A man in a blue shirt is working on a lathe machine in a workshop. The machine is spinning a piece of metal, and the man is using a tool to shape it. The background is a brick wall.

Impact of COVID-19 pandemic on micro, small, and medium enterprises (MSMEs)

India report

June, 2020

MSMEs during COVID-19

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India report



Provides a detailed country-level view of the impact of COVID-19 on MSMEs*, their coping strategies, and recommendations for policymakers and financial service providers to support them

01

Recommendations

02

Impact of COVID-19 on MSMEs

03

Coping strategies of MSMEs

Annex

*Our study primarily focuses on the micro and small enterprises in India. The research findings may not be valid for medium enterprises.



India

At the time of data collection (April, 2020), the Government of India exclusively allowed businesses classified as “essential services” to operate. All other businesses were shut. Therefore, in our sample, 74% of businesses, largely dealing with retail trade in essential commodities, were operating while the remaining 26% were shut.

01 Recommendations



Adopt immediate measures to boost the income and reduce the burden of expenses on MSMEs

Measures to support the income of MSMEs

Key insights

- The decline in demand together with supply disruption has resulted in a sharp decline in the income of MSMEs.
- Uncertainty around future income due to the spread of the pandemic and declining purchasing power among customers has endangered the survival of MSMEs.

Recommendations

- **01** Provide Direct Benefit Transfer to microenterprises for three months to help them manage immediate expenses
- **02** Expand preference for procurement under government contracts, provided MSMEs exist that can fulfill the market demand. Government contracts below INR 10 crore (USD 1.3 million) in value should be reserved for microenterprises and up to INR 50 crore (USD 6.6 million) in value for small enterprises.
- **03** Create an enabling environment for the MSMEs to ensure their participation in the bidding process for the contract and remove the obstacles they face in procurement of bank guarantees* (especially for microenterprises)

Measures to reduce the burden of expenses

Key insights

- The increase in transportation costs due to the COVID-19 pandemic has raised the overall business expenses for MSMEs.
- MSMEs report challenges in managing household expenses due to adverse cash-flows.

Recommendations

- **01** Provide subsidy on utilities, that is, electricity and water, particularly to enterprises engaged in manufacturing
- **02** Allow financial institutions to continue the loan moratorium on a case-to-case basis for at least another six months. Extension of the moratorium should be across intermediaries, banks, as well as NBFCs. This will provide MSMEs some liquidity in the short term.
- **03** The government can further provide interest subvention on loans to micro and small enterprises through the MUDRA scheme

*A [bank guarantee](#) serves as a promise from a financial institution that it will assume liability for a particular debtor if its contractual [obligations](#) are not met.

Increase access to appropriate financial services and promote the adoption of relevant digital technologies among MSMEs

Measures to boost access to finance

Key insights

- The availability of credit from suppliers to MSMEs has declined.
- MSMEs, particularly whose businesses are shut due to the lockdown, have begun tapping into their savings to meet expenses.

Recommendations

- **01** Banks should increase the existing limits on working capital to MSMEs by 35-50%. The government can provide credit guarantee on the extended limit
- **02** Promote collaboration of FinTechs with traditional financial institutions to offer faster loans to MSMEs, which have limited business records or transaction trails; data available on GST, *Aadhaar*, and income tax can be used for registered enterprises and alternative mechanisms for the others
- **03** Encourage banks to use business correspondents for credit check and KYC to deliver credit to rural MSMEs

Measures to promote digitization of MSMEs

Key insights

- MSMEs have started to use social media for business purposes.
- A few MSMEs have also started using e-commerce platforms to reach out to customers.

Recommendations

- **01** Expand the scope of the existing [Business Immunity Platform](#) to cover information related to e-commerce and social commerce, digital payments, and alternate modes of financing including those from the private sector
- **02** Introduce tax incentives for MSMEs for sales on e-commerce platforms

Enhance the impact of policy through better targeting of informal enterprises together with well-defined monitoring systems

Measures to improve targeting of informal enterprises

Key insights

- Due to lack of data, unregistered or informal microenterprises usually remain deprived of government relief packages

Recommendations

- 01 Ensure coverage of *Shishu** and *Kishore** loan borrowers under the MUDRA scheme in all COVID relief packages. Almost all these borrowers are informal microenterprises
- 02 Ensure simple processes for unorganized enterprises registered under various national, state, and local governments to seek COVID-specific cash transfers. Use this opportunity to register and formalize microenterprises
- 03 Local government bodies can be used to target informal and unregistered enterprises not covered above to offer COVID relief benefits. These bodies along with third-party agencies or NGOs can be used to collect data on unregistered MSMEs at the village or block level

Measures to enhance the impact of policy

Key insights

- Most MSMEs are unaware of any key steps taken by the government to support the sector
- Most enterprises reported a lack of information on support from the government or private sector

Recommendations

- 01 All MSME policies should accompany an action plan to ensure rapid implementation of these policies
- 02 Develop agile policies for the different phases of the COVID-19 pandemic along with exit strategies
- 03 Ensure monitoring systems for all the COVID relief measures are in place. This will help to assess progress and take corrective measures as needed

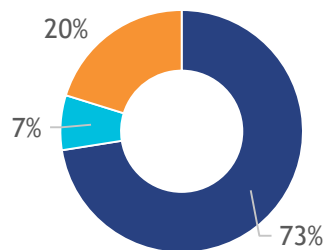
**Shishu*- loans up to INR 50,000 (USD 662); *Kishore*- loans above INR 50,000 (USD 662) and up to INR 500,000 (USD 6,620)



02 Impact of COVID-19 on MSMEs

The income for businesses has reduced substantially due to a fall in demand

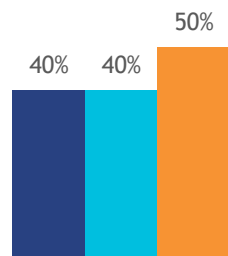
73% businesses reported a decrease in customer footfall



