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The Bigger Fall: Covid-19 vs Global Financial Crisis (08-09) Impact on Indian MSMEs

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Abstract

MSMEs are the core of economic growth and development in every country. They constitute a dominant player in the industrial landscape of most countries including India. The current study uses secondary data to assess the depth of impact of the two biggest crises of the 21st century – the Global Financial Crisis (2008-09) and the Covid-19 pandemic (2020-21). Secondary data reveals that Covid-19 has had a far stronger and deeper impact on Indian MSMEs relative to the GFC mainly due to the synchronicity of impact across the globe and across sectors due to the Covid-19 onslaught. While GFC was an exogenous shock to India limited to the financial sector, the Covid-19 had an exogenous trigger which imploded within. The twin demand and supply shock nature of the Covid-19 crisis exacerbated the woes of the real sector. The prevailing economic landscape at the time of Covid-19 was grim which reduced the shock absorption capability of the world economy in general and Indian economy in particular. Re-skilling MSMEs, periodic business monitoring using scenario analysis and conduct of stress tests are submissions made in this study to overcome the sitting duck syndrome in future. The study can be extended further to assess the longitudinal impact of the Covid-19 on Indian MSMEs.

Keywords: MSME Sector, Covid-19, Global Financial Crisis, Demand Shock, Supply Shock.

INTRODUCTION

Literature is replete with evidence proving the significance of MSMEs for economic growth and development (see Jeurgensen et. al.,2020; Zoltan et. al., 2004 and the references therein). MSMEs constitute the core of economic growth and development in every country. In addition to employment generation, they foster entrepreneurship among low skilled rural population. MSMEs help in industrialisation of rural areas and have reduced regional imbalances. They lead to a more equitable distribution of income and wealth, reducing income-disparity (Dey, 2014; Katyal and Xaviour, 2015). Globally, MSMEs account for 90percent of businesses, 60-70 percent employment and approximately 50 percent of world GDP (MSMEs: Key to an inclusive and sustainable recovery, 2021). The MSME sector constitutes a dominant player in the industrial landscape of most countries including India.

SMEs are businesses having investments, turnover and employees below a certain limit which varies from country to country (Lu et al.,2020). According to the International Finance Corporation, World Bank, an enterprise qualifies as an MSME if it meets two out of the three criteria for MSME – employees, assets and sale OR if the loan taken by it falls in the relevant loan size. According to the MSME(Development) Act (2006), MSMEs are defined as, ‘‘Enterprises engaged in the manufacture or production, processing or preservation of goods’’ according to the following criteria (Table I):

Table – I: Revised MSME Classification

CLASSIFICATION	MICRO	SMALL	MEDIUM

Manufacturing and Services	Investment < Rs. 1 Cr. Turnover – upto 5X (i.e. Rs. 5Cr.)	Investment < Rs. 10 Cr. Turnover – upto 5X	Investment < Rs. 20 Cr. Turnover – upto 5X

Source: MSME website

Over the years, MSMEs have become the engine of socio-economic growth in a rapidly growing India contributing significantly towards job creation and poverty reduction. They play a crucial role in national economy by generating huge opportunities and avenues for generating employment that require much lower investment and capital expenditure as compared to the large scale industrial units and also create industrialisation in rural and marginalised areas. According to the National Sample Survey (NSS) 73rd round, the micro sector has an estimated 63.052 million enterprises which accounts for 99percent of total MSMEs, while the share of small and medium enterprises is 0.331 million (0.52percent) and 0.005 million (0.01percent) respectively (Fig. 1b.). Out of the total MSMEs registered in India, 51percent are in rural areas and 49percent are in urban areas (Fig. 1a).

Figure I: Distribution of MSME

Fig. Ia.

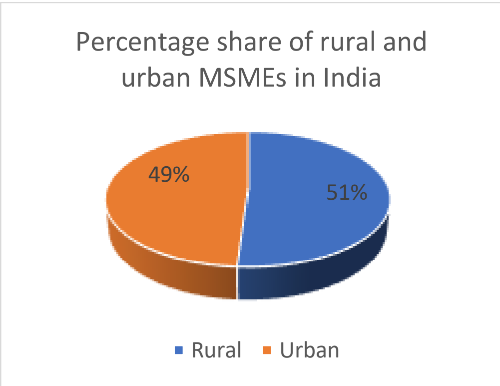
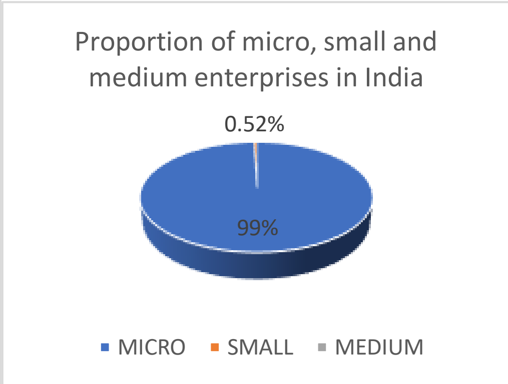


Fig. Ib.



