GLOBAL ALLIANCE FOR Mass Entrepreneurship

LEAD LEVERAGING EVIDENCE FOR ACCESS AND DEVELOPMENT
KREA UNIVERSITY

Road to Recovery: Examining the Impact of COVID-19 on Microbusinesses in India

Supported by IKEA Foundation

CONTENTS

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EXECUTIVE SUMMARY

OVERVIEW

Micro enterprises form an integral part of the fabric of livelihoods in urban areas of India, particularly in Tier-2 and Tier-3 cities where income-generating activities are scarce for most low-income households. Hence, unexpected and long-drawn crises, such as COVID-19, can have debilitating effects on this segment - as they were forced to halt their work for an undetermined period. This report presents findings from a research study conducted by LEAD at Krea University, funded by the Global Alliance for Mass Entrepreneurship (GAME), to understand the impact of the COVID-19 pandemic and lockdowns on microbusinesses and provides high-quality and timely data to help inform industry and policy interventions.

This report draws on the data gathered through five rounds of a systematic survey conducted **between May 2020 and July 2021**, and the Round 1 sample consisted of 1461 microbusinesses.

CHALLENGES FACED BY MICROBUSINESSES

- Low sales and customer footfalls remained the biggest challenge for micro-enterprises across the two years, prompting some enterprises to exit permanently.
- Around 14% of microbusinesses had permanently exited during the assessment period, and 38% cited a lack of personal savings and consumer demand as the major reasons for exiting the business.

Entrepreneurs adopted a range of strategies to cope with these challenges, such as changing their business/operational models, leveraging the trust & loyalty of their employees or workers, & exploring technology tools to establish market acceptance and stable links with partners, suppliers, customers and even investors in some cases.

FINANCIAL MANAGEMENT

Sales, profit, cash reserves, cash flow of microbusinesses, and personal savings of entrepreneurs running these microbusinesses took a hit during this period.

- Immediately after the first lockdown, sales and profit plummeted to a quarter (27%) of pre-COVID-19 levels, which meant that businesses operated under lower or no margins. Across the study, 60% - 80% of microbusinesses reported insufficient cash reserves. The situation has mostly stayed the same over the last two years.

- Immediately after the lockdown, 54% of the microbusinesses did not receive payments from buyers/customers. Although there was an improvement, microbusinesses had to deal with regular delays in payments.
- Microbusinesses depended heavily on their personal savings to manage their dwindling cash flows. Immediately post-lockdown, 65% of businesses depended on personal services, with the dependence reducing over time. But, data collected during Round 5 (June -July 21) shows that enterprises went back to depending on savings.

To ease the financial challenges, around 40% of these microbusinesses sought credit just after the COVID-19 lockdown, and 85% of those who sought credit were able to secure the same. Across the study, 51% sought or applied for credit, and 77% received the same. Some major trends observed in credit behavior were:

- 92% of these microbusinesses reached out to family and friends for finance immediately post the lockdown, but with time they tended to apply for credit from formal financial institutions.
- While payouts to supplies and clearing outstanding bills were key reasons for seeking loans, renovation and expansion were also important for businesses. They applied for loans for two broad purposes, one to address operational expenses and the other for business development, i.e., modifying their products/business model.
- Around 33% to 41% of the microbusinesses were denied loans (both formal/informal) because they did not have sufficient collateral and/or lacked positive credit history, while 21% of the businesses lacked requisite documentation for the application.

Some suggestions for financiers to address credit needs by designing new products or building new and/or strengthening existing processes are listed below:

- Financial institutions can respond to disruptions like a lockdown with an “Emergency Overdraft Facility,” which allows existing and new businesses to withdraw money from their business bank account (savings or current).
- As a part of the Atmanirbhar Bharat package, financial institutions introduced a credit product for MSMEs whose loan accounts were categorized as special mention accounts or NPA (Non-Performing Assets) by lending institutions. While this was created to support MSMEs unable to repay loans, similarly, financial solutions can be created to encourage business modifications as a response to external challenges.
- Building the knowledge of bank managers, field officers, and banking correspondents on delivering information on bank and government schemes. Our data shows that of the business survey, only 31% were aware of schemes launched under the Atmanirbhar Bharat initiative.

EMPLOYMENT RETENTION

There was a significant layoff, with 34% of the microbusinesses downsizing between the above time frames. Microbusinesses led by female owners witnessed greater layoffs overall, and of the workers laid off, 55% were women. Notably, 80% of workers in women-led microbusinesses were women, while only 14% of those employed in male-led microbusinesses were women. Microbusinesses with a larger number of workers (i.e. with more than 6 workers) witnessed the most drastic changes in downsizing. It was observed that 53% of firms laid off workers at least once between May 2020 and July 2021, when the country witnessed maximum lockdowns.

- The reasons most cited by microbusinesses for laying off workers were the lack of funds to pay workers and the workers leaving on their own during the first lockdown, while the lack of demand and lack of funds were major reasons for laying off workers during later rounds.
- While it is a popular assumption that microbusinesses might 'move out' their workers more swiftly than large businesses, the data proves the same is not always true. Microbusinesses made several efforts to retain workers despite demand instability and lockdowns. Data collected in Round 1 (May - June 2020) revealed that over 80% of microbusinesses paid their workers and did not lay them off despite being only partially operational or fully shut down.
- Many microbusinesses went the extra step to provide several benefits to retain workers during challenging times. 41% of microbusinesses gave wages despite no work, while 13% also provided loans and advances.

There is a need for a comprehensive and customized social security provision for workers in microbusinesses that employ less than 5 workers, provide seasonal employment, cater to migrant workers who are not registered in the state, etc.

Several insights from the Building and Other Construction Workers Act (1996) can be adapted to create such a provision. Some of the features of interest are:

- Workers can register for benefits under the Act, and online application is possible in certain states.
- Workers with 90 days of employment in both informal and formal businesses are eligible for benefits on providing necessary declarations.
- Workers are provided comprehensive pensions, medical assistance, accident benefit, maternity benefit, scholarships, etc.

In addition, based on our study, some suggestions include:

- Unemployment allowance for workers, especially during disruptions caused by COVID or natural disasters, etc.
- Financial institutions can create credit lines and products focusing on workers in MSMEs.
- Within existing provisions such as Provident Fund, employers working with contract workers should be able to provide them benefits hassle-free.

RESILIENCE AND WELL-BEING: NAVIGATING STRESSORS

Overall, stress levels increased over time, with over 20% of the entrepreneurs mentioning that they felt stressed nearly every day one year into the pandemic. When looking at the impact on gender, patterns differed between men and women. Looking at those who reported being not stressed at all and those who were stressed almost every day, women seem to have been more stressed than men in the early phase of the lockdown.