■ Decreased ■ Increased ■ Same as before

n=152

Enterprises that reported a decrease in the customer footfall; the decrease is of a median value of 45%



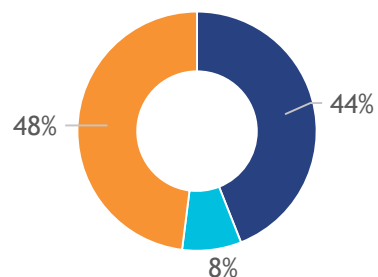
■ Rural ■ Semi urban ■ Urban

n=79

Fewer customer footfalls amid lockdown

- ✦ The reduction in customer footfall was uniform across enterprises owned by men and women.
- ✦ 39% of enterprises were not able to restock as per the demand largely due to a reduction in supply
 - Restocking is a bigger issue in rural areas where 85% of enterprises have not able been to restock
- ✦ Enterprises that reported a decrease in volume of supply also reported a median 50% reduction in household income*

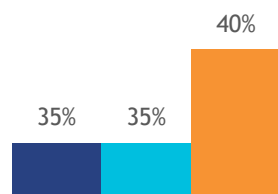
Nearly half the enterprises reported a decrease in volume of supplies



■ Decreased ■ Increased ■ Same as before

n=106

Enterprises that reported a decrease in volume of supplies; the decrease is of a median value of 40%



■ Rural ■ Semi urban ■ Urban

n=47

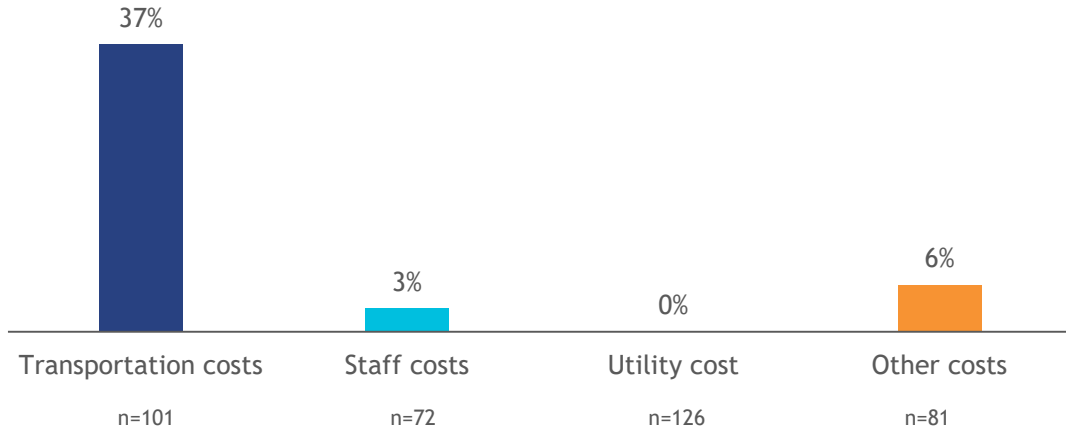
“My shop is open and business is running, but the footfall has gone down drastically. Everyone is afraid that the police will beat them up if they step out during the lockdown. Only those who desperately need medicines visit my shop.” - a medical shop owner from a rural area

“Sales are down by more than 75% since last month. Retailers are demanding tea but I am unable to supply to them as transport options are not available.” - a female tea distributor from a semi-urban area

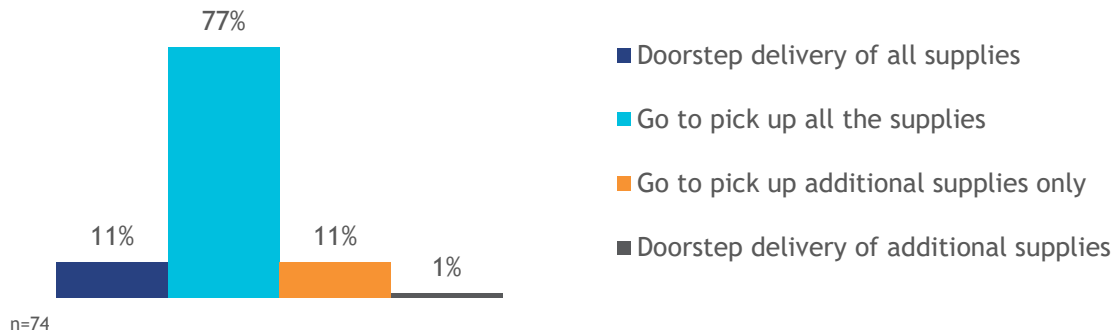
*Note: For MSMEs, the household income and business income are usually fungible

Disrupted supply chains have further affected income

Business costs have largely remained unchanged. However, an increase in transportation costs for about **one-third** of the enterprises hints at disruptions in the supply chain.*



Change in delivery of supplies after COVID 19: **77%** of enterprises have to go pick up all their supplies



*Most enterprises stated that their costs have remained unchanged. This is not presented in the graph.

Declining income and rising expenses: a double whammy

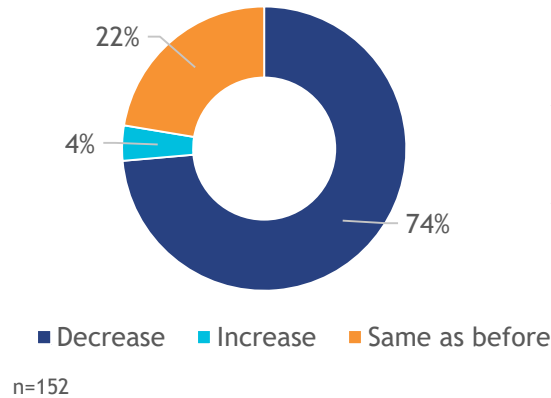
- 37% of enterprises reported an increase in transportation costs by a median of 20%
- While urban enterprises reported a median 20% increase in transportation costs, semi-urban and rural enterprises reported a 10% and 18% increase respectively
- In rural areas, 63% enterprises had to go and pick supplies themselves. This is one of the contributors to increased transportation cost.
- Moreover, about 75% of the women-owned enterprises mentioned that they now have to go and pick up all the supplies themselves

