

Impact of COVID-19 on MSMEs

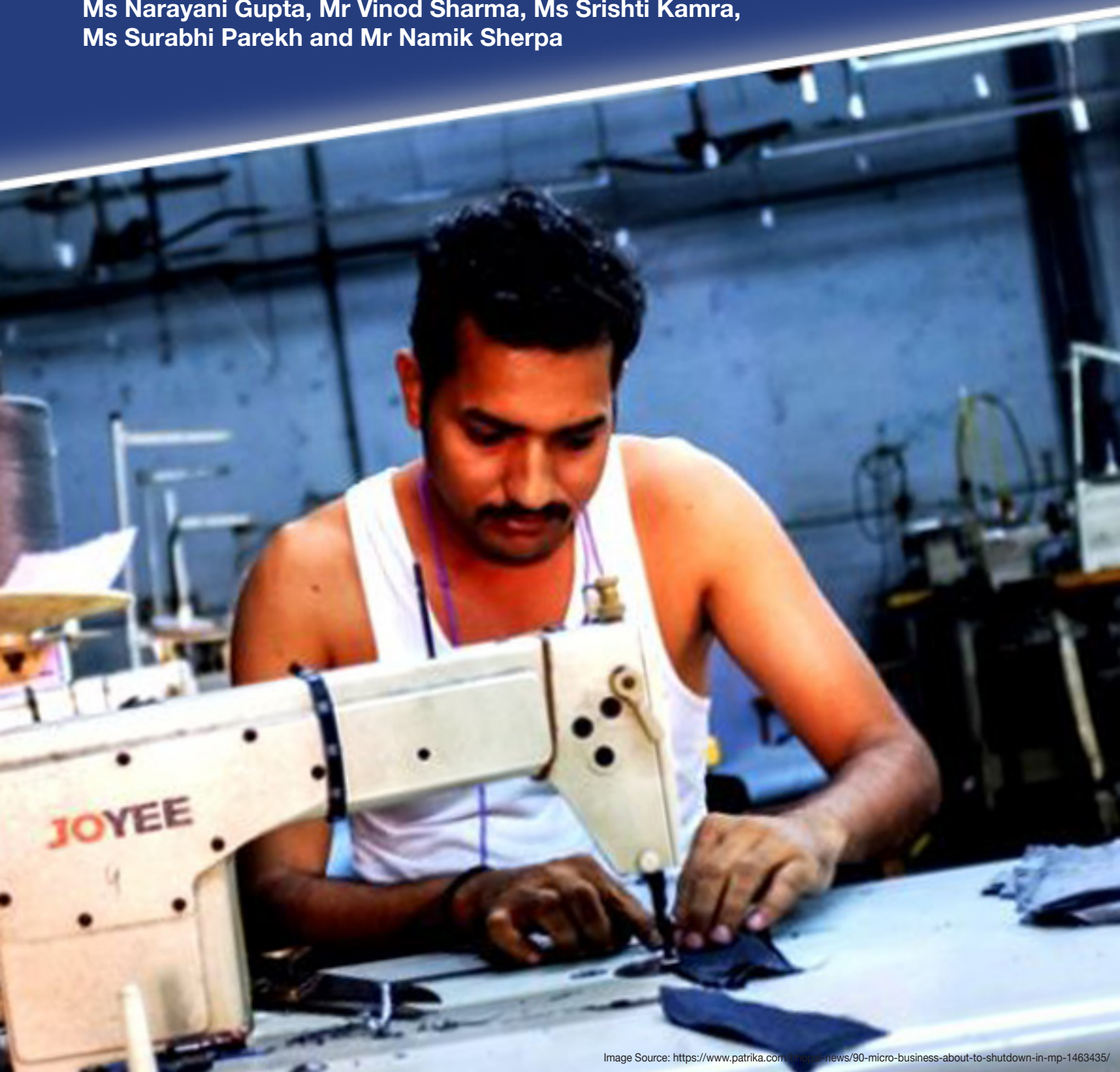
Results of a Survey Conducted in May 2020

