

# THE IMPACT OF COVID 19 ON KERALA'S MSME SECTOR

<sup>1</sup>Mrs. Anitha Mary Alex , <sup>2</sup>Dr. S.V. Murugesan , <sup>3</sup>Dr. Jacob.P.M

<sup>1</sup>Associate Professor, Department of Commerce Naipunnya Institute of Management and Information Technology Kerala, [anitha.alex71180@gmail.com](mailto:anitha.alex71180@gmail.com)

<sup>2</sup>Associate Professor, Department of Commerce Govt. Arts College, Ramanathapuram Tamil Nadu, [ymmukesh1966@gmail.com](mailto:ymmukesh1966@gmail.com)

<sup>3</sup>Director, Naipunnya Business School Kerala [director@mbanimit.ac.in](mailto:director@mbanimit.ac.in)

## Abstract:

Micro, small, and medium-sized business growth is critical to a country's economic development. Many see it as a job-creating machine that promotes equitable and inclusive growth. Over 12 million people work in India's MSMEs, which account for 30% of the country's GDP. Kerala is a state that prioritises and actively works to strengthen MSMEs. Kerala ranks 14th in the MSME Annual Report 2020-21. Of the 23.79 million units, 23.58 million are micro-enterprises employing 44.64 million people. Due to Kerala's land fragmentation, SME's outperform large corporations. So Kerala is keen on developing the MSME sector. The COVID 19 pandemic hit the country's manufacturing and SME sectors hard. The pandemic hit MSMEs hard, leaving many unable to pay employees, pay debts, or run their businesses. So an MSME sector strategy was required. The government has developed a strategy to develop the MSME sector, which is vital to the economy and GDP. This study focuses on the impact and future of the COVID 19 pandemic on Kerala's MSME sector. The study's main goal is to understand the current MSME sector and India's economic prospects.

**Keywords:** Covid 19, Development, Economy, MSME

## INTRODUCTION:

The COVID 19 pandemic is regarded as one of the worst economic disasters since the Great Depression. It had a negative impact on the majority of industries all over the world. The MSME sector is one of the most important sectors in the economy, serving as a cornerstone for growth. MSMEs create a lot of jobs and are the second most important source of employment after agriculture.

According to data collected by organisations like the ITC (International Trade Centre) during the early days of the pandemic, about two-thirds of MSMEs reported that the pandemic's accelerated crisis had a significant impact on their business's smooth operation. MSMEs are more affected by the corona pandemic than large corporations, with about 40% of all MSMEs globally set to close permanently within months. The service industry had taken the brunt of the damage all over the world.

The COVID 19 pandemic caused a downturn in Kerala's MSME sector. Kerala has the 12th largest number of MSMEs in India, according to the MSME annual report 2018-19, and employs more than 50 lakh people. The MSME sector has been severely harmed by the pandemic. About half of all MSMEs have seen a 20 to 50 percent decrease in their earnings. Because no one had ever faced a situation like this before, the government's unexpected lockdown put stakeholders and MSME owners under pressure. The prolonged lockdown resulted in a slew of issues, including a shortage of finished goods, difficulty obtaining raw materials, and a scarcity of labourers, to name a few. The sector faced challenges related to debt repayments, wages/salaries, statutory dues, and so on from April to June 2020. MSMEs led by women are more affected than MSMEs led by men.

The research is divided into four sections: The review of literature is presented in the second section; the research methodology is discussed in the third section; the impact assessment and analysis are discussed in the fourth section; and the report concludes with the Kerala government's initiative to support MSMEs in Kerala and recommendations.

## REVIEW OF LITERATURE

The ongoing COVID-19 pandemic is wreaking havoc on economic activity across India, and Kerala is no exception. The MSME sector is being impacted by both demand and supply side effects as a result of the lockdown and ongoing restrictions. The supply shocks will have a demand-side effect by lowering the Kerala economy's income. Various researchers and scholars have conducted numerous studies on the various aspects of MSMEs.

According to the WTO's (2020) assessment, the primary issues impeding MSMEs' progress toward more inclusive trade are primarily demand shocks and supply chain disruptions exacerbated by the pandemic, as well as the small size of MSMEs, which limits their growth prospects.

ASSOCHAM (2020) identified restrictions on the movement of people and goods as one of the primary factors affecting workforce capacity and disrupting the supply chain.

The United Nations (2020) emphasises MSMEs' inability to address and mitigate the pressures and consequences of such a sudden calamity, as well as the importance of policymakers including plans to keep businesses afloat and ensure their survival not only in the event of natural disasters, but also in the event of socioeconomic disruptions caused by epidemics and pandemics such as Covid19 in today's world.