The MSME sector holds great potential to accelerate India's industrial growth on the back of 'Make in India' programme. With approximately 64.3 million units running across its length and breadth, they contribute around 33percent of its manufacturing output and almost 25percent to GDP from service activities (MSME Annual Report, 2020). The MSME sector employs about 120 million people and its contribution to exports is remarkable at 45percent (CII,2020). The MSME sector comprises of 633.88 lakh business units (99.99percent of total industries in India) and has created more than 11 cr. jobs in India (NSS 73rd round, 2015-16).

The Global Financial Crisis of 2008-09 (GFC) and the Covid-19 pandemic (2020-21) have been the two biggest crises of the 21st century affecting lives and livelihoods across the globe. The rising financial sophistication in early 2000 resulted in creation of complex financial instruments such as collateralised debt obligations and credit default swaps which set the stage for the GFC. The narrative behind complex financial instruments was based on rising real estate price. With home owners defaulting on their loan repayments and banks acquiring the underlying houses, the US housing bubble punctured, severely injuring the financial markets and sucking dry credit from the market. A similar housing price duress was experienced in some countries in Europe and Japan around the same time. According to R. Baldwin, the crisis broke out in August 2007. At the outset, it was considered a 'Financial Cardiac Arrest' suffered by the North Atlantic Nations due to murky mismanagement of regulatory affairs. Later in 2008, this financial crisis had spread to rest of the world and meta morphed into The Global Financial Crisis. The Global meltdown started with collapse of Lehman Brothers which sent shock waves across the American and

European financial and money markets. Given the interconnected exposure of large investment banks, one bank after the other fell apart. Other banks, in order to stay afloat, stopped lending. While liabilities of financial institutions remained, and no lending taking place, the credit market froze and big investment banks fell like cards from a deck (Baldwin, 2020). At first the crisis was considered to have only financial ramifications and that too geographically limited. In an article to VoxEU, R. Baldwin (2020) rightly puts the GFC as, ''…….. the 'landmine crisis' became a 'cluster-bomb crisis' – throwing recession-inducing projectiles in every direction. The bomblets decimated all the world's trade flows at once.''

The crisis of 2008-09 invalidated the 'decoupling hypothesis' according to which developing economies remain unscathed with downturn in advanced economies due to substantial foreign exchange reserves, improved policy framework, robust corporate balance sheet and a healthy banking sector (RBI Monthly Bulletin, April-2009). The trickle down of economic contraction from developed to developing economies in the aftermath of the sub-prime crisis reinstates the modern understanding that in a globalized world, no country can remain isolated or work as an independent identity, and that growth prospects of countries are coupled with considerable variations across countries. Although India had no direct exposure to the subprime mortgages which were at the core of the financial meltdown, had very few securitized assets and its reliance on external merchandise demand was limited to 15percent of GDP, trade globalisation and global financial integration were the reasons why the global financial meltdown affected India. (RBI Monthly Bulletin, April-2009). Due to freezing global credit markets, FIIs started pulling money out from Indian markets and reversal of capital flows put pressure on Indian forex market.

Covid-19 is the second big global crisis facing humanity in the 21st century. The world has seen a multitude of health disasters such as bubonic plague, black fever, Spanish flu, SARS, Ebola, MERS in the past. Academic literature on impact of health outbreaks on Economic activity reveals negative correlation between the two, such that the outbreak of an epidemic (read as health emergency on a large scale) is associated with declining business activity leading to decelerated economic growth for the country.

