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# IMPACT OF COVID –19 ON SMALL BUSINESS IN INDIA

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**Abstract:**
*Studies and surveys showed that approximately 95% firms were impacted negatively due to national lockdown imposed in April 2020, 70% of businesses remained disrupted till August 2020. Even after progressive unlocking, reports suggest that almost 40% businesses remained interrupted till the end of February 2021. One of the prime drivers behind growth story of Indian economy is SMEs. over the past few decades, SME sector, comprising of service industry, manufacturing, packaging, infrastructure, food processing, IT and chemicals has developed as the most dynamic source of growth of Indian economy. In recent years the MSMEs sector has shown higher growth rate than industrial sector. This sector not only offers huge employment but also contributes in regional balance by generating industrialisation to remote rural and backward areas. According to MSME Ministry data released on May 16, 2021, there are around 6.3 crore MSMEs in India which contributes approximately 29% towards country's GDP by its national and international trade. This sector account for nearly 50 per cent of the country's exports. As per national sample survey 73 Round (2015-16) MSME sector has offered around 11.10 crore jobs out of which 3.6 crore have been in manufacturing sector, 3.9 crore in trade and 3.7 crore in other services. Considering all these facts and figures, it is quite understood that for achieving the target of becoming a $5 trillion economy by 2025 growth of SMEs is crucial for India. The MSMEs sector has been one of the most vulnerable sectors during pandemic because of its size, scale of business and availability of financial resources. Studies and surveys showed that approximately 95% firms were impacted negatively due to national lockdown imposed in April 2020, 70% of businesses remained disrupted till August 2020. Even after progressive*



*unlocking, reports suggest that almost 40% businesses remained interrupted till the end of February 2021. The three critical barriers faced by MSMEs are market access, overall productivity and getting access to more finances. An average 11% decline in business volume of Indian MSMEs has been recorded because of lockdown in 2021 in comparison to 46% decline during nationwide lockdown in year 2020.The apparel manufacturing units of the export sector realised business loss of over Rs. 150 crores from March 2020 to May 2020. Loss of India's leather industries has been valued to be Rs. 11,210 crores in global market. All India Manufacturers Organisation conducted survey on MSMEs and confirmed that the self-employed MSME units, predominantly 35% of MSMEs sector, do not have any scope of recovery for their businesses and have already started winding up their units.*

**Key Words:** *Covid-19 Pandemic, MSME,* Cybercrime, *Industry sector, Retail Business Survey.*

**Factors Responsible for Vulnerability of MSMEs:** Crunch of Capital – SMEs in India are largely unorganized, most of the transactions carried by them are in cash and not entered properly in accounting books. In the absence of accurate transaction data, these businesses do not get the mandatory credit score and find it difficult to access business loans from the formal sector.

High Cost of Transaction – Business volumes of MSMEs remain low in most of the cases and hence cost of transactions remains high, both in offline and online modes of payment. This affects company's profit margin significantly in medium to long run.

Risk perceptions by banks & financial institutions – In absence of high credit score or collaterals, most of the banks perceive MSMEs as risky clients. This problem amplifies when the client is any start-up. Even if banks get convinced to disburse loan, rate of interest remains higher than normal. Different MSMEs have different financial requirements, depending upon the size of business, cash flow pattern and vendor engagements. All this requires tailor made services and products.

Cybercrime – In absence of adequate awareness and knowledge about handling digital banking and transaction activities, SMEs are found to be more vulnerable for cybercrime and phishing.

**Managing the Crisis:**

There is an urgent requirement for MSMEs to assess their financial status and security. To support MSMEs during pandemic crisis, government may come forward to provide soft loans with longer term of repayment and increased credit limit. MSMEs need to re-strategize its overall value proposition, through improving quality of products, strengthening distribution channels and using innovative promotion methods etc. There is a need to create a strong digital ecosystem to increase the outreach among buyers and suppliers in market.