According to Mohsin Shafi, Junrong Liu, and Wenju Ren (2020), the COVID 19 outbreak and lockdowns severely impacted several MSME, and businesses in this sector faced a variety of issues related to finance (67.93 percent), supply chain disruption (47.83 percent), decreased demand (44.02 percent), and decreased sales and profit (38.04 percent and 41.85 percent respectively).

Sipahi (2020) proposed repurposing the pandemic-induced crisis as an opportunity to boost production levels in a few specific sectors

(primarily, the medical sector products such as ventilators, PPE kits, medicines, etc.)

FICCI (2020) measures, such as deferring debt and interest payments, increasing banks' provision of working capital credit, interest rate subvention, and norms relaxation, can assist MSMEs in eliminating short-term compensations, allowing them to continue operating.

According to Ghosh (2020), the government's adopted measures are primarily supply-side regulations enacted to inject liquidity, while demand-side measures are required to reverse the economic recession.

## OBJECTIVES:

To gain a better understanding of COVID 19's impact on the MSME sector.

To ascertain the difficulties encountered by micro, small, and medium-sized enterprises (MSMEs) during the pandemic.

To gain knowledge of the corrective measures being taken to improve this sector

## RESEARCH METHODOLOGY:

To accomplish the research paper's objectives, secondary data were analysed. Between 2020 and 2021, it includes annual reports on MSME published by government, journals, blogs, newspapers, and other online resources. The evaluation criteria include the reduction of financial resources, the unemployment rate, and so on.

## ANALYSIS:

As a major contributor to the country's economic growth, the MSME sector is critical. It is not only a source of employment, but also a catalyst for growth in rural and backward areas of the country. There are more than 6 million MSMEs in India, according to the Government's annual report (2018-19). The Indian economy's MSME sector is highly dynamic and produces or manufactures products for both domestic and international markets. Rural areas are being brought up with the help of various state governments, concerned ministries, and other stakeholders. As a result, rural areas have become more industrialised as a result of the growth of MSMEs. Because this was a small business, it required less capital than a large industry.

Furthermore, this sector had a significant impact on the country's socioeconomic development as well. MSMEs have a significant impact on a nation's development by facilitating factors such as low investment, operational flexibility, reducing imports, increasing domestic production, and so on. '

#### MSME OLD AND NEW DEFINITION:

The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018, defined the MSME based on the annual turnover of manufacturing or service-providing enterprises. Plant and machinery or equipment investments were used to define the MSME in the old MSME definition. Investment and annual turnover have been added to the list of criteria in the new definition.

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment < Rs. 25 lac	Investment < Rs. 5 cr.	Investment < Rs. 10 cr.
Services Enterprise	Investment < Rs. 10 lac	Investment < Rs. 2 cr.	Investment < Rs. 5 cr.

  

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < Rs. 1 cr. and Turnover < Rs.5 cr.	Investment < Rs. 10 cr. and Turnover < Rs.50 cr.	Investment < Rs. 50 cr. and Turnover < Rs. 250 cr.

Source: <https://smallbusinessandstartuptips.blogspot.com/>

The reclassification of MSME provides advantages in terms of transparency, non-discrimination, and objectiveness. No need to conduct regular inspections to verify the investment in plant and machinery would also be eliminated.

Khadi, village, and coir industries in Kerala were helped by MSMEs in their growth and development. Kerala MSME is known for its coir manufacturing, handloom industries, khadi, and tourism industries. An important part of the state's MSME ecosystem is the traditional coir industry, which is based on agriculture.

The state of Kerala's geographical features necessitates MSMEs rather than large-scale industries. In order to boost the state's MSME growth, the government is taking advantage of the state's fragmented lands. As a result of Kerala's massive investment in infrastructure and communication networks, this sector has grown significantly. Throughout time, MSMEs have grown by more than half a million since 2016.

It was a major source of employment, and the pandemic had a devastating effect on it. It resulted in the loss of thousands of jobs in the small and medium-sized businesses (SMEs) sector. Because of transportation and interstate travel issues, the number of migrant workers available for MSME jobs decreased significantly during the lockdown. Only a few percent of Kerala's MSMEs are able to produce at least half of their capacity after the lockdown because of poor demand, logistics problems, and their own financial difficulties, such as a liquidity crunch.