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Senior Visiting Fellow, RGICS

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Telephonic Survey Team Members:

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Executive Summary

One of the sectors badly impacted by the COVID-19 Pandemic and the resulting lockdown was the Micro, Small and Medium Enterprises sector. There were 6.34 crore unincorporated non-agricultural enterprises in India in 2016, as estimated by the National Sample Survey 73rd Round in the Jul 2015-Jun 2016 period. A vast majority, 84.2% were "own account enterprises" (OAEs), that is, units run entirely by the proprietor and his/her family members, with no hired worker. Still, the employment in the sector, including the owner-workers was 11.13 crore workers, which was only second to employment in the agricultural sector. The upper end of the MSMEs, though only 11.4% in number, accounted for about 40% of the employment.

To understand the issues being faced by MSMEs, a telephonic survey was undertaken by the RGICS. The sample was selected from the upper end of the MSMEs, who had received loans from the banks under an MP Government scheme. Of the total 421 respondents (75% male), about 36% were from manufacturing and the rest were service enterprises. About 43 % were below Rs 15 lakh per annum turnover, and 58% had less than ten workers. Only 27% had a UAM number, and only 50% were members of an MSME association.

About 71 % of the respondents felt that their business has been/would be adversely impacted by COVID-19 related lockdown to the extent of 90% of the earlier prevailing levels. Only 4% of the respondents also stated that their business has improved during the lockdown. Yet, there seems to be an optimism for the future with 80% of the respondents expecting their business to swing back to the original level within a year. As many as 56% of the respondents did not expect to retrench any workers while a little less than a quarter of the respondents felt that they would have to retrench more than half of their existing workers.

The major constraint in re-starting their business was lack of demand or opportunity, as cited by 28 % of the respondents. Lack of adequate capital was cited by 22 % of the respondents. This was more pronounced in the Manufacturing as compared to the Services sector.

In light of the moratorium given by RBI, more than half of the respondents had sought a re-scheduling of their loans. The most critical support expected by the respondents from the banks was to get the waiver in the payment of interest on their outstanding loan installments. Interestingly only 6 % expressed the need for a loan waiver, even partially. The main demand was to waive/defer their electricity bills and lease rent charges. This demand was relatively more in the case of the Manufacturing sector. The respondents also wanted cash or kind support to be given to their workers to meet various contingency requirements.

The Gol's package giving a Rs 3 lakh crore guarantee for additional working capital loans to existing borrower MSMEs had not reached many, with 27% of the respondents not being even aware of the package at all. Over half i.e., 53% of the respondents felt that the package announced by the Gol will not benefit their enterprises. This was despite the fact that 90 % of the respondents had loans (because we chose the sample from the MYUY scheme) and were eligible for the additional working capital loan.

It is remarkable that while 70% of the entrepreneurs said their business is down by 90%, about 80% felt they will revive within a year, 56% planned no retrenchment of workers, and only 6% wanted a loan waiver. This shows the indomitable spirit of the Indian MSME entrepreneur.

1 Survey Method and Sample

The telephonic survey for entrepreneurs was conducted (i.e., from 15th May to 23rd May). The data, in pre-drawn questionnaire, was collected from the 25 districts of Madhya Pradesh from 421 entrepreneurs. The survey was confined to the entrepreneurs under Mukhyamantri Yuva Udyami Yojana (MYUY) a scheme of Government of Madhya Pradesh, under which loans were extended between Rs 10 lakh to Rs 2 crore. Hence, the sample is from the upper end of MSMEs.

1.1 Details of the MSME owners gender wise

S. No	Gender/Sector	Manufacturing	Services	Total
1	Male	72	77	75
2	Female	28	23	25
	Total	100	100	100

- Of the total respondents (entrepreneurs), it was seen that 75 per cent were male, and 25 per cent were female.
- The participation of the female entrepreneurs was more in the Manufacturing sector than the Service sector.

