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Impact of COVID-19 Pandemic on Small Businesses in the City of Lucknow: Challenges, Adaptations and Policy Implications

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Abstract

The COVID-19 pandemic was one of the giant disasters in the history of human life happened in the year 2020 and created unprecedented disruptions in global economies whose outcome is totally uncertain and unpredictable. Although small businesses were severely affected. This paper explores the effects of the pandemic on small enterprises in the city of Lucknow which is capital of Uttar Pradesh, highlighting revenue losses, employment reductions, operational challenges, and adaptation strategies. The study is based on secondary data from government reports, reveals that most small businesses experienced a sharp decline in revenues but adapted through digitalization and cost-cutting measures. Nearly one third owners successfully accessed government relief schemes, which shows a huge policy gap during the period of uncertainties such as pandemic. The findings suggest that targeted support—including loan moratorium, simplified loan access, digital infrastructure development, and sector-specific interventions—is essential for sustainable recovery. We have also tried to illuminate the revival strategies of small businesses after the end of any natural or manmade disaster period and expected changes in business operation. After studying the severe impacts and various revival strategies, we found that small business practices had been totally changed. Digital practices, innovation, accessing of finance, focus on cash flows rather than profit proved essential after this pandemic.

Keywords: COVID-19 pandemic, Small businesses (MSMEs), Digital adaptation, Revenue loss, Policy implications.

Introduction

The outbreak of COVID-19 in early 2020 triggered widespread economic shutdowns, affecting businesses of all sizes. However, small businesses often operating with limited cash reserves and restricted access to credit were particularly vulnerable. According to the International Labour Organization (2021), millions of small enterprises worldwide faced closure within the first six months of the pandemic. In India, small businesses contribute nearly 30% to the GDP and employ over 110 million people (MSME Ministry, 2021). Their struggles therefore have significant social and economic implications. While several global studies have documented the pandemic's economic fallout, less attention has been given to localized impacts in mid-sized Indian cities such as Lucknow.

Nationwide lockdown restricted movement of raw materials and disrupted production cycles. Many enterprises operated at under capacity utilisation and most of them forced to temporary or permanent closure. Due to shut down of MSMEs, and order cancellation and delayed payment of export oriented MSMEs most employees lost their jobs and source of income and they were also uncertain about employment until lockdown lifted. Further consumer demand declined due to income loss and uncertainty. Labour intensive MSMEs were forced to lay off workers or reduce wages.

Further unemployed migrant workers forced to return their native rural areas which causes labour shortage in urban areas after reopening and over burden on rural areas. Informal sector employment was worst affected. Transportation bottlenecks negatively affected procurement and distribution which further breakdown of local, national, and global supply chains. Delays in payments from buyers stopped cash inflows while fixed costs continued which increased non-performing assets. Limited access to formal credit worsened the working capital crunch. Therefore due to business uncertainties regarding reopening, financing, and survival with low resilience start-ups and small firms faced more vulnerability and shut down permanently. Rural and unorganised MSMEs suffered more than organised enterprises. Sectors like transport, tourism, hospitality, and textiles were hit hardest. Survival of most MSMEs affected by pandemic depended on relief measures such as Emergency Credit Line Guarantee Scheme, Atmanirbhar Bharat Package, Moratoriums and interest relief. Besides mentioned above hurdles some positive aspects also generated by COVID-19 pandemic such as shift toward adoption of digital payments, e-commerce habits, and online marketing, adoption of remote working and digital platforms. Thus COVID-19 pandemic exposed the structural weaknesses of MSMEs such as low capital base, informality, and limited digital adoption which caused severe economic

distress but further it also created opportunities for formalisation, digitalisation, policy reforms to strengthen MSMEs resilience in the future. Thus digitally adaptive MSMEs showed better resilience.

Objectives

This study seeks to answer three key research questions:

- i). How did COVID-19 affect the operations and revenues of small businesses in Lucknow?
- ii). What coping strategies were adopted?
- iii). What policy measures can support recovery?

Review of Literature

Economic Vulnerability of Small Businesses

Several studies confirmed that small enterprises were uniquely exposed to the shocks caused by COVID-19. Bartik *et al.* (2020) found that nearly 43% of U.S. small businesses temporarily closed in the first three months of the pandemic, largely due to reductions in consumer demand and supply chain interruptions. Similarly, Fairlie (2020) reported that the number of active U.S. small business owners declined by 22% between February and April 2020.

In developing economies, the impact was even more pronounced. Sharma (2021) argues that Indian micro and small enterprises (MSEs) were already operating with low cash reserves and high credit constraints, which amplified the crisis. According to the International Labour Organization (2021), more than 60% of small firms globally faced risks of closure due to prolonged lockdowns.

