

“Financial Strategies for the Small and Medium Enterprises (SME’s) to Survive and Sustain after Covid-19 Pandemic in India”

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ABSTRACT:

The Indian economy is in a very crucial mode of transformation to the world’s biggest and strong economy. This phase of the economy is significant in the life of Small and Medium Enterprises (SMEs) as the Covid-19 Pandemic has collapsed their future plans. The economic downturn has led to the failure of SMEs in terms of revenues, profits, sales, capital, employment, production, etc., and created an insecure environment. Hence, the SMEs have to be made some important financial decisions and develop innovative tactics to ensure the business survival in the short term and sustain in the long term. They should have to adopt the modified financial strategies instead of existing ones. Apart from financial aspects their relative shortcomings in the production, human resources, technology, supply chain, and logistics should also be tackled in a similar manner to overcome the crisis. This paper studies the impact of the Covid-19 Pandemic on SMEs in India and suggests the financial strategies for them to survive and sustain after the crisis.

Keywords: *Small and Medium Enterprises (SMEs), Financial Strategies, Covid-19, Pandemic, Crisis, Survive and Sustain etc.*

1. INTRODUCTION

Covid-19 has given an impact on each sector of the economy. As a significant segment of the Indian economy, Small and Medium Enterprises (SMEs) always contributed remarkably to the Gross Domestic Product (GDP). It helped in the inclusive development of the economy and contributed to employment generation, production, imports, exports, and many more activities. It has fostered the entrepreneurship as well as generated large employment opportunities at lower costs. But the Covid-19 Pandemic has changed the overall situation in the global market and the economic downfalls or slowdowns led to insecurity of the SMEs. Ministry of MSME (Micro, Small and Medium Enterprises) has promoted SMEs by launching various schemes (*Annual Report, 2019-20, Ministry of MSME, GoI*) for their financial assistance in the previous financial years.

The Ministry of MSME has adopted recently some strategic initiatives to promote Khadi and Village Industries in the country like DBT (Direct Benefit Transfer), Convergence, Tie Ups, KIMIS (Khadi Institution Management and Information System), etc. The enterprises have taken benefits of the schemes for the development of their own businesses as well as contributed toward the growth of the country.

The Covid-19 Pandemic has created a panic situation in the development of SMEs. It has given big blow to the Indian economy. Most of the SMEs depend on large scale organizations hence the demand for their products or services has gone down. Migrant workers have created a huge gap in

the supply of labour force. Hence, cost cutting, human resource management, vendor management, debt management, sales management, production management and other functions of the organizations were badly affected. Many SMEs have decided to shut down the businesses. Though the government has declared relief packages during pandemic, still the SMEs have gained the economic pressure for handling their business activities. As per statistics from the Annual Report of MSME 2018-19, 6.34 crores MSMEs are there in the country and out of them 51% situated in the rural area. The impact of pandemic has observed in both rural and urban areas. The trade of the India is mainly relying on the European Union (EU), USA, China and South East Asian Countries. India’s trade has much more exposure to Covid-19 affected countries. Hence, the SMEs have stunned with their trade and operations.

2. OBJECTIVES OF THE STUDY

1. To study the impact of Covid-19 Pandemic on SMEs.
2. To suggest the financial strategies for SMEs to survive and sustain after Covid-19 Pandemic.

3. RESEARCH METHODOLOGY

The present study is descriptive Study and relies on secondary data. The data is collected from blogs, newspapers, websites etc. Necessary figure is used to interpret the data.

4. LIMITATIONS OF THE STUDY

This study is based on secondary data published in various websites, reports hence the actual benefits have not been examined with the beneficiaries.

5. LITERATURE REVIEW

Yogesh Mahajan (2020), has studied in his research work about the impact of coronavirus on SME's in India. He stated that coronavirus pandemic has badly affected the Indian economy and especially SME's and their growth. Indian startups and SMEs have suffered a bad impact by covid-19 pandemic as well as their economic operations suddenly stopped. Further he explained in the study that employment is also hit by the pandemic. Financing to startups is lowered by the financial institutions during this period. The study is concluded with SMEs are struggling with their economic activities and suggested that SMEs can cope up with the scenario by innovating the management plans.

Pravakar Sahoo, Ashwini, (2020), have studied in their research paper about the Covid-19 and Indian Economy. They studied impact of Covid-19 pandemic on Growth, Manufacturing, Trade and MSME Sector. They stated that the impact of pandemic across sectors is massive on the Indian economy. The data analysis explained about different sectors and impact assessment. The researcher excluded the sectors like Agriculture, forestry, fishing, electricity, gas, water supply and other utility services, public administration, defense and other services from the sectors which have impacted by the pandemic. Decline in the imports and exports are also observed during pandemic. The government has announced the relief packages to give the stimulus to the economy.

WTO, (2020), has discussed in the press release that trades are bouncing back but the recovery is still uncertain. The WTO economists caution that the recovery of the trades could be disrupted by the pandemic. The WTO forecasted 9.2% decline in the merchandise trade for 2020. The volume will be bounce back to 7.2% but it will not be more than pre-crisis trend. International GDP will fall by 4.8% in 2020 but in 2021 it will show slight rise by 4.9%. Asian exports trade will decline of 4.5% and 4.4 for imports in 2020. Further the upside and downside risks are forecasted in the article.

