



Assessing the Impact of COVID-19 on Small Businesses and Livelihoods in India: Challenges and Recovery Strategies

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Abstract

The COVID-19 pandemic, which originated in Wuhan, China, in December 2019, rapidly spread across the globe, leading to unprecedented public health and economic crises. In India, the government implemented one of the strictest lockdowns in the world on March 25, 2020, to curb the spread of the virus. While the lockdown helped in controlling the initial surge in cases, it had severe repercussions on the country's economy, especially small-size businesses and the livelihoods of millions of informal workers. India's micro, small, and medium enterprises (MSMEs), which form the backbone of the economy and employ over 111 million people, were hit hard by the restrictions, leading to massive disruptions in production, supply chains, and demand. This paper investigates the impact of the COVID-19 pandemic on small businesses and livelihoods in India, focusing on the sectors most affected, such as retail, hospitality, tourism, and manufacturing. The lockdown-induced disruptions led to significant revenue losses, with many businesses facing closure due to liquidity constraints and the inability to sustain operations. The livelihoods of millions of informal workers, who lacked social security and job protection, were jeopardized as businesses shut down or scaled back operations. The study also examines government interventions, such as the Atmanirbhar Bharat Abhiyan and Emergency Credit Line Guarantee Scheme (ECLGS), aimed at providing financial relief and reviving the small business sector. However, the effectiveness of these measures was hindered by implementation challenges, particularly for businesses in rural areas and those with limited digital access. The paper concludes by highlighting the need for long-term recovery strategies, including digital transformation, enhanced access to credit, and stronger social security for informal workers. These measures are essential to build resilience and ensure sustainable growth for small businesses in a post-pandemic world. This research contributes to the understanding of how crises impact small enterprises and offers policy recommendations for strengthening the sector against future disruptions.

Keywords: COVID-19 Impact, Small Businesses, Livelihood, Lockdown in India, Economic Recovery.

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1. Introduction

The COVID-19 pandemic, which began in December 2019 in Wuhan, China, rapidly escalated into a global crisis, affecting millions of lives and leading to severe economic disruptions worldwide [1]. As the virus spread, governments around the globe implemented stringent measures such as social distancing norms, travel restrictions and lockdowns to curb the spread of the disease. These measures, though necessary to protect public health, had profound and far-reaching consequences for economies, particularly in developing nations like India. The economic impact of the pandemic was most acutely felt by small businesses and the informal workforce, which form the backbone of India's economy.

India, the world's second-most populous country, went into a nationwide lockdown on March 25, 2020 [2]. This lockdown, one of the strictest in the world, was initially intended to last for 21 days but was extended multiple times as the number of COVID-19 cases continued to rise. The sudden halt in economic activities created a ripple effect across various sectors, with micro, small, and medium enterprises (MSMEs) being among the hardest hit. MSMEs contribute around 30% to India's Gross Domestic Product (GDP) and

employ over 111 million people, making them a critical component of the economy [3]. However, the pandemic exposed their vulnerabilities, as many small businesses struggled to cope with the challenges brought about by the lockdown and other restrictions.

