



ORIGINAL RESEARCH PAPER

Economics

ROLE OF GOVERNMENT MEASURES IN FIGHTING THE COVID-19 IMPACT ON THE PERFORMANCE OF MSMES

KEY WORDS: MSMEs, covid pandemic, fiscal and monetary, Lockdown, growth.

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ABSTRACT

The unprecedented human crisis around the world put all activities in rest. The situation rose again after 90 years when the whole world witnessed the Great Depression in 1930s. In 2019 Covid-19 pandemic resulted in far reaching consequences in the economic activities of the world. The most affected areas were mainly Industrial sector (MSMEs), the tourism, transportation, construction, health care, education and other services. The oil exporting countries severely faced the deterioration in their external and fiscal balances due to crash in oil prices at international market. Finally the world economic growth has contracted around 8% in Q2 of 2020. In India the pandemic stopped all activities and production reached to the zero level and growth became negative when Government ordered Lockdown in the country. After the gradual withdrawal of the lockdown economy started recovering at a faster rate in a short period due to the fiscal and monetary measures taken by the Central Government and the Reserve Bank of India. This paper throws light on how the government measures protected MSME sector in continuing their performance even in the covid-19 pandemic.

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are amongst the strongest drivers of socio economic development, innovation and employment. The MSME sector also contributes in a significant way to the growth of the Indian economy with a vast network of about 63.38 million enterprises. The sector contributes about 45% to manufacturing output, more than 40% of exports, over 28% of the GDP while creating employment for about 111 million people, which in terms of volume stands next to agricultural sector. The MSME sector in India is exceedingly heterogeneous in terms of size of the enterprises and variety of products and services, and levels of technology employed. However, the sector has the potential to grow at a faster pace. To provide impetus to the manufacturing sector, the recent National Manufacturing Policy envisaged raising the share of manufacturing sector in GDP from 16% at present to 25% by the end of 2022. (RBI report 2019)

OBJECTIVE OF THE STUDY:

- The objective of the paper is to study the measures taken by the Government & RBI to ensure the sustainability of MSMEs during Covid-19.

METHODOLOGY:

The present study is based on secondary data. The secondary data collected from various sources such as Journals, Newspapers, Websites, Text Books, Annual Reports of MSMEs, Government Reports and RBI Reports.

Review of Literature:

MSMEs are particularly exposed to the COVID-19 pandemic economic impact because of limited financial resources and borrowing capacity, and because of their unequal presence in economic sectors affected by social distancing measures and transport disruptions. MSMEs are also exposed to trade restrictions on agricultural and related products. Where MSMEs are highly integrated into global value chains (GVCs), supply chain disruptions can create an existential risk for MSME importers and exporters, either because of shortages of necessary parts, or through shocks to demand. (WTO2020)

(IMF & World Bank's Annual meeting held on October 15, 2020) India's priorities should be to protect the most vulnerable people, well targeted support and protecting small and medium sized enterprises so that they do not collapse as the country battles the COVID-19 pandemic, Managing Director of the International Monetary Fund Kristalina Georgieva has said.

(ILO 2020) The situation is critical for SMEs and becomes even more so when looking at cash flow. Nearly 9 out of 10 businesses are experiencing a shortage in cash flow. The situation is not expected to improve throughout 2020, according to those surveyed. The effects on SMEs are dramatic, and so are the measures concerning the labour force. Seven out of ten firms have reduced production capacity due to a lower number of temporary workers, reduced working hours, or employees taking paid leave. A significant proportion of firms have taken more drastic measures. These include asking workers to take unpaid leave, work for reduced pay (20% of those surveyed), or even by laying off permanent staff (10% of those surveyed). Nearly one-third (30%) of companies report a shortage of workers resulting from containment measures, family care responsibilities, or fear of infection. These are alarming statistics for those concerned about working conditions in MSMEs. (ILOs MSME Day 2020: the COVID -19 pandemic and its impact on small business)

MSMEs always suffer due to delayed payments and also do not possess sufficient funds to meet crisis like COVID-19 .The most emerging challenge during the lockdown period as well as in the post COVID-19 period would be meeting fixed costs. While this will be burdensome in absence of regular funds flow, the problem will be more intensified if Banks/NBFC create pressure on MSMEs for repayments of the dues (Ministry of MSMEs GoI 2020)

Nearly 50 per cent of micro, small and medium enterprises (MSMEs) have witnessed a 20-50 per cent impact on their earnings due to the disruptions caused by the COVID-19 pandemic, according to a survey. (Times of India)

Even as the country's micro, small, and medium enterprise (MSME) has been among the sectors hit hardest due to the Covid-19 induced lockdown, which led to the closure or temporary shutdown of businesses, there is no official record maintained for the same by the government. While multiple schemes were announced by the Centre to help Covid-19 hit MSMEs recover, "however, as MSMEs are there in both formal and informal sector, data regarding temporary or permanent closure of the units are not maintained by the Government of India in Ministry of Micro, Small and Medium Enterprises (MSME)," MSME Minister Nitin Gadkari said in a written reply to a question in the Rajya Sabha.

according to a survey by Dun & Bradstreet. Over 82 per cent of more than 250 small businesses in India said that they had a negative Covid impact while 70 per cent believed their pre-Covid-19 level recovery to take nearly a year.

