

## Impact of Pandemic on the Financing of MSME Sector in Odisha with Reference to SBI

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**Abstract:** The Covid-19 pandemic has been a tough challenge for the entire industrial sector. Many industries suffered a lot due to the lockdown and many lost their jobs. The business organisations could not afford to pay salaries to the staff members due to lack of revenue, and, hence, with the downfall of industries, the personal growth of individuals was also stuck. The State Bank of India provided has remarkably supported in this aspect. This paper mainly focuses on the steps taken by the State Bank of India for the growth of entrepreneurship in the country. This paper also aims at identifying the areas considered by the State Bank of India in this direction. Though it is a theoretical paper, it deals primarily with various schemes offered by the State Bank of India for entrepreneurship development and highlights the logical grounds on the basis of which provision for appropriate financial accommodation can be made. This is a policy cum review paper and hence, no tool and technique have been used.

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## 1. Introduction

To speed up the industrialisation process and to increase the GDP we require a maximum number of manufacturing units to be established in the country. For this, we need to encourage the youths of the country to come up and start their own enterprises because it will not only help in the contribution towards GDP but also towards the Gross National Income of the country (Cornia and Kiiski, 2001). As it leads to employment generation to a lot of people, that's why it provides livelihood to a huge mass of the population. Hence the need for entrepreneurship has been felt greatly in the current era.

Entrepreneurship is the process through which a person starts a new enterprise by taking risks for earning profit and surviving in the market. The person who starts the enterprise can be called as an entrepreneur. The entrepreneur has to take a lot of courage and risk-bearing ability to start the enterprise. Lack of confidence may result in the downfall of the organisation. Again the entrepreneur must

possess the necessary managerial and entrepreneurial abilities because the entrepreneur is the ultimate manager of the organisation (Asoni, 2011).

But regardless of all these facts, attention must be paid to the most vital thing how to start the enterprise first. The most crucial part in the process of commencement of a business enterprise is the procurement of adequate finance from the most reliable and economical source and ensuring its proper utilisation. So, the necessary finances can be estimated and proper arrangements should be done for it. Until and unless there is an assured source of finance, the ideas which the entrepreneurs are having for the future of the organisation can never be translated into practice. Further, providing financial accommodations for the units in the MSME sector is a part of the Priority Sector Lending (PSL) obligations of all the scheduled commercial banks. It is on this backdrop, that this study presents a theoretical analysis of the role played by the State Bank of India in providing financial and other kinds of support for the growth and development of the industries in general and MSME units in particular in the state of Odisha. The study also attempts to look into the special financial assistance provided by the State Bank of India to the MSME sector to enable them to deal with the situation arising out of the Covid- 19 pandemic. The paper also contains an analysis of the impact of such financing on the overall state of affairs of these units.

Right now in India, where mechanisation is in demand, the scope of wage employment is going down, hence, there is a need to have self-employment in the country. MSME comes under the priority sector lending. The RBI's latest credit policy for financing under priority sector lending.

Since its formation, many steps have been taken and in the gradual course, developments have been taking place. We are aware of some of the developments and some concepts are very new for us which we need to know. Many entrepreneurs suffer because of their lack of knowledge about the banking sector. They don't have a basic idea about some of the areas where easy financing is being done. So, that awareness can be made among the young entrepreneurs.

The Central Bank has given certain guidelines related to priority sector lending with the aim to provide funds to the companies which are badly affected by Covid-19. The new guidelines provide much better credit facilities to the areas having credit deficiency, it has raised its funding towards small and marginal farmers as well as the weaker sections, and it has increased the credit lending towards renewable energy and health insurance also.

The revised guidelines have been framed to address regional disparities in the flow of priority sector credit. Higher weightage has been assigned to incremental priority sector credit in 'identified districts' where priority sector credit flow is comparatively low.

The sudden attack of Covid-19 affected almost all sectors, including micro, small and medium enterprises (MSMEs). The unexpected lockdown undersized the business activities of the MSMEs sector and mounted adverse shocks in the form of non-procurement of raw materials reduced production and supply of final products, and non-availability of employees to work in the process of production (Gupta *et al.*, 2020).