Government of India started its e-market place to increase the share of MSMEs in Government procurement. A digitally activated market ecosystem is capable to reduce cost, improve work efficiency, foster product development and improve safety of workers. Collaboration with research institutions, tech start-ups, existing foreign players may prove an effective business strategy for MSMEs to develop a low-cost production base and penetrate in Indian market. Indian Governments supportive programmes from SMEs like Emergency Credit Line Guarantee Scheme, low repo rate, e-market linkages, PF and EPF support for both businesses and workers etc. have started showing positive results.

Latest edition of the Retail Business Survey by the Retailers Association of India (RAI) reported retail sales in August 2021 were at 88% of the pre-pandemic levels (August 2019), as against 72% in July 2021. Quick Service Restaurants (QSR) showed signs of growth with 12% sales in August 2021 as compared to August 2019 sales, while the food & groceries category indicated a growth of 4%. However, beauty & wellness, which includes salons, apparel, footwear and jewellery were yet to catch up pre-pandemic sales figure. Entrepreneurship survey highlighted that more than 60% small businesses in India are confident about their business recovery despite economic slowdown due to pandemic.

Covid-19 has had a seismic impact on small businesses. We all know that. We learn about it in the news and see it every day as we go about our daily lives; we hear it from our insureds and our colleagues. As local agents, we have a real-world, ground-level view. But for a macro look at what's happening, we point you to a report by global consultants McKinsey & Company: Which small businesses are most vulnerable to Covid-19—and when. And for another view, see McKinsey's interactive: US small-business vulnerability during the Covid-19 crisis. McKinsey analysis showed that before accounting for intervention, 1.4 million to 2.1 million of vulnerable businesses could close permanently as a result of the disruption from just the first four months of the Covid-19 pandemic.

**Industry sector:**

Using various visuals and graphs, the report shows industry sectors by impact. The first graph plots 18 industries on axes of financial risk and how affected each industry is by Covid-19. It notes that the sectors most affected by the coronavirus are the least financially resilient.

"Differences between sectors depend on how much Covid-19 has affected them and how likely affected businesses are to close. It isn't only the kinds of small businesses with well-known challenges, such as restaurants and hotels, that are greatly affected. So are other small businesses, in educational services, healthcare, and social assistance. Many private-sector educational services, childhood-education centres, sports classes, and art schools, where physical distancing would be a challenge, could become vulnerable. Similarly, small businesses in the healthcare sector—including ambulatory care (such as dentists' offices) and small private practices that patients may be reluctant to visit in person—are also highly affected."

Almost 60% of entrepreneurs in India predict a long-term positive impact of Covid-19 on their businesses, a report has found. The report by researchers from the University of Strathclyde and King's College London found that, despite nearly a third of SMEs being forced to lay-off staff, more than half were able to capture new business opportunities during lockdown. The researchers surveyed 107 entrepreneurs to discover the short and long-term consequences of COVID-19 on small business in India as part of a larger global study carried out across 23 countries.

**Significant stress**:

SMEs contribute one-third of India's GDP and employ 110 million people but were put under significant stress as a result of nationwide Covid-19 lockdown restrictions in 2020 lasting more than two months, followed by gradual easing of measures. The researchers found that while almost half (49.5%) of entrepreneurs said the very existence of their business was under threat – with delays in customer payments and difficulties meeting running costs cited – less than a third had applied for government support. However, 72% of entrepreneurs had adapted their plans for their business – half of them doing so by the end of March 2020 – and almost 60% believe their business will survive, with 85% expecting to hire employees over the next five years. Entrepreneurs cited benefits to their business due to digitisation, consumer behaviour change, new business opportunities and efficiency and resilience gains. The report also found that Indian entrepreneurs' life satisfaction and perceived stress were comparable to before the pandemic, as many had made lifestyle changes, including daily exercise of at least 30 minutes (69%), getting sufficient sleep (58%) and practising yoga or meditation (45%). And despite the survival of their businesses being at stake, 61% gave personal money, 52% volunteered their personal time and nearly 66% volunteered their business services or products for good causes.