“We are incurring additional transportation cost to get the supplies on time. There is already a huge demand and supply gap in the market.” - a **grocery shop owner from a rural area**

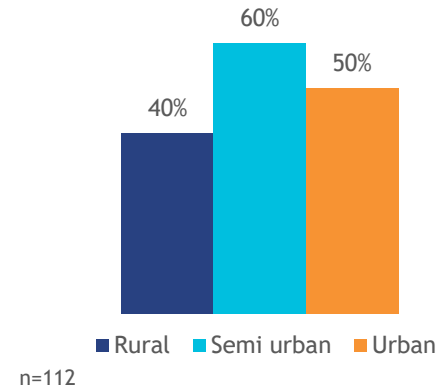
“Whenever I call my distributors to deliver my supplies, they ask me to come to the warehouse and take the supply. This is not an option right now.” - a **medical shop owner from a rural area**

While the overall income for MSMEs has reduced, panic buying or bulk buying from customers has mitigated the impact for some enterprises

3/4th of the enterprises reported a decrease in income



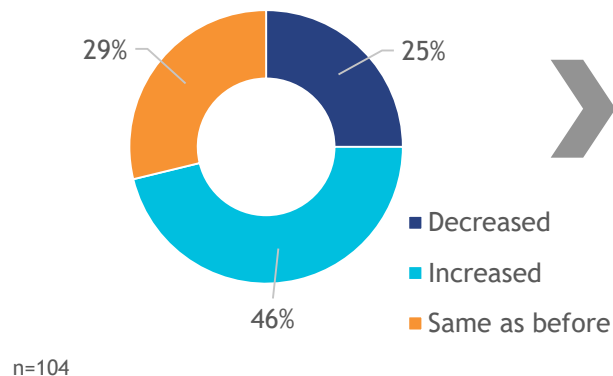
Enterprises that reported a decrease in income, the decrease is of a median value of 50%



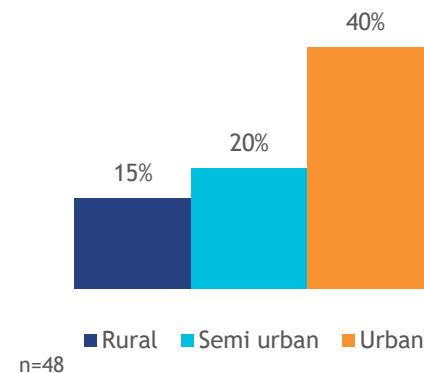
Is hoarding a bad thing? Not for enterprises at least.

- The drop in income was relatively more common for female-owned enterprises. 82% of enterprises owned by women reported a decline in income compared to 72% of enterprises owned by men
- However, bulk buying has resulted in higher sales per customer: a median 40% increase for urban enterprises, 20% for semi-urban enterprises, and 15% for rural enterprises. However, customer footfall has decreased for all enterprises in rural, semi-urban and urban areas.

Nearly half the enterprises reported an increase in sales per customers



Enterprises that reported an increase in sales per customer; the increase is of a median value of 25%



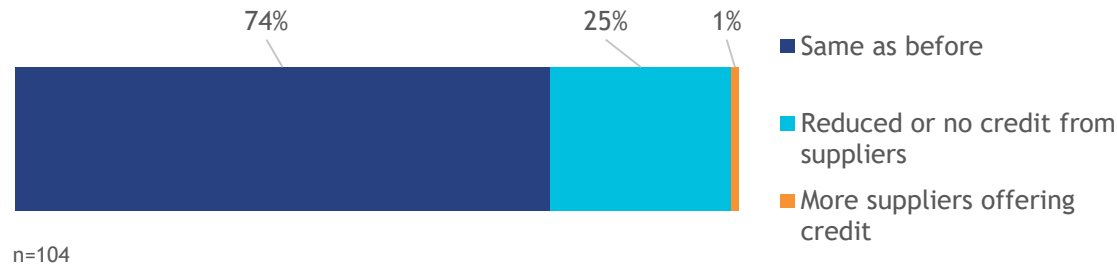
“I used to earn around INR 5,000-7,000 (USD 67-93) per day, now it is only INR 2,000 (USD 27) per day.” - a medical shop owner from a rural area

“These days I am not able to get new orders from customers as they cannot travel to deliver clothes for stitching.” - a female tailor from a rural area

“Some of my customers have started buying in bulk now to stock up during the lockdown period.” - a tobacco and snacks trader based in an urban area

A decline in the availability of supplier credit alongside pending receivables and an increase in the cost of supplies has hurt cash-flows

Though **74%** of enterprises reported the same situation as before in terms of credit from suppliers, **25%** reported facing challenges on this front

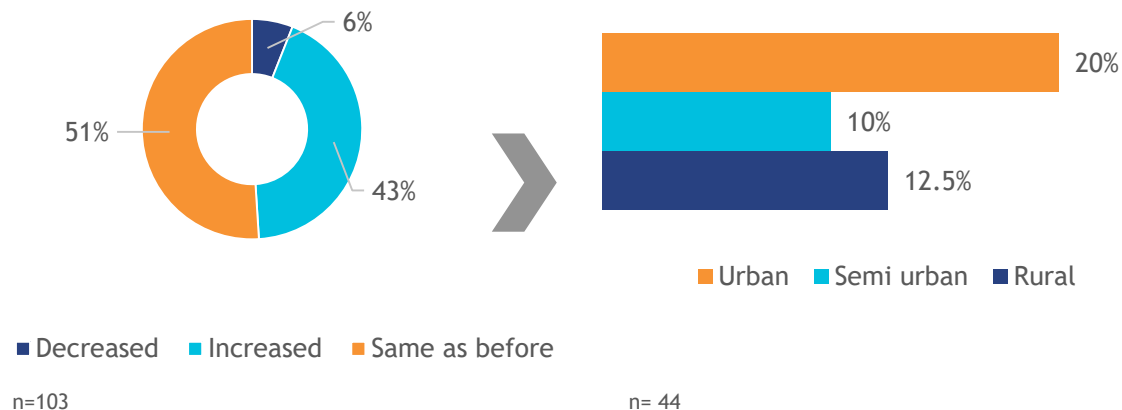


Need money to earn money

- Qualitative data suggests that receivables from customers are frozen on the one hand and customers have stopped advance orders on the other hand
- Enterprises who reported an increase in cost of supplies, also reported a median 50% reduction in business income*