COVID-19 pandemic affected all areas of the economy such as income, employment, poverty, growth, financial market, and global trade, etc. In which global trade faced a significant negative impact. Export plays a pivotal role in economic growth of Indian economy (Pravarkar, Sahoo and Ashwani, 2020). Inventories of finished goods during pandemic occurred due to lack of demand behind which the reason was decreased consumption expenditure and rising prices (Lemi *et al.*, 2020). Small firms across the world affected more due to decline in sales, logistics difficulties, less access to financing and decline in capacity utilisation during the pandemic (Nordhagen *et al.* 2021; Ratnasingam *et al.*, 2020). Small firms were more unable to obtain delayed payments and funds from banking system compare to large firms. These firms faced the problem of low level of liquidity despite loan moratorium. Delayed payments from well organised businesses to MSEs faced for long time (ILO, 2021).

Adaptation and Coping Strategies

Despite challenges, small businesses demonstrated resilience through adaptation. Priyadarshini and Kumar (2021) note that many Indian retail businesses shifted to e-commerce platforms and digital payment systems. Bartik *et al.* (2020) similarly observed that U.S. small firms increased their reliance on delivery services and online marketing.

However, digital transformation was uneven. Gupta (2021) notes that rural microenterprises often lacked internet infrastructure, limiting their ability to adaptation. Other coping mechanisms included reducing staff, renegotiating rents, and diversifying product offerings.

Policy Responses and Support Mechanisms

Governments introduced relief measures, but effectiveness varied. In India, the Emergency Credit Line Guarantee Scheme (ECLGS) aimed to provide collateral-free loans. However, bureaucratic hurdles limited its reach (MSME

Ministry, 2021). In contrast, OECD countries such as Germany and Canada implemented wage subsidies and direct grants, which provided immediate liquidity support (OECD, 2020).

Kumar and Dwivedi (2021) argue that standardized financial packages are insufficient, and policymakers must consider sector-specific challenges.

Research Gap

Most studies emphasize on short-term outcomes, with limited focus on long-term survival strategies. Few localized studies examine small businesses in mid-sized Indian cities, and fewer still combine quantitative and qualitative evidence. This research addresses these gaps by focusing on Lucknow.

Methodology

This study employs a mixed-methods research design to analyse the impact of COVID-19 on small businesses in Lucknow. Quantitative data were collected via surveys, while qualitative data were gathered through semi-structured interviews. Secondary sources such as MSME reports and Reserve Bank of India statistics supplemented primary data.

Sampling and Respondents

The target population comprised owners and managers of small businesses in retail, hospitality, services, and small-scale manufacturing. Using purposive sampling, 100 respondents were surveyed, and 15 participated in interviews.

Data Collection

The survey, conducted online between March and May 2022, included questions on revenue, employment, operational challenges, and coping strategies. Interviews, conducted virtually, provided deeper insights into business experiences.

Data Analysis

Survey data were analysed using descriptive statistics in Microsoft Excel, producing tables and charts. Interviews were transcribed and coded thematically, focusing on recurring themes such as “digital adaptation,” “financial stress,” and “policy support.”

Limitations

The sample size limits generalizability, and reliance on self-reported data may introduce bias. Online data collection excluded firms without digital access. Nonetheless, combining methods ensures reliability.

Results

Revenue Impact

Over 70% of businesses experienced revenue losses greater than 30%.

Table 1: Reported Revenue Decline during COVID-19 (n = 100)

Revenue Decline	% of Businesses
Less than 10%	8%
10–30%	18%
31–50%	42%
Above 50%	32%

Employment Impact

On average, firms reduced workforce by 30%. Hospitality and retail sectors reported the highest layoffs.

Operational Challenges

Table 2: Main Operational Challenges Reported

Challenge	% of Businesses
Supply chain disruptions	64%
Decline in consumer demand	58%
Cash flow shortages	46%
Difficulty accessing relief programs	37%

Challenges Faced by MSEs during COVID-19 Pandemic

The ability to be a success and expansion of MSEs is constrained due to its accessibility to the financial sources and small size compare to larger firms. MSEs are more vulnerable to the external shocks due to low level of turnover and marginal profitability resulted insufficient financial reserves. Further they are only dependent on their own savings during the condition of sudden revenue decline. Small businesses have a low rate of survival and easily affected by unpredictable shocks. These firms faced various challenge during COVID-19 pandemic.