(Rudrasing Thapa 2020) after the Indian Prime Minister Narendra Modi announced lockdown of whole country on March 24th, MSMEs sector is started to struggling again. Many steps to curtail the outbreak such as travel bans, closure of malls, theatres and educational institutions have led to widespread disruptions in economic activity, which in turn has hindered the business operations of the MSMEs.

CLASSIFICATION OF MSAMEs;

Consequent to the enactment to the MSMED Act 2006, the micro, small and medium sector has defined with effect from 2-10-2006. In this Act the separate investment limit has Prescribed for the manufacturing and service enterprises. The new definition is as follows.

Definition of MSMEs: – Manufacturing Enterprises—

1. A Micro Enterprise , where the investment in plant and machinery does not exceed Rs.25 lakh
2. A Small Enterprise, where the investment in plant and machinery is more than Rs.25 lakh but does not exceed Rs.5crore and
3. A Medium Enterprise, Where the investment in plant and machinery in more than Rs.5crore but does not exceed Rs.10crore.

B –Service Enterprises—

- 1) A Micro Enterprise, where the investment in Equipment does not exceed Rs.10 lakh;
- 2) A Small Enterprise, where the investment in equipment is more than Rs. 10 lakh but does not exceed Rs.5crore and
- 3) A Medium Enterprise, where the investment in equipment is more than Rs.2crore but does not exceed Rs.5crore.

Revised Classification applicable w.e.f 1st July 2020 Composite Criteria: Investment in Plant & Machinery/ equipment and Annual Turnover. The revised definition removes the distinction between manufacturing and service enterprises

Type of enterprise	Investment
Micro Enterprises	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover not more than Rs.5 crore
Small Enterprises	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover not more than Rs.50 crore
Medium Enterprises	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover not more than Rs.250 crore

The revised classification applicable to MSMEs from 01.07.2020 based on the Turn over. The Micro unit has investment in plant and machinery of Rs.1crore and turnover of Rs.5crore. In the case of small industries the investment in plant and machinery is Rs.10crore and turnover of Rs.50crore, where as in the case of Medium industry the total investment in plant and machinery is Rs.50crore and turnover of Rs.250crores.(1:5 ratio)

Performance of MSMEs before and during Coved -19

MSMEs have been contributing significantly to the socio-economic development of India for last sixty years. The sector contributed enormously in the field of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing varied range of products and services to meet demands of national as well as international markets.

As per the data available with Central Statistics Office (CSO) and Statistics & Programme Implementation, the contribution of MSME sector in Country’s Gross Value Added (GVA) and Gross Domestic Product (GDP) at current prices from 2014-15 to 2018-19 has explained with the help of below table.

Share of Gross Value Added (GVA) of MSME in all India GDP]

Figures in Rs. Crore adjusted for FISIM at current prices

Year	Total MSME GVA	Grow th (%)	Total GVA	Share of MSME in GVA	All India GDP	Share of MSME in All India
2014-15	3658196	-----	11504279	31.80	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

Source: Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation

The contribution of Manufacturing MSMEs in the country’s total Manufacturing GVO (Gross Value of Output) at current prices has also remained constant at around 33% i.e. one-third during the period from 2014-15 to 2018-19. The percentage share of MSMEs in all India GDP shows similar performance around 30% between 2014-15 to 2018-19.

When the unprecedented crisis around the world put all activities in rest on one side, the World Health Organization (WHO) declared COVID-19 to be a global pandemic on the other side. Nations around the world took unprecedented steps to restrict the spread of the new infections by restricting International borders and closing “non-essential” businesses. The fall-out from these steps brought the global economy to halt. WHO provided a list of recommendations for each nation to put in place steps to combat COVID-19. Some of these steps included how to wear face masks, the proper use of alcohol-based hand sanitizers, and the avoiding of crowded places. Each of these had an immediate effect on how MSMEs operated.

In case of India situation was not different from rest of the world. With the announcement of country’s lockdown MSME owners, employers and external stakeholders were faced unexpected worst situations, where no one had experience to handle this kind of situation. Extended lockdown had negative impact on supply of finished goods, procurement of raw material and availability of related to stopping of existing work orders, shortage of labourers, the working capital employees to work in production and supply processes. During April to June 2020, sector faced challenges, loan repayments and the most emerging challenge during the lockdown period as well as in the post COVID-19 period would be meeting fixed costs. While this will be burdensome in absence of regular funds flow, the problem will be more deepened if Banks/NBFC creates pressure on MSMEs for repayments of the dues. On the other hand, MSMEs are the main suppliers of spares to large industries were not allowed inside industry, this resulted total halt in supply chain.