43% of enterprises reported an increase in the cost of supplies

Enterprises that reported an increase cost of supplies; the increase is of a median value of **20%**



“I had some customers who would pay their pending credit on a weekly or a monthly basis. It has been more than a month now since I have received any payments from them.”

- a tobacco and snacks trader from an urban area

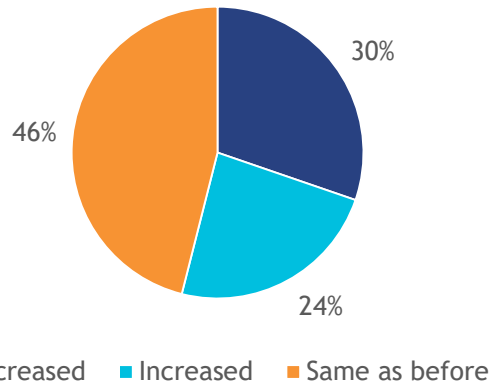
“We can take care of the business for 1-2 months but beyond that, it is not possible to bear the expenses. Our payments are already blocked.”

- a motor part manufacturer from an urban area

*Note: For MSMEs, the household income and business income are usually fungible

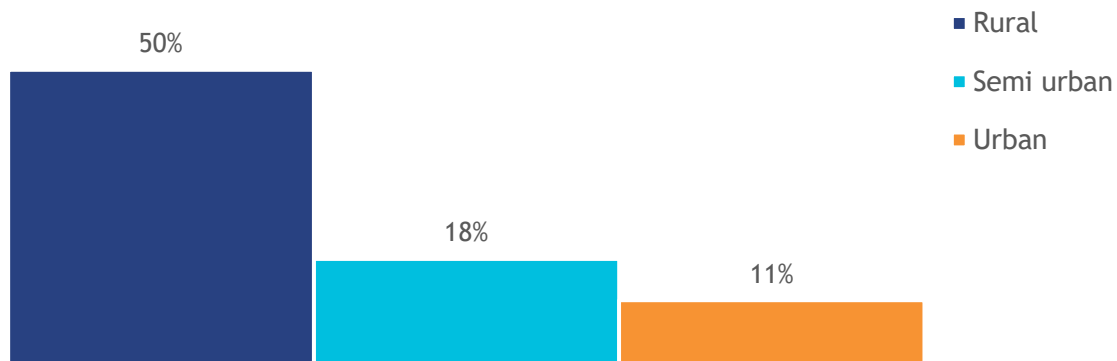
Adverse cash-flows along with increased household expenses have forced enterprises to dig into their savings

One-fourth of the enterprises surveyed reported an increase in household expenses



n=152

Enterprises that reported an increase in household expenses; the increase is of a median value of 23%



n=36

Savings for survival

Enterprises that reported an increase in household expenses also reported a 45% decrease in business income

“My business closed down after the lockdown. Since only essential goods and medical shops are allowed to function. All my savings are being used to meet household expenses now.”
- a sweet shop owner from an urban area

“We have family savings that we depend on. These emergency savings will last for only a few months. I do not know how long the COVID-19 lockdown will continue.” - a female tailor from a rural area

“I am currently using my savings to meet my business expenses. I think I can sustain for 5-6 months, after which I will need support from the government and financial institutions.” - a garment trader from an urban area



03 Coping strategies of MSMEs

In the absence of any cure for COVID-19 in the foreseeable future, the uncertainty among MSMEs is palpable

From the Janta Curfew* to extended lockdowns: the long-lasting impact of COVID-19 on the future of MSMEs

There are two groups of entrepreneurs: one group expects a revival in business and sales in a 30 to 90 day period while the other expects that it will take between 91 and 180 days for their businesses to normalize.



- **The first group** comprises mostly traders and service providers of essential items. They are relatively optimistic and hope that people will spend on the items they sell irrespective of their purchasing power
- **The second group** comprises mostly manufacturers, traders, and services engaged in non-essential items. These items typically fall under discretionary expenses for customers. These enterprises expect job losses and disruption in business.

#The analysis here is based on qualitative data.

*The Janata Curfew was a 14-hour curfew (from 7 a.m. to 9 p.m.) that was scheduled on 22nd March, 2020 in India before the total lockdown. Everyone, except for individuals and organizations engaged in “essential services,” such as police, medical services, media, home delivery professionals, and firefighters were expected to take part in the curfew

Back to normal: Eid or Diwali?

