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Sectoral impact of COVID-19 on micro enterprises with special reference to Kerala

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Abstract---The aftershocks of the novel corona virus had shut down several sectors in the global economy. Due to challenges like raw material shortage, lack of demand, high turnover, delay in bill payments and orders caused by the lockdown restrictions, the micro enterprises were seriously affected the most. On the basis of the background, the present study deals with sectoral impact of Covid crisis on the micro enterprises. Challenges with respect to production, employment, finance and sales are discussed in the paper. Business like Kudumbashrees, handicraft, handloom and dairy farm, covering the whole Kerala with 14 districts, are considered to be more vulnerable to the negative shocks and are hence taken onto the study to identify the kind of factors that led to the hampering of the business. One of the major objectives of this study is to identify and analyse the challenges faced by the micro enterprises during Covid-19. The study also needs to understand the coping mechanisms adopted by these micro-enterprises during the crises. Primary data collection, via questionnaires and telephonic interview, is taken for the study where in 80 is chosen as the sample size. The study has undertaken with the use of descriptive statistics, including tables and figures.

Keywords---micro-enterprises, COVID-19, aftershocks, production, finance, sales, employment.

Introduction

Micro Enterprises of India has become a highly vibrant and dynamic sector in India over the last six decades. They have a large contribution to the country not merely in providing employment opportunities but also on the industrialization of backward or weak areas thereby reducing the regional disparities and ensure that there is equitable distribution of national income and wealth. Micro enterprises play a vital role in fostering economic growth and prosperity. The role they have played in generating jobs, encouraging entrepreneurial spirit, and fostering innovation have been vital to fostering economic competitiveness. In order to drive the economy of the State, it needs to acquire exports through quality production techniques and products. One advantage of this sector is its employment potential with minimal investment. Micro enterprises in Kerala produces a wide variety of products ranging from traditional to modern. In addition to contributing to domestic needs, export marketing, employment generation, income generation, and foreign exchange earnings, it generates income. Furthermore, quality of products, product diversification, energy consumption, environmental effects, etc. are always concerns of the micro enterprises.

The active participation has originated since independence and its main purpose was to support and promote micro and small enterprises, thereby constituting a formidable component of the country's outstanding economic growth. The micro enterprises also remain a key driving force for India's complete transition from an agrarian economy to an industrialised one. Currently, the Indian government has taken enormous steps for its development such that their growth rate has increased from 18.5% from 2019 to 2020, loan disbursals stood at Rs. 9.5 trillion and inclusion of retail and wholesale trades to strengthen the sector and boost economic growth. Undoubtedly, the Government is putting significant effort to uplift the condition of these micro enterprises, and their status is also improving with time. The study is conducted with the aim to collect information on the conditions in which the micro enterprises are at the time of the pandemic and also to identify and analyse the challenges faced by the micro enterprises during Covid-19. The present study will throw light on the challenges in terms of production, sales, employment and finance by focussing on sectors like handloom, handicraft, dairy farm and Kudumbashrees units.

Micro Enterprises in Kerala

Several indicators of economic growth and employment generation are associated with the micro enterprises in Kerala. It has the potential to emerge as a string, vibrant and globally competitive sector in the State's economy. Kerala, with its excellent connectivity, communication network and availability of manpower, is the best for the growth of micro enterprises. In rural areas, micro enterprises mainly target different social groups like SC, ST, Women, Youth, and Physically Challenged. This system reduces regional and social imbalances and therefore ensures an equitable distribution of income and wealth. The micro enterprises contribute immensely to the socioeconomic development of the state. This industry includes handicrafts, handloom, Khadi, food processing, garment

making and textile industries, as well as industries related to coir, wood, bamboo, plastic, rubber, leather, clay, electronics, and electronic components.

Government of Kerala Directorate of Industries and Commerce plays a vital role in promoting and sustaining micro enterprises and traditional industrial sectors with the help of Directorate of Handloom and Textiles, Directorate of Coir, and Khadi & Village Industries Board. During the first four years of the 12th Five Year Plan, Rs: 2,373.74 crores has been allocated for the development of industry and minerals.

