

International Journal of Advance Research in Computer Science and Management Studies

Research Article / Survey Paper / Case Study

Available Online At: www.ijarcsms.com

Impact of Covid-19 on the MSMEs: A Review of SAARC Nations

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Abstract: *After the global financial crisis of 2008, the COVID-19 pandemic has emerged as one of the biggest economic and health crises, which has impacted almost every economy. Earlier diseases like Spanish flu 1918, smallpox, tuberculosis, H1N1 have infected and killed many people but the contagious effect of the COVID-19 virus, which emerged from the Wuhan district of China, is very dangerous and far-reaching. The shutdown of economic activities implemented by almost all the nations to curb this deadly virus has deteriorated all nations' growth rate. Production and consumption across the globe had scaled back. The MSME sector, which acts as a catalyst for the socio-economic development of every country, was also severely impacted by the lockdown and restrictions imposed by respective governments in their nations. Therefore, this paper will discuss the impact of the COVID-19 pandemic on MSMEs in SAARC nations and the areas on which policymakers should work to make the sector more resilient.*

I. INTRODUCTION

Coronavirus (COVID-19) severe acute respiratory syndrome (SARS-CoV-2) is a transmittable disease identified in December 2019 for the first time in Wuhan, Hubei, China. The WHO Emergency Committee declared a global health emergency on January 30 2020, when the cases grew significantly in China and other international locations. On March 11, COVID-19 has announced a pandemic by World Health Organization (WTO, 2020). Apart from health issues, COVID-19 had dramatic effects on vulnerable families leading to reduced poverty, healthcare facilities and food security. The outbreak of the COVID pandemic has led to severe global socio-economic disruption and widespread shortages of supplies because of panic buying by people. As per the statistics, a sharp decline in the agriculture, trade, tourism and travel sectors due to the COVID-19 outbreak has also been noticed (Suhail Ahmed Bhat, 2020).

With nearly 1.8 billion people, South Asia is marred with a lack of economic development and political tensions. Combating against pandemic like COVID-19 is undoubtedly big challenge for the government of these nations due to the high incidence of multidimensional poverty throughout the region. As per the High-level policy dialogue in COVID-19 and South Asia, around 132 million people living in South Asia have pushed into a vicious circle of poverty due to restrictions imposed in these developing nations. In the South Asian regions, India and Pakistan have experienced the highest number of registered Covid-19 cases, followed by Bangladesh, Afghanistan, Sri Lanka, and the Maldives. Nepal and Bhutan have reported a low number of COVID-19 positive patients. On January 23 2020, Nepal accounted for the first confirmed case in this region (ADB, 2020).

As per WTO, Micro, small and medium-sized enterprises (MSMEs) are the cornerstone of many economies, constituting 95 per cent of all companies and 60 per cent of employment worldwide. Most MSMEs depend on international trade to export their products by direct/indirect channels and import inputs for manufacturing the products. They are significant employers of women and young people and a key driver of innovation. Experts have suggested that the ongoing novel corona virus outbreak will substantially impact developing countries, with a tremendous influence on South Asian economies (WTO, 2020).

MSMEs are notably exposed to the economic impact of the COVID pandemic on their financial resources, and on borrowing capacity. As MSMEs are significantly integrated into GVCs (Global Value Chains), disruptions in supply chains have created an existential risk for MSME importers and exporters. The pandemic-related challenges add to the existing, well-known trade obstacles encountered by MSMEs, undermining progress towards more inclusive trade (Eggers, 2020).

Table 1: Analysis of covid-19 cases in SAARC Nations

Country Name	Population	Total Cases	Total Deaths	Total Cases (Per Mil.)	Total Deaths (Per Mil.)	Fatality Rate
Bangladesh	16,51,96,323	7,97,386	12,549	4,799	76	2%
Bhutan	7,74,229	1,603	1	2057	1	0.05%
India	1,38,41,97,100	2,77,52,962	3,22,982	19,934	232	1.16%
Afghanistan	3,91,94,341	70,762	2,919	1,782	73	4.09%
Nepal	2,92,96,880	5,53,442	7,163	18,961	242	1.27%
Pakistan	22,21,99,700	9,16,239	20,680	4,077	92	2.26%
Sri Lanka	2,14,41,207	1,77,711	1,363	8,268	63	0.77%
Maldives	5,43,454	61,844	157	1,12,622	286	0.25%

Source: <http://www.worldometers.info/>

An overview has been shown in the table no. 1 to understand the impact and magnitude of the COVID-19 pandemic in the South Asian economy. The above table shows the COVID-19 cases scenarios and population of all the SAARC nations as per the Worldometer website on May 26, 2020. In terms of the number of confirmed cases and total deaths, India is in the first position. Pakistan is on second in terms of facing COVID 19 confirmed cases and deaths. Maldives is severely affected, with the highest number of confirmed COVID cases per million and fatalities per million. Bhutan is in the best position among all the countries in this region, with only 1603 confirmed cases and only one death recorded.