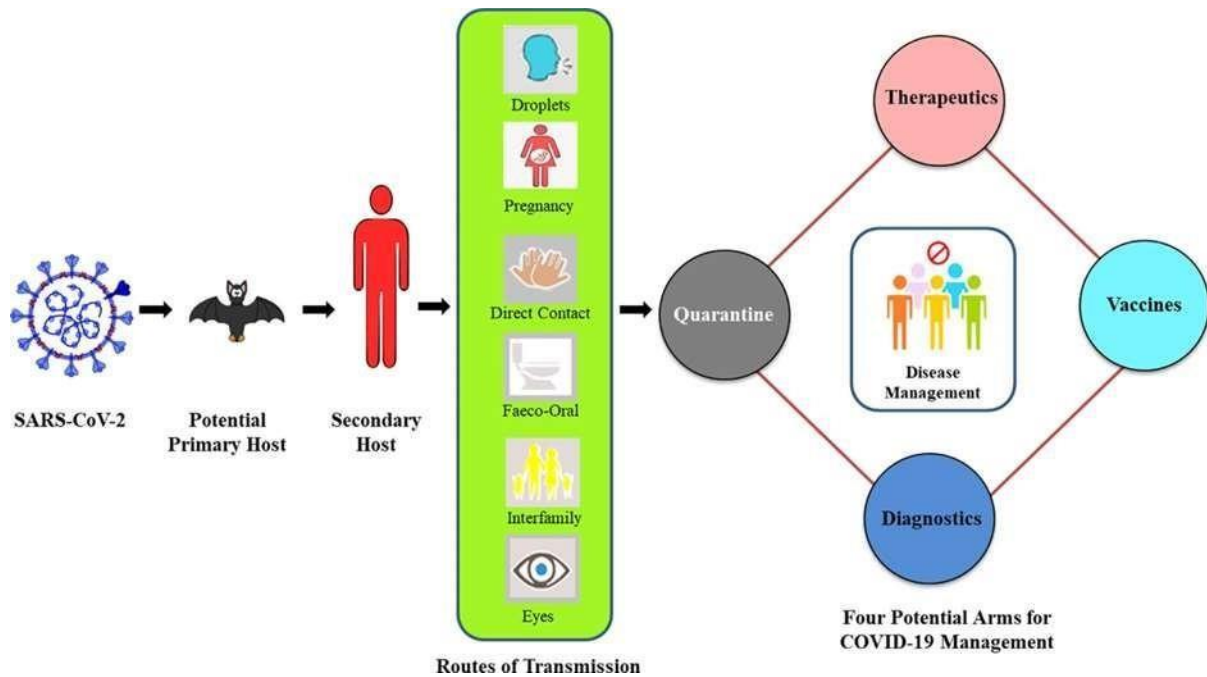


Figure 1: Analysis of COVID-19 Progression and Key Strategies for Its Management [10].

[10].

1.1 Pre-COVID Scenario of Small Businesses in India

Before the onset of the pandemic, India's small businesses were already facing numerous challenges. These challenges included limited access to credit, high regulatory burdens, and a lack of formalization. Despite these obstacles, small businesses played a vital role in generating employment and fostering regional development. Many small enterprises were family-owned and operated in the informal sector, where workers lacked access to social security and formal job protections. This made them particularly vulnerable to economic shocks.

Small businesses in India are diverse, ranging from small retail shops and manufacturing units to service providers and street vendors. While some businesses were able to adopt digital technologies and expand their reach, a significant portion of small businesses remained reliant on traditional business models, which were heavily dependent on face-to-face interactions. The pre-COVID economic landscape for small businesses in India was characterized by slow growth, with many enterprises operating on thin margins and lacking the financial resilience to withstand prolonged disruptions [4].

1.2 Impact of COVID-19 on Small Businesses

The COVID-19 pandemic had a profound impact on small businesses in India, affecting their operations, revenues, and overall viability. The nationwide lockdown led to the suspension of economic activities, forcing many small businesses to shut down temporarily or permanently. The hospitality, retail, tourism,

and manufacturing sectors were particularly affected, as consumer demand plummeted, supply chains were disrupted, and businesses faced significant operational challenges.

1. Economic Impact and Revenue Losses

One of the most significant impacts of the pandemic on small businesses was the loss of revenue. With operations halted and demand severely reduced, businesses across various sectors experienced drastic declines in sales. For instance, small retail shops that relied on foot traffic saw a sharp drop in customers, while manufacturing units faced disruptions in the supply of raw materials and labor shortages. Many small businesses, especially those in the informal sector, did not have the financial reserves to survive prolonged periods of inactivity, leading to widespread closures.

The pandemic also exposed the limitations of traditional business models that relied on physical interactions. Businesses that were unable to pivot to digital platforms struggled to stay afloat. Small-scale manufacturers, for example, faced difficulties in reaching their customers due to disruptions in transportation and distribution networks. The lack of digital infrastructure in rural areas further exacerbated the challenges faced by small businesses in these regions.