Chapter 1
THE TWO YEARS THAT SHOOK MICROBUSINESSES

1. OVERVIEW

Micro enterprises form an integral part of the fabric of livelihoods in urban areas of India, particularly in Tier-2 and Tier-3 cities where income-generating activities are scarce for the majority of low-income households. 48.93 million people are employed in various micro enterprises in urban areas, of which 20% are women (NSS 73rd round, 2015-16). Their average productivity, which is the Gross Value Added (GVA) divided by the number of workers, stood at Rs 60,544 in 2010-11, which was lower than the overall average for the MSME Sector. This suggests how the micro segment of enterprises is at the Base of the Pyramid, employing a vast majority of the workers. These enterprises earn their daily bread by selling food in the streets, making dolls/figurines for temples, providing beautician services to customers, and supplying automotive components to Public Sector Undertakings (PSU) among other ventures. These businesses, though small, play an immense role in supporting livelihoods, boosting growth prospects for the urban poor and driving entrepreneurial attitudes among the general populace. However, they often lack strong resilience and coping mechanisms to avert and absorb shocks, and are often 'invisible' to government support mechanisms.

Hence, unexpected and long-drawn crises such as COVID-19, can have debilitating effects on this segment - as they were forced to suspend their work for an undetermined period. This has wider ramifications for the country's growth and development, given the impact on employment and poverty. Emerging evidence from across the globe has documented the impact of the pandemic on these enterprises.

This note presents findings from a research study conducted by LEAD at Krea University and the Global Alliance for Mass Entrepreneurship (GAME) to understand the impact of the COVID-19 pandemic and lockdowns on microbusinesses and provides high-quality and timely data to help inform industry and policy interventions. The study finds that micro enterprises faced significant challenges during the lockdowns, with low customer footfalls, reduced cash reserves and depletion in savings.

The report is organized as follows: Section 1 provides an overview of the approach and methodology and the key challenges that microbusinesses faced during the pandemic. Sections 2, 3 and 5 delve deeper into trends in access to finance, employment, resilience and well-being.

1.1 Study Objectives

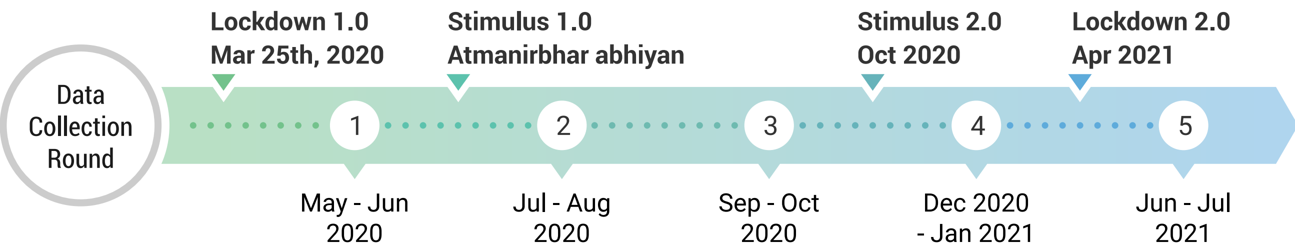
The primary objectives of this longitudinal study were:

- To understand the impact of the COVID-19 crisis on microbusinesses in India across a range of dimensions
- Examine the coping strategies adopted by enterprises to tide over the crisis, at an individual and enterprise level, and the external support mechanisms available to enterprises

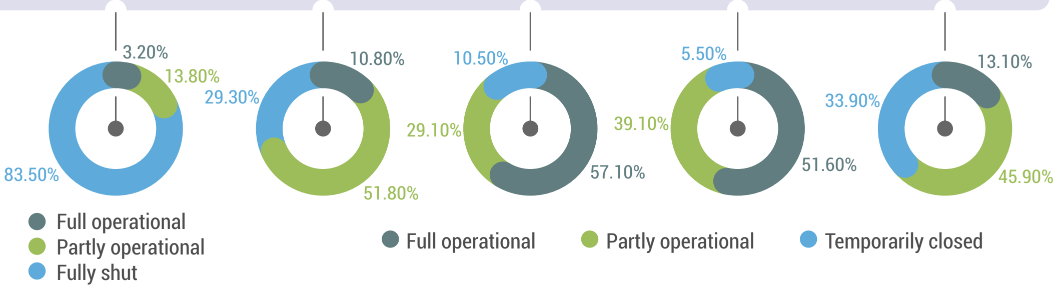
1.2 Sampling Design and Approach

This note draws on survey data that was collected through five rounds of systematic survey conducted between May 2020 and July 2021. (refer to Figure 1.1) The round 1 sample consisted of 1461 micro enterprises. A stratified convenience random sampling approach was used to collect information through phone surveys. Since field data collection was not feasible given the risk of COVID-19 transmission, data was collected remotely, through phone surveys. Each phone survey lasted around 20 minutes and was conducted in English or in vernacular language where required. Given the challenges in identifying and reaching out to businesses in the absence of up to date administrative data, the survey was conducted in collaboration with partners that work with small businesses on the ground. The sample was drawn from listing data shared by our partners: **AYE Finance**, **Pay1**, **MannDeshi**. The questionnaires for each survey round were designed to capture critical high-frequency information regarding business operations, financial performance, credit behaviour, savings, stress management, availability of support mechanisms (refer to Figure 1.2) The survey design was optimized to minimize respondent fatigue, and also account for the additional stress that entrepreneurs may be facing due to business closures and health shocks. Attrition in the sample was due to business exits and drop outs overtime. The biggest attrition occurred in the second round, due to lack of interest in continuing the study or the inability to reach them again.

Figure 1.1: Data collection timeline and sampling design across rounds



	1	2	3	4	5
Sample Size	1461	1129	933	818	688
# of business exits	-	91	31	31	49
# of drop-outs	-	332	196	115	130



*The response option 'fully shut' was only provided in round 1. Round 2 onwards the option was changed to 'temporarily closed'.

Figure 1.2: Drivers for MSME growth

Financial Status, Credit Behaviour and Cash flows

Did they seek credit? What were the sources? Did they receive government support? How did they pay their vendors? Did they get their customer payments on time?

Business Operations and Performance

How did they operate during lockdowns? How was their business performing compared to pre-Covid? What was the impact on profits and sales? What were the reasons for closing businesses? Any re-skilling or business change happened.

Resilience and Stress Management

What strategies did they use to cope up with stress? What support mechanisms did they tap into?

Employment

Understanding labour dynamics - How many did they employ? How many did they have to layoff? What is the intention to hire?