**Real challenges**:

"Many faces real challenges to sustain their business going forward but we find four trends for the post-Covid economy that can help Indian SMEs to thrive: digitalisation; multi-sectoral collaboration; localisation; and prominence of inclusive businesses and support structures. Indian entrepreneurs and SMEs hold significant promise for a sustainable and inclusive post-Covid recovery, and India's march towards a $5 trillion economy by 2025."

**New opportunities**:

Compared to other Asian countries 49.5% of Indian entrepreneurs perceived a lower existential threat posed by the pandemic than those in China (95.3%), Bangladesh (91.6%) and Pakistan (71.7%). Nearly half of the Indian entrepreneurs saw new business opportunities despite of the pandemic, while less than 20% of entrepreneurs in Bangladesh, Pakistan and China noted new business opportunities. Social commitment of entrepreneurs is another common attribute among Asian countries, with Bangladesh and India taking the top two spots globally for volunteering their business services during the pandemic. The global study was funded from the European Union's Horizon 2020 research and innovation programme and was led by King's College London's Professor Ute Stephan and Dr Przemyslaw Zbierowski in collaboration with Dr Sahasranamam. Professor Ute Stephan, Professor of Entrepreneurship at King's Business School, commented: "Entrepreneurs are known for their agility and this was also true during the Covid-19 pandemic. Globally we saw over two thirds of entrepreneurs adapting the plans for the business and 40% seeking out new opportunities. While the stresses of the pandemic are clearly visible for the entrepreneurs and their businesses, there is also much resilience and thus hope for a thriving post-covid economy." Dr Zbierowski added: "We saw that engaging in self-care behaviours and giving back to the community were two of the ways in which entrepreneurship globally coped with the stresses of the pandemic."

**The Economic Impact of COVID-19: Positives and Negatives:**

The global pandemic has disrupted business activities worldwide. But Covid-19's economic impact has varied across regions, and the consequences have been largely dependent on a region's economic position.

Using survey data from the World Economic Forum's 20th Global Competitiveness Report, this graphic showcases the economic impact of Covid-19 worldwide. This year's survey was conducted between February and July 2020 and includes responses from 11,866 business executives across 126 economies.

**Top Negative Impacts of COVID-19:**

By comparing business leaders' responses in 2020 to their answers over the last three years, some clear trends have emerged. In advanced economies, the top negative economic impact of Covid-19 has been a decline in competition, followed by reduced collaboration between companies and a growing challenge in finding and hiring skilled workers:

| Sr. no. | Factor | % Change (2020 vs. 3-Yr Avg) |
|---|---|---|
| 1 | Competition in network services | -2.9% |
| 2 | Collaboration between companies | -2.6% |
| 3 | Competition in professional services | -2.3% |
| 4 | Competition in retail services | -1.8% |
| 5 | Ease of finding skilled employees | -1.5% |

**What's driving this reduced competition in advanced economies?**

One factor could be the increased use of online platforms. Ecommerce is heavily dominated by a select number of retailers. Because of this, bigger retailers like Amazon have seen massive boosts in their online sales, while many smaller brick-and-mortar businesses have been struggling. While negative impacts on advanced economies are centred around market concentration and talent gaps, developing countries have faced different problems this year, like increased crime and governance issues:

| Sr. no. | Factor | % Change (2020 vs. 3-Yr Avg) |
|---|---|---|
| 1 | Business costs of crime and violence | -2.5% |
| 2 | Judicial independence | -2.4% |
| 3 | Organized crime | -1.2% |
| 4 | Extent of market dominance | -0.6% |
| 5 | Public trust of politicians | -0.4% |

It's important to note that in the 2018 and 2019 surveys, organized crime and business costs related to crime and violence were trending downward. Because of this, the World Economic Forum suggests that we consider this year's increase in these areas as temporary COVID-induced setback rather than a long-term issue.