2. Employment and Livelihood Impact

The pandemic had a devastating impact on employment, particularly in the informal sector, which accounts for a significant portion of India's workforce. Millions of informal workers lost their jobs as small businesses scaled down operations or shut down entirely. These workers, who typically did not have access to formal employment contracts or social security benefits, found themselves without any form of income or safety net. Many were forced to return to their hometowns in rural areas, leading to a reverse migration trend that further strained the already limited resources in these regions.

The loss of livelihoods had a cascading effect on households, pushing millions of people into poverty. Informal workers, such as street vendors, daily wage laborers, and domestic workers, were among the hardest hit, as they were unable to work from home and had no alternative means of earning a living. The economic distress caused by the pandemic disproportionately affected vulnerable groups, including women, children, and marginalized communities, exacerbating existing inequalities.

3. Supply Chain Disruptions

The lockdown and associated restrictions disrupted supply chains across the country, affecting small businesses' ability to access raw materials and deliver products to their customers. The closure of transportation networks and logistical bottlenecks made it difficult for businesses to maintain their operations, leading to delays in production and increased costs. This was particularly challenging for small manufacturers, who often rely on just-in-time supply chains to minimize inventory costs.

The supply chain disruptions also had a ripple effect on the broader economy, as the slowdown in manufacturing and production impacted related industries such as logistics, warehousing, and retail. Small businesses that were part of larger supply chains faced difficulties in fulfilling orders, which in turn affected their relationships with customers and suppliers. The disruptions highlighted the need for more resilient supply chains that can withstand future shocks.

1.3 Government Interventions

In response to the economic fallout from the pandemic, the Indian government introduced several relief measures aimed at supporting small businesses and protecting livelihoods. These measures included financial stimulus packages, credit guarantees, tax reliefs, and initiatives to promote digital transformation. The government launched the Atmanirbhar Bharat Abhiyan (Self-reliant India campaign) to provide a comprehensive package of economic support for various sectors, including MSMEs.

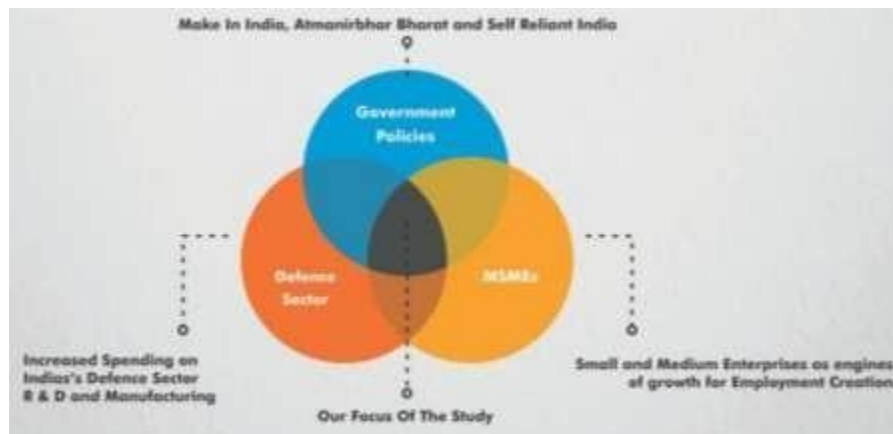


Figure 2: the Atmanirbhar Bharat Abhiyan (Self-reliant India campaign)

1. Emergency Credit Line Guarantee Scheme (ECLGS)

One of the key interventions for small businesses was the **ECLGS**, which aimed to provide collateral-free loans to MSMEs to help them meet their working capital needs during the crisis [5]. Under the scheme, the government provided a 100% guarantee on loans given by banks to eligible businesses, with the goal of ensuring that MSMEs had access to much-needed liquidity [6].