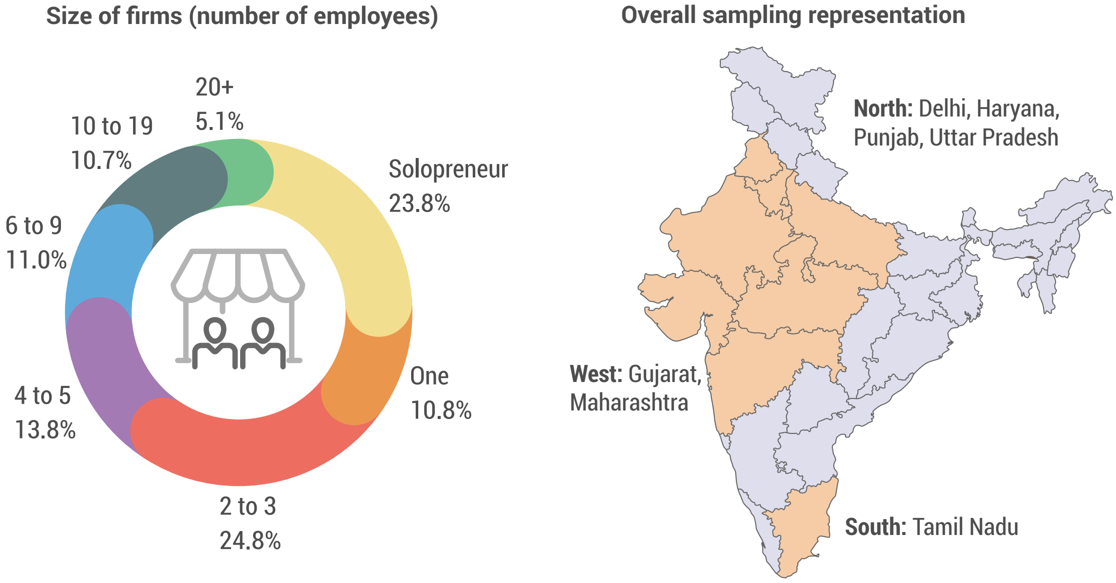
The sample consisted of enterprises from across sectors including manufacturing (49%), services (33%) and trade (17%), to provide a broad representation. (refer to figure 1.3). The following industries represent 52% of the total enterprises in the sample: Auto parts and metal works (13.9%), tailoring (10.7%), general/kirana stores (10.5%), ready-made garments (9.7%), electrical and electronics (8.1%). The enterprises from the following states participated in the survey: Delhi (23.1%), Haryana (12.7%), Punjab (1.6%), Uttar Pradesh (2.1%), Rajasthan (8.01%), Maharashtra (2.9%) and Tamil Nadu (49.6%). (refer to figure 1.4). Further, the businesses were selected to capture the dynamic nature and diversity of the micro enterprise sector in the country.

India's small businesses were hit hard by COVID-19 induced lockdowns, especially the second wave with 90% reporting worse performance than pre-lockdown (March 2020).

Figure 1.3: Snapshot of micro enterprises

- **65%** operate fixed stores
- **19%** are female-led
- **30%** provide essential services
- **12 years** - average firm age
- **35%** are solopreneurs
- **74%** are registered

Figure 1.4: Size of firms and state-wise representation of sample



1.3 Interconnected challenges: the domino effect

Analyzing data from five rounds of the study, we find that microbusinesses faced several challenges during the two-year period of this study, driven by both external and internal factors. In the early days of the pandemic, amidst an uncertain economic environment, businesses were forced to temporarily shut shop due to the lockdown restrictions as well as disruptions in supply chains and labour markets. As represented in the Figure 1.5 below, low sales and customer footfalls remained the biggest challenge for micro enterprises across the two year period, which also prompted permanent exits for some enterprises. The nature and extent of challenges that enterprises faced also varied across time. During the first lockdown while they had to face shortage of raw materials owing to the disruptions in the distribution channels, they were able to strategize and plan better by the second lockdown by stocking supplies and ensuring vendor payments. By the second round as things had started to ease, these businesses had to face volatility in labour markets and a depletion of cash flows, which was offset by balancing layoffs and hiring over time. While entrepreneurs's confidence about business recovery was high during the first round despite external challenges, this saw a drop in the second round.

Figure 1.5: Key highlights of barriers faced by microbusinesses over time (May 2020 - July 2021)

Mar 2020	COVID-19 spreads across India, government imposes lockdown on March 25th			
Round 1: May - Jun 2020	Uncertain times: Forced to shut shop and await government instructions 83.5% temporarily closed	61% face raw material shortage 38% face labour shortage	Average Sales and profit stand at 26% 65% have personal savings	30% fully confident that business will recover, 21% hoping for recovery in 1-3 months
Round 2: Jul - Aug 2020	More than half (52%) partially opened 8% had to fully shut business due to stress/ anxiety	Raw material shortage still persists with quarter of enterprises now facing labour shortage	Only 13% report better business performance than pre-lockdown	38% feel business recovery will take more than 6 months
Round 3: Sep - Oct 2020	Slow movement to regain normalcy but depletion in cash reserves and eating up personal savings			
	57% enterprises fully open Business exits reduced to 3.3%	Petty cash management emerges as major challenge 81% reports having no cash reserves to tide over crisis with 12% having to use personal savings	Sales and profit levels increase Layoffs reduced with intent to hire increased	
Round 4: Dec - Jan 2021	Resilience shown through improvements in business performance			
	Temporarily Closed: 5.5% Business Exit: 3.79%	Firms with cash reserves almost doubles, however 19% reported dip in savings	Reported sales back to almost half of pre-lockdown levels Layoffs grew at a CAGR of 29%	More than 30% feel business will recover in less than 3 months
Round 5: Jun - Jul 2021	Second wave of Covid-19 hits with government-imposed Lockdown from April- June 2021 Business confidence hit badly with savings reduced further			
	46% temporarily closed	46% temporarily closed	The second highest dip in savings (51%) reported Overall perception of performance levels saw a windfall (90%)	Business confidence hit a new low (60%)

As the economy gradually opened up and lockdown restrictions eased around the third round (September-October 2020), business gradually picked up. However, petty cash management, which reflects how micro enterprises manage small funds to tide over regular expenses, emerged as a prominent issue during this time. While certain systemic issues like lack of working capital were a challenge for enterprises across the board, through borrowings and cash management, they were able to carry out their activities.

A key characteristic of the coping mechanisms adopted by micro enterprises is that while many of the challenges such as lack of demand were systemic in nature, the strategies varied. Given the highly informal nature of these enterprises, their business decisions during COVID also reflected the combination of formal and informal practices prevalent within the ecosystem and communities. Entrepreneurs adopted a range of strategies such as making changes to their business/operational models, leveraging the trust and loyalty of their employees or workers, and exploring technology tools to establish market acceptance and stable links with partners, suppliers, customers and even investors in some cases (**Krasniqi and Williams, 2020**).

Chapter 2
COVID-19 AND THE IMPACT ON FINANCIAL MANAGEMENT

1. OVERVIEW

The COVID-19 crisis which led to an abrupt halt in operations severely impacted the cash flows of microbusinesses. Around 40% of them sought credit just after COVID lockdown and 85% of those who sought credit were able to secure the same. In the same period, 65% dipped into savings to address the drastic fall in revenue and cash flow. This chapter seeks to explore the immediate financial challenges faced by businesses in the wake of COVID-like disruptions and the strategies adopted to address the same. At the end of the chapter we look at how these strategies can inform the creation of new financial products and schemes.