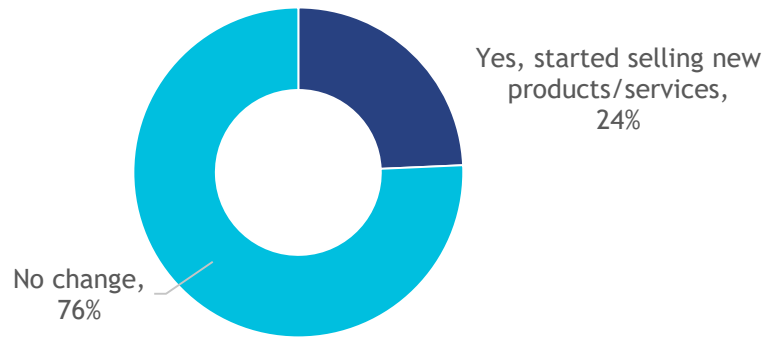
- With no clear timeline for when the pandemic will end, micro and small enterprises fear that they will not be able to benefit from the rush during festivals.
- Most of these MSMEs do not have any plan to normalize sales

“Business is not going to improve before Diwali (mid-November) or even the end of November, 2020. This is because the pandemic will have a bad impact on the purchasing power of customers. Consumers will not spend money on luxury items or the not-so-essentials. We have to wait at least till Diwali before the sales revive.” - a wholesale trader of electronic goods from a rural area

“The brand will ramp up its supply chain very soon. The situation will get normal by Eid or May end. We deal in essential items and as they are big corporates, they know a way to get around with this situation.” - a female tea distributor from a semi-urban area

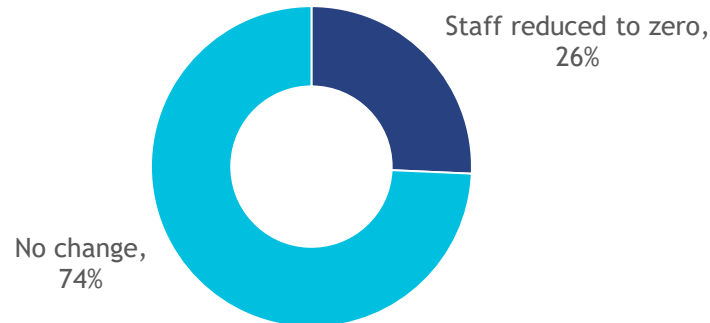
To cope with the crisis, enterprises have started looking for ways to reduce their business costs and increase their revenue

Around **one-fourth** of the respondent entrepreneurs have started selling new products and services to cope with the crisis



n=107

Around **26%** enterprises reported a reduction in staff to almost zero



n=74

*Note: This does not imply that the enterprises have laid off staff. There is also a possibility that the staff may not be available due to restrictions on movement during the lockdown.

Is there scope for new possibilities?

- Entrepreneurs have started to stock easily accessible essential items that are in high demand among customers.
- About 40% of enterprises reported increased safety and hygiene measures.

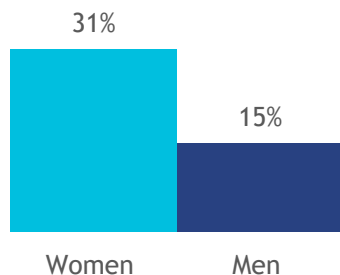
“I am planning to start selling essential food items. I already have a license for this. This way, I will earn something during this lockdown. Also, after the crisis is over, I am planning to offer some discounts to clear the old stock.” - a **leather goods trader based in an urban area**

“70% of my business expense is staff salaries.” - a **perforated steel sheet manufacturer from a semi-urban area**

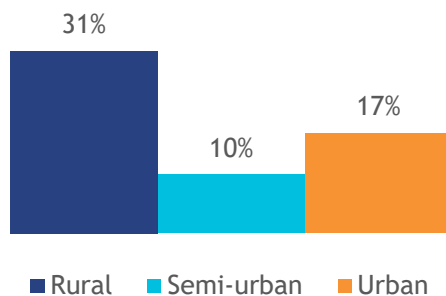
- Around one-fourth of the enterprises have reduced their staff count to zero to minimize cost.*
- 90% of entrepreneurs mentioned that if they have to keep paying staff salaries without taking their services, they may have to lay them off.

Borrowing and freeing up cash from inventory are the key strategies to managing the immediate shock to the cash flow

31% women prefer to borrow to sustain their enterprises compared to only 15% men

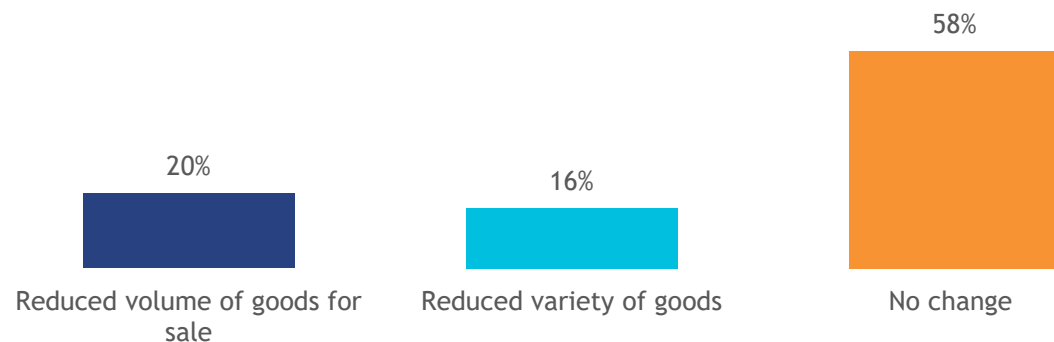


Borrowing for business is more pronounced in rural areas



n=152

A little less than half of all enterprises have adopted some strategy to cope with the impacts on business, with freeing up the inventory being the most common



n=152

Seeking alternate options to manage short-term cash-flows

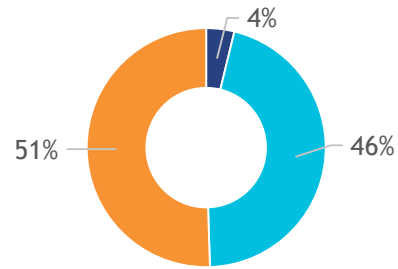
- 20% of respondents borrowed from friends, neighbours, or relatives to meet the immediate needs of cash flow.
- A few enterprises also reduced the volume and variety of goods they sell to cope with uncertain demand. This has helped them to cut costs and direct funds to meet household needs.