- i). **Shortage of Raw Materials:** Nationwide lockdown affected mobility and thus restricted unnecessary transportation which further resulted in shortage of raw materials and stopped production.
- ii). **Shortage of Manpower:** Although small firms are creating millions of jobs and providing industrial base at lower capital investment to contribute in economic growth but due to sudden stopped of production activities most employees lost their jobs. In absence and uncertainty about any source of income and livelihood millions of workers returned their native places. After relaxation in containment measures they started their operations but due to inappropriate availability of workers production capacity was under-utilized.
- iii). **Decline in Market Demand:** Due to uncertainty about any employment and source of income in next few months most people were spending their holdings only on necessities. Therefore customer demand pattern also changed and most small businesses faced the problem of inventories.
- iv). **Shortage of Capital:** Due to unsold inventories and delayed payments small businesses suffered from lack of cash flows even they were unable to pay their creditors. While production stopped and income were at low level but fixed cost of them still had to incur many expenses. In cash flow crisis most of micro enterprises were dependent on their own savings to handle expenses. According to survey of Global Alliance for Mass Enterprises more than 14% of surveyed enterprises had permanently stopped due to inadequate cash flows.
- v). **High Transaction Cost:** Fixed costs became major burden for SMEs in absence of any turnover when all production activities stopped due to implication of containment measures such as social distancing and lockdown. Many of them closed permanently even after lockdown was lifted.
- vi). **Decline in Export:** Exports were negatively affected due to drop in global demand and disruptions in supply chains. The lower capacity utilisation due to shortage of labour and financial source increased price level even lockdown was lifted. The volatility in price level restricted SMEs to plan appropriately.
- vii). **Survival Challenges:** All sectors suffered with

significant losses but best managed small firms faced survival issues during pandemic. High fixed cost, lack of access to financial sources, greater capital cost and limited use of digital technologies were some major obstacles for SMEs during COVID-19 pandemic.

Adaptation Strategies by Small Businesses

To sustain operations from unprecedented challenges, small businesses adopted various strategies like digital transformation to reduce physical contacts and expansion of customer reach out of local market. It includes shift to online sales platforms such as Flipkart, Amazon, Meesho, e-commerce websites, and WhatsApp Business, use of digital payments from anywhere (UPI, Online banking), promotion of their product through social media such as Facebook, Instagram, WhatsApp, and work from home strategy to provide services in remote areas and abroad like administration, software engineering, e-medical. Small businesses diversified their products and services to fulfil pandemic driven demand. Restaurants mostly emphasised on home delivery and cloud kitchens, Chemical and fragrance units started manufacturing of sanitizers, Garment enterprises started manufacturing of face masks and PPE kits, service providers offered online and contactless facilities. To manage their revenue losses small businesses focused on cost reduction through workers lay off and working hours cut, postponement of new capital investment to expansion plan, consultation of delayed payments and rent waivers, and they mostly focused on their own savings to sustain operations. Due to mobility restrictions and supply chain disruptions they mainly focused on local suppliers for their need and reduce dependency on distant markets and thus reduced cost, eliminate inefficiencies, and boost profitability and handled in-time procurement through collaboration with nearby businesses and vendors. Small businesses tried to reduce negative impacts of pandemic through workforce and human resource adaptation such as using of masks and sanitizers due to health and safety measures at workplaces, flexible labour practices such as wage lowering, shift based work and temporary layoffs, especial emphasis on multi-skilled employees. Small units benefitted from government relief measures such as loan moratorium, MSMEs relief packages under Atmanirbhar Bharat Abhiyan, tax relief, subsidies, and postponement of statutory payments. These support measures provided liquidity during pandemic period. Although most small units affected negatively but some of them embraced digitalization, flexibility and innovation performed better. COVID-19 pandemic accelerated structural changes and highlighted the need of adaptive capacity and resilience which plays a pivotal role in survival and growth of small businesses in post COVID-19 period. Only 45% of businesses adopted online sales, while 38% introduced digital payments.

Government Relief Programs (Policy Implications)

Government introduced various initiatives in form of short-term liquidity support and emergency financing to remove the problem of cash flow shortages and operational difficulties which plays a crucial role in preventing permanent closures of micro and small enterprises. Government provided a new definition about MSMEs under the 'Atmanirbhar Bharat Abhiyan' on 13th May 2020. Under this a special economic package of 20 lakh crore rupee was launched for every aspect of society and industries especially MSMEs. Motive behind the new classification of MSMEs was to be realistic with time and to provide ease of doing business. With new composite

classification on 26/06/2020, there is no difference between manufacturing and service sector with respect to investment in plant and machinery. Turnover has been added as a new criterion in composite classification and came into effect from 1st July, 2020.