Yi Lu, Jing Wu, Junlin Peng & Li Lu (2020), have stated in their study that SMEs play very crucial role in the economic development. SMEs drive growth; provide employment, opens new markets etc. The outbreak of Covid-19 in Wuhan has had a great impact on the Chinese economy. The mentioned especially that SMEs have suffered a lot during this pandemic. The data is collected from the 4807 respondents from Sichuan through online questionnaire and interviews to assess the challenges associated with the work reopening. Mostly many SMEs were unable to resume their work because of safety of the employees. Further they stated that Chinese government has taken some positive steps to recover the economic conditions.

Konstantinos Bourletidis, Yiannis Triantafyllopoulos (2014), have explained in their paper about SMEs survival in time of crisis. If SMEs suffer prolonged economic crisis it may reflect in their economic downturn because of their financial resources which are limited. The study has

explained some literature and gap in that which in generally related to the SMEs performance. Some factors are explained further which are product reengineering, emphasis to new customers with environmental worries, price fixing, suppliers – stock procurement, information from stakeholders etc. and stated that these factors drive into an alternative strategy of marketing in period of the crisis. Study is concluded as the entrepreneurs should have get encouragement and proper support to survive their business.

Research Gap

The literature review mostly analyzing the impact of Covid-19 on the SMEs by considering different sectors. But the strategies which will help to overcome the situation are missing.

6. ANALYSIS AND DISCUSSION

SMEs are the backbone of the economy and they have always shown the great contribution in the development. SMEs also performed very appreciatively in the GDP of the country by contributing in the production, employment generation, new market opening, product development, research, supply chain, boosting entrepreneurial skills, opportunities, etc. and what not. But the Covid-19 pandemic has given a massive hit to their financial performance. Market demand and supply for the different products and services are affected hence the working cycle of the market is collapsed due to pandemic. SMEs are having significant financial pressure as well as stress to survive and sustain in the market. Before crisis SMEs has good financial support from the banks and financial institutions but during the crisis banks and financial institutions have changed their financing policies. Hence the direct impact was observed on the SMEs survival. Generally SMEs are observed very optimistic about their short term development but the financial issues due to pandemic have made them pessimistic for their short term goals. They are facing difficulties in every area of their operational activities. The SMEs and its owners have the confidence that in the long term they will be cope up with the changed financial conditions and will perform better. In the long term, impact of pandemic will be limited after adopting different or innovative strategies; it may be possible to overcome the situation.

The analysis given in the article published in Indian Express Newspaper (by *Udit Mishra, 7th May 2020*), states that 6.34 crore MSMEs in the country and out of that around 51% MSMEs are from Rural area. The article also remarked that more than 11 crore people are employed from this sector. The impact of pandemic caused many issues in front of the MSMEs. Credit issues, availability of employees, lack of sufficient financing, scarcity of raw materials, sales problems and many more.

SMEs have to focus now to survive in the short term so that sustaining in the long term is possible. Following are some financial strategies for the Small and Medium Enterprises will be helpful to survive and sustain after Covid-19 Pandemic.



Fig: 1 Financial Strategies for SMEs
(Source: Authors own contribution)

Long term survival and sustainability of SMEs depend on what they want to see themselves on financial background now and in future. Pandemic has affected SMEs and collapsed their operations at all the levels. Above financial strategies will help them to overcome their financial problems and help to create an environment where they feel the financial security. Finding out income sources, priority setting for payments, improving collection, managing statutory payments, prioritize the loan payments, cost controlling and so on financial strategies will help to analyzing the current financial position of the business with its limitations and put forth the ideas into action plan for the survive and sustain.

Government has also announced the credit support to MSMEs for their continual operations (www.msme.gov.in, accessed on 02.02.2021) by making changes in policy as moratorium period of 6 months for repayment of loans, relaxation in GST compliance, interest rate subvention @3% to financially strong MSMEs on loans, proposing safe trade policy, relaxing ceiling on working capital by financial institutions etc.

7. CONCLUSION

SMEs are struggling very tightly in terms of earning revenues, managing expenditure, capacity utilization, demand boosting, payment terms, credit management etc. considering the various financial aspects. The survival and sustainability of small and medium enterprises for longer period will be guided when they will plan for the short term. SMEs are seeking the help from government or any other helping agencies or institutions for their survival. Government has to initiate for relief in the payments like tax and to restructure the financial policies for SMEs. RBI has to take steps to improve the financial assistance for the SMEs to increase the liquidity so that they will assure for their long

term sustainability in the market after the pandemic. SMEs have to adopt the innovative financial strategies to overcome the issues. Apart from the financial perspectives SMEs should have to stay more competitive and to have a responsive attitude for implementing revised corporate strategies.

8. SUGGESTIONS

It is suggested to the SMEs to cope up with the conditions for some period by keeping on its operations. It is also suggested to SMEs to work on the above (fig.1) analyzed financial strategies for survive and sustain. Take the financial benefits offered by the Government of India through various relief packages to be in the market. The definite results will reflect in the long term period.

9. FUTURE SCOPE OF THE STUDY

Present study has suggested financial strategies for SMEs. Further research can be carried for the large scale organizations.

10. REFERENCES

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