“I am currently using my savings and have borrowed some money from my father to meet business expenses. I think I can sustain for five to six months after which I will need support from the government.” - a garment trader from an urban area

“I have enough inventory for two months. Even manufacturing units engaged in essential commodities are running at 30% of their capacity. I will now buy raw material judiciously based on the demand.” - a perforated steel sheet manufacturer from a semi-urban area

A few MSMEs have resorted to increasing the price of goods and limiting credit sales to sustain cash-flows

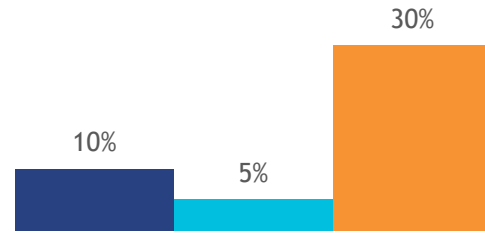
46% of enterprises reported an increase in price of goods sold



■ Decreased ■ Increased ■ Same as before

n=105

Enterprises that reported an increase in price of goods sold; the increase is of a median value of 20%

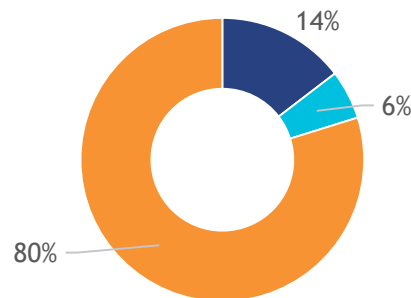


■ Rural ■ Semi-urban ■ Urban

Maximizing revenue and a no-credit policy

- 48% of male-owned enterprises reported an increase in the price of goods compared to 35% of women-owned enterprises
- 15% of enterprises dealing in essential services mentioned a reduction in credit sales

14% of enterprises reported a decrease in credit to customers



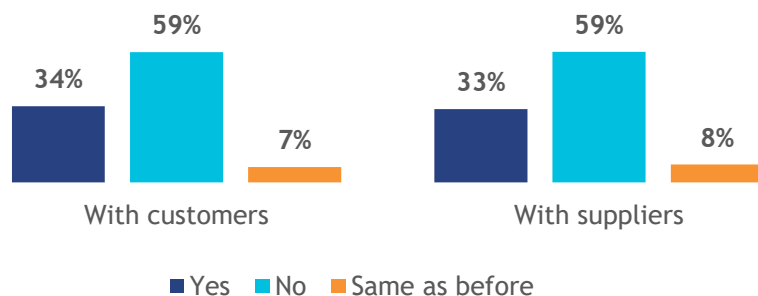
■ Decreased ■ Increased ■ Same as before

n=104

“I am in no position to offer any sales on credit to customers, even to my most loyal customers,” - a grocery shop owner from an urban area

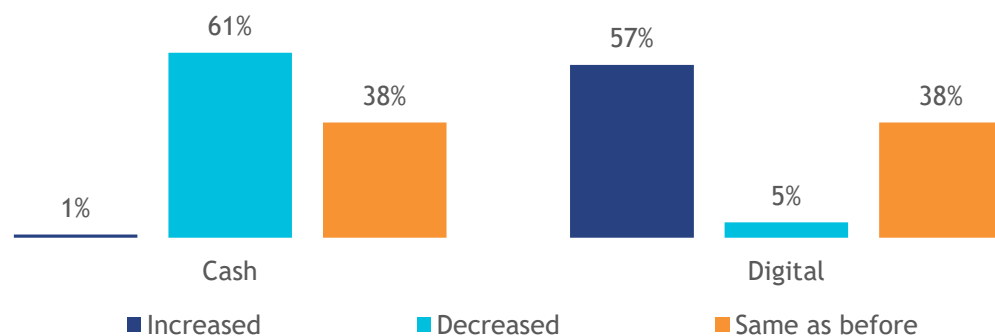
Enterprises have shown a greater use of digital technologies to continue business operations adhering to containment measures

Almost a **third** of enterprises have started using social media, such as WhatsApp and Facebook to communicate and accept business orders



n=102

More than **half** of the respondents have increased the usage of digital payments



n=100

Use of digital media—a way out to revive the business?

Social media for business

- WhatsApp is the most preferred social media platform among MSMEs to run their business in the post-COVID-19 situation.
- They are using it widely to take orders from customers and to communicate with suppliers. The use of WhatsApp is highest in urban areas and among men.

Delivering through e-commerce websites

- 10% of the respondents, most of whom are men in urban areas, have already established partnerships with e-commerce players. It is helping local grocery stores to ensure the availability of essential supplies for consumers.




Acceptance of digital payments has increased marginally

- The pandemic has led to increased adoption of digital payments across urban and rural areas. Over 60% of respondents have reported a decline in the proportion of cash transactions.
- However, most of the entrepreneurs continue to accept cash. This is either to maintain liquidity or to comply with customer demand for cash transactions.



Annex

Unprecedented support at the time of an unprecedented crisis

	Instant liquidity measures	Credit related (short-term and long-term)	Other relief measures and benefits
 Government	<ul style="list-style-type: none"> Pending tax refunds to be issued immediately Both employer and employee contributions for employees' provident fund to be paid by the government; employees allowed to withdraw up to 75% of their deposits from EPFO 	<ul style="list-style-type: none"> INR 3,000 billion (USD 39.7 billion) collateral-free loan: emergency credit line to businesses or MSMEs from banks and NBFCs up to 20% of the entire outstanding credit as on 29th February, 2020 INR 200 billion (USD 2.7 billion) subordinated debt for stressed MSMEs Funds of funds: a corpus of INR 500 billion (USD 6.6 billion) as equity infusion for MSMEs with growth potential and viability 	<ul style="list-style-type: none"> Allowed filing of Goods and Services Tax (GST) returns for the months of March, April, and May by 30th June without interest, late fee, or penalty e-market linkage for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions MSME receivables from government and central public sector enterprises (CPSEs) to be released in 45 days
 Regulator	<ul style="list-style-type: none"> Six-months' moratorium on repayments of all term loans and working capital loans from 1st March to 31st August, 2020 	<ul style="list-style-type: none"> Refinance support through National Bank for Agriculture and Rural Development (USD 3 billion) and SIDBI (~USD 2 billion) for financial institutions that lend to MSMEs 	<ul style="list-style-type: none"> Reduction in repo rate (reduced by 115 basis points since February 2020) by Reserve Bank of India to support the lower rates of interest on loans given by banks
 Financial service providers	<ul style="list-style-type: none"> Small Industries Development Bank of India (SIDBI) to provide special liquidity support to MSMEs through non-banking financial companies and microfinance institutions 	<ul style="list-style-type: none"> Refinance scheme* from SIDBI for financial institutions that offer credit services to MSMEs (*The scheme would provide resource support to NBFCs by way of term loans to ensure operational continuity and promote onward lending to MSME sector) 	