Figure 3: Highlights of ECLGS [11]

While the ECLGS was a positive step, its implementation faced several challenges. Many small businesses, particularly those in the informal sector, found it difficult to access the funds due to stringent eligibility criteria and the lack of formal documentation. Additionally, businesses in rural areas with limited access to banking infrastructure were often excluded from the benefits of the scheme. These challenges underscored the need for more inclusive financial support mechanisms that cater to the diverse needs of small businesses across the country [7].

2. Digital India Initiative

The pandemic accelerated the digital transformation of small businesses, with many enterprises adopting online platforms to continue operations during the lockdown [8]. The government's Digital India initiative played a crucial role in promoting digital literacy and expanding internet access across the country. However, the digital divide between urban and rural areas posed a significant challenge, as many small businesses in rural regions lacked the necessary infrastructure and skills to transition to digital platforms.

The shift to digital technologies also created new opportunities for small businesses to reach a wider customer base and explore new business models. E-commerce platforms, for example, became a lifeline for many small retailers during the pandemic, allowing them to continue selling products despite the physical restrictions [9]. However, the benefits of digital transformation were not evenly distributed, with businesses in urban areas and those with existing digital capabilities better positioned to take advantage of these opportunities.

1.4 Long-term Recovery Strategies

The post-pandemic recovery for small businesses in India requires a comprehensive and multifaceted approach. While government interventions provided temporary relief, the long-term resilience of small businesses depends on addressing the structural challenges that existed before the pandemic. This includes improving access to credit, enhancing digital infrastructure, and promoting formalization within the sector.

One of the key strategies for building resilience is to promote digital inclusion, particularly in rural areas. By expanding access to digital technologies and providing training on digital literacy, small businesses can diversify their operations and become more adaptable to future disruptions. Additionally, strengthening the social security net for informal workers is crucial to ensure that they are protected during times of economic crisis.

Collaborative efforts between the government, private sector, and civil society are essential to support the recovery of small businesses. Public-private partnerships can play a critical role in providing technical assistance, access to markets, and financial support to small enterprises. By fostering entrepreneurship and innovation, these partnerships can help small businesses become more competitive and resilient in the long term.

1.5 Statement of the Problem

The COVID-19 pandemic and subsequent lockdown in India severely disrupted the livelihood of millions of people, particularly in the informal sector, and led to widespread economic instability among small-size businesses. Despite government interventions, many businesses struggled to survive, and informal workers were left without adequate social security. The lack of resilience in these sectors has highlighted the vulnerability of small businesses and the informal workforce to large-scale crises, underscoring the need for targeted support and sustainable recovery strategies.

1.6 Objectives

1. To analyze the impact of the COVID-19 pandemic on small-size businesses in India, focusing on key affected sectors.
2. To assess the effects of the lockdown on the livelihood of informal workers and identify the challenges they faced.
3. To evaluate the effectiveness of government interventions, such as financial relief packages and policy measures, in supporting small businesses during the pandemic.
4. To explore long-term recovery strategies for small businesses and informal workers, with an emphasis on building resilience against future crises.
5. To provide policy recommendations aimed at strengthening the small business sector and ensuring the protection of livelihoods in the face of economic disruptions.

2. Research Methodology

The research methodology for this study involves a mixed-methods approach, combining both quantitative and qualitative data to comprehensively analyze the impact of COVID-19 on small-size businesses and livelihoods in India. The methodology includes the following components:

2.1. Data Collection

2.1.1. Primary Data:

- **Surveys:** Structured surveys were conducted with small business owners and employees across various sectors. The survey aimed to gather data on revenue losses, operational disruptions, employment impacts, and the effectiveness of government interventions.
- **Interviews:** In-depth interviews were carried out with key stakeholders, including business owners, workers, and policymakers, to gain qualitative insights into the challenges faced and the responses to the pandemic.

2.1.2. Secondary Data:

- **Government Reports:** Analysis of reports from the Ministry of Micro, Small, and Medium Enterprises (MSME), NITI Aayog, and other relevant government agencies provided data on economic impact, government interventions, and recovery measures.
- **Industry Analyses:** Review of industry-specific reports and publications to understand the sectoral impact and responses to the pandemic.