#### Logistics Issues Due To Pandemic

Kerala, like other states, was forced to go into lockdown as a result of the pandemic COVID 19. Thus, the supply chain is almost completely halted. Due to restrictions on transportation, some packet food producers were unable to ship their products. Essential goods can be transported, but there is not enough labour at

loading and unloading points, which has made the situation much worse.

### **Liquidity Crunch Due To Pandemic**

Covid 19's impact on MSME's can also be seen in terms of a lack of liquidity. There is a credit gap of 240 billion dollars in India's MSME sector, according to International Financial Corporation reports. This liquidity crisis has reached its peak at the time of the COVID pandemic. Kerala's MSMEs also had to deal with the same issues. Many MSME units were unable to function properly due to the lockdown, which resulted in them failing to pay their loans and other debts. Since MSME businesses are heavily dependent on unorganised financial institutions, the government's moratorium and other measures have only had a limited impact.

### **Poor Demand Due To Pandemic**

During the pandemic, MSMEs also had to deal with a decline in demand. Any business's ability to expand depends on its ability to reach customers in the marketplace. Prior to COVID, most MSMEs in India were known to operate solely through the brick-and-mortar model, which has a negative impact on their ability to reach and increase productivity. Pandemic widened the scope of what was already a difficult situation.

### **CENTRAL AND STATE GOVERNMENT INITIATIVES TO SUPPORT MSMEs**

The recent developments with regard to MSMEs were as follows:

#### **Udyam Registration:**

This Ministry has replaced the old process of filing Udyog Aadhaar Memorandum with 'Udyam' registration on a portal developed by this Ministry. On 31.12.2020, there were 5,37,677 manufacturing firms and 8,65,058 service firms registered. Industry registrations are dominated by food products, textiles, apparel and machinery & equipment. Registration without a PAN is permitted until 31 March 2021. Similarly, non-GST registration is permitted until 31.03.2021 as a transitional measure.

### **Framework for Revival and Rehabilitation of MSMEs**

The Ministry of Micro, Small and Medium Enterprises of the Government of India published a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises' on May 29, 2015. On 17.3.2016, the Reserve Bank of India issued guidelines to banks. These guidelines created a mechanism for banks to finalise corrective action plans for MSMEs.

### **MSME DataBank**

This data bank will help the Ministry of MSME streamline and monitor schemes while directly benefiting MSMEs. It will also provide real-time data on MSMEs in various parameters. For MSME units, the Data Bank allows them to update their enterprise information and product/service information without having to visit a government office.

### **MyMSME**

The Office of Development Commissioner (MSME) has launched a web-based application module called MyMSME to help businesses benefit from various schemes. It also has a mobile app. Entrepreneurs can create and track applications on their mobile phones.

### **Direct Benefit Transfer in the M/o MSME**

All government welfare and subsidy schemes have been brought under Direct Benefit Transfer (DBT) to improve delivery system, simplify and speed up fund flow, and ensure accurate beneficiary targeting, de-duplication, and reduction of fraud. The Ministry has set up a DBT Cell to implement DBT programmes.

### **Digital Payments**

The Indian government is working hard to promote a cashless economy and make seamless digital payments available to all Indian citizens. The Government of India has made it a priority to promote digital payments across the country. Its vision is to provide seamless digital payment facility to all Indian citizens in a simple, secure and cost-effective manner.

### **Grievance Monitoring**

The Ministry handles all CPGRAMS grievances, which totalled 186 as of December 31, 2020. For other grievances and suggestions, the Ministry has established an MSME internet

grievance monitoring system (eSAMADHAN). The Ministry handles all CPGRAMS grievances, which totalled 186 as of December 31, 2020. The Ministry has established an MSME internet grievance monitoring system (eSAMADHAN).

#### **MSME SAMADHAAN: To Address Delayed Payment to MSEs**

Since the launch of MSME SAMADHAAN on 30 October 2017, MSEs have filed 65142 applications for delayed payments. These applications total Rs. 18466.49 crore. This portal also assisted in resolving payment issues between seller and buyer. By 12.01.2021, MSEFCs had disposed of 5618 cases worth Rs. 1392.42 crore, 15943 cases worth Rs. 9031.65 crore had been converted to cases, and 5798 cases worth Rs. 885.07 crore had been mutually settled. The Portal now allows MSEs to file direct claims for late payments. Ministries/CPSEs and state governments monitor this.

