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An Empirical Study on the Effect of COVID-19 on Start-ups and MSME in India

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Abstract:

COVID-19 pandemic induced restrictions have led to a plethora of problems for MSMEs and startups in India. The major gains from the betterment of ease of business regulations in India has been nullified to an extent in this short span of time during the pandemic. The objective of this paper is to study the effect of COVID-19 pandemic on MSMEs and Startups in India. It is intended to evaluate their current and future prospects in the backdrop of this pandemic, the support extended by various agencies of Central and State Governments. The methodology of this research includes an extensive literature review and conduction of interviews with Startup and MSME owners and/or their managers on the basis of an innovative questionnaire specifically designed for the same. Based upon the results of the literature review and interview questionnaire survey some suggestions and recommendations have been offered for all stakeholders to better handle this unprecedented situation.

Keywords: COVID-19, Interview questionnaire, Startup, Entrepreneurs, MSME

1. Introduction:

1.1 Literature Review:

MSME (Micro, Small and Medium Enterprises) is an acronym term that refers to all micro, small and medium enterprises in India. The Indian government defines a startup as an entity registered in India, less than seven years young (10 years for biotechnology sector) with an annual turnover of less than 25 crore Rupees and working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation [1]. With the 3rd largest startup ecosystem in the world, where 2-3 tech startups are born every day, India is expected to achieve a steady annual growth of

12-15% in the near future [2, 3, 4]. The Department of Industrial Policy and Promotion started the Startup India initiative which aids in creating a positive, effective and easy entrepreneur ecosystem in the country, turning business ideas into a reality for a flourishing startup environment. The majority of startups in MSMEs consist of micro enterprises, with a higher number in rural areas than urban parts of the country. They are spatially concentrated in India, with Uttar Pradesh and West Bengal accounting for around 30% of total MSMEs and ten states jointly for around 75% of MSMEs. Hence a hands-in-hand cooperation is required from both the state and central governments to combat situations like COVID-19 Pandemic. Majority of India’s business firms are small and belong to informal and unorganized sector. They are distributed both in urban and rural areas alike.

Table1: Some Statistics related to MSMEs and Startup India Initiative (2019-2021)

1	MSME Share in India’s GDP	30.27%
2	Number of MSMEs in India	63.39 million
3	% Share of total industrial workers in India employed by MSME	50%
4	% Share of Micro industries in MSMEs	97%
5	% Share of Micro industries unregistered with the government	94%
6	Sector with highest MSME number	Trade
7	% MSMEs severely affected by the lockdown	66%
8	Share of Female Founders	9%
9	Highest share of founders by age group	31-35 years old
10	Highest share of founders by qualifications	Engineering
11	India’s ranking on the World Bank’s Ease of Doing Business Report (DBR)	63 rd Rank out of 190 countries
12	Total value of private equity deal volume in India	\$26.3 billion
13	Total jobs in the startup ecosystem	1.6-1.7 lakh
14	% Growth of the number of incubators and accelerators	11%

A few research groups have studied the startup ecosystems in India with stress on ease of doing business and its real-life implications [5, 6, 7, 8, 9, 10]. The support by the Indian Government in the form of Startup-India has given congeniality to entrepreneurs to conceptualize ideas and transform them into profitable ventures by including all stakeholders like venture capitalists, entrepreneurs and government agencies as key players [11, 12, 13] but the COVID-19 Pandemic has ruined many flourishing startups and MSMEs.

1.2 Effect of COVID-19 Pandemic on MSMEs and Startups in India:

The COVID-19 pandemic has only made things worse for startups. As the second wave of COVID-19 had devastating effects not only on lives lost and people affected but adverse effect on businesses as well. With the threat of a third Covid-19 wave looming large and many states under lockdown policies, the MSMEs and startups would struggle more to cope up with the pandemic curve. Hence innovative policy measures are the need of the hour. A recent study indicates that half of Indian startups are in danger due to COVID-19 Pandemic with 38% out of cash totally, 12% with cash till one month, 30% till 1-3 months, 16% till 3-6 months and 4% have shut down the business altogether [14]. Some other groups have also studied the impact of COVID-19 on MSMEs and Startups [15, 16, 17].

These pandemic times have been the most vulnerable times for such businesses. However, there has been limited research on finding the solutions for problems faced by these startups and MSMEs at the ground level. All the important factors related to this need to be focused, researched and communicated to all the stakeholders. The current paper attempts to address this issue and offers solutions for the startup entrepreneurs, MSMEs and government agencies to enable them to have a safer journey during this troublesome phase by plugging in these research gaps.