1.2 Details of the MSME owners Socio-economic category wise

S. No	Category/Sector	Manufacturing	Services	Total
1	SC	1	1	1
2	ST	0	1	1
3	OBC	29	37	34
4	General	70	61	65
	Total	100	100	100

- Amongst the four categories of the respondents, the proportion of General, OBC, SC, and ST was 65, 34, 1 and 1 per cent, respectively.
- The Manufacturing sector had more of the general category entrepreneurs as compared to the entrepreneurs in the Services sector.
- The scenario was different in the case of OBCs were there were more entrepreneurs in the Service sector when compared to those in the Manufacturing sector.
- There were negligible number of respondents of SC and ST category in the study. Hence no conclusive inference could be drawn for the same.

1.3 Have you registered your enterprise under the UAM?

S. No	Registration / Sector	Manufacturing	Services	Total
1	Yes	42	20	27
2	No	27	41	36
3	Not aware	25	29	28
4	Didn't find any use	6	11	10
	Total	100	100	100

- a) Much of the respondents (36 per cent) were though aware of the UAM, albeit had not got their enterprise registered on UAM website.
- b) 27 per cent of the total respondents had got their enterprises registered at UAM. The entrepreneurs in the Manufacturing sector had envisaged much more interest when compared to registering of enterprises by the entrepreneurs in the Services Sector.
- c) Of the total respondents, 28 per cent were not aware about the UAM.

1.4 Association with MSME Organization

S. No	Trade Organization/Sector	Manufacturing	Services	Total
1	Yes	61	44	50
2	No	39	56	50
	Total	100	100	100

- a) The study revealed that about half of the respondents had an affiliation to the local MSME organization.
- b) Amongst the respondents who were affiliated to the relevant business associations, more memberships/affiliations were seen in the Manufacturing sector than in Services sector.

2 Business Details

2.1 Turnover of the Respondent MSMEs

S. No	Turn Over/Sector	Manufacturing	Services	Total
1	Up to Rs. 5 lakh	3	3	3
2	Rs. 6 to 15 lakh	38	41	40
3	Rs. 16 to 25 lakh	15	17	16
4	Rs. 26 lakh and above	44	40	41
	Total	100	100	100

- a) The annual turnover of the enterprise, as verbally stated by the respondents, showed an interesting pattern. Bulk of the respondents were in the slabs of (i) Rs. 26 lakh and above, and (ii) Rs. 6 to 15 lakh.
- b) In the study, the entrepreneurs, in the turnover slab of up to Rs. 5 lakh were quite nominal. This was probably due to the age of enterprise and the quantum of loan availed by them.

2.2 Workers strength before starting of lockdown

S. No	Workers /Sector	Manufacturing	Services	Total
1	Family members are involved	3	4	4
2	None	1	5	4
3	Less than 10	57	52	54
4	Between 11-50	33	31	32
5	More than 50	7	7	7
	Total	100	100	100

- a) About 54 per cent of the respondents had less than 10 employees associated with them. This was followed by the entrepreneurs who had engaged 11-50 employees with their enterprise.
- b) In only 7 per cent of the cases, more than 50 employees per unit were reported.
- c) In 4 per cent of total samples surveyed, the so-called workers was drawn from within the family only.

3 Impact of COVID and Recovery Prospects

3.1 Impact of COVID 19 on Business

S. No	Impact/Sector	Manufacturing	Services	Total
1	Down by more than 50%	11	15	14
2	Down by more than 75%	11	11	11
3	Down by more than 90%	73	70	71
4	Business has been stable and improved	4	4	4
5	Difficult to estimate now	1	0	0
	Total	100	100	100

- a) The respondents were quite apprehensive of the impact of COVID-19 on their businesses. About 71 per cent of the respondents felt that their business would be adversely impacted by more than 90 per cent of their prevailing levels.
- b) During the telephonic interviews, it was seen that in few cases the entrepreneurs were suicidal due to heavy loss in the business.
- c) About 4 per cent of the respondents stated that their business has improved during the lockdown.