Problems of Micro Enterprises Sector

Micro enterprises growth has a direct impact on the growth of an economy on a global level. In India, micro enterprises are one of the backbone sectors of the economy. This sector, however, is facing a lot of internal and external problems. Although the causes of problems differ between different industries, they are generally caused by poor management practices, marketing strategies, technological advancements, financial challenges, government policies, globalization and outside competition. Micro enterprises are struggling with the following concerns:

- Lack on marketing strategies
- Lack of raw material
- Inadequate labour
- Lack of proficiency in management
- High cost of production
- Lack of finance
- Out dated technology

As micro enterprise is imperative for the economic development of the country, utmost care must be taken for proper handling the sector in Kerala in the era of globalisation.

Problem statement

This study was inspired by a hot topic in the newspaper. micro enterprises are currently facing challenges like a lack of raw materials, hindered workers, and financial liabilities in the form of fixed charge on connected power load, statutory payments like PF and ESI contributions as well rentals. Out of 2.5 lakh units of micro enterprises, only 20% of the total found it difficult to get permission to open their units during the lockdown period. As a solution, efforts must be set up to up-bring the micro enterprises provide special relief package in order to sustain in the economy. The present study aims at identifying and analysing the challenges faced by the micro enterprises during Covid-19 and to understand the various coping mechanisms adopted by these micro-enterprises during the crises. Furthermore, the paper suggests a few measures that can help these enterprises to overcome while facing the current problems with respect to Production, Sales, Finance and Employment.

Research objectives

- To identify and analyse the challenges faced by the micro enterprises during Covid-19
- To understand the various coping mechanisms adopted by these micro-enterprises during the crises.
- To examine the types of assistances received by the micro enterprises during period

Research questions

- Was there any change in sales now, when compared with the pre-Covid era?
- Is there any closure of the business during the pandemic?
- Were there any other challenges faced by the local enterprises as a whole, other than the financial constraints?

Methodology

Primary data collection is used for the study where in questionnaires, through Google Forms, were distributed among the respondents of different sectors. The questionnaire consists of 20 to 25 questions. With respect to areas like Production, Sales, Finance and Employment, questions were asked. Primary Data collection also included Telephonic Interview. Hence, a total of 80 responses was received, for which it is taken as the inputs for the study. Sectors like handloom, handicraft, dairy farm and Kudumbashrees are taken into consideration. The responses from the micro enterprises have been collected from 14 districts of Kerala.

Table 1
Showing the coverage of study in Kerala

District	Count of Respondents
Alappuzha	1
Ernakulam	16
Idukki	6
Kannur	3
Kasaragod	1
Kollam	1
Kottayam	10
Kozhikode	2
Malappuram	6
Palakkad	5
Pathanamthitta	2
Thrissur	10

Trivandrum	16
Waynad	1
Grand Total	80

Literature review

According to K. Jayanthi (2018), reveals that the scope for the growth of MSME units in Coimbatore district is more and it has a significant contribution to the development of industries in the district in the paper titled on “Performance Analysis of Micro Medium and Small Enterprises in Coimbatore District”. MSME sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture. The role of MSMEs in developing and emerging economies is undisputed and is well recognized, contributing significantly to the employment generation, poverty alleviation and rural development, MSMEs are considered to be the engine of growth. The present study also reveals that the scope for the growth of MSME units in Coimbatore district is more and it has a significant contribution to the development of industries in the district.

Dr. Sarika Srivastava (2020), stated that Gujarat has a status of favoured global investment destination. Good infrastructural facilities, better road connectivity and supportive government initiatives have made Gujarat a promising state to ensure the development of MSME sector, published a paper on “Role of MSME Sector in Indian Economy: A Study with special reference to Gujarat”. The objective was to know about the current scenario of MSME sector of India and functioning of ministry of MSME, to understand the role of MSME sector in economic growth of India, to study the importance of Gujarat in the development of MSME sector and to analyse the contribution of MSME sector of Gujarat in practising energy conservation but a lot of efforts are Indian economy. The paper relied on secondary data collection which gathered the most relevant documents related to the overview of growth pattern of India.

Dr. Aradhana Chouksey (2020) aimed to analyse the impact of COVID-19 lockdown on the economic activities of the MSME sector within the paper “COVID-19 and its impact on Micro, Small, and Medium enterprises in India”. The paper gave a summary on the progress of the MSME sector over the years. It includes the impact of the lockdown and measures taken by the government and key issues and suggestions are also discussed. The findings of the study were that the data suggest a decline in output, employment, revenue generation and capital flow to the sector. Many sectors were forced to exit from the market due to persistent loss of business. Therefore, financial supports need to be urgently extended to these sectors.