2. CHALLENGES IN FINANCIAL MANAGEMENT

2.1 Revenue Deficit

This study tracked some financial parameters of microbusinesses which clearly evidenced the direct impact on the revenues because of COVID. Immediately after the first lockdown, sales and profit plummeted to a quarter (27%) of pre-COVID levels and as per the latest data from August 22, they are still less than 50%. (refer to Table 2.1 below). This meant that businesses operated under lower or no margins. Across the study 60% - 80% microbusinesses reported not having sufficient cash-reserves. The situation has not greatly improved over the last two years as shown in Table 2.1.

Table 2.1: Financial parameters of microbusinesses

Indicator	Jun 2020	Aug 2020	Oct 2020	Jan 2021	Jul 2021
Average sales as a % of pre lockdown sales (Sales post lockdown ÷ Sales pre lockdown) %	28%	31%	43%	49%	40%
Average % of pre lockdown profit (Profit post lockdown ÷ Profit pre lockdown) %	27%	27%	32%	35%	24%
% of microbusinesses report: “not having cash reserves”	58%	63%	81%	62%	75%

2.2 Delay in Payments from Buyers

A delay in the payment that a buyer - of a good or service - owes to a business is called delayed payment. In case the buyer and the business have not agreed up on a payment date, the Micro Small and Medium Enterprises Act (2006) caps the duration of delay at forty-five days from the date of acceptance of goods/services. Immediately post the lockdown 54% of the microbusinesses did not receive payments from buyers /

customers at all. (refer to Table 2.2) While over time there was an improvement, microbusinesses did have to deal with regular delays in payments. Over 47% of microbusinesses reported in Round 1 (May - June 2020) that they too were unable to pay their vendors on time. Payment delays are one of the major setbacks faced by businesses especially during a disruption.

Table 2.2: % of microbusinesses and status of payments from buyers (customers)

Receiving payments from customers on time?	Jun 2020	Aug 2020	Jan 2021	Jul 2021
Yes, but with delay	11%	24%	26%	24%
Yes	8%	29%	39%	26%
Only partially	12%	6%	12%	4%
No, did not receive the payments	54%	4%	5%	1%

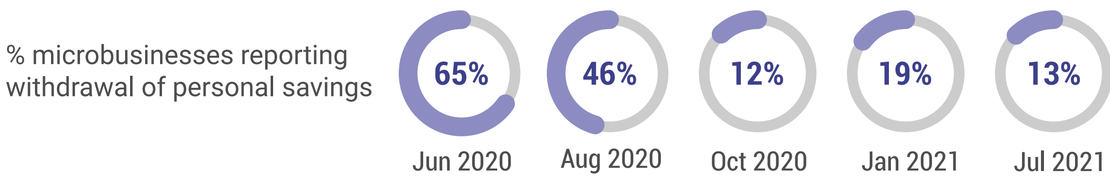
Around 14% of micro entrepreneurs had permanently exited from their current businesses during the period of assessment. Of which, 38% cited lack of personal savings and lack of consumer demand as the major reasons for exiting the business which have been the prime impact areas of the lockdown. This means that most businesses took up other mechanisms such as cutting down margins, streamlining their payments and dipping into savings to sustain their operations. The next section details the same.

3. COPING STRATEGIES FOR FINANCIAL MANAGEMENT

3.1 Using Personal Savings

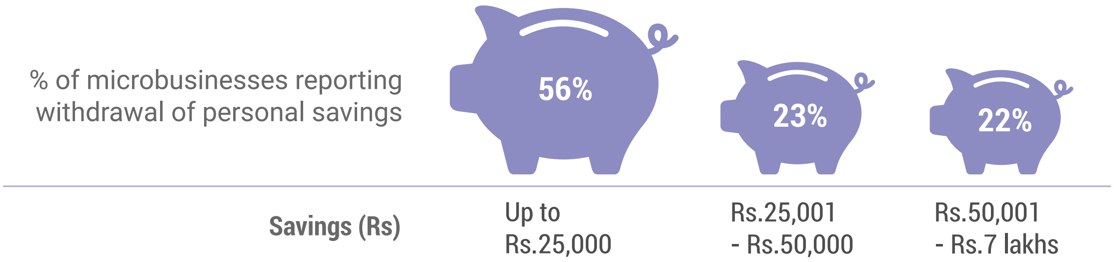
Microbusinesses heavily depended on their personal savings to manage their dwindling cash-flows. Immediately post lockdown 65% of businesses depended on personal services with the dependence reducing over time until Round 4 (Dec 20 - Jan 21). But again data collected during Round 5 (June -July 21) shows that enterprises went back to depending on savings. (refer to Table 2.3)

Figure 2.1: % of microbusinesses reporting dip in personal savings



Of those who withdrew from personal savings, 56% withdrew up to Rs.25,000, while 23% withdrew between Rs.25,001 and Rs.50,000 based on data collected during Round 5 (June -July 21). (refer to Table 2.4)

Figure 2.2: % of Microbusinesses and personal savings withdrawn (July 2021)



3.2 Access to Credit

This sub-section details how businesses sought credit to address challenges relating to fall in revenue and to manage cash flows. Data is presented in status, sources and purposes for which credit was sought.

The financial stress induced by the lockdown with reduction in operational hours and consumer footfalls prompted businesses to seek credit from financial institutions and informal sources. Around 40% of them sought credit just after COVID-19 lockdown and 85% of those who sought credit were able to secure the same. Across the entire study, 51% sought or applied for credit and 77% received the same. (refer to table 2.5)

Table 2.3: Microbusinesses that applied / sought credit (June 20 - July 21)

Indicator	Yes (% of microbusinesses)		No (% of microbusinesses)
	Male	Female	
Sought / applied for a loan/ borrowing	52%	47%	49%
Sought / Applied and received loan/ borrowing	79%	71%	23%

Predominantly (92%) businesses reached out to family and friends for finance immediately post the lockdown but with time they tended to apply for credit from formal financial institutions.(refer to Table 2.6) Business samples were also drawn from existing customers of Financial Institutions, which can be the reason for low dependence on informal lending (pawn shop / money lenders).

Table 2.4: Sources of financing for microbusinesses

Source	Jun 2020	Aug 2020	Jan 2021	Jul 2021
Family & Friends	92%	47%	39%	52%
Formal lending institutions (Bank, MFI, Digital lender)	14%	51%	68%	47%
Informal lending institutions (money lender, pawn shop,etc)	26%	12%	16%	11%

Businesses applied for loans for two broad purposes, one to address operational expenses and the other for business development i.e. modify their products/business model. The latter was also a strategy to cope with the crisis. In the survey undertaken in Round 5 (June -July 21), 16% of businesses added new products/service to existing business, 26% increased marketing & diversified distribution. This is also evidenced by the purposes for which they sought loans. (refer Table 2.7 and Table 2.8) While paying suppliers and outstanding bills were key reasons for seeking loans, renovation and expansion were also important for businesses.

