



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

India's lockdown: why small businesses and the self-employed need help

LSE Research Online URL for this paper: <http://eprints.lse.ac.uk/104924/>

Version: Published Version

Online resource:

Patgiri, Rituparna and Patgiri, Ritwika (2020) India's lockdown: why small businesses and the self-employed need help. South Asia @ LSE (25 May 2020). Blog Entry.

Reuse

Items deposited in LSE Research Online are protected by copyright, with all rights reserved unless indicated otherwise. They may be downloaded and/or printed for private study, or other acts as permitted by national copyright laws. The publisher or other rights holders may allow further reproduction and re-use of the full text version. This is indicated by the licence information on the LSE Research Online record for the item.

India's lockdown: Why small businesses and the self-employed need help

*As India's economy continues to be locked-down, **Rituparna Patgiri (Jawaharlal Nehru University, India)** and **Ritwika Patgiri (South Asian University, India)**, review the state of the country's economy and the place of small businesses and the self-employed within it during the coronavirus lockdown.*

The COVID-19 outbreak has changed how all of us view the world. Every part of people's lives in India has been affected, as well as the economy, politics, culture, and society. The impact on each of these areas has been well-documented, and a lot has been said and written about the economic effects of COVID-19. According to the [Centre for Monitoring Indian Economy \(CMIE\)](#), the urban unemployment rate has gone up, it is now as high as 30.9%, with the overall unemployment rate jumping from 8.4% in mid-March to 23.4% in end-April.

About 400 million people, which is 90% of India's workforce, work in the informal sector in India, and face deep job insecurity. But even in the formal sector, there is massive job insecurity. There have been both [layoffs and pay cuts](#) in the private sector, in media houses, in NGOs and corporate houses. In some cases, the government and the judiciary have intervened and asked the employers not to [lay off employees](#) during this period. But is it only issuing advisory notices enough? What about policy interventions?

It is important to understand how the owners of small businesses, start-ups, and the self-employed are faring amidst this lockdown. Most of these economic ventures navigate the boundaries of the formal and informal sectors. The people working in these sectors have been generally excluded from debates on the economic impact of the COVID-19 pandemic. While there have been discussions about paying one's domestic workers, security guards, gardeners and other house helps, what about other small businesses and self-employed workers?

How are small businesses and start-ups that sell non-essential items managing their operations? What about the small businesses that run online? How is the neighbourhood *momo* seller (steamed filled dumplings popular in South-East Asian regions) doing? What about the person who sells earrings in the footpath? What about Life Insurance Corporation (LIC) agents? What about the make-up artists and people working in beauty parlours? How are the weavers of Assam faring? These are some of the questions to which we still seek answers.

Indian start-ups contributed around \$11 billion to India's economy by the end of 2019, showing tremendous job-creating capacity. Economic success and a good GDP growth rate had brought in several [policy benefits](#) to entrepreneurs like tax benefits, simplified business set-up, financial support, tinkering labs, a fund of Rs 10,000 crore, and the motivation of the government to improve India's position in the Ease of Doing Business Index.

Flipkart, one of India's first start-up successes is now worth \$20 billion. An e-commerce idea, Flipkart has made way to numerous similar online ventures. According to a 2018 survey of young people by the World Economic Forum and Observer Research Foundation, one-third of the respondents indicated entrepreneurship as the most attractive career option. But, income insecurity in these extraordinary times will surely leave a mark.

The central government had launched the Make in India initiative in 2014 and the Start-up India scheme in 2016 to promote manufacturing and entrepreneurship in India. Several National Skill Development Corporation (NSDC) Training Centres have also been opened across the country. However, these initiatives have not been able to handle the economic impact of the COVID-19 crisis. Business owners were not prepared to deal with a calamity of this scale.