Roy A, Patnaik B. C. M & Satpathy I (2020) stated that approximately 50% of the business under MSME’s have suffered losses of about 20-25%. Small business was forced to be closed due to ineffective demand and mortality of the workers.

The title of the Paper is “Impact of Covid-19 crisis on Indian MSME sector: A study on remedial measures”. The objectives are to identify effects of shortage of relief measures on MSME sector in India and to determining the impact of a nationwide lockdown on MSME sector in India. The paper relied on secondary data collection, in which a purposive sampling technique was used based on PRISMA network.

Jeeban Jyoti Mohanty (2018) has made an attempt to analyse the performance of the MSME sector and, some of the various measures in recent times undertaken by Government of India and SIDBI to advance this vibrant and booming sector. The paper also discusses the present status of MSME sector and its performance. The study highlights the major challenges faced by MSMEs sector in Indian economy along with its policy implication. Different methodologies have been used to satisfy the various objectives of the study. Secondary data has been analysed to study the MSMEs sector and its performance in India. The study reveals that there is an increasing pattern in the number of units, employment, market value of assets.

D.Sudarsana Murthy (2016) stated the problems faced by entrepreneurs of MSMEs through pretested schedules. In order to identify the major problems of Micro Small and Medium Enterprises, 50 entrepreneurs are selected at random from different forms of business in Chittoor District of Andhra Pradesh. The study is based on both primary and secondary data. The secondary data with regard operational performance and forms of business were collected from the Annual Reports of MSMEs, Books, Journals and daily newspapers etc. It has been observed that the MSMEs are facing lot of competition from domestic and global companies. Due to lack of sufficient knowledge, the entrepreneurs are not in a position to utilize resources effectively, which is why technological problem is a major constraint to compete with global companies while selling the products. Some MSMEs are poor in procuring the required raw-materials due to their financial inability. There is a need for the MSMEs need entrepreneur skills. In many instances, business ideas and exposures are not up to date and adequate, rules and regulations are less understood, product and market knowledge are not up to the mark, business remains confined within local or regional market.

Prof M. Chandraiah, R. Vani (2014), paper titled on “The Prospects and Problems of MSMEs sector in India - an Analytical study”, gave an analysis on the definition of MSMEs, the role and performance of MSMEs in Indian economy, Government policies towards MSMEs and problems of MSMEs. This paper closely analyses the growth and development of the Indian MSME sector since opening of the economy in 1991. It also looks into the present scenario of MSMEs and the challenges they face like lending, marketing, and license raj issues.

Analysis and Discussion

Production

Table 2
Showing the responses of each sector on the challenges faced

Nature of Challenge	Count of Respondents	Dairy Farm	Handicraft	Handloom	Kudumbashrees
Access to bank finance/capital	35	9	11	12	3
Finding a suitable work space	2	-	-	-	2
Lack of technologies in production	2	-	1	1	-
Legal compliance issue	3	2	-	-	1
No challenges faced	37	9	8	7	13
Shortage of raw materials	1	-	-	-	1
Grand Total	80	20	20	20	20

Initially, it has been observed that majority of the units were closed at the peak time of the pandemic, during the period of January 2020 to June 2020. As per the responses received, it has been observed that the units are facing the challenge of accessing bank finance and the least response from shortage of raw materials. Thus, it was more responses that Handloom units needed bank capital for their long term liability and day to day operations. Hence, in order to meet the solutions for the challenges, not merely the corporative society support is being resolved but there was business support from government packages, wealthy investors and micro business owners.

In India, the need for bank finance has always been a major issue for the functioning of all the Micro enterprises. Thus, it is visible that once the financial constraint or financial requirement of any enterprises is met, rest of the challenges can easily be resolved. It is very crucial to invest in the technological awareness in the fast forward globalization, as the enterprises must take into the notice of their technology related problems and issues in the peak pandemic restrictions as when peers have a direct interface virtually. The irregularity of the supply chain of raw materials is also a major constraint, such that when the required materials are been sent in wrong destination in the wrong route in the wrong manner.