## **2. Review of Literature**

Dey and Juan (2021) conducted the research during the tough period of pandemic to highlight its impact on Indian economy. Due to Covid-19 pandemic, Indian economy is going through a very tough

period, and during this period main supportive hand was raised by RBI by safeguarding the interest of the borrowers. The tool implemented by RBI was moratorium to support the borrowers by stake outing with known or unknown consequences. The paper focuses on the current status of the Indian banks and highlights the negative and positive impact of the moratorium on RBI. The paper highlights the measures taken by RBI to combat the stiff situation and also emphasizes the role of RBI in reducing the risk of commercial banks. Behera *et al.* (2020) have conducted the research to find out how MSMEs have contributed to the economy of the country and the challenges faced in pre-and during the Covid-19 period. Other statistical tools have also been used as Descriptive statistics, correlation, and co-integration have also been used to measure the impacts and to measure the relationship among the variables such as the number of MSMEs, investment amount, employment, and output. Ghosh (2021) has conducted research in the aftermath of the Covid-19 pandemic, initiative taken by Government of India, to acknowledge the role of MSMEs in building as an economic booster by generating employment in rural areas of our nation. It has been concluded that MSMEs formed a really prominent part of the announcements made under the Atmanirbhar Bharat Abhiyaan. The researches show how the MSME units have faced the challenges and what are the steps taken by RBI and the government in this regard but it doesn't give any idea about the results of such steps taken.

Lalropui and Singh (2013) conducted the research with the objective to point out the opportunities that are available for the entrepreneurs in Mizoram; to find out the financial role of State Bank of India and to provide suggestions to the entrepreneurs, so that, they can avail the opportunities. The study is descriptive in nature and secondary data has been taken from official records. They found that the annual credit plan was good that of SBI and the performance of four banks have been compared, i.e., SBI, UBI, Vijaya Bank, and MZRB, where SBI stood first. Mathew (2010) conducted the research with the objective to elaborate and suggest a positive note on the basic agenda existing in Middle East resisting the women entrepreneur growth development and use of ICT. The researcher has found out the barriers for women-ICT context like socio-cultural reforms, time constraints and family female stereotyping, career guidance, information and communication technology. Other barriers restricting entrepreneurial development and ICT among women in Middle- East are accessibility to support service, conditions of work in economic activity, consistently high level of activity and responsibility of home dependency on family, gender-based demands in the ICT sector, increased female participation in household activity, inflow of skilled workers, slow demand of ICT undermining the quality of girls' education. Anitha (2003) examined the role of commercial banks in entrepreneurship development in Karnataka state. He stated that banks should come forward to help entrepreneurs and on the other, the entrepreneurs themselves have to realise their role and co-operate with banks in strengthening the system. Roy (2020) has found that a 150 crore of loss has been faced by the apparel manufacturing units (export sector) from March 2020 to May 2020 because of the hit by the pandemic. Chauhan (2020) has found that the government took immediate steps and precautionary measures to safeguard the MSMEs, like providing liquidity to mitigate the cash flow requirements, framing schemes to ensure jobs, and ensuring business continuity, as well as steps for the expansion of trade through capacity building. Tripathy (2021) found that this extreme situation has resulted in the closedown of businesses because of shortage of capital, labor, and non-availability of raw materials, and again the situation