3.2 How long would it take to re-establish business?

S. No	Period/Sector	Manufacturing	Services	Total
1	More than 6 months	43	39	40
2	More than 1 year	39	39	39
3	More than 3 years	3	9	7
4	Difficult to estimate now	14	14	14
	Total	100	100	100

- a) 39 per cent of the respondents felt that, from the day the lockdown is eased/ lifted, it would take about a year to re-establish themselves again.
- d) While 40 per cent of the respondents estimated that at least 6 months would be required to enable them to bounce back into the business.
- e) It further appeared that the Manufacturing sector would bounce back earlier than the Services sector.

3.3 Workers expected to be retrenched

S. No	Workers /Sector	Manufacturing	Services	Total
1	No change	49	60	56
2	Less than 30 %	17	8	11
3	About 50%	21	14	16
4	About 75%	7	8	7
5	Not Applicable	7	10	9
	Total	100	100	100

- b) More than half of the total respondents (56 per cent) believed that they would not like to retrench their employees after resumption of the business. The humanitarian consideration was paramount in their decision. It was also amazing to see that they were eager to support many of their laid-out employees by providing at least basic food requirements for them and their families.
- c) On the other hand, 23 per cent (16+7) proprietors felt that they would have to retrench more than half of their existing workers.

How is it possible for the proprietors to be able to pay for the salary and expenses of their workforce during the lockdown period? This should not be insisted upon by the political leadership.

- Kaushik Agarwal, Rice Milling



4 Constraints on Revival and Help Expected from the Government

4.1 What are the major constraints to commence the business?

S. No	Constraint/Sector	Manufacturing	Services	Total
1	Lack of Raw Material	20	11	15
2	Lack of Workers	14	11	12
3	Lack of adequate Capital	23	21	22
4	Lack of Government permission	10	17	14
5	Lack of transport facilities	9	9	9
6	Lack of Buyers	10	12	11
7	Lack of Opportunity like marriage season	13	19	17
	Total	100	100	100

- a) The major constraint anticipated by the entrepreneurs was 'lack of adequate capital'. This was more pronounced in the Manufacturing sector as compared to the Services sector.
- b) 17 per cent of the respondents were of the view that their businesses were adversely affected due to loss of seasonal (March to May) opportunities like - construction activities, marriage ceremonies, and various other religious, social, and individual gatherings.
- c) The lack of timely availability of raw material was the third most important constrain spelled out by the respondents.
- d) The 11 per cent of the respondents believed that their consumers/buyers did not have adequate capital/cash to procure goods and services they require. Hence, the business is adversely affected.
- e) Thus it could be inferred that the lack of adequate capital/liquidity was the primary cause of concern in re-starting the business of MSMEs. This holds true both for sustaining the business, as well as enabling the buyers to purchase the goods and services.

4.2 Support expected from the government

S. No	Support Expected from Govt./Sector		Services	Total
A	Central Government			
1	Health coverage as available under Ayushman Bharat to all my employees	10	9	9
2	Enhanced period for payment of GST	12	8	10

3	Government to contribute in workers and consumption needs	17	22	21
B	State Government			
1	Incentives for lease rent, electricity bill	43	31	35
2	Provide more cost effective and competitive technology	2	2	2
3	Incentives in form for marketing and transportation	7	15	12
4	Can't Answer	10	12	11
	Total	100	100	100

- a) The foremost demand of the respondents was to be given relaxation in their electricity bills and lease rent charges. They expected the government to support them on this account. This demand was relatively more in the case of the Manufacturing vis-a-vis the Service sector.
- b) The respondents also desired that certain support through cash or kind may be made available to their workers to meet various contingency requirements.
- c) The next expectation from the government was to help the entrepreneurs in the marketing of their products and ensuring availability of the convenient transport arrangements.
- d) About 10 per cent of respondents desired to enhance the time period of payment of GST.