Employment

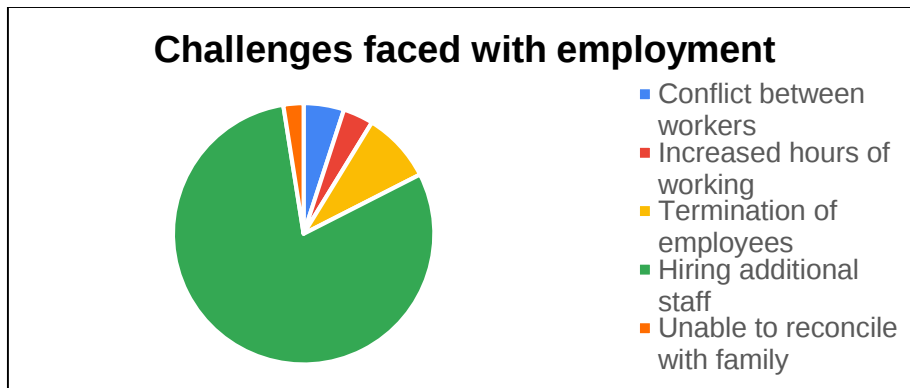


Figure 1. Showing nature of challenges faced with employment

Almost 64 respondents have agreed that Hiring Additional Staff was the major challenge faced by several units. Whereas, rest of the respondents agrees with the other challenges namely increased working hours, family reconcile, termination of employees and conflict among workers. When comparing among different sector, it was observed that responses from the Kudumbashrees sector is been seen more, that is they lack in additional hiring staffs. Labour issues are the frequent challenges faced in the enterprises in the normal times. Policies have to be adopted and framed in the ongoing migrant crises so as to collaborate with the labour force in the enterprises. This challenge has manifested itself as one of the most difficult areas for industries to operate in such times of pandemic. Apart from labour problems, businesses also need to take measure to enhance in skill development, training, technical guidance and labour recognition to facilitate both urban and rural micro-entrepreneurs. The emphasis on skill development can benefit the sector substantially and more so at the time of crisis. Hence, the problem must be solved internally in the enterprises. If there is no involvement, the enterprises can be threatened politically and socially.

Sales

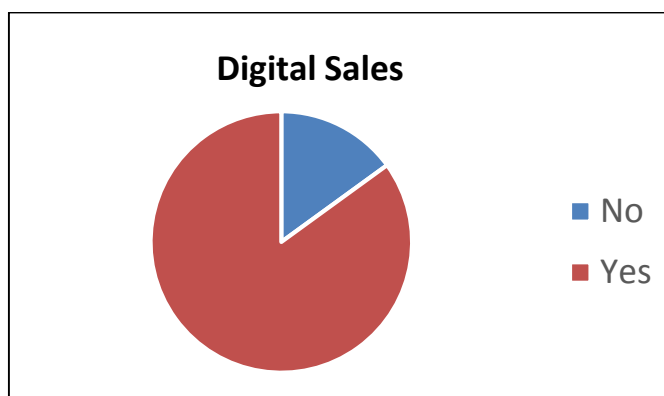


Figure 2. showing the proportion of digital sales opted by respondents

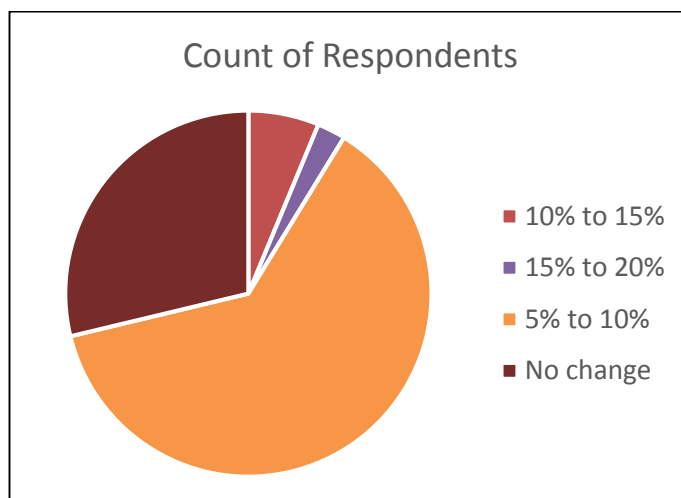


Figure 3. Showing sectors responding on the change in sales

Out of the responses received, 85% of the units have been in touch with digital sales, whereas only remaining 15% do not use any source of Digital platforms. By using the digital platform during the Covid-19 outbreak, majority of the responses from the Handicraft sectors have seen an increase in change in their sales from 5 % to 10%. There were several units which could not adapt on to the digital platforms, hence they had to opt direct selling as a path for selling their finished products. Out of these 4 sectors, 15 number of Kudumbashrees were facing this decline in sales now when compared with the pre-Covid era. Sales is one of the most important pillars of any enterprises to assure that they are existing, especially when SMEs have been historically struggling with sales. As a result, when there are sales, it shows that the enterprises should close down. At least, a major portion of their expenditures is met by utilising their income received from sales. It becomes very difficult for enterprises to cope up with the modern sales techniques, when the products are sold through e-commerce platforms. It is also indeed good that some of the respondents have agreed that they use the digital sales technique to co-operate with the pandemic restrictions put by the government.