#### **MSME-SAMBANDH**

MSME-SAMBANDH Portal launched on December 8, 2017. MSEs can use the portal to track their purchases and share their wish lists with MSEs. As of December 31, 2020, 111 CPSEs had uploaded details for 2020-2021. These CPSEs bought 57016.60 crore. The total share of MSE purchases is Rs. 18963.05 crore (89911 MSEs benefited), or 33.26 percent of total purchases. Purchases from SC/ST-owned MSEs total Rs. 349.49 crore (3621 MSEs benefited). Purchases from women-owned MSEs total Rs. 357.81 crore (2374 MSEs benefited).

#### **MSME SAMPARK**

On June 27, 2018, the Hon'ble President of India launched an MSME SAMPARK job portal. This is a digital platform where jobseekers (ex-MSME Technology Centre trainees/students) and recruiters can connect for mutual benefit. On 18.01.2021, 468759 passed out trainees (job seekers) and 5947 recruiters (job providers) had registered on the SAMPARK portal, with 28019 jobs offered.

#### **Champions Portal**

The Creation and Harmonious Application of Modern Processes for Increasing Output and National Strength (CHAMPIONS) portal was

launched by the Hon'ble Prime Minister on June 1, 2020. The portal not only helps MSMEs now, but also helps them seize new business opportunities.

#### **Special Measure Under Atmanirbhar Bharat Abhiyaan**

The Atmanirbhar Bharat Abhiyaan package prioritises the MSME sector in reviving the economy. Several announcements have been made under the MSME Package. In addition to existing credit related schemes and other announcements, the Atmanirbhar Bharat Package announced two new schemes to help MSMEs access finance: Stressed MSMEs' Subordinate Debt: The Indian government will contribute Rs. 4,000 crore to the Credit Guarantee Trust for MSMEs. It will set aside Rs 20,000 crore for distressed MSMEs.

#### **Skill Training Eco-system of Ministry of MSME**

The ministry's organisations train youths for wage work and self-employment. They also help existing entrepreneurs and workers improve their skills. • MSME-TCs, Assistance to Training Institutions (ATI), National SC/ST Hub, Capacity Building, Coir Vikas Yojna-Skill Upgradation & Mahila Coir Yojna. In the year 2020-2021, 127380 people were trained.

#### **SWACHHTA PAKHWADA by Ministry of MSME**

From June 16th to 30th, 2020, MSME celebrated Swachhta Pakhwada. Due to the COVID-19 lockdown imposed by the Government of India since March 2020, keeping the office premises clean was a priority. A regular sanitization of the office premises was mandated by COVID-19 during Swachhta Pakhwada.

#### **Twelve Key Announcements By The Honourable Prime Minister**

On November 2, 2018, the Hon'ble Prime Minister made 12 major announcements in support of MSMEs. These 12 major announcements aim to address some of the most pressing issues facing small and medium-sized businesses. The 12 most significant announcements are:

The 59-minute loan portal was launched to help small and medium-sized businesses get credit.

The GST-linked portal can approve loans up to Rs 1 crore in principle.

In addition to the 3% interest rebate for exporters, all GST registered MSMEs will receive a 5% interest rebate on new or incremental loans.

Companies with a turnover of over Rs. 500 crore are required to join the TReDS.

As a result of this change, CPSUs must now purchase 25% from MSEs instead of 20%.

3 % of CPSU procurement must be from women-owned businesses.

CPSUs must participate in the Government e-Marketplace (GeM). Suppliers must be registered on the GeM portal.

Allocation of Rs 6,000 crore for the establishment of 20 hubs and 100 spokes in the form of Tool Rooms for Technology Upgrade.

The Indian government will fund 70% of the pharma MSMEs clusters.

One annual report is required to comply with eight labour laws and ten union regulations.

Using a computerised random allocation system to schedule government inspector visits to businesses.

The approval of an air and water pollution control unit will be combined. Acceptance based on self-certification allows re-entry.

### Significant work done for fighting against COVID-19 by the Ministry and its Organizations

Innovating products to combat COVID-19 include UV-sanitizing boxes for office files and other items, plasma-based sanitizers, accurate infrared thermometers, and non-contact dispensers. The Ministry has funded them to help MSMEs produce these items and benefit from this opportunity.

### Emergency Credit Line Guarantee Scheme (ECLGS):

The government has launched a Rs 3,000 crore no-collateral loan scheme that will benefit 45 lakh MSMEs. It seeks to help the MSME sector by encouraging Member Lending Institutes (MLIs) to extend low-cost credit to help MSMEs meet operational obligations and restart their businesses. The scheme has sanctioned Rs. 1,37,587.54 crore and has disbursed Rs. 92,090.24 crore till August 3, 2020.