II. EFFECT OF COVID-19 PANDEMIC ON MAJOR ECONOMIC INDICATORS

The growth rate in South Asian Economies is forecasted to fall from 5.1 percent to 4.2 percent in 2020, and then not much acceleration is expected in 2021. Countries of the South Asian region are expected to be severely affected, but there is variation in the likely impact among all eight countries. The growth rate percent of all the nation from 2015 to 2020 was examined using nominal GDP before and after the COVID pandemic. Among all the SAARC nations, Bangladesh's GDP is showing an increasing trend as growth is expected up to 8 per cent in 2021. There are expectations that global consumer confidence will improve International Monetary Fund .The growth rate in Pakistan is expected to decrease by about 2.6 percent as demand restrained because of economic destabilization. In the Maldives, the GDP growth rate is fluctuating, but still, some recovery is expected in coming years. As a tourism-dependent nation, Maldives faced a contraction of 3 percent as arrivals in the country slowed down. In Sri Lanka, generating significant revenues from the tourism and garment industry, growth declined by about 2.2 percent in 2020 and is expected to rise to 6.4 percent in the coming period. Bhutan and Afghanistan growth rate is projected to be stagnant. Table No. 2 shows the projected GDP growth rates throughout the COVID-19 pandemic.

Table No. 2: Projected GDP Growth Rates

Country	Projected GDP Growth Rate in 2020	Projected GDP Growth Rate in 2021
Afghanistan	-5.5	1.0
Bangladesh	1.6	1.0
Bhutan	1.5	1.8
India	-3.2	3.1
Maldives	-13.0	8.5
Nepal	1.8	2.1
Pakistan	-2.6	-0.2
Sri Lanka	-3.2	0.0
South Asia	-2.7	2.8

Source: World Bank, Global Economic Prospects, June 2020

To curb deadly virus and to save the precious life, governments of all the nation imposed lockdown and restrictions. The table below shows the date of the first reported case and the date of nationwide lockdown imposed by respective governments.

Table No.3: Measures to face Covid -19 Pandemic

Country	The first case reported	Measures taken by respective governments
Bangladesh	March 8 2020	Full nation lockdown on March 23 till May 30
Bhutan	January 27 2020	Lockdown on August 21
India	January 30 2020	Full nation lockdown on March 24
Afghanistan	February 24 2020	Partial lockdown on March 24 all over the nation and full lockdown on 27 th march in the capital Kabul
Nepal	23 rd January 2020	Full lockdown on 24 th March
Pakistan	26 th February 2020	22 th March
Sri Lanka	27 th January 2020	20 th March
Maldives	7 th March 2020	

Source: Self-generated from Google

III. RELIEF MEASURES TAKEN BY SAARC NATIONS

On March 15 2020, the prime minister of India presented a proposal of establishing a Corona Virus Emergency Fund during a video conference with Heads of State and the Government of SAARC nations. The fund's primary purpose was to mitigate the associated risks of the COVID-19 pandemic in the South Asian region. Other member nations welcomed the idea and showed their support for this excellent proposal. India's prime minister, Narendra Modi, vowed to seed the US \$10 Million. On April 11, 2020, Sri Lanka contributed US \$5 Million to the fund, and later, other countries also contributed funds.