generated another option to shift from non-essential to essential commodities such as masks, PPE kits, sanitisers, etc. Sarabu (2019) has suggested to explore the rural areas by developing MSMEs in these areas because these areas are unexplored and very rich in natural resources, so, it is better to develop rather than depend on imported resources. Singh (2017) in his research advocated the need for a transparent credit provision for the MSME sector, for that he has suggested a uniform credit rating system. Mohanty(2018) has conducted the research and established a relationship between three variables; no. of MSME units, employment generation, and the market value of fixed assets. Sheikh and Saxena have conducted the research to study the paradigm of Indian MSME, analyze the amended definition of MSME and its impact, analyze the reforms in MSME sectors in the backdrop of the Covid-19 Pandemic attack in India, Evaluate the special schemes for Indian MSME's amid Covid-19 situation, explore the possible impact of government schemes framed to address the condition of MSME's amid Covid -19 pandemic attack, evaluate the effectiveness and future prospects of Indian MSME sector. Paruchuru and Mavuri (2020) have conducted the research and concluded as the Covid-19 situation is an abnormal situation, so, in order to bring everything back to normal, we need abnormal actions to be undertaken. The Covid-19 situation has affected many sectors and it has affected mostly the MSMEs. So, the government has followed a qualitative approach where levels have been set and the first priority has been given to livelihood, then to save costs, and finally to balance the supply chain disruptions.

Balanagalakshmi and Kumari (2021) highlighted the impact of Covid-19 on affected sectors, such as aviation, tourism, retail, capital markets, MSMEs, and oil. Also, she highlighted the impact of the Covid-19 pandemic on GDP growth rate, the impact on Migratory labor. It is a period of inequality, poverty, and social exclusion of vulnerable people. She advocated the need of government intervention to overcome this crisis and revive the Indian economy. Dubey and Sahu (2020) have shown the declining stage of MSMEs due to the Covid-19 crisis and the economic relief packages, speciûcally for MSMEs, entitled as "Atmanirbhar Bharat (Self- dependent India)" to tackle the situation by reviving the units.

### **3. Objectives and Hypothesis of the Study**

#### ***3.1. Objectives of the Study***

- To highlight the significance of bank credit for the promotion of entrepreneurship.
- To throw light on the financial accommodation provided by SBI for the promotion of entrepreneurship, especially during the pandemic period.
- To assess the impact of bank credit extended by SBI on entrepreneurship development during and post-pandemic period.

#### ***3.2. Hypothesis of the Study***

The current research has been done with the assumption that special relaxation during the pandemic period in repayment of loans and sanction of loan at the correct time period boosts the morale of the entrepreneurs and minimises its adverse effect of the pandemic on their operations and working results.

#### **4. Research Methodology**

This is a policy cum review paper where data has been taken regarding the sanction of loans to the MSME sector during and the post pandemic period, though the growth has not been analysed yet after this financial support, it has boosted up the morale of the entrepreneurs to a great extent.

#### **5. Data Analysis**

The following are some of the SBI SME Loan Schemes which are available for the entrepreneurs:

Undoubtedly, SBI is the leading public sector bank of the country. It is having the largest number of ATMs. It is having accessibility to rural areas also, that's why it can be a good option for small and rural entrepreneurs to get finance easily.

Again, the Bank charges a very minimal rate over the loans which is another advantage for the entrepreneurs. Along with that, it is having special schemes for different kinds of businesses which an entrepreneur must be aware of.

Rural Self-Employment Training Institutes (RSETIs) RSETIs are performing a social role in providing skills and training to the rural youths and encouraging them to start something of their own. At present, the institutes are spread over 26 states and 3 union territories. Every year, each institute provides approx. 30 development programs. So far 152 RSETIs are under working, till date 29,944 training programmes have been conducted. Out of a total number of trained youths, 70.40% have been settled.

##### ***5.1. Significance of Bank Credit for Promotion of Entrepreneurship***

The lockdown resulted in a drastic fall in the Micro Small and Medium Enterprise (MSME) sector in Odisha. Almost 3,207 units were closed down. It can be imagined from the above fact that if these many units have been closed down, then, what will be the number of persons who have lost their jobs. So, it used to affect a massive group of people if it affects a single unit also.

To strengthen and rebuild the confidence of the MSME units during the pandemic, Chief Minister Naveen Patnaik announced special package under which male entrepreneurs were disbursed additional loan at 2% interest rate and female at 5%, said Mr. Mishra.