Table 2.5: Purpose for availing loans (July 2021)

Category	Purpose of the loan	% of microbusinesses who received a loan
Operational Expenses	Pay suppliers	64%
	To repay previous outstanding bills	36%
	To pay salary, rent, electricity bills etc.	17%
Business Development (modification) related expenses	To carry out repair or renovation in business	21%
	To expand the business	20%
	To add new equipment for better business prospects	15%

Figure 2.3: Coping strategies used by microbusinesses (July 2021)

26% **of microbusinesses increased Marketing & diversified distribution**

16% **of microbusinesses added new products/service to existing business**

Data collected in Round 5 (June -July 21) (Table 2.9) showed that there were two categories of reasons why businesses couldn't secure loans. One relates to the credit evaluation parameters employed by financiers and the other stems from information asymmetry. Around 33% to 41% of the microbusinesses were denied loans (both formal / informal) because they did not have sufficient collateral and/or lacked positive credit history. Also 21% of the businesses lacked documentation requisite for the loan application.

Table 2.6: Reasons why microbusinesses did not get loans (Round 5 (Jun -Jul 21))

Category	Reasons behind not getting the loan	% of microbusinesses who sought / applied for a loan
Credit Evaluation Criteria of Financiers	Insufficient collateral	41%
	Previous debt profile	33%
	Low credit score, No guarantor, Inadequate cash flow / inability to show proof of cash flow	10 - 14%
Information Asymmetry	Loan purpose did not qualify for credit, Loan was refused (not clear about reason)	28 - 29%
	Lacked required documents	21%

4. SUGGESTIONS FOR ADDRESSING FINANCIAL CHALLENGES

Data collected from businesses can provide some suggestions for financiers for addressing credit needs by designing new products or building new and/or strengthening existing processes and below are listed some of the same.

4.1 New Financial Products

Businesses reported that (refer Table 2.7) they predominantly required credit for meeting payments and for modifying their businesses. Lockdown and social distancing required that businesses innovate the products and services they offer and also adopt new marketing / delivery models and make spatial modifications to their area of business. This necessitates that financiers also provide solutions that can help businesses address these changing situations.

Scheme for an Overdraft Facility

Businesses reported in the Round 3 (Sept - Oct 20) survey, which was conducted post the major lockdowns, that petty cash management and inadequate working capital were some of the critical challenges faced by them (refer to table 2.10). In this period 50% of businesses withdrew up to Rs. 55,000 from their savings to manage the financial crunch.

Table 2.7: Petty cash and working capital challenges faced by microbusinesses

Challenges faced % of microbusinesses	Oct 2020
Petty cash management	31%
Inadequate working capital	20%

"Immediately post lockdown, businesses were scrambling for cash to pay for expenses. While initially they could borrow from friends and family, these sources became a little unreliable with larger uncertainty in the ecosystem. Businesses with banking relations tended to immediately apply for overdraft credit and the government scheme with maximum uptake addressed the moratorium needs for existing borrowers."

Sabyasachi Chakrabarty (Banker, Small Finance Bank)

Based on the above data points, there is a clear signal that financial institutions can respond to a disruption like a lockdown with an **"Emergency Overdraft Facility"**. This allows existing and new businesses to withdraw money from their business bank account (savings or current). Government can also provide a credit guarantee facility to enable and encourage the same. The facility can address needs of micro enterprises and can also be a stop-gap solution that prevents business exits.

Disruptive Thinking and Financing

Financiers can think of developing credit products and credit evaluation criteria that address the need for a business to innovate its strategies during disruptive situations. (refer to Table 2.8) Businesses during COVID innovated on products, marketing channels, delivery channels and pricing strategies to combat falling and changing demands.

Financiers will have to adopt disruptive thinking that challenges the traditional way of lending to businesses during such situations. Businesses might not be in a position to provide market studies and forecast business prospects based on new strategies. If lending decisions predominantly lean on these data, then lending could become challenging for the financier too. Last mile decision makers on extending credit such as branch managers and field officers need to be provided with leeway and tools that can help them evaluate innovative business requirements especially during disruptive situations.

Financial institutions as a part of the Atmanirbhar Bharat package had introduced a credit product for MSMEs whose loan accounts were categorized as special mention accounts or NPA (Non-Performing Assets) by lending institutions. While this was created to support MSMEs who were unable to repay loans, similarly financial solutions can be created to encourage business modifications as a response to external challenges.

For more information click here

Credit Guarantee Scheme for Subordinate Debt (CGSSD) for stressed MSMEs

MSME units such as Individuals / Proprietorship, LLP, Partnership, Private Limited Company or registered company, which have stressed i.e NPA accounts as on 30.04.2020 could avail credit facility equal to 15 % of his/her stake in the MSME entity (equity plus debt) or Rs 75 lakh whichever is lower as per last audited Balance Sheet.

4.2: Critical aspects accessing financing

During the Round 5 (June - July 21) survey, roughly 30% of businesses reported that they were unable to even understand why they were denied credit and 21% stated they did not have the right documentation to avail credit. This underscores the importance of relationship building with financiers and ability to access information on schemes/credit products.

Relationship Building and Unlocking Financing

While seeking credit from banks and microfinance institutions; relationship building with Bank managers and field officers can be critical in availing loans.

"The two biggest challenges faced in the adoption of financial products by entrepreneurs is around communication and relationships between banks, government departments, and entrepreneurs. If the bank-entrepreneur relationship is regularly maintained and all the documents required for availing a particular kind of loan or scheme are in place, then the process of availing loans becomes easy."

Pushpendra Tiwari (Haqdarshak Empowerment Solutions)

Addressing Information Asymmetry

Bank managers, field officers, banking correspondents play an important role in delivering information on bank and government schemes to businesses. Building their knowledge on the same would be a critical factor in the reach of the same. Our data shows that of the business survey only 31% were aware of schemes launched under the Atmanirbhar Bharat initiative. Of those who were aware i.e. 602 microbusinesses, 328 of them availed the benefit of the moratorium scheme. (refer to Table 2.11)

Table 2.8: Awareness and benefits availed of schemes (Aug 20 to Jul 21)

Category	**Yes** (Number, % of microbusinesses)
Awareness of schemes under Atmanirbhar Bharat	602 (31%)
Availed moratorium	328 (17%)

"A typical banker does not have access to a single portal or point-of-contact to know about schemes that are launched by the government. Their knowledge gap further prevents their ability to serve entrepreneurs effectively. To address this, apex institutions and implementing agencies such as SIDBI can provide digital information and bite-sized training modules on government schemes to bankers. The awareness of schemes among bankers can also be bolstered through portals such as SIDBI's Udyami Mitra Portal and chat bots that can provide scheme information quickly."

Rahul Shinde (SIDBI certified Bank Trainer and Banker)

Every challenge can not be solved through financial products alone, some need to be addressed through social security especially employment. The next chapter explores the same.