Note: This is not an exhaustive list on measures taken to provide relief against COVID 19; Details are based on information available till 26th May 2020

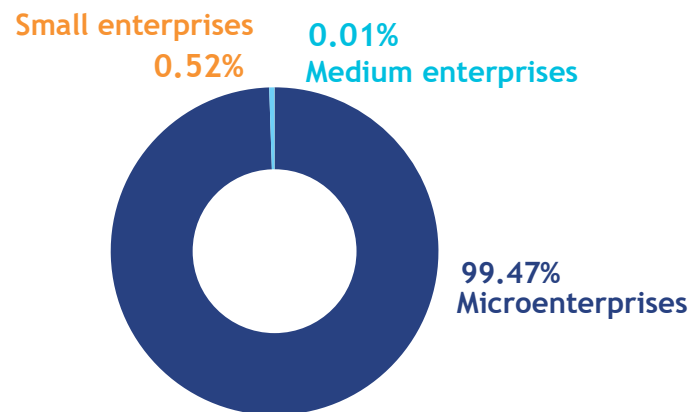
Source: Government of India; Reserve Bank of India

Status of the MSME sector in India

Definition of MSME for manufacturing and services[^], based on investment in plant and machinery

Manufacturing sector	Annual investment amount in plant and machinery
Medium enterprises	INR 50 million to INR 100 million
Small enterprises	INR 2.5 million to INR 50 million
Micro enterprises	Does not exceed INR 2.5 million
Services sector	Annual investment amount in equipment
Medium enterprises	INR 20 million to INR 50 million
Small enterprises	INR 1 million to INR 20 million
Micro enterprises	Does not exceed INR 1 million

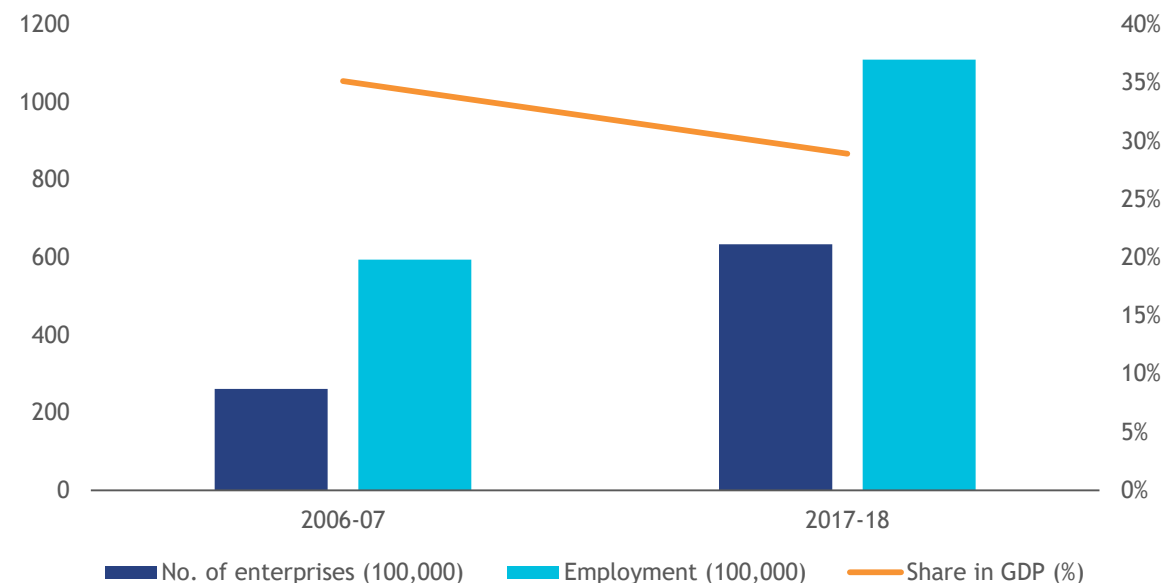
Proportion of MSMEs in India[^]



Number of MSMEs

**63.3
million**

Growth of MSMEs[^]



Data on MSMEs

34%

Growth rate of MSME employment in services sector[^]

69%

of MSMEs are unregistered[#]

INR 320 billion

Or USD 4.5 billion is being lost every day during the lockdown^{*}

Source: [^]<https://msme.gov.in/sites/default/files/Annualrprt.pdf>, ^{*}<https://www.thehindu.com/business/businesslive-30-april-2020/article31469263.ece>; #NSSO survey 2015-16 (India)

Assessing the economic impact of COVID-19 on MSMEs

The objective of the research



- Understand and quantify the impact of COVID-19 on MSMEs.
- Inform policy and support subsequent efforts to rebuild the MSME segment
- Assess the impact of COVID-19 on:
 - Revenues and costs
 - Supply chains
 - Business activities and product range
 - Liquidity management
- Explore options to minimize threats and maximize business opportunities
- Assess gender implications
- Understand the current use of communication channels and identify opportunities to be utilized
- Understand the role of COVID-19 and its impact on entrepreneur's networks and trust
- Assess private and public sector support services