##### ***5.2. Financial Accommodation Provided by SBI towards the MSME Sector, Odisha during and Post-pandemic period***

In order to satisfy the liquidity requirements of Micro, Small and Medium Enterprises (MSMEs) during the Covid-19 pandemic, the State Bank of India (SBI) has taken many steps and as a result of this 48,168 MSMEs in Odisha are being provided with collateral-free loans under the Guaranteed Emergency Credit Line (GECL). So far Rs 644.82 crore has been sanctioned to 20,182 enterprises.

The CGM is approaching and encouraging the entrepreneurs to avail of this benefit and on that note, she gave the statement, "The existing affected units will get 20 percent (pc) of their fund-based limits with 12 months moratorium and four years repayment period to reduce the stress level in working capital requirements."

Reportedly, as many as 15,632 pre-approved offer letters have been sent to the eligible borrowers and 15,615 units have been sanctioned Rs 419.39 crore under the Common Covid-19 Emergency Credit Line (CCECL) scheme till date in Odisha.

Again, the CGM added, "EMI has been deferred in all eligible term loans up to August 31 as Covid-19 relaxations. Under digital products, 14,603 accounts have been sanctioned under e-MUDRA and approximately Rs 70 crore have been disbursed."

As per the reports, 15,632 pre-approved offer letters are approved and sent to the eligible borrowers as a result of which 15,615 units have been sanctioned Rs 419.39 crore under the Common Covid-19 Emergency Credit Line (CCECL) scheme so far in the State. The CGM again gave the statement, "EMI has been deferred in all eligible term loans up to August 31 as Covid-19 relaxations. Under digital products, 14,603 accounts have been sanctioned under e-MUDRA and approximately Rs 70 crores have been disbursed".

The GECL is a loan for which a 100% guarantee would be provided by the National Credit Guarantee Trustee Company (NCGTC) to Member Lending Institutions (MLIs), and which will be extended in the form of additional working capital term loan facility in case of Scheduled Commercial Banks. The interest rate of the loan ranges from 7.8 pc to 9.25 percent.

#### *Special Bailout Package Announced by the Chief Minister*

"During 2020-21 financial year, the State government had estimated to provide <sup>1</sup> 108.29 crore towards interest subvention under the Emergency Credit Line Guarantee Scheme. Accordingly, the MSME department had approved a fund of <sup>1</sup> 99.87 crore," he said. As many as 473 entrepreneurs have taken advantage of the scheme.

The Odisha government informed the year 2020 and 2021 were among fruitful years for the State as far as attracting investment was concerned. To another query, Mr. Mishra said Odisha has received total investment proposals worth <sup>1</sup> 16,42,345.26 crore since 2002. Promoters came up with proposals of ₹ 2,50,463.96 crore during 2019 – the highest in a single year and those projects were approved. In 2020, 53 project proposals worth <sup>1</sup> 1,36,800.65 crore were approved by the government. The year 2021 was even better. As many as 51 industrial projects worth ₹ 1,61,550.97 crore were approved by the government.

## **6. Results and Policy Implications**

From the above analysis, it has been found that State Bank of India has given many relaxations in terms of moratorium period and collateral-free loans. The State Bank of India has helped lots of MSMEs to regain the confidence to continue their operations. These steps by the SBI are still under the process of implementation. Moreover, the focus should also be given to the areas which can be considered to prevent the units from becoming sick in addition to the special package announced by CM, Naveen Pattnaik. But it can be expected that this will definitely result in a positive outcome as far as the entrepreneurship development of the state is concerned.

## **7. Conclusion**

It can be concluded from the above research that the State Bank of India has been a great financial support for the MSME sector. Being the largest public sector bank, it has always achieved milestones

by providing much support by framing and establishing new policies and increasing the range of financing. If such kind of support will be availed by the MSMEs, then, definitely the risk of becoming a sick unit will be reduced to a great extent. Though the country was hit by a shock but as per the reports of the state government, 2020 and 2021 have been two fruitful years for the state. 2021 was even better. So, this betterment wouldn't have been possible without the support of the banking sector especially the State Bank of India.

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