1.3 Initiatives taken by Indian Government

According to recent 2021 guidelines by the Government of India MSME have been redefined with following criteria as shown in table 2. [18]:

Table 2. Classification criteria for new definition of MSME (2021)

Enterprise	Classification criteria for new definition (2021)
Micro	An investment of less than Rs. 1 crore is made and it has a turnover of less than Rs. 5 crores
Small	An investment of less than Rs. 10 crore is made and it has a turnover of less than Rs. 50 crores
Medium	An investment of less than Rs. 20 crore is made and it has a turnover of less than Rs. 100 crores

This new definition was formed to encompass more enterprises under the assortment of benefits offered under the Atmanirbhar Bharat Abhiyan (ABA), which means self-reliant India initiative, Package of Government of India. This was primarily done to support MSMEs sail through the testing COVID-19 pandemic period. The main reforms included in this package to revive the MSME sector in India are tabulated in table 3.

Table 3. Reforms offered by Indian Government to support MSMEs during COVID-19

Features	Value
Collateral-free loans to more than 45 lakh MSMEs	Rs. 3 Lakh crores
Equity infusion through MSME fund of Funds (FoF)	Rs. 50,000 crores
Subordinate debt for stressed MSMEs	Rs. 20,000 crores
Disallowance of global tenders for supporting self-reliant India initiative	Rs. 200 crores
Timeframe of MSME receivables from Government and CPSEs	45 days

The ABA includes the economic package offered by the Central Government in the year 2020 to tackle the COVID-19 induced crisis. The package's total worth Rs. 20 Lakh crores is aimed to benefit farmers, laborers, taxpayers, MSMEs and startups with following key steps:

- Emergency credit line for MSMEs.
- Direct tax amendments and other tax relief.
- EPF support to businesses and employees and reduced EPF contribution.
- Reduced Tax deducted at source (TDS) and tax collected at source.
- E-market linkage for MSMEs will be promoted to act as a replacement for trade fairs and exhibitions.

Some of the other initiatives by the government, organizations and related agencies are tabulated in table 4.

Table 4. Initiatives by the government and other agencies to support MSMEs during COVID-19

Steps by organizations under the Ministry by KVIC (Khadi & Village Industries Commission)
<ul style="list-style-type: none"> • Release of Rs. 1000 per month to each registered artisan from the Artisan Welfare Fund (AWF) to their bank accounts in three installments. • Release of funds under Market Development Assistance (MDA) to Khadi Institutions and artisans through Direct Benefit Transfer(DBT).
Steps by organizations under the Ministry by NSIC (National Small Industries Corporation)
<ul style="list-style-type: none"> • MSMEs availing Raw Material Assistance against Bank Guarantee prior to 01/03/2020 allowed moratorium of 3 months for repayment of outstanding dues. • Accounts of MSMEs to be frozen to avoid outstanding in the books in cases where outstanding is going to touch 99.99% of Bank Guarantee (BG) value.

- SPRS enlistment certificates expiring between 01/03/2020 to 30/06/2020 to be continued.
- 50% discount offer on Annual membership in MSME Mart extended.
- God owns of essential commodities like Polymers in Field Offices allowed to carry out operations.

Policy changes to aid MSMEs during and post lockdown

- Relaxation in Liquidated Damages (LD) clause for a period of two months from the schedule date of delivery/execution of order may be allowed.
- For delayed Payments DPE, Railway Board may be approached for quick intermediation and resolution of pending payments even though it is pending with Micro and Small Enterprises Facilitation Council (MSEFC).
- For Meeting Fixed Cost State Governments can be approached to exempt/reimburse the electricity and other fixed charges during this period.
- Ministry of Finance to check escalation of raw material price by reduction in GST rates on raw materials.
- Department of Revenue to resolve issues of financial/statutory compliances like filing of GST returns in time, timely GST refunds payments.
- Credit Support for MSMEs via moratorium period of 6 months for repayment of debts like MSME with provision of 'no change' in the credit rating during the said period.
- Norms for declaring Non-Performing Assets (NPA) period in banks extended to 180 days for at least next 2 years.