Chapter 3
IMPACT ON EMPLOYEE RETENTION

1. OVERVIEW

During the study it became evident that the relation between microbusinesses and their workers was highly involved. Microbusinesses that did not lay off workers (47% of surveyed) went an extra step to also provide several types of benefits in an effort to retain workers during challenging times. This chapter seeks to explore this relationship and lay out ways in which the ecosystem can help the business provide a holistic support system and reliability to its workers, especially during a shock like COVID. Support system would refer to the working atmosphere, amenities, worker benefits and long term support. Whereas with respect to reliability we want to delve into employment security.

2. EMPLOYMENT TRENDS AND LAYOFFS

2.1 Quantum of layoffs

The study looked broadly at two types of microbusinesses, one we call the solopreneur and they represented 24% of the data and did not employ any workers. Of the solopreneurs 65% had a physical store/outlet, and 29% had a home-based business. It can be assumed that some of these solopreneurs took the support of family members to run their businesses. This makes it difficult to quantify employment among microbusinesses. Among those who employed workers, the majority i.e. 49% employed between 1 and 5 workers and only 3% employed more than 20 workers. Data collected in 2021, showed that of the workers laid off, 55% were women. It is important to note that 80% of workers in women-led microbusinesses were women, while only 14% of those employed in male-led microbusinesses were women. The below table 3.1 captures the number of workers across microbusinesses across data collected prior to first lockdown, and July 2021 i.e. post the major COVID lockdowns.

Data collected in 2021, showed that of the workers laid off, 55% were women. It is important to note that 80% of workers in women-led microbusinesses were women, while only 14% of those employed in male-led microbusinesses were women.

Table 3.1 : Number of Workers in Microbusinesses

Number of workers (units no.)	Percentage of microbusinesses (Prior to First Lockdown)	Percentage of microbusinesses (Post Second Lockdown - July 2021)*
0	24%	51%
1-5	49%	31%
6-10	14%	6%
11-20	10%	4%
20+	3%	1%

*7% of respondents did not provide data regarding the number of workers

The data at the outset shows that there was a significant layoff with 34% of the microbusinesses downsizing between the above time periods. The most drastic changes in downsizing were witnessed in microbusinesses with a larger number of employees i.e with more than 6 workers.

2.2 Sector-wise trend in layoff

While layoff seems like a straightforward reaction to the challenges posed by COVID, there were some sector trends, observed between Round 1 (May - June 2020) and Round 5 (June - July 2021), that can help us understand the changes better. The key business activities that laid off more than 50% of the workers were textile related while the services sector as a whole laid off more than 37% of their workers as shown in Table 3.2 and Table 3.3 below. At the same time with work and education going virtual there was an increase in employment in allied business activities.

Table 3.2: Business activity-wise layoff of workers

Average % workers laid off	Business activity
More than 50%	Leather and leather based, Tailoring
25 to 50%	Agro based trading, Parlors and salons, Photo and printing, Readymade garments, Handicrafts
Up to 25%	Catering, Food processing, General/ Kirana store, Wood products, Jewellery, Auto parts and metal works
Has increased employment	Electronics and electricals, Software services, Mobile accessories

Figure 3.1: Industry-wise layoff of workers

While several kirana shops, catering services etc remained open and even though tailoring units developed new products, they too ended up having to lay-off up to 50% of their workers.

2.3 Reasons for Layoff

It was observed that 53% of firms laid off workers at least once during the period May 20 to July 21, this period witnessed maximum lockdowns. The data shows that microbusiness led by female owners witnessed greater layoff overall. Table 3.4 below captures the percentage of microbusinesses surveyed who laid off workers during each of the time periods.

The data shows that microbusiness led by female owners witnessed greater layoff overall.

Table 3.3: Gender-wise data on layoff

Survey Period	May 2020	Aug 2020	Oct 2020	Jul 2021
% firms that laid off workers	8%	17%	13%	17%
Male	7%	16%	14%	15%
Female	15%	19%	15%	28%

Of the challenges faced by microbusinesses during COVID the top concerns were related to low demand and sales as can be seen in Table 3.5 below. In turn this impacted their ability to retain workers.

Table 3.4: Challenges faced by microbusinesses

Challenges faced (July 2021)	% of microbusinesses
Low sales and low customer footfall	49%
Shortage of raw material	18%
Petty cash management	16%
Limited operations due to fixed hours	11%
Inadequate working capital	9%

During the early stages of lockdown, (Table 3.6) the reasons most cited by microbusinesses for laying off workers were " Did not have cash to pay workers" and "workers left on their own". The later survey showed that "not enough work orders" and "did not have cash to pay workers" were the main reasons. It can be assumed that initially while demand existed, delayed payments (payments due from customers) were a major cause for layoffs while with time there was a fall in demand hampering their ability to retain workers.

Table 3.5: Reason for layoff of workers

Reasons for layoff	Percentage of microbusinesses (Oct 2020)	Percentage of microbusinesses (Jul 2021)
Did not have cash to pay workers	36%	44%
Workers left on their own	35%	14%
Do not need that many workers	18%	11%
Not enough work orders	11%	31%

3. EMPLOYEE RETENTION TRENDS AND EFFORTS

3.1 Data on employee retention efforts

The data from the study revealed that microbusinesses made several efforts and also managed to retain workers despite demand instability and lockdowns. Table 3.7 shows that data collected in May 20 revealed that despite being only partially operational or fully shut down over 80% of microbusinesses paid their workers and did not lay them off. While it is a popular assumption that microbusinesses might 'move out' their workers more swiftly than large businesses in order to minimize the cost implications and adjust itself to market fluctuations the data proves the same is not always true.

Table 3.6: Layoff trends and operational status of microbusinesses

Status of microbusiness (May 2020)	No. of Microbusinesses that laid off workers		
	Yes	No	No, but not able to pay them
Fully operational	2 (4%)	32 (70%)	12 (26%)
Partly operational	7 (3%)	166 (82%)	29 (15%)
Fully shut	113 (9%)	954 (79%)	146 (12%)

"Due to the lockdown and transport restrictions, business orders have reduced, leading to a cash crunch. Even with restrictions easing up, the footfall of customers has been limited to 2-3 per day; These are mainly those who come for urgent repair work. My average daily income dropped from Rs. 3000 per day prior to the lockdown, to Rs. 500 per day. Despite this situation, I did not consider laying off my workers. I continue to pay two of my workers who were willing to come in for work and have retained the others without salary."

Vengadesh (Welding Shop)

Vengadesh employs seven people in his welding workshop in the town of Tirunelveli in Tamil Nadu. All of them have worked with him for over a decade and four of his employees have migrated from another state

Microbusinesses that did not lay off workers (47% of microbusinesses) went an extra step to also provide several types of benefits in an effort to retain workers during challenging times. Our data captured in Table 3.8 reveals that 41% of microbusinesses gave wages despite no work while 13% also provided loans and advances. Even of those who did layoff workers (53% microbusinesses) 84% of respondents preferred to re-hire old workers.