Table No. 4: Contribution of SAARC Nations in Corona Virus Emergency Fund

Country	Amount (Millions of Us \$)
India	10
Sri Lanka	5
Pakistan	3
Bangladesh	1.5
Nepal	1
Afghanistan	1
Maldives	0.2
Bhutan	0.1
Total	21.8

IV. IMPACT ON MSMEs

MSME is one of the most critical and key segments of the Indian economy and has shown immense growth in the last decade. In India, this sector employs more than 114 million people, and its contribution is more than 30% of GDP (MSME, 2019). But the outbreak of pandemic last year has shaken the roots of this sector. As per a study conducted by Das, the share of MSMEs is around 80 percent of India's total industry. These enterprises offer varied nature of fabric in terms of the size and structure of the units, variety of products and services, and a significant hub of innovation (Das, 2016). As per the report published by the Expert Committee on Micro, Small and Medium Enterprises, the share of MSMEs in India's export is around 48 percent, which is a good score and proves the high importance of this sector in India's growth and development (MSME,

2019). Indian economy, which was already facing a growth rate crunch for the last two years, faced a much more worst phase the previous year when the Government of India announced a nationwide lockdown on 24th march 2020 to save precious life from the attack COVID-19. As per the All India Manufacturer's Organization (AIMO) study, India is home to more than 75 million MSMEs. The lockdown has pushed around 25% of these MSMEs towards closure, and the impact of all this is much negative on India's employment rate. The lockdown and restrictions imposed last year had affected MSMEs at various levels (ADB, 2020). MSMEs engaged in the production of consumer goods like footwear, garments, utensils were badly impacted. The Micro enterprises dealing in the service sector were severely affected, like those dealing in the hotel industry, logistics, and tourism witnessed a sharp decline in their operations and revenue because of closure. Though MSMEs engaged in providing essential services were operational, but still, they also faced a decrease in their average income owing to less purchasing capacity and liquidity constraints. Export-oriented MSMEs and those dependent on direct imports also faced huge bottlenecks, and many of them have shut down their business (FICCI, 2020).

As per the survey of MSME Industry Associations conducted in Tamil Nadu, enterprises reported a 44.7 percent shortfall in their revenue during the lockdown. The MSME sector of India was already going through massive distress due to earlier GOI policies that are demonetization and poor implementation of GST (ADB, 2020).

MSMEs in the Maldives face a range of challenges. One of the most critical is access to finance. As per a study, around two-thirds of entrepreneurs have never borrowed from a bank due to high collateral requirement and low financial literacy. Because of border closure and cancellation of on-arrival visas, there was a direct effect on the businesses engaged in inter-island mobility, photography, cafes and restaurants as they are highly dependent on tourists (Ministry of Economic Development, 2020)

As per the survey by BCC, around 31 percent of all businesses reduced their hours of operation due to this pandemic, and approximately 17 percent halted the operations owing to COVID-19 and prior performances issues. In-depth interviews with businesses during July 2020 indicated more than 80 percent of respondents closed down their businesses temporarily between March to July 2020 because of safety measures of their families, staff and customers (BCC, 2020)

The closure of international borders and other inter-island restrictions lead to major nationwide supply disruptions for the businesses. Around 87 percent of companies reported a sharp decline in their earnings, especially the trade sector, whose volume of engagement was largest impacted severely. In fact, 20 percent of enterprises indicated an additional increase in their operating costs during the crisis, and still, most of them are struggling to reduce the same in the new everyday context. COVID-19 Viyafaari Ehee loan scheme was launched by the Government of Maldives as part of the Economic Recovery plan for providing financial assistance to SMEs who experienced cash flow constraints during and after the pandemic.

As per the report of the central bureau of statistics (2019) in Nepal, MSMEs accounts for around half of its GDP and 95 percent of employment has been created by this sector. The strict lockdown imposed by the Nepalese Government in March 2020 has devastated effects on nations' MSMEs as they are less equipped with the resources and strategies required to cope with the pandemic. MSMEs experienced a shortage of labor and needed raw materials on the supply side, whereas a sharp decline in demand and revenue on the demand side. Nepalese MSMEs with limited infrastructure development and weak logistic management faced the challenges of meeting the customer demand and maintaining the supply chain (Shrestha, 2020). World Bank, (2020) stated that pandemic has profound consequences on the economy of Nepal. The MSMEs export has shrunk, and now digitization is making headways in the Nepalese market.