2. Objectives

The objective of this paper is to study the effect of COVID-19 Pandemic on MSMEs and Startups in India. It is intended to evaluate their current and future prospects in the backdrop of this Pandemic, the support extended by various agencies, Central and State Governments. Further, through the results of extensive literature review and empirical interview questionnaire with Startup and MSME owners and their managers, it is aimed to offer some suggestions and recommendations to better handle this unprecedented situation.

3. Research Methodology:

The methodology adapted for this research is twofold. Firstly, a literature review has been done to study the impact of COVID-19 on startups and MSMEs and the help extended by governments and other agencies to counter this situation. Secondly Forty-two (42) entrepreneurs, startup and MSME owners and/or their managers were approached and interviewed between June 2020 to May 2021 using an interview questionnaire designed specifically for this study to understand

their point of view, problems and potential solutions. Most of them agreed for the interview only if their identities were considered anonymous. Hence, Non-Disclosure Agreements (NDA) were signed with the participants to protect their identities. But the data generated was agreed upon to be used for research purposes. During the interviews the respondents were asked about the current scenario in the country for entrepreneurial growth, problems they face usually and those manifested by COVID-19 Pandemic, the kind of support the government extends and ease of the process of doing business in India, etc. The responses so received were analysed and the results are discussed in this paper. Based upon these responses some recommendations have been offered. The entire methodology is depicted in Fig. 1