A facilitating mechanism needs to be in place, wherein produce/ services of the local entrepreneur in the given district are procured on priority, and after that only the sale of the same product/ services is allowed from other districts. This would encourage 'local' entrepreneurship.

- Siddharth Jain, Mineral Water Bottling Plant

4.3 Awareness and perceived benefit of Gol package

Table 12: The Government of India recently announced the package of Rs. 20 lakh crore for boosting of Economy. Does it benefit your enterprise / business? (in %)				
S. No	Benefit / Sector	Manufacturing	Services	Total
1	Yes, it will benefit	16	13	14
2	No, it will not benefit	46	57	53
3	I am not aware as to how would the package benefit me	4	6	5
4	Can't Say	34	24	27
	Total	100	100	100

- a) More than half (53 per cent) of the respondents felt that the package announced by the Gol will not benefit their enterprises.
- b) About 27 per cent of the respondents were not aware of the package at all.
- c) About 14 per cent of the respondents had heard about the package and were of the view that the stimulus provided by Gol will help them to revive their business.
- d) About 5 per cent of respondents were though aware about the package, but were not sure as to how would the same benefit them.

***The relevant government websites/e-marketing websites should be made more interactive and convenient for use by the entrepreneurs.
- Devendra Sarle, Potato Chips Unit***



5 Financing

5.1 Have you availed a loan for the said business?

S. No	Loan availed / Sector	Manufacturing	Services	Total
1	Yes	91	89	90
2	No	9	11	10
	Total	100	100	100

a) Since the respondents were drawn from the government subsidy scheme of MYUY, majority (90 per cent) of the respondents had taken the loans for their existing enterprises.

5.2 Have you applied for the rescheduling of the loan?

S. No	Rescheduling of Loan /Sector	Manufacturing	Services	Total
1	No	25	24	24
2	Yes	50	55	53
3	Bank did not cooperate	16	11	13
4	Not aware of such facility	0	1	1
5	Not availed such loan	9	9	9
	Total	100	100	100

- a) More than half of the respondents had applied for the rescheduling of the loans they had availed from the bank.
- b) About a quarter of the total respondents, who were aware of the provisions for rescheduling of loans, did not apply for the same.
- c) About 13 per cent of the respondents did not receive the required cooperation from the bank in the rescheduling of loans.
- d) As only 1 per cent of the respondents were not aware of the facility of re-scheduling of loans, it could be presumed that the MSMEs are quite aware of such a facility recently provided by the Gol.

We do not seek the government's support or any grant. We can cope up from this pandemic, provided timely and adequate credit is provided to us, the same would definitely be paid back

- Mr. Arun Soni, Tent house (Service sector)

5.3 Support expected from the Bank

S. No	Support Expected from the Bank / Sector	Manufacturing	Services	Total
1	Waiver of at least 50% of credit on lines of farm waivers	9	5	6
2	Waiver of Interest payable for 1 year	35	44	41
3	Re-scheduling of credit for at least 1 year	21	20	20
4	Additional / Enhancement in credit limits (WC)	15	13	14
5	New loan	9	7	8
6	Can't answer	12	11	11
	Total	100	100	100

- a) The most important support expected by the respondents was to get the waiver in the payment of interest on their loan installments.
- b) Fourteen per cent of the respondents who had already availed the loans from the banks, expected their loan/credit limits should be enhanced.
- c) The respondents did also express their deep apprehension about their lack of faith in banks to enhance their credit limits in the prevailing situation of declining business and corona effect.
- d) Many of the respondents expressed their deep concerns for timely and adequate availability of loan facilities from the banks. Many of the entrepreneurs also pointed out that banks take undue longtime in disbursing the loans despite having sanctioned the same in principle.
- e) It was also pointed out that bulk of the respondents complained about the non-receipt of their entitlements (subsidy) from the banks/government.



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