The current study analyses the impact of the two big crises mentioned above on the Indian MSMEs with a view to assess the depth of loss in each of the two crises. The table below (Table II) is a brief summary of literature of economic impact of past health outbreaks of the 21st century:

Table II: Summary of Literature of Economic Impact of Past Health-Outbreaks of the 21st Century

Study	Health Outbreak	Region under study	Findings
Dixon (2002)	HIV AIDS	Africa	• Average deceleration in economic growth between countries varied between 0.15percent-4percent. Reduction in labour productivity ->fall in exports and rise in imports
Lee and McKibbin (2004) Keogh-Brown and Smith (2008)	SARS	China 33 countries (each with>5 cases)	• Tourism and Retail sector worst affected; decline in consumer demand. • Percentage change in GDP = (-1.05) • $4.3bn loss in accommodation and food service sector in Canada • Accommodation and food service sector majorly affected in infected countries.

Jorda et. al (2020)	Major health outbreaks – SARS, HIV, Ebola etc vs wars	Europe	• Pandemics lead to labour scarcity and reduced consumption with people wanting to save more.
Ferguson et. al (2006)	Influenza	USA, Great Britain	• Employee absenteeism ranging 10percent-40percent
Paarlberg et. al (2006)	Avian Flu	USA	• Demand shock hurting consumption
Joo et. al (2019)	MERS	Republic of Korea	• $2.6bn loss in tourism sector

Source: Authors compilation from several studies.

We find historical evidence above of health outbreaks disrupting economic equilibrium particularly in tourism and food service sector, constricting labour availability (supply side disruption) and consumption demand (demand side shock). The economic costs of pandemics derived from medical expenditure on treatment along with income loss during period of disease related morbidity and mortality constitute a small part of the overall costs. The sufficient condition to determine economic losses would then go beyond damages incurred to a single economic unit as economic shocks to a particular economic unit(business/economy) quickly spreads to others due to globally integrated trade and finance (Lee and McKibbin, 2004). Diseases impact behaviour of people within infected economies which alters their future expectations and business outlook. This means that the overall cost of a disease is far greater than the increase in health budgets (Lee and McKibbin, 2004). SARS was the first post-Westphalia pathogen (Fidler, 2003), and ever since pathogens are known to ignore territorial borders between nation states. The uniqueness of Covid-19 lies in the fact that it has synchronously gripped most of the globe simultaneously adversely affecting health, livelihood and economic growth. The covid-19 has significantly impacted consumer behaviour as well. The heightened media attention given to covid-19, strongly impacted consumer psychology and as is rightly said, fear begets more fear, happened. Literature on consumer psychology during disasters suggests that consumers tend to make conservative adjustments in their consumption behaviour in the form of reduction in expenditure with focus on value based products and necessities (Liu and Black, 2011). Consistent with this academic submission, Consumers world over as also in India were seen to have indefinitely deferred their demand for non-essentials.

The current study is an attempt to analyse the impact of the two big crises mentioned above namely GFC and COVID-19 on the Indian MSMEs.

LITERATURE REVIEW

MSMEs have been an area of interest for businesses and policy makers alike since long due to their economic dynamism (Audretsch, Bönte, and Keilbach, 2008) and contribution to employment, economic growth and development (Acs and Storey, 2004; Audretsch and Keilbach, 2004; Ghouse, 2014). MSMEs form the backbone of the European economy constituting 99.8percent of all enterprises and employing approx. 67percent of total workforce. While small businesses are credited for their innovativeness, their size and ownership pattern makes them agile in comparison to their bulkier counterparts. At the same time, they are at a relative disadvantage with respect to liquidity and profitability which makes them particularly vulnerable to external shocks (Juergensen, Guimón, & Narula, 2020). The performance of MSME in literature is measured in terms of its output(GVA), labour productivity (output/labour input), capital productivity (output/capital input), number of employees, contribution to national exports (Acs and Storey, 2004; Chavan, 2020; Dey, 2014; Ghouse, 2014; Katyal and Xaviour, 2015; KS, 2017).

Dixit and Pandey (2011) have examined the presence of causality between SMEs output, exports, employment and fixed investment, as cause-factors and India's GDP, total exports and employment as effect factor, using co-integration analysis, for the period 1973-74 to 2006-07. Their study shows positive causality been SME output and India's GDP. Day (2014) has shown the importance of MSME by analysing the MSME contribution to India's GDP, industrial production. It is a secondary data analysis conducted using growth over previous period using MSME data. Hirani and Babu (2017) in their paper have shown the significance of the MSME sector in India's growth story focussing on employment generation and rural industrialization. The sector has shown resilience on the back of traditional skills, technology adoption and innovative marketing. Enhanced credit support, support for technological up-gradation and further marketing assistance along with participation in bilateral and multilateral agreement deals and skill development can give a further boost to the sector.