Finance

Table 3
Showing enterprises the ways of arranging funds

Arrangement of Funds	Count of Respondents
Access to Bank loan	32
Funding from friends/family	5
Non-bank financial companies	16
Personal savings	19
Sale of assets like Land	1
Subsidies from government agencies	7
Total	80

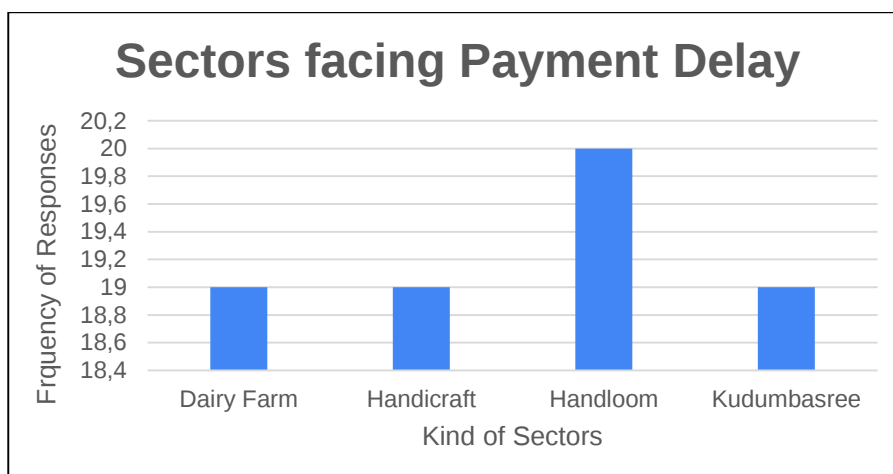


Figure 4. showing payment delay among sectors

Out of the total responses, 40% responses were inclined with the challenge with the difficulty to access bank loan in order to meet capital expenditure and day to day operational expenses. Personal savings and fund from non-banking financial companies were been used for the functioning of the enterprises. In Figure 7.1, there were majority of the units facing payment delay, out of which Handloom sectors were the major challenge facing sector. In the Figure 8.1, some other units also agree that they do not face any sort of payment delay and such firms had the ability to meet financial requirements. Responses also convey that 90% prefer to deal their transactions on cash basis and the rest 10% prefer to transact on credit basis. So, this conveys those enterprises are reluctant to utilize the credit terms due to the occurrence of the default interest, that might be another challenge to repay the interest.

Apart from pledging assets in the banks, enterprises have to rely on their own resources. Because some enterprises may find difficult to avail loans due to strict collateral protocol. The purpose of availing loans from the bank is to repay the long-term debt and to solve the working capital requirements. Thus, in spite of keeping away the obligation to repay long term debts, the enterprises prefer to solve their working capital requirements. The Covid impacts have led to liquidity crunch for which, not only the small firms that need the financial requirements but also big scale enterprises need the ailment of the credit. As a result, the regulatory loopholes might cause that may delay the licenses and certifications of the enterprises.

Conclusion

Micro Enterprises have become more vulnerable due to the negative impacts of covid-19. Challenges with respect to inadequate labour, delay in orders, financial liabilities and decrease in the sales were the ill effects from the pandemic. The study was more focused on micro enterprises in Kerala covering almost all districts. From the study, it was found that all the sectors were negatively impacted in several forms of problem of accessing bank capital, finding suitable

workspace, lack of technology, legal compliance issues and shortage of raw materials. Majority of the units faced each of these challenges as well as there were even other firms that had no challenges, due to the support from wealthy investors. Most of the enterprises agreed that hiring additional staff was the major challenge. The skill of the unemployed might not match pertaining to the job, and hence have to bear additional training costs. There were layoffs in some of the enterprises during the pandemic, for which the main problem of the enterprises was financial requirement. Hence, the study was based on several challenges faced in terms of production, employment, sales and finance. However, the circumstances be, the micro enterprises will sustain after the pandemic due to all forms of support from the government and other banking firms.

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