- **Academic Papers:** Literature review of previous studies on the impact of COVID-19 on small businesses and informal workers to provide context and support the findings.

2.2. Data Analysis

2.2.1. Quantitative Analysis:

- **Descriptive Statistics:** Analyzed survey data to identify trends and patterns in revenue losses, employment impacts, and operational challenges.
- **Comparative Analysis:** Compared the impact across different sectors and regions to identify variations and commonalities.

2.2.2. Qualitative Analysis:

- **Thematic Analysis:** Conducted thematic analysis of interview transcripts to identify key themes and insights related to the challenges faced by businesses and workers, as well as the effectiveness of government interventions.
- **Case Studies:** Developed case studies of selected businesses to illustrate the real-world impact of the pandemic and the responses implemented.

2.3. Evaluation of Government Interventions

- **Effectiveness Assessment:** Evaluated the effectiveness of government relief measures, such as the **ECLGS** and Digital India initiatives, based on primary and secondary data.
- **Policy Analysis:** Analyzed the policy measures introduced and their impact on different segments of the small business sector and informal workforce.

1. Results and Discussion

3.1. Impact on Small-Size Businesses

Revenue Losses and Operational Disruptions:

Survey results show that small businesses experienced significant revenue declines, ranging from 50% to 80%, due to the lockdown. Retail and hospitality sectors were hit hardest, with many businesses facing closure. Manufacturing units also faced disruptions from supply chain issues and reduced labor. Businesses that had not adopted digital platforms struggled more compared to those with existing online capabilities.

Employment Impact:

Approximately 60% of informal workers reported job losses. Many had to return to rural areas due to the lack of income and job security, exacerbating resource constraints in these regions. The absence of formal employment contracts and social security made informal workers particularly vulnerable during the crisis.

3.2. Government Interventions

Emergency Credit Line Guarantee Scheme (ECLGS):

The ECLGS provided essential liquidity support, but its impact was mixed. Challenges included stringent eligibility criteria and limited access for businesses in rural areas with inadequate banking infrastructure.

Digital India Initiative:

While the Digital India initiative helped accelerate the digital transformation of businesses, the digital divide remained a significant challenge. Businesses in rural regions struggled with inadequate digital infrastructure and skills, limiting the effectiveness of online adaptation.

3.3. Long-term Recovery Strategies**Digital Inclusion and Infrastructure:**

Investing in digital infrastructure and training on digital literacy is crucial for the long-term resilience of small businesses. This will help businesses transition to online platforms and adapt to future disruptions.

Access to Credit and Financial Support:

Simplifying loan processes and providing collateral-free loans can address the financial challenges faced by small businesses. Improved access to credit is vital for recovery.

Social Security for Informal Workers:

Strengthening social security measures, including unemployment benefits and health insurance, is essential for protecting informal workers during economic crises.

Overall, the study highlights the need for targeted support and policy measures to strengthen small businesses and protect livelihoods, ensuring resilience and sustainable growth in the future.

4. Conclusion

The COVID-19 pandemic had a profound and multifaceted impact on small-size businesses and livelihoods in India. The nationwide lockdown led to significant revenue losses, operational disruptions, and employment impacts, particularly in the informal sector. While government interventions such as the Emergency Credit Line Guarantee Scheme and Digital India initiatives provided some relief, their effectiveness was limited by implementation challenges and the digital divide.

To ensure a resilient recovery, it is crucial to address the structural challenges faced by small businesses and informal workers. Promoting digital inclusion, improving access to credit, and strengthening social security measures are key to building resilience and ensuring sustainable growth in the future.

The findings of this study highlight the need for targeted support and policy measures to strengthen the small business sector and protect livelihoods. Collaborative efforts between the government, private sector, and civil society are essential to support the recovery and ensure that small businesses and informal

workers are better prepared to withstand future economic disruptions. By implementing the recommended strategies and policies, India can build a more resilient and inclusive economy, capable of thriving in the face of future challenges.

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