



LOCKDOWN AND MSMEs- A RAY OF HOPE

RITA GHOSH (GUIN)

PROFESSOR

DEPTT. OF ECONOMICS

GOVT. VIVEKANAND P.G.COLLEGE, MAIHAR, (M.P)

ABSTRACT:-The main objective behind writing this article is to study the revival of the economy in the post Covid period through Indian MSME sector which is considered as the backbone of the Indian economy. Due to the lockdown the hardest hit is the MSME segment with their activity coming to a complete halt. The worst part of this crisis is that the Government and big business together owe these small firms nearly Rs 6 lakh crore. The definition of MSME is revised and the way MSMEs are defined now will bring more enterprises under the purview of being classified as MSME. Covid-19 and the anger against China have made global corporations to actively look to source products outside China. To grab this once in a life time opportunity speed is critical. Current areas of strength should be consolidated and the export to be more diversified. To make the MSMEs atmanirbhar the dues owed to them should be repaid promptly. The industries which are heavily dependent on China must be identified and the MSME sector should be encouraged to become independent of such global disturbances. The new backbone of MSMEs is the technology as in the post Covid world remote access to everything will be the order of the day. There is a need to focus on import substitution to replace foreign imports with domestic production. An important part of larger supply chains are MSMEs and their health has a bearing on the supply chain.

KEYWORDS - Lockdown, MSMEs, Export, E-Commerce, Micro Enterprises.

INTRODUCTION - Businesses in India are now facing the brunt of a brutal virus – COVID -19. To enforce self distancing in order to prevent the spread of virus the government has enforced lockdown. Due to the lockdown businesses have been taking a hit, the supply chain has been disrupted, imports are down, and markets are bearish. According to various reports about ten crores workers in mining, construction, manufacturing and services sector have been left jobless. The hardest hit is perhaps the MSME segment with their activity coming to a complete halt. They are grappling for stability becoz sales and revenue remain at standstill whereas it is difficult to get hold of expenses such as salaries of employees, tax deposits, rent of warehouses and office spaces among many others. The major item constituting financial burden is labour costs (34%), raw materials (18.8%), followed by interest on loans (18.8%). Also they are facing severe shortage of working capital, labour and livelihoods. The worse part of this crisis is that the Government and big businesses together owe these small firms nearly Rs six lakh crore as said by MSME minister.

As factories and plants got shuttered down across the length and breadth of the country in the wake of nationwide lockdown many workers were left to fend for themselves. India's 471 million workforces comprise the daily wage earners and contract laborers and in recent days there have been a regular occurrence of migrant workers leaving major industrial hotspots of the country. Since the bulk of employment and manufacturing takes place in the MSME sector and this is also the segment which is heavily dependent on the migrant workforce

OBJECTIVE – The objective behind this article is to revive the economy which is at a static halt due to Covid-19 via MSMEs and to find out solutions for the revival of Indian Micro, Small and medium enterprises which are the worst hit due to the pandemic.

MSME- THE BACKBONE OF INDIAN ECONOMY- In India MSMEs are a heterogeneous group in terms of size and structure of units, products and services offered, their scales of production and the use of technology with a considerable number of them falling in the organized sector. As compared to large enterprises the labour intensity of the MSME sector is much higher.

They are established in almost all major sectors in the Indian industry like: Food processing, Textile and Garments, Agri inputs, Leather and Leather goods, Chemical and Pharmaceutical, Bio Engineering and Engineering, Electrical and Electronics, Electro Magnetic Equipments, Sports Goods, Plastic Products and Computer Software.

The 73rd Round of NSS Survey quantifies total number of establishments to be 633.92 lakh enterprises of which only 4000 were large enterprises. 95.58% of these organizations are micro enterprises, the rest being small and large. 51% of the MSMEs are in rural areas and contributes towards the economic empowerment and social inclusion of the marginalized through employment generation. In non agricultural activities there are an estimated 6.33 crore unincorporated MSME employing 11 crore people across the country. It contributes 30% to India's GDP and almost half of the country's total export. Only a small fraction of these have GST numbers and are tax payers. Total formal credit outstanding to MSMEs is around Rs 15 lakh crore of which bank accounts 90% and the remaining 10% to NBFCs. Of the Rs 15 lakh crore about a third is in loans of less than Rs 1crore each. Only 7% have borrowed from institutions and 83% are self financed.

Contribution of MSMEs to Indian Economy at Current Prices (2017-18)

2011-12	30
2012 -13	30.4
2013-14	30.2
2014-15	29.7
2015-16	29.2
2016-17	28.9
2017-18	28

2018-19	30
2019-20	29

Source: CSO, Ministry Of Statistics and Programme Implementation

The micro sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons which account for 96.96% of total employment in the unorganized sector.