### Government e-Market Place:

Even in the Udyam Registration online form, the Ministry of MSME has a button for MSMEs to express their willingness to join GeM. Previously, bulk emails were sent to all UAM holders inviting them to join the GeM portal. The GeM now has access to the UAM Database for provisional and automatic MSMEs on boarding.

### Kerala State Government and Various Departments

Government Schemes for Entrepreneurship Development			
SL.NO	Name of Scheme	Department	Target Group
1	Entrepreneur Support Scheme (ESS)	Department of Industries and Commerce ,GoK	All MSMEs engaged in manufacturing activities
2	Assistance Scheme for Handicrafts Artisans (ASHA)	Department of Industries and Commerce,GoK	Artisans in the Handicrafts Sector
3	Revival & Rehabilitation Scheme	Department of Industries and Commerce, GoK	MSME in the manufacturing category & Sick Unit
4	Assistance to Industrial Co-operative Societies	Department of Industries and Commerce ,GoK	Society is registered or deemed to be registered under the KCS Act 1969 ,Administrative control of the Society is vested with the Director of Industries & Commerce or the General Manager, District Industries Centre as the case may be etc..
5	Interest Subvention Scheme	Department of Industries and Commerce ,GoK	MSME in the manufacturing /Job work category established in the state, should have filed UAM etc..
6	State Sponsored Cluster Development Programme (SS-CDP)	Department of Industries and Commerce ,GoK	

Source: <https://kied.info/schemes/>

A special package worth 3434 crore rupees has been announced to help the MSME sector recover in the wake of the COVID 19 pandemic.

The Kerala State Industrial Development Corporation (KSIDC) offered a three-month moratorium period with no penalty interest and a loan amount of up to 50 lakhs.

Introduction of the "VYAVASAYA BHADRATHA" interest subvention scheme for new/additional term loans/working capital loans for a period of six months.

## FINDINGS

The development of a country's economy is greatly aided by the growth of small and medium-sized enterprises (SMEs).

MSMEs are a major source of employment for a significant number of people in a country.

The MSME sector is one of the most severely affected by the pandemic around the world.

The COVID pandemic had a devastating impact on this industry, resulting in economic losses, job losses, and so on.

In comparison to the actual production capacity, there was a significant drop in actual production.

Kerala is ranked 14th in India in terms of the total number of MSMEs.

The main issues that MSMEs in Kerala faced were supply chain issues, liquidity and credit constraints, and low demand caused by the lockdown.

Due to strict lockdown and interstate travel difficulties, small businesses were also impacted by the reduced availability of migrant workers.

Kerala's small-scale industries, such as Coir and Khadi, were severely impacted by the pandemic.

Because the funds come from unorganised and informal financial institutions, financing for MSMEs has been difficult.

MSMEs that provide services were disproportionately affected.

COVID's time uncertainty resulted in an excessive number of loan defaulters.

Kerala's economy has suffered a significant loss of income.

Both the federal government and the state government of Kerala have taken steps to help the MSME sector grow.

It will take some time for the MSMEs to recover from the pandemic impact, according to various studies.

## SUGGESTIONS

In rural areas, educate the people about the government's various programmes and schemes.

Provide MSMEs with interest-subsidized short-term working capital loans.

MSMEs' cash flow problems can be alleviated through tax deferment.

As the business landscape shifts, the federal government may provide incentives for small businesses to shift their business models.

To help small businesses in lower levels of government, the government may launch programmes to encourage and support them.

To be overseen by the nodal MSME ministry, the converging of various government programmes.

## CONCLUSION

The MSME sector is often referred to as the "backbone" of any economy, as it contributes significantly to GDP growth and provides significant employment opportunities, particularly for rural residents. In Kerala, the MSME sector has a significant impact. There is a need to know how the pandemic has impacted small and medium-sized enterprises (SMEs) and how authorities have dealt with their demise. COVID outbreaks and COVID-induced lockdowns have had a significant impact on MSMEs, according to our research. It was difficult for many small-scale businesses to balance production and operating costs during the lockdown period, which was compounded by less-than-stellar demand and consumer confidence. Additionally, MSMEs in Kerala faced a wide range of problems, including supply chain issues, liquidity issues, low demand, financial issues, and economic loss. As a result, the economy and MSME operators both suffered a significant loss as most MSME units could only perform at 50 percent of their actual capacity. Federal and state governments are also working to bring back MSME's glory. Because of our COVID-related studies on MSMEs, we have a better understanding of the challenges they face. It is clear from secondary data that the pandemic and its aftermath shattered Kerala's SMEs, but

we can expect the sector to recover from the various remedial measures taken by the authorities.

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