**Top Positive Impacts of COVID-19:**

Despite the struggles brought on by COVID-19, the pandemic has also triggered positive change. In fact, business leaders perceived more positive developments this year than negative ones. In advanced economies, the top positive impacts were government responsiveness to change, followed by internal collaboration within companies:

| Rank | Factor | % Change (2020 vs. 3-Yr Avg) |
|---|---|---|
| 1 | Government's responsiveness to change | 8.2% |
| 2 | Collaboration within a company | 4.6% |
| 3 | Venture capital availability | 4.4% |
| 4 | Social safety net protection | 4.2% |
| 5 | Soundness of banks | 4.0% |

Interestingly, internal collaboration improved while external collaboration got worse. This is likely because companies had to adapt to changing work environments, while also learning how to collaborate with one another through remote working. Internal collaboration didn't just improve in advanced economies. In fact, developing economies experienced several of the top positive impacts that advanced economies saw as well:

| Rank | Factor | % Change (2020 vs. 3-Yr Avg) |
|---|---|---|
| 1 | Collaboration within a company | 6.9% |
| 2 | Government's responsiveness to change | 6.8% |
| 3 | Efficiency of train transport services | 5.9% |
| 4 | Venture capital availability | 5.9% |
| 5 | Country capacity to attract talent | 5.8% |

While perceptions on official responsiveness to change increased, public trust in politicians decreased slightly. This indicates that, while government responses to COVID-19 may have been received well in developing economies, overall feelings towards political leaders did not waiver.

Covid-19: A pandemic with positive and negative outcomes on resource and waste flows and stocks As of May 15th, more than 4.5 million people worldwide has been infected and more than three hundred thousand died in the Covid-19 pandemic. To halt the epidemic, many countries have endorsed lockdown measures to ensure social distancing and reduce the pressure on medical institutions. Even after lockdowns, social distancing shall remain the norms for several months until herd immunity is built or/and the availability of Covid-19 specific anti-viral medicine and vaccination. The world gross domestic product (GDP) is expected to drop by 3.2 – 4.9% (UNDESA, 2020) demonstrating the serious effects of the pandemics on the world economy with the disruption of supply and production chains. The question of whether overall impacts on resource and waste management and the dynamics of material and energy flows will be positive remain uncertain. In this context, addressing the following points appear essential.

**1. A pandemic that questions the viability of current supply chains:**

Criticality studies deal with the risk of supply disruption and the vulnerability of a system to this risk and usually concern rare geological resources (Graedel and Reck, 2015). The pandemics revealed the criticality of global supply chains could also concern usual commodities. Indeed, the first lockdown imposed in China in February revealed the dependency of the world economy to Chinese production as supply shortages related to metals, textiles, plastics, car parts, electronics, medicine and other goods for which China is the main world exporter occurred. After mid-March, many countries around the world-imposed lockdown measures and production output went down in these countries reducing the demand on the parts produced in China. Health commodities experience an opposite trend with an increasing demand in all countries, especially Western countries where the absence of mask wearing habits and the lack of preparedness led to important mismatches between the supply and the demand for masks, medical gowns, disinfectant products, chemical products necessary for PCR tests and breathing apparatus. Critical studies are thus necessary to identify for all types of commodities the current vulnerabilities of supply chains, proposed more resilient ones and design more sustainable trade-off between local and global supply chains.

**2. A pandemic with many potential effects to investigate:**

**In industrial and service sectors**, currently work-in-progress stocks in industries or service sectors cannot reach the market increasing storage costs and the risk of physical loss and obsolescence inventories. This issue is particularly important for companies producing perishable products such as restaurants and companies not using just-on-time logistics organization.

**In the agriculture sector**, the current system is strongly dependent on temporary workers for the harvest of crops. With lockdown measures, the impossibility for these workers to access agricultural fields can result in food losses whereas the disruption of global supply chain may lead to the starvation of the many developing countries dependent on imports for their food supply.

**In the energy sector,** reduction of commuting and industrial activities endorsed by lockdown measures may reduce overall energy consumption. On the other hand, the increase in the time spent at home is associated with an increase in the demand of electricity, gas and heat of households for space cooling/heating and household appliances. Besides, with telework suddenly becoming the norm, the pressure on internet connections and data centres increased and so did the associated energy consumption. The carbon content of electricity mix for each country will be determinant to evaluate the effect associated with the increase of these indoor activities.