Table 3.7: Benefits provided by microbusinesses to retain employees

Benefits provided to retain workers	% of microbusinesses that did not layoff
Gave wages despite no work	41%
Advanced loan to workers	13%
Improved working conditions	10%
Provided other support (insurance, gifts etc.)	8%
Increased wages	6%

"My staff has been working with me for close to four years. How could I suddenly abandon them in tough times? I dipped into my savings to pay their dues and asked them to come to work once the business resumes operations."

Satish (Owner, Paint Workshop)

Despite suffering a significant lull in business due to the pandemic, this entrepreneur from Trichy, Tamil Nadu, continues to pay his four employees on a weekly basis.

The data shows that microbusinesses went the extra mile to retain workers. The various stakeholders in the enterprise ecosystem can play a critical role as enablers to support this effort. The next section suggests some innovative ways through which further worker retention can be achieved.

3.2 Suggestions for Employee Retention

A total of 1,461 microbusinesses were surveyed in this study and they generated a total employment for 7,077 workers. On average, each business generated 4.84 jobs. Microbusinesses play a critical role in the Indian economy with their ability to provide diversity in employment opportunities ranging from formal to informal, seasonal to full-time, skilled to unskilled etc. In addition they also have flexible wage payments including daily to weekly to monthly. All this has also enabled flexibility for inter/intra-state migrant workers and those who prefer to devote time to seasonal agriculture and allied activities.

"I cannot afford to pay my staff their full wages; but I pay them 50% of their pay, even though some of them are not coming to work."

Chandra (Proprietor, tailoring unit)

45-year old Chandra, is the proprietor of a tailoring unit in Karur District. Chandra believes that her employees are the foundation of her enterprise. With their support the business has seen tremendous growth in the last four years. She moved out from her home-based business seven years ago to set up a tailoring unit with the help of her spouse and son. The revenue from this microbusiness is their primary source of income.

To ensure economic stability it is critical to explore innovative solutions to support microbusinesses to retain workers and provide them with competitive wages. While microbusinesses in isolation are adopting various strategies, the government and private stakeholders can together create comprehensive social security provision for workers and employees in MSMEs.

New Social Security Provision for workers in MSME

Presently the Provident Fund Act (1952), Payment of Gratuity Act (1972), Employees' State Insurance Act (1948), and the state-led Labour Welfare Boards provide social security benefits for those employed in shops, commercial establishments and factories etc. But these provisions require that the employer fulfilling certain criterias around the number of employees register themselves under these provisions and enable employee benefit. Several microbusinesses do not fall within these mandates, as a result workers do not have a comprehensive social security cover.

There is a need for a comprehensive and customized social security provision for workers in microbusinesses that employ less than 5 workers, provide seasonal employment, cater to migrant workers who are not registered in the state etc.

"In Gujarat, construction workers can submit a self declaration online to register themselves under BoCW (Building and other Construction Workers) and avail several benefits. Extending this process to all MSME workers (those working in physical outlets or small manufacturing units) can enable better access to social security benefits and have a wider reach. In some states, the Artisan Card provides benefits to workers in the informal textile sector. However this is not comprehensive or pervasive across the country."

Helly Bhatt (Sector expert, Labour and Employment)

To create such a provision several insights from the Building and Other Construction Workers Act (1996) can be adopted. Some of the features of interest are:

- Workers can themselves register for benefits under the Act and in certain states online application is possible.
- Workers with 90 days of employment in both informal and formal businesses are eligible for benefits on providing necessary declarations.
- Workers are provided comprehensive benefits including pension, medical assistance, accident benefit, maternity benefit, scholarships etc.

"There are a range of benefits that are given to workers by their employers by registering them under Labour Welfare Boards. However, the employer has to initiate this, and there are currently no schemes that provide insurance against unemployment. A mechanism through which all MSME workers can register themselves to gain benefits of unemployment insurance will be extremely beneficial to them.It is also important to note that large corporations tend to employ contract workers through MSMEs and thus avoid offering several benefits that they will otherwise have to provide."

Prathamesh Kharat (Sector expert, Labour and Employment)

In addition, based on our study some suggestions include

- Unemployment allowance for workers especially during disruptions caused by COVID or natural disasters etc.
- Financial institutions can create credit lines and products focussed on workers in MSMEs.
- Udyam Registration can play an important role in identifying suitable Micro, Small and Medium Enterprises who can benefit from these provisions.
- Within existing provisions such as Provident Fund, employers working with contract workers should be able to provide them benefits too in a hassle free manner.

Microbusinesses have gone the extra mile to retain workers and have shown resilience in the way they have handled the COVID crisis. But, they need access to systemic support with additional benefits that are facilitated during contingencies.

Chapter 4

RESILIENCE AND WELL-BEING – NAVIGATING STRESSORS

1. OVERVIEW

Emerging global evidence suggests that the COVID-19 pandemic has had an adverse impact on the mental health and well-being of enterprises. A study by Stephan et al (2021), conducted across 23 countries, finds that entrepreneurs' well-being (life satisfaction) during the pandemic was on average 12% lower than before the pandemic. Respondents also reported elevated levels of stress, compounded by both health-related and economic stressors such as depletion of savings and an unpredictable market environment. Simultaneously, the evidence also points to individual and enterprise resilience in terms of adapting to changes in market conditions, positive recovery sentiment and confidence, and other coping strategies.

Our study also echoes these findings, as enterprises report elevated stress levels, even though they were somewhat or fully confident of business recovery. At the same time, business owners demonstrated remarkable agility in exploring different coping mechanisms and strategies. Entrepreneurs sought support from immediate social networks (friends and family), while awareness and access to Government support were low. This further reiterates the highly informal and fragmented nature of the MSME ecosystem in India, which poses considerable challenges in coordinating a timely, systemic response that can provide holistic support to enterprises - above and beyond their individual coping mechanisms.

2.CONFIDENCE AND RECOVERY SENTIMENT

We find that in spite of a sharp drop in demand and sales during the first wave of the pandemic, 30.6% of respondents in our sample were fully confident of business recovery and an additional 50.3% were somewhat confident of recovering their businesses. While there was a drop in confidence during the period post-lockdown, in rounds three and four (between September 2020 to January 2021), merely 4% of enterprises were 'not confident' of recovering their businesses. During the second wave of the pandemic, which corresponded with round five of data collection, while an overwhelming 59.9% of enterprises were somewhat confident of recovery, only 21% of enterprises were fully confident of recovery. (refer Table 4.1 and 4.2) This variation in confidence levels should be seen in light of depleting cash flows and the use of savings to cover expenses, among other factors.