The challenges faced by small businesses such as shortage of labours, demand contraction, supply-chain breakdowns crises highlighted the necessity of targeted, inclusive and resilient policy interventions. Due to limited cash reserves small businesses are highly vulnerable to sudden revenue losses. So government should focus on credit-based schemes with direct financial support such as loans at low rate of interest, wage subsidies, and working capital grants, emergency funds to prevent permanent closures of small businesses. Most small businesses were unable to access formal credit due to lack of collateral, registration, or any credit history. There should be simplification of credit schemes with minimal documentation and alternative credit assessment methods.

Reverse migration in a large number during the pandemic generated due to uncertainty about employment and source of income which affected both enterprises and worker's livelihood. So the government should focus on temporary wage support programs, workers social security coverage during the period of any external economic shock. To reduce dependency of MSEs on migrant workers, local employment ecosystem should be promoted.

To ensure supply chains and inputs government should encourage local input sources and provide transport passes during crises period. Cluster based industrial paradigm and developmental policies can promote supply chain resilience.

Government should make policies to promote digital adoption, e-commerce, online marketing, digital payments. To make efficient in these operations training programs should be launched to enhance digital literacy among small businesses. Temporary relaxation in adherence requirement, and single window digital clearance make operations easier and reduce stress of MSEs. Although temporary relaxation provide facility only for short-term but long-term regulatory simplification enhancing businesses resilience.

Government should support in enhancing demand directly through cash transfers to consumers which increases purchasing power and further demand for local goods and services, and indirectly it promotes sales of SMEs. Purchasing preference policies, timely payments, and advance orders provide support through creating demand and stabilizes revenues for small businesses.

To expand markets small firms should be incentivise to purchase local inputs and to link with co-operatives, urban local bodies. Digital market access and e-commerce enablement expands market reach beyond the physical limits. Trade fairs, online B to B platforms, virtual exhibitions can maintain market linkages between MSMEs to wholesalers, exporters, and institutional buyers and opens new demand channels. Export simplification procedure, and incentives helps MSMEs to access international market and further reduces dependency on local market and diversifies demand.

Tax rate reduction, and differed tax payments encourages consumption and price support schemes for particular products prevent to decrease sales which makes enterprises viable. Cluster based marketing improves bargaining power of small enterprises. Most of micro enterprises are informal nature and excluded from relief measures so government should focus on formalization through incentives which enable them to access financial source and social protection. Further it helps to design targeted policy by government

during crises.

Besides above government should also establish Emergency Credit Funds, Insurance mechanisms for future shocks. Therefore effective removal of negative impacts of any shock and a balanced policy mix of labour protection, financial relief, institutional support, digital transformation and long period resilience policy are needed. An efficient approach can support to ensure about recovery of MSEs which further again starts contributing in economic growth and employment generation. Only 29% firms accessed schemes like the ECLGS, citing delays and complex procedures.

Discussion

The findings confirm global evidence that small businesses were hardest hit during COVID-19 (Bartik *et al.*, 2020; Fairlie, 2020). Revenue losses and employment contractions in Lucknow mirror broader trends but also reveal local nuances—many owners attempted wage reductions before layoffs. Supply chain disruptions highlighted both global and domestic vulnerabilities (Gupta, 2021). Dual shocks of supply and demand slowed recovery. Digitalization emerged as a key survival tool however unequal access created digital divides, disadvantaging microenterprises.

Relief programs limited access, supporting Kumar and Dwivedi's (2021) argument that standardized packages became failed to support small firms. In contrast, OECD (2020) evidence suggests wage subsidies and direct grants worked better elsewhere.

Implications include the need for sustained policy support, digital inclusion, and stronger local supply chains. Limitations of this study include its small sample size and city-specific scope. Future research should examine long-term survival strategies across different regions.

Conclusion and Recommendations

COVID-19 caused severe disruptions for small businesses in Lucknow, but many adapted through digital strategies. Government relief reached only a fraction of firms, highlighting policy gaps.

Policy Recommendations

- i). Simplify Access to Relief Programs – Reduce paperwork, expand awareness.
- ii). Promote Digital Transformation – Subsidize technology, expand rural internet.
- iii). Sector-Specific Support – Tailor aid for retail, hospitality, and manufacturing.
- iv). Strengthen Local Supply Chains – Encourage localized production.
- v). Establish Emergency Business Funds – To provide rapid support during and after any external shock.

Conclusion

The pandemic exposed vulnerabilities but also demonstrated adaptability. Sustainable recovery depends on inclusive policies, digital empowerment, and stronger institutional support.

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