The Sub-prime crisis induced recession in major developed economies of the world adversely affecting Indian exports hurting its employment and businesses (Singh, 2011). The dwindling global demand affected Indian Exports. Bajpai (2012) has analysed the impact of the Financial Crisis 2007 on India. It is an exploratory analysis using secondary data primarily from RBI DBIE. The analysis reveals that impact of the crisis was not significant in the beginning and was in fact positive with FIIs pouring in from September-2007 to January-2008. The situation unfolded as the crisis deepened affecting Balance of Payments(BOP) of emerging economies with FIIs pulling out in the second half of 2008. The current account was affected mainly due to slowdown in exports. Velmurugan (2016) has undertaken longitudinal analysis of secondary data using simple percentage, trend line analysis and average annual growth rate (AAGR) analysis for a period of 20 years 1990-91 to 2010-11 to show the impact of the GFC on MSMEs in Tamil Nadu. The study brings out that MSME investment, production, employment and export show a negative trend line in the aftermath of the Global Financial crisis (GFC).

In the aftermath of the sub-prime financial crisis, the Government resorted to fuelling the economy via fiscal expansion (Mathew, 2014). The pre-crisis growth was led primarily by large scale investment in public infrastructure by the government and the corporate sector. With the subprime crisis hitting the Indian corporate sector, a sharp reduction took place in their investment activity, while it was observed that the SME sector was less affected by it and there was a significant increase in its investment as a percentage of GDP. The article articulates the significance of the MSME sector for creating pre-conditions for economic recovery.

Cowling, Liu, and Zhang (2018), in their article have re-examined the established SME age-growth, entrepreneur experience-growth relationship in the post GFC period using OLS regression model with annual percentage changes in employment and sales as proxies for UK SME growth as dependent variables and business(firm size, age, corporate sector, region, sector) and entrepreneur level(owner age, gender, race, prior experience and level of education) characteristic as independent variables using data from 2 business surveys – UK Small Business Survey and Business Barometer surveys, conducted by UK Department for Business , Innovation & Skills for 08-09 and upto mid-2012, respectively. Analysis reveals younger firms grew faster than older ones while entrepreneurial experience had no significant impact on business growth. Overall recession is said to have a long- lasting negative effect on small businesses.

As per the article (Mele and Magazzino, 2021), MSMEs employ approx. 97percent of the workforce and contribute 60percent to the country's GDP in Indonesia. Covid-19 has forced almost 50percent of the MSMEs on the brink of collapse. While some that could adapt to the digital workspace and marketplace have survived, most have shut shops. Covid-19 has adversely affected the tourism, transportation, manufacturing and associated industries in Indonesia where most businesses are heavily reliant on tourists. Government virus containment measures primarily social distancing have had a detrimental effect on businesses which have seen turnover dip significantly while expenses such as electricity payments, employee payouts and other operational expenses have continued to accrue rather increased with no customers.

Lu et. al. (2020) have surveyed via questionnaire and follow up interviews 4,807 SMEs in Sichuan Province, China to assess the difficulties faced by such businesses in light of work disruption and covid-19 abatement policy measures. It was found that most businesses were unable to start operations and many closed permanently due to various reasons like shortage of covid-19 mitigation materials, workers' inability to go for work after prolonged festival season and holidays, risk of employee infection and following economic consequences and legal liability, cash flows interrupted capital chain, disrupted supply chain and overall reduced demand. For purpose of this study, SMEs were categorized into Primary, Secondary, Tertiary and New Industries. Some industries such as tourism, catering, retail and transportation having periodic demand such as the Spring Festival suffered irrecoverable losses. Employee absenteeism rate was much higher than influenza pandemic due to traffic controls, panic/anxiety, and compulsory 14 days' quarantine before resuming work made re-work rate extremely low in the province.

As per Notteboom et. al. (2020), the distinguishing factor between Covid-19 pandemic and the sub-prime financial crisis is the externality of causal factor of covid-19. While the financial crisis of 2008-09 was caused due to the asset price bubble and related malinvestments with several warning signals, the Covid-19 pandemic was caused by an external shock with few warning signals. Although the two biggest economic crises of the 21st century have had a similar impact at the aggregate level, their effect on the micro level has been different.