Number of Enterprises and Employment Under Each MSME Category (lakh)

	<i>Number of Enterprises</i>	<i>Employment</i>
<i>Micro</i>	630.52(99.47)	1076.19(96.96)
<i>Small</i>	3.31(00.52)	31.95 (2.88)
<i>Medium</i>	0.05(00.01)	1.75 (0.16)
TOTAL	633.88(100)	1109.89(100)

% in parenthesis is percents of the column total

Source: Annual report, MSME based on 73rd NSS Round 2015-16

The definition of MSME is revised with no difference between manufacturing and service enterprises and inclusion of turnover of the company. As per the revised MSME classification, investment up to Rs one crore and turnover up to Rs five crore will be defined as Micro Enterprises in both manufacturing and services sector.

REVISED MSME CLASSIFICATION

(Composite criteria: Investment and annual turnover)

<i>Classification</i>	<i>MICRO</i>	<i>SMALL</i>	<i>MEDIUM</i>
<i>Manufacturing Enterprises and Services Enterprises</i>	<i>Investment <Rs 1 crore</i>	<i>Investment <Rs 10 crore</i>	<i>Investment <Rs 20 crore</i>
	<i>Turnover <Rs 5 crore</i>	<i>Turnover <Rs 50 crore</i>	<i>Turnover <Rs 100 crore</i>

The tectonic change in the way MSMEs are defined now is the crowning glory as more MSME enterprises will come under the purview of being classified as MSMEs so that they can reap benefits associated with it and grow

under the watchful eyes. Owing to the addition of turnover criteria, the MSMEs will be able to explore business avenues.

LOCKDOWN AND MEASURES TAKEN TO BOOST MSMES- Due to the lockdown MSMEs have been passing through a hard time as they are facing severe shortage of working capital, labour and livelihoods. According to the survey conducted by the All India Manufacturers Organization (AIMO) which covered 5000 MSMEs, 71% of the businesses weren't able to pay salaries in March, 43% would shut shop if panic extends beyond eight weeks, and a vast number of MSMEs will be choked to the point of permanent closure considering the stoppage of economic activity over the past few weeks.

To keep the MSME sector afloat the RBI recently introduced Long Term Repo Operations (LTRO) worth Rs 100,000 crores to help banks to lend more at cheaper interest rates. In addition to this Government run banks are also encouraged to keep loans worth Rs 60,000 crore ready and Finance Minister announced the extension of the last date to file belated Income Tax Return for all businesses and the deadline for GST returns filing to June 30th.

The collateral free automatic credit loan, the subordinate debt to MSMEs and 100% guarantee from the Government on both the principal and the interest which will ease pressure on banks will prove as a game changer for the MSME sector which is finding it difficult to get credit support from banks and other financial institutions.

In order to bring the MSME sector back on its feet they are included within the purview of the Atma Nirbhar Abhiyaan (ANBA) which intends to address the needs of the MSME sector and paves the path for their long term sustainability and profitability. ANBA may be construed as import substitution which is primarily focused on giving a fillip to the MSMEs.

Government decision to amend the FDI policy to block investment from companies based in countries sharing borders with India including China under the automatic route is welcomed by the Indian MSMEs. Now Chinese investments will be under the Governments eye. Domestic and foreign investors in India will be assured protection from any import surge, particularly from China and imports of raw materials will be made increasingly cheaper but higher duties will be levied on finished goods since cheap and low quality imports are an impediment to the growth of MSMEs.

The decision to not have global tenders for Government procurement up to Rs 200 crore will help MSMEs to grow and emerge as vibrant and dynamic sector in line with the object of Make in India campaign. In order to give handholding support to MSMEs for documentation the ministry of MSMEs plans to establish 100 export facilitation council across India.

Lockdown and opportunities for the MSMEs- India amidst of lockdown have come to understand the true purport of Albert Einstein's statement that **opportunity lies in the middle of difficulty**. Under the shade of Globalization, China the Dragon, has opted for a by-pass route while invading the MSMEs of Indian industries. By introducing less expensive yet far decorative and alluring goods like electronic frills, idols, bangles, locks etc China is outrunning Indian MSMEs and has made India a hot cake for China. At micro level this invasion is biting like termite India's small and medium scaled companies.

Covid -19 and the anger against China for its alleged mishandling of the pandemic has made companies from US, Europe, Australia and elsewhere to actively look to source products outside China. Taking advantage Indian companies has started RFQs (Request for Quotations). Several economies and global corporations have approached India as they are looking for an alternate to China as a manufacturing hub. Their main attractions are vast domestic markets, cheap manpower, and high share of working age population, resilience of Indian economy and of course strong democracy.