The Government of Nepal responded to COVID-19 through its budgetary policies. The Nepal Government assigned a particular low interest (5 percent) loan fund of US \$ 42 million in the fiscal plan for FY 2020/21. It has also provisioned US \$ 84 million for refinancing at 5% interest as an economic stimulus plan. It has also equipped for skill development and strengthening of domestic industries. Besides this, the policy provided subsidies on interest and loan schedules (ADBI, 2020)

In Sri Lanka MSME sector has a vital contribution towards the economic stability of the nation by accounting for more than for more than 75% of the total number of enterprises and by generating 45% of employment in the region. The MSME sector share in the total GDP of the country is 52 percent. Thus, MSME can be recognized as a major sector for driving inclusive economic growth, employment generation and for reduction of poverty (Ministry of Industry and Commerce 2017). According to the statistics of the Department of Census and Statistics of Sri Lanka, there are more than one million business firms established in the SME sector, and they account for generating approximately 2.25 million employment opportunities in the non-agricultural sector. Two-thirds of SMEs faced a sharp decline in the demand for their products and almost reported decreased sales for nearly three consecutive quarters. Eight out of every ten SMEs surveyed reported difficulties in meeting their operating expenses and debt repayment ability. Many enterprises granted leave to their staff with or without pay because of reduced earnings. (International Finance Corporation, 2020)

As per the latest World Bank Report on Sri Lanka, the economy will recover in 2021. The economic growth is expected to be 3.4 percent in the year 2021 because of normalizing tourism and foreign investments. Thus, though the economic activity in the nation is bouncing back still growth is uneven, recovery will remain fragile (world bank 2020).

Pakistan lost almost one-third of its revenue, and exports also dropped by 50% due to pandemic outbreak and lockdown (Junaidi, 2020). Many economists and the World bank warns that the nation might fall into a recession owing to the COVID crisis (Naqvi, 2020).

One of the most severe immediate impacts of the lockdown was the halt in business operations in the whole nation. Lockdown was announced in Sind province on March 23, 2020. Karachi—the capital city which is the country's largest industrial zone accounted for 30% of total export, reported that there are around 05 million people in Pakistan living just or below the subsistence line, while there are the masses of largely unskilled or low-skilled people who rely on daily wages to meet their needs were hardest hit by the restrictions and lockdown. (World Bank , 2020b). SMEs engaged in manufacturing faced a considerable reduction in their revenues and employment. Many firms reported high costs due to demurrage. As per the survey of 132 firms' major firms faced a severe disruption in their cash cycles, causing financial distress and liquidity problem. Firms with no sales struggled to meet their fixed costs. The surgical and garments industries operating in the nation received significantly fewer orders from their European and US customers. Auto sales also recorded the lowest sales during the first quarter of 2020. As a result, Honda and Toyota both shut their plants for some time. The core reason behind all these problems was the decline in demand due to logistics problems and supply chain disruptions. (United Nations Industrial Development Organization, 2020).

In Bangladesh around 96 per cent MSMEs faced a decrease in their revenues due to decline in demand. Three-fourth of the businesses reported disrupted supply chains especially those operating in rural areas (MSC, 2020).

SMEs constitute about 80 percent of business in Afghanistan and half the country's GDP and provide employment to more than 1/3 of the labor force. The impact of the COVID-19 crisis is profound, crosscutting, dynamic and widespread. Many Bhutanese expresses interest in alternative employment to cope with the pandemic. OCHA warned about a considerable food security risk due to the outbreak of the COVID pandemic in Afghanistan. In Afghanistan, 90 percent of the economy is operated by MSMEs, and most of them are informal (UNDP, 2020).

SAARC nations governments have taken backstop measures and introduced urgent stimulus for MSMEs like giving liquidity support to combat cash flow issues so that jobs in these nations can be preserved and businesses can continue. Besides this, many measures have also been taken to expand trade opportunities for MSMEs. A few governments have also taken steps to make the MSMEs more resilient and build their capacity to overcome future shocks.

V. RECOMMENDATIONS FOR POLICYMAKERS

The economic consequences of the pandemic are still impacting South Asian countries with unprecedented severity and speed. In this review article, we used a systematic approach to examine the economic impact on the South Asian economy that provided meaningful information for the policymakers. As many MSMEs are facing huge liquidity crunch after this crisis banks should provide loans to these enterprises by replicating the "Credit Wholesale Program" of SME foundation. Measures should be taken to formalize the informal part of this sector as major MSMEs are not formally registered as a result they are not able to take full benefits of financial benefits provided by Governments and other financial institutions. The government should allow Micro finance institutions to continue the loan moratorium on a case-to-case basis for at least another six-seven month. This step will increase MSMEs liquidity in short run. Capacity of various MFIs should be improved by Government so that they can provide customized products to micro enterprises and can help these enterprises in re-building their business. A fund should be set up especially for this sector to provide them a cushion against the ongoing pandemic.

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