Das (2017) has highlighted the importance of strengthening the MSME infrastructure which includes non-institutional credit financing such as angel investor and venture capital funding, equity financing, creating awareness about various schemes and benefits as provided by the central and state government from time to time. MSME constitutes an engine for economic growth in India constituting 80percent of its total industries. Ghosh (2020) has discussed the relief package for MSMEs and change in criteria for defining MSMEs. The revised definition will include more and larger enterprises into the ambit for MSMEs increasing beneficiaries under MSME schemes, the composite criteria - turnover plus investment is likely to create more ambiguity than ease. The varied nature of enterprise gets discounted here like gems and jewellery sector has a huge turnover due to the very nature of the product but investment in plant and machinery is much smaller. Liquidity infusion as a measure to revive the sector is inadequate till the time demand does not revive.

RESEARCH OBJECTIVES

Due to the ongoing nature of the covid-19 pandemic, there exists no systematic ground level study on the MSME sector (ISED Small Enterprise Observatory, 2020). The current paper brings out the gap in literature on MSMEs, highlighting the impact of covid-19 and GFC with greater emphasis on Covid-19 bringing out differences and similarities thereof. The scope of this paper is to understand whether the impact of COVID-19 pandemic on Indian MSME sector is different from that of the Global Financial Crisis of 2008-09, to explore reasons for variations (if any). An attempt is also made to highlight government intervention measures to support the pandemic inflicted MSMEs and provide policy prescription going ahead followed by conclusion and limitations of the study.

Secondary sources such as Annual reports of MSME board, RBI database, MOSPI statistics, ISED MSME report, UNCTAD, WB, IMF, ADB, conference proceedings and several research papers as well as survey reports have been used for conclusion of this exploratory research.

IMPACT OF COVID-19 ON INDIAN MSMEs

The Covid-19 impact on MSMEs needs to be understood in context of overall trend of the economy in the preceding year. The RBI monetary policy review for 2019 led to the Central bank reducing repo rate to a 9-year low to boost demand and spur economic growth. The global economic activity showed a slowdown in 2019 amid elevated trade tensions and geo-political uncertainty. The developed economies such as the US, UK, Japan registered decelerated GDP growth. Emerging economies too suffered due to weak external demand. (Third Bi-monthly Monetary Policy Statement, 2019-20 Resolution of the Monetary Policy Committee (MPC) Reserve Bank of India, 2019). The Business Assessment Index(BAI) computed by RBI giving a snapshot of business outlook shows contracted business in Q2(92.5) and Q3(93) of 2019-2020 which was exacerbated by the onslaught of covid-19 to 55.3 in Q1 2020-21 and 96.2 in Q2 2020-21. This shows that the slackening economic landscape became a full circle with the SarsCoV2 viral outbreak globally as well as nationally (ISED Small Enterprise Observatory, 2020). The overall impact of covid-19 induced lockdown on Indian economy has been grim: unemployment rose from 6.7percent in March to 26percent in April,2020; during the first wave lockdown, an expected 140 million people lost their jobs while many others suffered pay cuts; approx. business loss per day during lockdown is estimated at Rs. 32,0000 million, start-ups were adversely affected due to funding crisis while several operational companies either curtailed operations or switched to essentials where possible. India's growth forecast has been downgraded substantially by World Bank and CRISIL in light of the pandemic.

The MSMEs have been directly impacted due to infection mitigation measures such as lockdowns and social distancing that led to labour migration, disrupting their supply; Idle manufacturing capacity due to lockdown and consequent disrupted global supply chain; low margin operations leading to cash crunch. Another major impact on MSMEs emanated from their ancillary/supplementing or supporting nature, MSMEs essentially being suppliers to other industries. Cessation of operations in main industries resulted in reduced orders (both by volume and value) and cancellation of previous orders (essential industries being an exception) for MSMEs. In most cases, MSME's input demand for non-essentials went unmet. According to Acting Secretary-General of UNCTAD, Isabelle Durant (UNCTAD, 2021), ''…..adapting to these negative shocks has not been easy, as MSMEs lack resources, diversified markets and digital capacity to remain open.''

To study the covid-19 impact on MSMEs, we use the MSME classification provided by the ISED which divides MSMEs into three main sub-sectors: supply sensitive subsector which includes industries greatly dependent on/highly integrated into global supply chain; employment sensitive sub sector comprising of industries that are highly labour dependent and weakly integrated into global supply chain; and finally the strategic sub-sector which includes health care industries (ISED Small Enterprise Observatory, 2020).