Table 4.1: Confidence in business recovery (%)

How confident are you that your business will recover? (%)	Jun 2020	Aug 2020	Oct 2020	Jan 2021	Jul 2021
Fully confident	31	29	42	55	21
Not confident	18	12	3	4	19
Somewhat confident	51	59	55	41	60

Table 4.2: Expected business recovery time (%)

Business sentiment over time - Time needed to bring business back on track (%)	Jun 2020	Aug 2020	Oct 2020	Jan 2021	Jul 2021
There is no problem or business is doing better	1	1	4	7	3
0 - 3 months	21	17	24	30	20
4 - 6 months	29	21	28	23	19
> 6 months	33	38	21	16	23
Uncertain	16	23	23	24	35

3. COPING STRATEGIES AND SUPPORT MECHANISMS

Given the highly informal nature of micro enterprises in India, coping strategies available to and adopted by these enterprises may differ from larger, more established enterprises. With the exception of round 5, over 50% of enterprises across rounds, one to four reported having no coping strategies or mechanisms in place to cushion the impact of the pandemic. (refer to table 4.3)

Table 4.3: Strategies adopted by % of microbusinesses to improve sales and profit (Multiple choice)

What strategies are you currently using or planning to use to improve sales and profit? (%)	Jun 2020	Aug 2020	Oct 2020	Jan 2021	Jul 2021
No strategies	53	56	56	51	48

What strategies are you currently using or planning to use to improve sales and profit? (%)	Jun 2020	Aug 2020	Oct 2020	Jan 2021	Jul 2021
Among enterprises that adopted one or more strategies:					
Added new products/service to existing business	18	13	23	15	16
Changing prices of goods/services	15	13	7	17	24
Increased marketing & distribution	8	6	6	12	18
Scaling down business	21	5	2	12	6
Scaling up of business		22	28	16	10
Home Delivery of products		6	5	8	8

Among enterprises that manage to pivot, we find that a broad range of strategies were adopted to cope with fluctuations in demand, weak market access and uncertainty. These included adding new product lines and services to existing ventures, more emphasis on marketing and distribution, and home delivery, given the social distancing norms.

Table 4.4: Government support for personal needs (% of microbusiness)

Did you receive any form of government support for personal needs? (%)	Jan 2021	Jul 2021
Yes	30	58
No	70	42

"Everything is so uncertain that nothing can be said about the future. But, we are taking this as a long-term process. We have to get through 4 more months. Nothing can be normal this year, but surely from next year, we will be back on track."

Chandra (Owner of a tailoring unit, Karur District, Tamil Nadu)

Around 30% of enterprises in round 4 reported receiving any form of Government support for personal needs. (Table 4.4) Food rations were the most common type of Government support provided, followed by cash transfers. While this proportion was higher in the subsequent round, the low awareness of MSME-specific schemes such as loan moratorium, and Atmanirbhar Bharat points to a considerable gap in the outreach and delivery of welfare benefits targeted towards business owners.

4. IMPACT ON MENTAL WELL-BEING

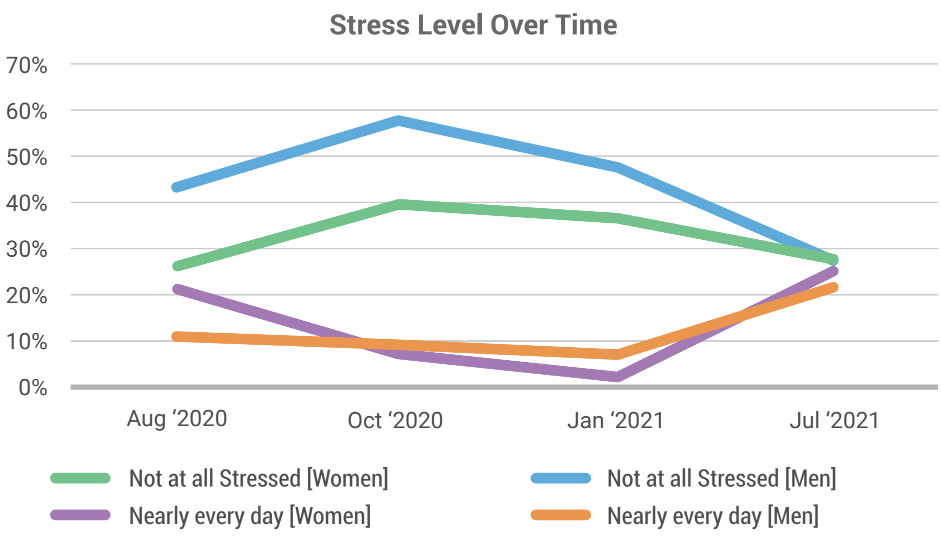
Overall, stress levels increased overtime, with over 20% of the entrepreneurs mentioning that they felt stressed nearly everyday one year into the pandemic. When looking at the impact on gender, patterns differed between men and women. Looking at those who reported being not stressed at all and those stressed almost everyday, women seemed to report being more stressed than men in the early phase of the lockdown, however, after 6 months this trend disappears. (refer to Table 4.5 and Figure 4.1).

Table 4.5: Impact on mental health (self-reported) (% of microbusinesses)

Over the last few weeks, how often have you been bothered by feeling down, stressed, depressed or hopeless? (%)	Aug 2020	Oct 2020	Jan 2021	Jul 2021
Not at all	39	54	46	27
Several days	32	24	38	39
More than half the days	16	13	10	11
Nearly every day	13	9	6	22

*was not asked in round 1

Figure 4.1: Stress level over time (% of microbusinesses)



5. SUGGESTIONS

Given the low awareness of Government support programmes and emergency provisions under the Atmanirbhar Bharat package among enterprises, there is a need for more targeted outreach initiatives. **While the provisions have been extended to all sectors of the economy, a more proactive approach by participating lending institutions at the branch and community level can ensure that critical information trickles down in a timely manner.** Leveraging information through ICT-based channels such as WhatsApp groups formed by community-based organizations, local business networks, NGOs and support institutions can help disseminate information in a cost-effective manner.

Since micro enterprises are particularly vulnerable to economic shocks and disruptions in supply chains, and their workers are primarily responsible for their own health and well-being, **psycho-social interventions such as a crisis hotline can help in identifying early signs of distress across vulnerable segments and regional hotspots and implement timely measures accordingly**. For instance, under the Australian Work Health and Safety Strategy 2012-2022, dedicated hotlines have been activated for free advice to MSMEs over the phone and can be followed up with targeted advice and support measures.

Global evidence suggests that initiatives focusing on occupational and health outcomes fare better when they are implemented through intermediaries that have direct contact with the MSMEs. Coordinating responses at the sector and cluster level also plays an important role in helping enterprises tap into shared resources to offset costs and pool capital where feasible e.g. shared warehouse space, and community/cluster-level loans. **Apart from timely cash transfers and loan moratoriums, demand stimulation programs can include public procurement mandates from local MSME firms**.

In addition to these emergency measures, **long-term measures must focus on building the resilience of micro enterprises through contingency planning, improving disaster preparedness, and prudent cash flow management practices**.

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