipment and accessories. To conclude, no option other than investments in the MSMEs sector for recovery from the pandemic stricken economy is available right now. Rather the MSMEs sector is having huge potential to act as the pivotal force for bringing the national economy back on the recovery track and ensuring financial security for sustainability in the present undone socioeconomic situation prevailing the country. It needs to create effective demand which depends on the purchasing power of the consumers. Therefore, income has to flow to the consumers and demand-supply gap is to be narrowed down as much as possible to make the economy overcome this uncertain catastrophic socioeconomic devastation created by Covid-19 Pandemic. [6,7]

The Covid-19 Pandemic has left its impact on all sectors of the economy but nowhere is the hurt as much as the Medium, Small and Micro Enterprises (MSMEs) of India. All anecdotal evidence available, such as the hundreds of thousands of stranded migrant workers across the country,

suggests that MSMEs have been the worst casualty of Covid-19 induced lockdown. Coronavirus outbreak was first reported in Wuhan, China on 31 December, 2019. Before reading in detail about the impact, first, let us study about coronavirus. Coronavirus is a large family of viruses that causes illness. It ranges from the common cold to more severe diseases like Middle East Respiratory Syndrome and Severe Acute Respiratory Syndrome The novel coronavirus is a new strain of virus that has not been identified in human so far. Recently an industry survey that is jointly conducted by industry body Ficci and tax consultancy Dhruva advisors and took responses from about 380 companies across the sectors. It is said that businesses are grappling with "tremendous uncertainty" about their future. [8,9]

According to the survey, COVID-19 is having a 'deep impact' on Indian businesses, over the coming month's jobs are at high risk because firms are looking for some reduction in manpower. Further, it is added that already COVID-19 crisis has caused an unprecedented collapse in economic activities over the last few months. The present situation is having a "high to very high" level impact on their MSMEs, Further, 70 per cent of the surveyed firms are expecting a de growth sales in the fiscal year 2020-21. [10]

According to **Du & Bradstreet**, COVID-19 no doubt disrupted human lives and global supply chain but the pandemic is a severe demand shock which has offset the green shoots of recovery of the Indian economy that was visible towards the end of 2019 and early 2020. The revised Gross Domestic Product (GDP) estimates for India downwards by 0.2 percentage points for the fiscal year 2020 to 4.8 per cent and by 0.5 per cent for the fiscal year 2021 to 6 per cent. Due to weak domestic consumption and consumer sentiment, there can be a delay in investment which further add pressure on the growth.

We can't ignore that post-COVID-19, some economies are expected to adopt de-risking strategies and shift their manufacturing bases from China. This can create opportunities for India. The government unlive a major booster dose entailing a series of initiative for micro, small and medium enterprises, including Rs 3 lakh crore worth of collateral-free automatic loans for business. A subordinate debt of Rs 20,000 crore for stressed units, a Fund for equity infusion of Rs 50,000 crore, and revision in the definition of MSMEs are among the steps announced by the government to help MSMEs recover from disruptions caused by the corona virus. [11]

2. Objectives:

The main objectives of the present study are:

1. To reveal the contribution of MSMEs to the growth of the GDP in the period of Pre and Post Covid -19.
2. To analyse the Problems and Prospects of MSMEs in India during the Post Covid-19 period.

3. Methodology:

Forevaluating the objectives of the study the secondary data will be collected from the various sources such as books, reports, journals, websites, university libraries, Govt. publications (central & state), state & district wise statistical office, and the website of the Ministry of Small and Medium Enterprises, the government of India.

2.1 Contribution of MSMEs to Growth of the GDP:

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA) and Gross Domestic Product(GDP).

(Figures in Rs. Crores adjusted for FISIM at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSMEs in GVA (%)	Total GDP	Share of MSMEs in GDP.
2011-12	2622574	-	8106946	32.35	8736329	30.00
2012-13	3020528	15.27	9202692	32.85	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12458642	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90
2020....	4506256	9.88	-	-	-	33.4%
2025 Expected	-					50%

Annual reportv2020-21

Celebrate MSME Day, MSMEs deserve our attention today more than ever -- the Covid-19 global health emergency is hitting small businesses hard. The pandemic's economic and health impacts affect millions of MSMEs worldwide. The pandemic led to a 5% drop in global trade in the first quarter, and our latest forecasts project a 27% drop for the second quarter with a 20% annual decline for 2020. ILO estimates show a global decrease of working hours equivalent to 305 million full-time jobs for the quarter 2, and 38% of the global workforce, or 1.25 billion workers, are in high-risk sectors.

2.2-Problems of MSMEs during Covid-19 or Impact of covid-19 on MSMEs

The announcement of country wide lockdown dragged MSME owners, employers and external stakeholders in unexpected times, where no one had experience to handle this kind of situation. Extended lockdown had negative impact on supply of finished goods, procurement of raw material and availability of employees to work in production and supply processes. During April to June 2020, sector faced challenges related to debt repayments, wages/salaries, statutory dues, etc. Survey reports have shown that disruptions caused by the Covid-19 pandemic have impacted MSMEs earnings by 20-50%, micro and small enterprises faced the maximum heat, mainly due to liquidity crunch. Enterprises working in essential commodity business were better off in terms of interrupted but predictable cash flows. Some enterprises innovated their ways by shifting focus from non-essential commodities towards essential commodities; like production of hand sanitizer and toiletries, PPE kits, reusable masks, etc. and are able to survive in tough times.

MSMEs present in remote areas also faced lots of difficulties due to interrupted supply chain systems and intrastate lockdown provisions.