Table III: The MSME Sub-Sectoral Impact of Covid-19 Pandemic:

Sub-sector	Industry	Key Characteristic	Covid-19 impact
Supply-sensitive	Electronics, Auto Components, Electrical machinery , office equipments, petroleum	30-50percent(approx.) parts are imported from China/overseas	• Disrupted supply chain due to lockdown in China • Increased prices of imports
	Chemicals	Heavy reliance on China across value chain	• Slowdown in end use industries such as textiles, consumer durables, automobiles etc – low overall demand • Reduced realisations due to declining crude oil price(Input) • Decline in exports
	Handlooms	Approx. 10percent output consumed locally, rest is exported. Heavy reliance on yarn, raw silk(inputs)	• Assam– Looms shut down, lost local maket of Rongali Bihu festival – over 20,000 weavers

		from China. Input prices soared since dec,19(Cotton yarn import price increased from Rs. 3000 p.u. to Rs. 4500 p.u. in Dec, 2019)	affected, reporting loss of Rs.130 cr. • Bihar – weavers in the Bhagalpur silk industry switched to making masks for survival. • UP(Varanasi)- textile industry heavily reliant on wedding season but due to covid-19 restrictions and consequent wedding procrastination and modesty led to dip in local demand. • Telangana and Andhra Pradesh– over 10,000 looms of Pochampally Ikkat weaving paralysed due to covid-19 • Tamil Nadu – weavers depressed in trade turned to alternative livelihood opportunity such as agriculture and poultry • Karnataka – Rise in silk prices due to decrease in silk import from China.
	Food & Beverages	Rapid growth in pre-pandemic period was attributed to rise in on-the-go consumers, working parents, increased travel and students studying away from home in need for ready to eat meals.	• Pandemic affected each stage in food value chain from labour migration at plant level, to reduced raw material supply, to logistics issue to food service outlets closure. • Offline food service was completely shut in the first wave lockdown while some chains did good business by delivering online. • Packaged foods and beverages saw increase in demand.
	Gems and Jewellery	Largest trading hub for India -Hong Kong. ~90percent of raw material is imported.	• Complete lockdown in Hong Kong severely affected the sector causing export loss of approx. USD 2bn. • Halted import of inputs.
Employment-sensitive	Leather and leather products		• Over 55percent of export orders cancelled(April-march,2020). • ~10-15percent orders on hold.

			• Manufacturing units in South India severely affected. (source: Indian Finished Leather Manufacturers and Exporters Association) • Raw materials stuck in transit. • In north India – suppliers switched to alternative employment opportunities such as agriculture etc.
	Textiles	Major hubs – China and Italy	• With lockdown in major hubs, supply chain was left heavily disrupted. • Brands Cancelled orders, went back on orders, pressed for discounts, logistics issue. • Workers and farmers wither moved to alternative employment or went below poverty line.
Strategic	Plastics, medical devices, pharmaceuticals	Essential for health care	• Covid-19 pandemic caused huge pressure on health care sector with huge demand for PPE kits(plastic), medical devices and medicines. The strategic sector saw huge uptick in demand both domestic as well as global.

Source: ISED MSMER, 2020; AIMO and UNIDO survey, OECD,2020

Table III shows how the MSME sector has been affected by the covid-19 pandemic. The Confederation of All India Traders(CAIT), representing small traders and businesses covering 6 cr. merchants and 4,00,000 affiliates submitted that the first wave of the pandemic is likely to lead to closure of 20percent of Indian Retail shops and an additional 10percent dependent on them due to unviability of operations with high fixed rentals and negligible demand. Traders concern is imminent due to changes in consumer buying pattern. A similar finding has been provided by the United Nations Industrial Development Organization(UNIDO) in its survey comprising of 85 Indian MSMEs. The survey results show manufacturing has been brought to a grinding halt and the agricultural processing (rice milling) is down 50percent. Sales, communication and administrative jobs were shown to be undertaken in a limited way. While where possible, some businesses have successfully transitioned to alternative operations such as producing masks, sanitizers, PPE kits and other essentials in the interim period of the covid-19 peak in order to survive, some have adapted their traditional businesses to the digital platform and remained in business and while some other remaining businesses have floundered and some have even collapsed.

IMPACT OF THE GLOBAL FINANCIAL CRISIS (2008-09) ON INDIAN MSMEs

The GFC has worsened finance access to small, innovative firms (Lee, Sameen, and Cowling, 2015). The impact of the Financial crisis 2008-09 on the Indian MSME sector was limited.