**In the transportation sector**, passenger transportation almost stopped during the lockdown, but home delivery of goods and food products increased so that the overall effect on air pollution remain unclear. Besides, even after the end of lockdown measures, social distancing will remain the norm favouring personal cars over collective means of transportation.

**In the waste management sector**, reduction in industrial activities may lead to a diminution of industrial wastes. However, household wastes may increase due to increased home cooking and an increased demand of home delivery. In addition to household behavioural changes, movements from main residence to secondary residences observed in countries such as France before the enforcement of lockdown measures by authorities may add pressure to rural waste management capacities. Finally, the disposable nature of masks and medical gowns raise the issue of hazardous waste management capacities. Developing countries are particularly at risk as the absence of proper waste management of these hazardous waste may further spread the virus.

**COVID-19: Other Impact on Business:**

As everyone is well aware, we are in the throes of a global pandemic where things change rapidly from one day to the next. There's no denying that the Coronavirus outbreak and everything it brings with it has rocked the UK's infrastructure to its foundations. But as the situation unfolds, I've found myself asking the unimaginable: could our reaction to Covid-19 actually give us some positives outcomes for the business world.

**A period of change:**

It may sound preposterous to some of you, but hear me out because the more I've thought about this the more I'm starting to believe it might be true. They say necessity is the mother of invention, and so far, we've seen incredible strides being made across a myriad of sectors in the UK alone. Not only is that, but the time in which it's taken for organisations to transform their operations to fit with our new way of life staggering. Change that we previously thought would take 2-3 years minimum to implement has been achieved in just one week. Take the higher education sector for instance, solely online courses were previously seen as something that would take years to pull off. Yet out of necessity in just 3 weeks several universities across the globe have made all of their courses accessible online. The end solution may not be perfect and business will always need to do more to retrospectively upgrade and fix any issues but at least they are doing something and have made that change. They have acknowledged that the change was needed, they reacted fast and most of all they gave their end customer a way of interacting with them to keep a semblance of normality.

**A new way of working:**

Probably one of the biggest changes we've seen implemented across the country, perhaps even the world, is the move to remote working. I know from conversations I've had with clients that setting up modern workplace migrations to cloud-based systems has been on their radars for some time but often took some real convincing to make it a priority. The technology has been there all along, and what's become apparent just lately is that what was holding people back from such a big change was predominantly cultural. Once again, necessity has pushed us past any preconceived notions about working from home and it is swiftly becoming our 'new normal'. The sheer flexibility seen from organisations who in a matter of days managed to migrate their entire operation to a remote working setup has been phenomenal. Knowing how long these projects were estimated to take, the rate at which our workforce has transformed and settled in to working from home is nothing short of miraculous.

Is remote working here to stay after we emerge from lockdown? It's hard to say whether the world will revert back to the way we worked before, or if this crisis will have led us into the future. My personal take on it is that we can't do a complete 180, some aspects of working life will return to pre-lockdown status but I do think it has shown us what is truly possible. The need for people to remain connected and visible is greater than ever before. I for one enjoy being in the office and with other people, however, being able to work from home has been fantastic and I feel we have been able to remain connected to the entire team during this period.

**Conclusion:**

In conclusion, many uncertainties remain on the positive and negative effects of the pandemic on the resources and waste flows and stocks as transfer of environmental impact between sectors and regions may be expected. The worldwide degradation of economies will also play an important role in shaping the after-crisis material world. The combination of analytical tools such as material flow analysis, life-cycle assessment, network analysis and input-output analysis appear necessary to fully comprehend the consequences of the Covid-19 epidemics. The development of such analyses may however depend on our ability to collect unconventional data. "The sectors most affected by the coronavirus and the least financially resilient sectors include 1.7 million small businesses, employ 20 million workers, and contribute 12% of US business revenue. A long-lasting Covid-19 crisis could continue to affect these sectors disproportionately and make more of their firms vulnerable to permanent closure."

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