Benaaz Anam is the founder of Periwinkle, a clothing line that was launched in 2018. Anam says that they had to completely stop production as their unit was shut. "Production for our new collection has been stopped because we had to shut our unit", says Anam. She is scared about the future as she deals with clothes, which falls under the category of 'non-essential' item. Apart from that, these start-ups that rely on online delivery platforms for shipping their products are particularly facing problems. "Our third-party partners like Amazon, Little Black Book, and World Art Community stopped taking orders", says Anam. This is because the government had prohibited these platforms like Amazon from selling non-essential items.

Divish Gupta, the co-founder of Leap Club – a curated marketplace that promotes ethical consumption which was launched in 2019 – also says that they were facing shipping problems. “All our shipping partners had stopped doing deliveries because of the uncertainties,” said Gupta. But since they deal with something like organic food products and not clothing or shoes, they shifted to local delivery channels and producers. But figuring all of this out took both time and effort.

Both Anam and Gupta are entrepreneurs who acknowledge that the pandemic is an unexpected crisis but they are worried about their employees. While Periwinkle had to ask their workers to be at home, Leap Club's organic farmers also faced problems in selling their products. If formal business set-ups had to face these problems, one can only imagine the plight of self-employed workers.

The absence of data makes it hard to estimate the actual rate of [self-employment in India](#), which was 51% in 2013-14. A largely agrarian economy, the majority of Indians have always been self-employed. Recently it has been claimed that [self-employment is the answer to India's unemployment challenges](#) by many economists, policymakers as well as the government.

According to the 2017-18 [Periodic Labour Force Survey \(PLFS\)](#), 70% of the self-employed are own-account workers who do not hire any other worker. 26% are unpaid helpers who assist their family members. Only 4% are employers who employ paid workers. It is also a worrying matter that only 10% of the self-employed reported an income of more than 20,000 per month.

Also, almost [95% of the self-employed](#) belong to the informal unorganised sector, who may not have savings to go back to. With no special government policy other than Pradhan Mantri Garib Kalyan Package and the National Food Security Act, 2013 for now, the low-income self-employed have become one of the biggest victims of the pandemic.

Banita, a LIC agent, works on a commission basis and because of the lockdown is facing problems in recruiting customers for various schemes of LIC. “My income has been non-existent since the lockdown. I had to borrow money from my neighbours to buy essential items.” She is not alone; many self-employed people are facing similar issues. Sunita, who sells cosmetic items in the Hengerabari area of Guwahati, said that she is having a tough time running her household because there has been no income. “I have not been able to open my shop at all, so how can there be any income?”

Another sector that has been adversely affected is beauty parlours and salons. People working in parlours and salons are also fearful that their business will not recover even if the restrictions are lifted because they are engaged in occupations that involve contact. The fact that a barber was tested [COVID-19 positive](#) in Guwahati has worsened the matter. People are apprehensive of availing these services. As such, a large sector of self-employed people are facing a gloomy future.

The famous [Assamese weavers](#), too, are victims of this crisis, especially the self-employed ones. Their production and sale have stopped, which means their income has also stopped. Most of them are worried about their futures as their pre-existing contracts are getting over. The weavers who are owners of small units are also unable to pay their workers.

It is also pertinent to mention that none of these small businesses, start-ups, and self-employed workers have received any kind of substantial financial assistance from the government. Some of them have received Rs. 500 under the Pradhan Mantri Garib Kalyan Package but there is no specific policy for them. They need urgent protection and relief from the government.

This pandemic has been an eye-opener in terms of telling us that future planning is a necessity. Launching schemes with attractive tag-lines like Stand Up India, Start-Up India seemed perfect for a happy economy. But with great uncertainties comes great responsibilities. There must be provisions for emergency and relief funds for small business and other self-employed workers. The COVID-19 crisis is not going to go away anytime soon, and thus, we must be prepared for more lockdowns and hence policy measures.

This article gives the views of the author, and not the position of the South Asia @ LSE blog, nor of the London School of Economics. Featured Image: Indian Rupees. Credit: [Shameersrk, Pixabay](#).