Table-IV: Growth Percentage over Previous Period in Different Variables of MSMEs

Year	Total MSMEs	Fixed investment	Production	Employment	Exports
2006-07	111	168	42	101	22
2007-08	5	11	11	5	11
2008-09	5	11	11	5	NA
2009-10	5	12	12	5	NA

Source: MSME Annual Report 2010-11, Pg. 16

Table IV shows MSME performance in terms of new MSMEs, fixed investment, production, employment was not significantly affected from 2007-08 and thereafter, growth has been tepid. As can be seen in the table, the export from the MSME sector declined in 2007-08. Table above shows a significant variation in values for 2006-07 since before it, data was compiled for SMEs and thereafter medium enterprises joined the club which explains the erratic jump in values for all variables for 2006-07.

In order to understand the business landscape of 2008, we use the Business Assessment Index(BAI). The BAI for Q4 of 2008-09 lies between 80-90 showing contracted business. In all other periods before and after Q4 of 2008-09, the index value is above 100 indicating expansion in business activities. This shows contraction in business in the aftermath of the GFC happened for a limited period i.e. a quarter, after which businesses rebound.

MEASURES TAKEN BY GOI TOWARDS MSME REVIVAL

The criticality of MSMEs on the one hand and their fragility on the other as exposed in their business models – small margins, inadequate credit, infrastructural inadequacies, unorganized structure, technological backwardness, excessive dependence on unskilled labour, low levels of skill makes them extremely vulnerable to economic shocks and forced the government to take measures for their revival lest they collapse. Opposed to the western nation idea of employing the Keynesian apparatus to revive the economy in times of distress such as the pandemic, Indian government has rather implemented the indirect way of injecting limited liquidity in the MSMEs. The efficacy of these measures has been strongly debated by the world economists' clout but let us first bring out the revival package given by the GOI before discussing the uptake of the same. The announced Rs.20 lakh cr. stimulus package for the MSME sector to include Rs. 20,0000 million subordinate debt, Rs. 50,0000 million equity infusion, Rs. 3 million-million automatic loans with 100percent credit guarantee. The revision in MSME definition is said to have been made to encourage growth in the sector without MSMEs having to worry about relinquishing entitled benefits while growing big. The government has by itself made provisions to mitigate the business loss on account of digital transformation invoked by covid-19 by promoting e-market linkages and has shown interest in fintech to encourage transactions based lending. It has extended GST return filing deadline, extended registration and completion of real estate projects under RERA, provided payment support of 12percent to employer and employee Provident Fund(PF). A 24x7 custom clearance facility has been made available to businesses. With a view to provide businesses to MSMEs, global tenders upto Rs. 2000 million. have been disallowed. Loan moratorium has also been provided to MSMEs. GST deferral was also announced by the GOI in an attempt to reduce the financial burden of businesses.

A KPMG report published in 2017 brings out the dismal reality of the digital uptake by the sector which stood at a meagre 32percent. This meant that only 32percent of the MSMEs had digital presence in some form or the other. During the same year, another report by KPMG revealed that over 50percent of consumers engage with a company digitally before making any purchase from them and the pandemic mitigation strategies particularly social distancing has amplified this quotient in both B2B and B2C segments. While B2C segment canbe catered to via e-commerce, it is the B2B players, that suffered the grunt. For Traditional manufacturing businesses such as manufacturers of school uniforms, auto component manufacturers, footwear manufacturers and other manufacturers of ancillary components to name a few, social distancing and its duration has proved fatal. While few retailers entered into e-commerce, many were known to be gasping for life. According to an AIMO survey of 47000 MSME respondents, nearly 80percent are unhappy with the government stimulus package. Businesses have not benefited from the announced package and have ended more confused than before.