Research coverage



- Research country: India
- Locations: Rural, semi-urban and urban areas
- Quantitative sample size: 152 respondents
- Qualitative sample size: 15 respondents



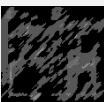





















Approach



We will adopt a two-pronged approach:

- Quantitative survey to be administered by branch managers of MFIs and enumerators of survey agencies, in three rounds:
 - Immediate
 - After one to two months
 - After three to four months (or after the complete lockdowns are lifted)
- A qualitative panel of 15 MSMEs interviewed by MSC staff

Respondents' profile

Quantitative research: Sample profile of 152 MEs				Qualitative research: Sample profile of 15 MSMEs			
Location of business	 28%	 26%	 46%	Location of business	 6	 2	 7
	Rural	Semi-urban	Urban		Rural	Semi-urban	Urban
Gender of ownership	 74%	 26%		Gender of ownership	 12	 3	
	Men	Women			Men	Women	
Nature of business	 2%	 34%	 64%	Nature of business	 4	 7	 4
	Manufacturing	Trading	Services		Manufacturing	Trading	Services
Business category	 82%	 18%		Business category	 3	 12	
	Essential	Others			Essential	Others	
Age profile	 53%	 47%		Size of business*	 10	 5	
	16-40	41+			Micro	Small & Medium	

Note: The quantitative sample does not represent the overall MSME population in India. We have used median values in location-wise splits because the sample size per location is low.

* As per the existing definition of MSMEs

MSC is recognized as the world's local expert in economic, social and financial inclusion



International financial, social & economic inclusion consulting firm with **20+** years of experience



180+ staff in **11** offices around the world



Projects in **~65** developing countries

Our impact so far

550+
clients

>850
publications

Assisted development of digital G2P services used by **875 million+** people

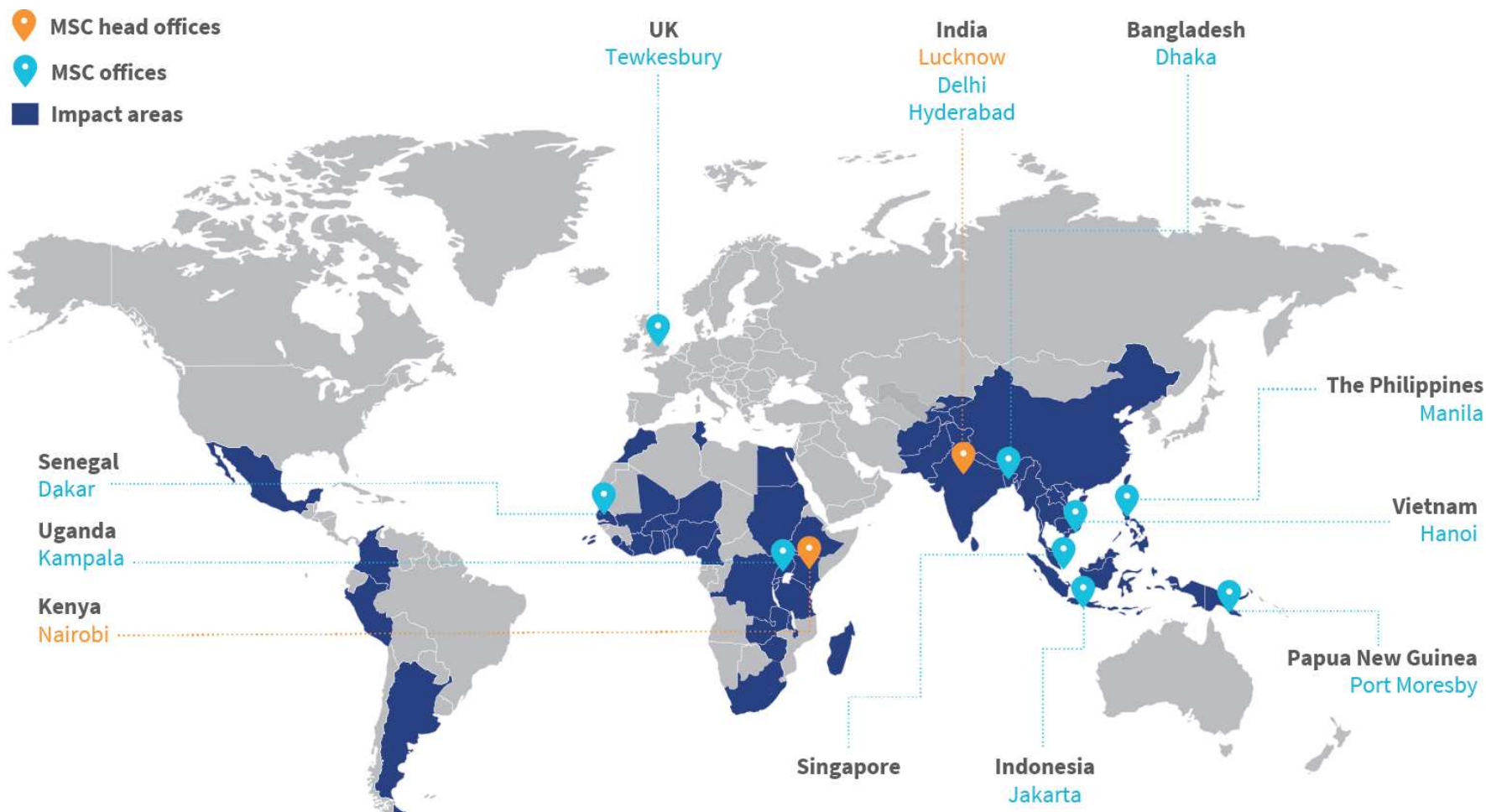
Implemented **>850 DFS projects**

Developed **275+ FI products** and channels now used by **55 million+** people

Trained 9,000+ leading FI specialists globally

Some of our partners and clients





[MSC corporate brochure](#)

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