To grab this once in a life time opportunity speed is critical as there is strong competition from companies in countries such as Vietnam, Thailand, Bangladesh and Srilanka. Here we need to capture the attention of the global business community with the support of our Government in not only promoting manufacturing in our country but also brand India's products across the world. Although many alternatives are available to these global companies but our optimistic belief is that India is the only alternative choice for most of them. SBI's research reveals that after the end of the lockdown there will be a mass trade and factory diversion from China towards India and this will help to boost the Indian economy.

Export and MSMEs- According to official data India's overall export was \$528.45 billion in the last financial year which ended March 31st, 2020 about 1.36% decline over the previous year. Overall imports also saw a negative annual growth of 6.33% in March 2020 at \$598.61 billion. Recent research by the trade finance company for Indian exporters – Drip Capital – 98% of Indian exporters are MSMEs and 83% of these are micro enterprises. In the words of SBI Ecowrap report “ although Covid -19 can dampen demand for the coming years it does provide an opportunity for global trade rebalancing and India needs to play its cards right to gain something out of this catastrophe.” India can think long term and build relations so that it can occupy the space vacated by China.

In the post pandemic world Indian MSMEs should ramp up exports of consumer goods to reap the benefits of its comparative advantage over products made in China since in consumer goods sector India has a revealed comparative advantage (RCA) greater than China. In terms of the consumer goods sector MSME profile of India is that the biggest concentration is in the textile and clothing sector (17.30%), food products (12.30%) and crop and animal products (10%). Although India enjoys a comparative advantage in textiles and animal goods, in food products we are not competitive. If the Government gives a direct push to this sector, the MSME firms involved in food products manufacturing will get benefit. As far as capital goods exports are concerned the revealed comparative advantage (RCA) for India is lower than China but still India can capitalize on this opportunity to push its capital goods export.

In order to make MSMEs more competitive and to achieve higher export credit a single window e- logistics market will be created which will offer higher insurance cover, reduced premium for small exporters and simplified procedure for claim settlements.

Amid the lockdown for our economy to grow current areas of strength should be consolidated and the export to be more diversified. To stay afloat MSMEs are venturing unexplored territories and are leaving no stone unturned to tap the demand from making face masks, personal protection equipment (PPE) kit, ventilators, Covid spray chemicals etc. In fact the current crisis has given them an opportunity to serve the community at large. In auto component sector, furniture, air conditioners and many others India has a huge opportunity to promote indigenous production.

Even in this time of distress MSMEs entrepreneurs and the rural handicraft artisans have on boarded with several portals through e-commerce and are able to sell their goods. E-commerce has provided MSMEs opportunities to access global markets, reap benefits by getting better value for their products, fetch raw materials at competitive prices and go up the value chain.

The need of the hour is that the industries which are heavily dependent on China must be identified and the MSME sector should be encouraged to become independent of such global disturbances. This is the right opportunity for Indian businesses to become less dependent on China and for domestic market to become open to Indian products.

If India builds its capabilities and capture share from China then India's incremental exports will grow from \$20 billion in the least favorable outcome to a significant \$193 billion jump. Although Vietnam has rapidly captured

merchandised exports with its cheap labour and cheap currency but a fair number of factories which are rapidly put up in Vietnam are owned and financed by the same Chinese companies who are being dislodged in their home country.

STEPS TO BE TAKEN TO BOOST MSMEs -In order to make the MSMEs atmanirbhar the dues owed to them by the government and private sector should be repaid promptly along with the GST refunds.

Measures on the line of China should be taken to shift industries from the congested areas of the cities to the villages which will solve the problem of overcrowding and migration and will provide employment to villagers who will not have to go to the cities for jobs. In fact already 51% of the MSMEs are in rural area.

Indian Government should be progressive and introduce financial stimulus packages designed for women like a special innovation fund for women entrepreneurs, a relaxation of collateral requirements for women borrowers in the MSME sector and reduced interest rates with Government backed guarantees and also financial education program for women.

The new backbone of MSMEs is the technology as in the post COVID world remote access to everything will be the order of the day. For MSME manufacturers e-marketplaces will become an important way to reach out to potential customers, suppliers and lenders to grow their ecosystem and business.

There is a need to focus on import substitution to replace foreign imports with domestic production. To improve quality of products for global expansion enterprises should make use of technology research and innovation.

Covid-19 could be a game changer for India and certainly needs a national level effort. This crisis has taught India the importance of local manufacturing and supply chains. Gandhi's principle is very relevant here as it stressed on self reliance at the local level. This pandemic provides an opportunity to re-imagine a new normal where MSME –the backbone of the Indian economy becomes economically viable and sustainable. A regenerating MSME alone has the ability to reboot the economy.

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