DISCUSSION AND CONCLUSION

The review above brings out that covid-19 had a far stronger and deep-rooted impact on Indian MSMEs in comparison to the GFC. Firstly, the overall economic landscape of India was buoyant at the time of the GFC while pessimistic global as well as national economic outlook on the back of geopolitical tensions compounded the covid-19 impact. The GFC business contraction figure stands in stark contrast to the covid-19 induced business contraction in 2020-21 Q1 index value of 55.1 (RBI database, 2021). The BAI assessment shows the strong impact that Covid-19 had on Indian businesses in comparison to the limited ~(-20)(upper limit) brought about by the GFC. Secondly, While the GFC was an exogenous shock to India and its businesses and its impact was a trickle down from the US and Europe, covid-19 was an endogenous shock that imploded within and had a direct impact on all economic players. Thirdly, the GFC primarily affected the financial markets and that too in a limited way while the covid-19 shook the real economy – production and consumption. The pandemic containment measures have had a cascading effect on the MSMEs via disruption in the global supply chain, resource interdependence between firms and overall financial distress in the banking system in addition to labour shortage and demand shock which has critically affected MSME liquidity positions. Fourthly, While the GFC was a unidirectional demand side shock, the covid-19 was a simultaneous demand as well as supply shock. It is because of this reason, business recovery was quick in the aftermath of the GFC and this had a limited impact on Indian businesses. In contrast, covid-19 mitigation measures such as social distancing and use of masks, sanitizers, etc. hurt work and workers. Disruption in supply chain affected market of business inputs. Joblessness and pay cuts led to decline in consumption which affected the market for business output. Sixthly, the global supply chain has been far strongly integrated at the time of the pandemic than it was in the 2008-09 period. The dependence on global partners in general and China in particular is far greater during the covid-19 period than it was a decade ago. This has led to a faster and a synchronous fall- out of the pandemic. Due to disruption in the global value chain as a result of the covid-19 crisis, MSMEs relying on import of critical inputs faltered, and also MSME depending on export for sale of their output saw huge pile up in inventories and lost business due to logistical obstructions. The businesses dealing with overseas markets either for import or export have faced enormous hike in freight charges and non-availability of containers for export. The import restrictions in order to protect domestic players has led to a severe shortage of containers for our export. And lastly, the heavy impact of the pandemic on MSMEs has been due to the over representation of small businesses in pandemic hit sectors namely transport manufacturing, cultural and leisure industry, accommodation and food servicing, real estate, construction, retail and wholesale trade, professional services and personal grooming services. According to OECD data, while MSMEs account for average ~60 percent in employment , their share in employment in severely affected sectors has been ~75percent. (OECD, 2020).

The government measures aimed at reviving the sector such as GST deferrals and support package are focussed on the supply side push in the economy and due to lack of clarity and transparency in their disbursement, the MSMEs are still running from pillar to post. The pandemic has stalled economic ecosystem. And history stands testimony that in such times demand push along with supply side efforts is the key to propelling the economic engine (Keynes, 2018). Policy measures aimed at boosting aggregate demand such as expansionary fiscal policy/infrastructural investment by the government, unemployment benefits are proposed policy measures to reinvigorate the MSMEs.

Apart from government stimulus, the need for MSMEs to re-skill is imminent. New Skill development with focus on technology at each level of MSME operation is critical for future growth. Bottlenecks in revival of small businesses relate to tech support in e-commerce including websites, payment gateways, etc. and digital marketing, workplace and customer safety in light of pandemic containment measures of social distancing, sanitisers, masks, restructuring businesses, workplace equipments such as furniture. In the long run, it may be difficult for MSMEs to network back with their previous suppliers who due to supply chain disruption have forged new alliances and commercial contracts. The pandemic impact on MSMEs have highlighted critical areas of assistance for MSMEs being financial, e-commerce and human resource guidance.

If anything the Covid-19 pandemic has taught businesses, it is the need to periodically monitor business health using Scenario Analysis to keep operations flexible and periodic conduct of Stress Tests to identify weak spots and design strategies to implement them in a proactive manner without having to waste time in the eventuality of a crisis, which is to say that contingency standard operating procedures(SOPs) for varying business scenarios should be readily available with businesses so that the sitting duck syndrome can be overcome.

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Although MSMEs are key drivers of socio-economic growth in most countries, including India, academic research in the area is limited with several gaps mainly due to non-availability of data. The MSME board was formed by merging of the Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries in 2006. Also, the criteria for classifying MSMEs has undergone significant change in the year 2020. The National Industrial Classification (NIC) code of Industries has been an ever evolving phenomenon starting from NIC-1970, 1987, 1998, 2004 to NIC-2008, thereby rendering data collection for MSMEs esoteric. Only 2 comprehensive databases – Fourth All India Census of MSME, 2006-07 and 73rd Round NSS, 2015-16 provide statistics on the sector. Since 2015-16, no subsequent comprehensive data compilation is available for the MSMEs in India. Moreover, data on employment and number of registered units in MSMEs has not been compiled since the 73rd Round of NSS. Access to this data would provide more conclusive outcome to this research. Moreover, the current research can be extended to include data for a longer period in order to capture the long term Covid effect. Further ground level sectoral research can be conducted to quantify the covid-19 impact on jobs, business demand, business operations.

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