Government Initiatives;

The government introduced many schemes and policies to uplift the MSMEs from Clutches of unprecedented Covid-19 impact. The Indian Government and the Reserve Bank of India have taken immediate measures to strengthen the MSME sector which was showing negative growth during the pandemic by way of infusing liquidity in the Economy through the banking system to defeat the financial crisis. The policy measures taken by the Government under the “Atmanirbhar Bharat Abhiyan package” and other measures of RBI for the MSMEs sector are as follows;

- The immediate measures taken by the RBI are
- Reduction of CRR has resulted in liquidity enhancement of Rs.1.37.000 crores

- Targeted Long term Repo Operations (TLTRO) of Rs.100.050 crores for fresh deployment in investment grade corporate bonds, commercial papers and non-convertible debentures
- TLTRO OF Rs.50000 crore for investing them in Investment grade bonds, commercial papers and non-convertible debentures if NBFCs and MFIs Increased the bank's limit for borrowing overnight under the marginal standing facility (MSF) allowing the banking system to avail an additional of Rs. 137,000/ crore of Liquidity at the reduced MSF rate.

The stimulus package announced in tranches under the Atmanirbhar Bharat Abhiyaan, which are as under :-

- Rs.3 lakh crores collateral free automatic loan under the Emergency Credit Line Guarantee Scheme (ECLGS) for businesses including MSMEs – a move likely to benefit 45 lakh Units.
- Rs.20,000crore Subordinate Debt for MSMEs to restart their business, and to create job opportunities. Under this scheme nearly 2 lakh MSME units were likely to benefit. The tenor of loan under the Scheme shall be 4 year with moratorium period of 12 months on Principal repayment. The interest rate capped at 9.25 per cent for banks and FIs, and at 14 per cent for NBFCs. Scheme made available till 31st October,2020.
- Rs.4.5 lakh crore Collateral free Automatic Loans under Emergency Credit Line Guarantee Scheme (ECLGS) for businesses, including MSMEs.
- Rs.50,000 crores Equity infusion for MSMEs through Fund of Funds. A Fund of Funds with corpus of Rs.10,000 crores to help Units to expand capacity.
- One of the most important interventions as part of the announced Package that the Global tenders are disallowed in such schemes up to Rs.200crore which will address the issue of unfair foreign competition faced by MSME sector.
- E-Market linkage for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions.
- Liquidity relief of Rs. 2,500 crores EPF for Businesses and Workers for 3 more months – likely to benefit 72 lakh employees.
- Rs. 6,750 crores liquidity support through reduction in EPF contribution for business and workers for 3 months (statutory PF contribution of both employer and employee reduced to 10 per cent each from existing 12 per cent each for all establishments covered by EPFO for next 3 months).
- The definition of MSMEs is revised so that more and more MSMEs will come under this category that will address the fear of MSMEs of outgrowing in size to receive benefits advanced by the Government
- The India Government has signed with World Bank for \$750 million agreement for the MSME Emergency Response Program to support increased flow of finance into the hands of micro, small, and medium enterprises (MSMEs), severely impacted by the COVID-19 crisis.
- The World Bank's MSME Emergency Response program will address the immediate liquidity and credit needs of some 1.5 million viable MSMEs to help them survive the impact of the current shock and protect millions of jobs.

The policy responses:

The stimulus packages announced by different countries across the world, responses vary from 1 per cent to 12 per cent of GDP as of now. Rich countries seem to have announced larger stimulus packages (5-10%) and poor countries have announced smaller packages 2 per cent to 5 per cent of their GDP.

Much before the Indian stimulus was announced, the US, Japan, the UK and Europe had already announced huge packages. The cumulative numbers projected as stimulus seem very large and run in to trillions of dollars. Most of us genuinely believe that governments of rich countries have

given away the money to citizens and businesses for them to never return.

When compared to India's stimulus package with that of other developing countries with similar per capita GDP, the Indian response to Covid-19 seems to be very large as a percentage of GDP as well as areas it covers. But when compare to the recovery of the first wave Pandemic, the second wave even more vigorously ripped the economy particularly the MSME Sector. Therefore, the MSME sector still needs lot more packages to bring back to the normal performance.

Therefore, to faster the growth of this sector the government needs focus on the following factors.

- The Government should immediately come out with a larger economic package aimed at boosting demand, investment, exports and employment generation to help the economy, including MSMEs to recover from the Pandemic fall-out.
- For the persistence of the MSME sector, it is inevitable for the government to provide with much-needed liquidity support to keep their businesses running and generate job opportunities for the workforce.

CONCLUSION

In India the sector is providing largest employment next to agriculture and contributing more than 30 per cent of the production and about 45 per cent of exports. MSME is a key sector to achieve the US\$ 5 trillion Indian economy. Therefore, any sharp decline in the performance of this sector is bound to have a ripple effect on the national economy, employment generation, export, entrepreneurship etc. The suitable monetary and fiscal policies can push the sector to meet the global standards by way of adopting the sophisticated technology in the process of production.

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