It is not only the enterprise which faced challenges; even consumers are left with lower disposable income. Many enterprises laid-off their workers because of inability to pay salaries, vacated their offices due to incurring expenses and halted their production due to stopped demand. Ambiguity in future trade and bounce back of new normal is keeping financial institutions at bay for extending any new financial lending or cover potential risk. This all-round uncertainty needed a push by government, to boost market confidence and bring back regular cash flow in economy. Economic slowdown along with border tensions, had again dragged us to focus back on self-sustainable values, the Swadeshi dream. The Atma-nirbhar Bharat Mission was launched to face two burning issues simultaneously; one being boost to MSMEs and other being less dependent upon foreign nations.

➤ **Main Challenges faced by MSME in India**

In spite of the high growth rate and good prospects, the MSMEs have faced certain constraints that have obstructed its way of achieving its true potential. In this segment, we will discuss some of the challenges faced by them.

- ❖ **Technological backwardness:** This is one of the biggest constraints faced by MSMEs till date. The MSME in India lacks up to date information and are often unaware of the latest technological developments in the global market. Sometimes they lack managerial skills, knowledge, and technology-intensive education to run a competent MSME. This challenge is most prevalent in rural parts of India
- ❖ **High cost of credit:** Another challenge that haunts this sector is their inability to access adequate and timely credit at a reasonable cost. Quite a few researchers have indicated that MSME in India are hindered by poor credit availability.
- ❖ **Procurement of raw materials:** The availability of economic resources is critical for any business development. It has been one of the growing concerns of this sector as procurement of raw materials is done within local territory due to their financial limitations.
- ❖ **Inadequate infrastructure facilities:** Having good infrastructure facilities is essential to the growth of a business, and lack of infrastructure facilities such as electricity infrastructures negatively affect the productivity and the profitability of manufacturing SMEs. The availability of infrastructure and skilled manpower will ensure the competitiveness of MSMEs.
- ❖ **Lack of skilled manpower:** Although India is having a big pool of human resources, the industry still faces a deficit in manpower with the skills set required for manufacturing, marketing, etc. A set of skilled personnel will save time and effort as they use their expertise and talent, and knowledge in their respective fields.
- ❖ **Inadequate access to market:** In India, MSMEs have struggled to have access to the market due to a number of reasons like inadequate capital, inadequate use of marketing tools, etc. Thus it makes it difficult for MSMEs to sell products to government agencies.

❖ **MSMEs in particular face multi-faceted challenges:** in the short term, isolation measures have stunted their operations; in the medium term, economic recession, unemployment and reduced income and market demand threaten their survival. While reopening their businesses, MSMEs need to rely on a well-functioning supply chain and sufficient production factors, especially labour. A major challenge also lies on the demand side, as many consumers remain cautious. In the long run, the new normal will be very different from the pre-COVID era, requiring significant adaptation and restructuring of firms. [12]

➤ **Acc. to. Goenka Said about the following challenges to MSME in our country:**

- ✓ Social stigma
- ✓ Absence of the sense of security
- ✓ Lack of confidence
- ✓ Finance
- ✓ Marketing
- ✓ Education
- ✓ Convert situation into favour and opportunity

4. Recommendations:

COVID-19 is, first and foremost, a humanitarian crisis. Many people and families have suffered and will suffer from the unexpected losses around the world. It will have a profound impact on the world's social and political environments and on its economy. China has the second largest economy in the world and has accounted for one-third of world economic growth in recent years. Its export of minerals, textile, chemical/pharmaceutical ingredients, and electronic/automobile parts supports 30 to 50 percent of the global supply chain. China also imports about the same percentage of goods from the global market. The coronavirus epidemic in China can therefore affect both the demand and the supply sides of the world economy. I will provide a few recommendations for the U.S. government and MSMEs based on my reviews.

➤ **Considerations for Policymakers and MSMEs**

1. Social distancing-based public health interventions, such as mass quarantines, extensive travel bans, and transportation system disruption, can shock the economy and shrink the market demand in the service sectors that are critical for many SMEs that rely on visits by regular customers. When considering using these interventions, the cost on SMEs should be considered.
2. SMEs are financially more fragile and cash-strapped when market demand is down. Emergency funding programs that target SMEs could be one important component of a response. Lower interest rates, deferred or waived taxes and fees, or easier lending policies could also help SMEs stay afloat during the period of low market demand. Congress has begun to take actions through supplemental appropriations to address some of the financial challenges of SMEs. The Federal Reserve Bank's recent lending rate cut will also support SMEs.
3. SMEs could benefit from diversifying business platforms. Online-based platforms and virtual service provisions can help SMEs sustain business during quarantines or travel bans. It would be

helpful if policymakers could bring tax breaks and technical guidance to help SMEs restructure their business operations.

4. The U.S. government could consider setting aside additional funding for unemployment insurance payments in the event that MSMEs affected by the COVID-19 are forced to lay off employees.

5. Additional emergency funding could be considered to help MSMEs avoid bankruptcy or help the creditors of bankrupt MSMEs.

5. CONCLUSION:

Recently the government of India announced a stimulus package of 3 lakh crore rupees' collateral-free help to the MSME in India as part of the Atma-nirbhar Bharth Abhiyan. However, if adequate reforms are not implemented to solve the pressing challenges, providing a stimulus package may not be effective. [13] Hence MSMEs is back bone of India economy because of the Indian Economy growth rate dependence on MSMEs growth or Performance rate. In Period of Covid -19 The MSMEs providing more employment rates to Indian Peoples. And the government Expect GDP rate 50% at 2025. Under the Atam- Nirbar Bharath scheme its helpful to development of MSMEs Sector in India Economy.

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