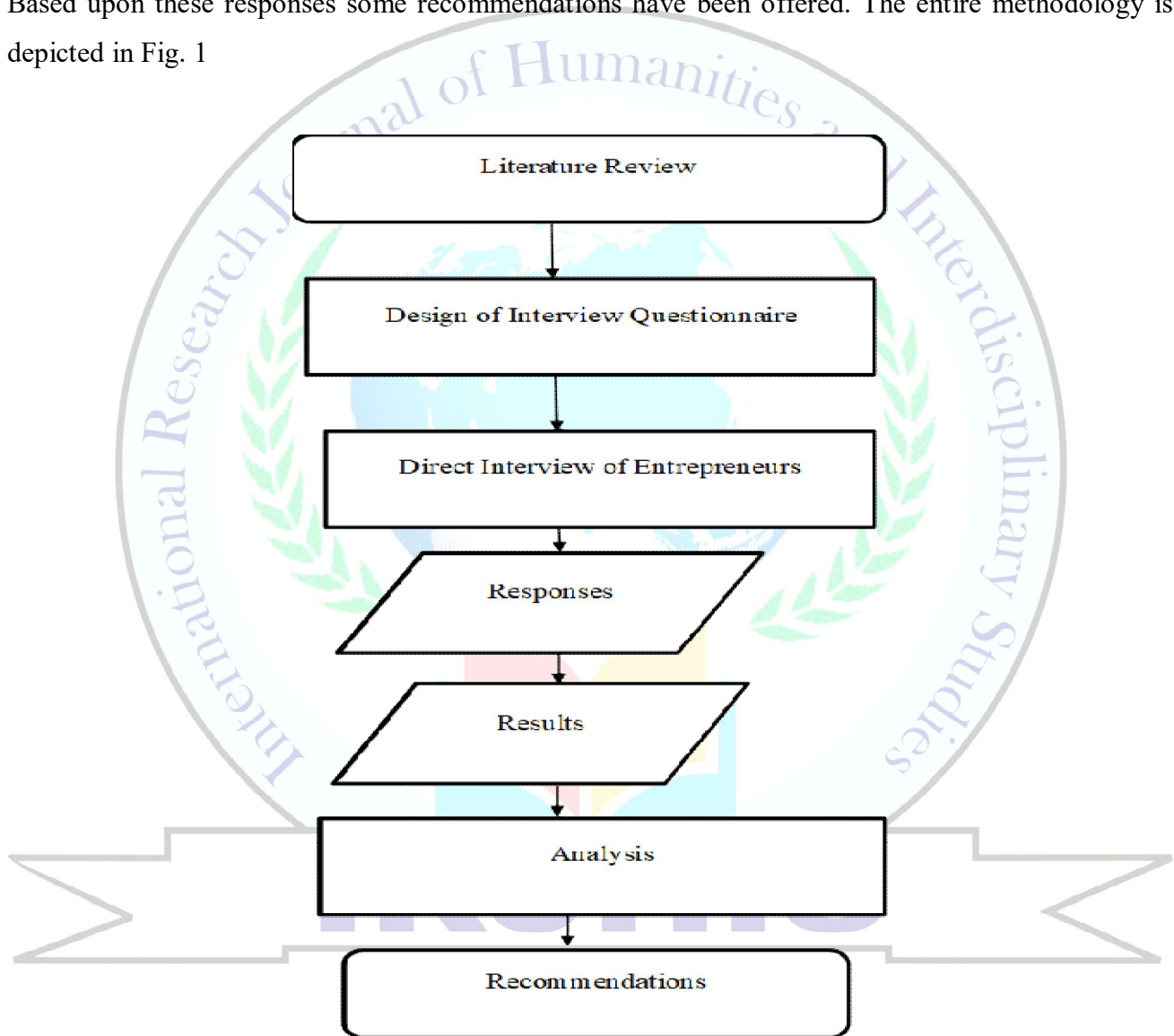


Figure 1. Methodology diagram adopted for the current research

4. Results

4.1 Demographic Profile of Respondents

The demographic profile of all respondents of the interview questionnaire has been tabulated in Table 5.

Table 5. Demographic profile of respondents

S. No	Demographic Factor	Result (in figure)	Result (in %) (Rounded off)
1	Total Number of Respondents	42	100
2	Sex Male Female Transgender	39 3 0	93 7 0
3	Age Group (in years) Upto 25 26-35 36-45 46-60 61 and above	2 26 13 1 0	5 62 31 2 0
4	Qualifications Upto High School Graduate Post Graduate (PG) Above PG	0 30 10 2	0 71 24 5
5	Field of Education Arts Sciences Commerce/Management Engineering Others	2 1 14 23 2	5 2 33 55 5
6	Work Experience (in years) 0-2 2-5 5-10 Above 10	19 17 3 3	45 41 7 7

4.2 Major results from interview questionnaire:

The results compiled from direct interview of startup and MSME owners and their managers suggested that majority of the entrepreneurs (83%) were first confused by the pandemic situation and 41% considered bailing out and shutting off businesses during the strict nation-wide lockdown as they were worried about both shortness of demand and hurdles in manufacturing. But gradually with the interference of the government and announcements of various new policies and financial assistance schemes things became better. Those entrepreneurs who invested from their own savings or family financial support experienced a higher level of psychological stress than those who took corporate or bank loans because the level of accountability and reliability was perceived more for those who invested from their own resources. As of June 2021, maximum interviewees (71%) were satisfied with government schemes and packages but yearned for more from them. Most wanted more relaxation in taxes and time schedule for other financial commitments like repaying of loans. A lot of them complained about the laxity in management of government websites and portals when there is urgency or important work. This is one area the government agencies need to work upon and sort out the grey areas.

5. Discussions and Recommendations:

Although the Indian Central and State Governments have taken a few bold and liberal steps to ease the burden on MSMEs and startups but more needs to be done in the areas of loan guarantees and immediate liquidity provisions, loan extensions and penalty waivers on repayment delays and interest rate reductions on future loans for immediate short and long terms. Whilst the policy measures taken are encouraging, they are biased towards the larger, and formal/organized sectors; the measures taken appear inadequate for the smaller, informal/unorganized sectors which form the majority (>94%) of India's industries (over 55 million firms) [19]. For example, these majority unorganized firms may not be contributing to Employees Provident Fund (EPF) and may not benefit from the Government's contribution to EPFO. Around 81% MSMEs and Startups are self-financed with only around 7% borrowing from formal institutions and government sources [20]. Credit market interventions like cheaper loans, increased limits on NPAs may not benefit this sector directly. Also, majority of MSMEs conduct their business on cash, to cope with adverse events like COVID-19, they require immediate liquidity. Hence more direct measures of liquidity should be evolved. The policymakers face an unprecedented mission of not only containing a public health pandemic but formulating swift business policies to protect the most vulnerable businesses from its adverse economic effect to finally uplift India from the present global economic slump.

6. Conclusions:

The impact of COVID-19 on budding startups has been devastating with a global economic

slump adding fuel to the fire. The implications of this research assume importance as small business are the very backbone of our country, especially in providing employment to unskilled workforce. The trends and findings of this research suggests that more studies are required to be done to find out the solutions to problems faced by them. If the recommendations of this research are implemented, it would greatly aid the MSMEs and startups to tackle the COVID-19 induced problems. Although, there has been significant effort by the government to make the procedures easier for entrepreneurs but by taking the feedback of startups and MSMEs directly a more congenial environment for them to flourish can be created. More support from government and its agencies along with a robust policy is required for the them to survive and sustain this difficult pandemic period.

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