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MSMEs in COVID-19 Crisis and India's Economic Relief Package: A Critical Review

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ABSTRACT

MSMEs (Micro, Small and Medium Enterprise) are the backbone of Indian economy as it contributes more than 30% in the India's GDP (Gross Domestic Product). The present research studies the current conditions of MSMEs amid corona virus crisis and the economic relief package, specifically for MSMEs, entitled as "Atmanirbhar Bharat (Self-Dependent India)" in order to revive the business activities of MSMEs. Critical review of the economic package and modification needed in terms of MSMEs issues in the further announcements were discussed in this paper. Former RBI (Reserve Bank of India) governor Raghuram Rajan and Nobel Prize winner in economics Prof. Abhijit Banerjee has also contributed in the discussion in order to revive the Indian economy.

Keywords: MSME, Indian Economy, Economic Package.

1 Introduction

The COVID-19 pandemic has impacted all the sectors of economy, but worst hit the MSME (Micro, Small and Medium Enterprise) sector in India. All anecdotal evidence explained that MSMEs are in the worst conditions due to the COVID-19 lockdown as many stranded migrant workers moving towards their home all across the country. Suvodeep Rakshit of Kotak Institutional Equities stated that MSMEs were already facing problems such as decline in capacity utilisation and effective generation of revenues before the COVID-19 crisis. The total lockdown in the country created panic and raised an existence question for micro industries/enterprises as these firms are not having much cash in hand to wait out the crisis which results in mass job losses. According to the survey conducted by Suvodeep Rakshit on small and medium businesses, only 7% of them were saying that their businesses would survive more than three months in the condition of complete lockdown (only essential services open). Even in the restarting position, there will be labour unavailability crisis in the urban areas [1]. Micro, small and medium enterprises (MSMEs) are the backbone of Indian economy. According to Annual report 2018-19 of Department of MSMEs, about 6.34 crore MSMEs functioning in the country which employs 11 crore

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people. In that, 51% of MSMEs are located in rural areas, but 55% of employment is offered by the urban MSMEs. In addition, micro enterprises consist 99.5% of all MSMEs whereas 0.5% medium and small enterprises are predominantly situated in urban areas. Micro enterprises exist in both rural and urban areas; it can be simply referred as the single man or women working on their own from their home [1]. MSME sector were already in huge distress firstly due to demonetisation, subsequently poorly executed GST across India followed by prolonged economic slowdown in terms of declining demand and revenue, and finally, the biggest setback of all COVID-19 lockdown which will further aggravate the conditions of this sector. According to a research conducted by All India Manufacturers Organisation (AIMO), more than 75 million MSMEs are currently functioning in India, but nearly 25% of MSMEs are expected to face closure if the lockdown remains for four weeks continuously. And, if the lockdown extends beyond eight weeks, a whopping 43% of MSMEs will shut. MSME firms are the backbone of Indian economy which helps the economy to grow rapidly. MSMEs are going through tough situations, thus, actions are needed to be taken immediately as this sector significantly contributes more than 30% of GDP (Gross Domestic Product) and employing over 114 million people in the country [2]. The present study explains the current conditions of MSMEs in India and what effect may happen after introducing "Atmanirbhar Bharat Abhiyan" economic package by the central government in the calculation of various experts.

2 Indian Government's Economic Relief Package for MSMEs

Central government of India allocated amount of Rs. 3 lakh crore to help MSMEs in this crisis. This initiative will help to act as seed money for small businesses to start again via purchasing raw materials, paying initial bills and wages to workers etc. In short, it will act as a working capital in businesses to start over again. Earlier, banks were unwilling to disburse such loans to firms because they already have pledged their assets and took loans against it, but, now, the central government has taken full guarantee of all Rs. 3 lakh crore and need no collateral for this loan, especially for MSMEs [3]. In detail, finance minister Nirmala Sitharaman had announced economic relief package for MSMEs as it offers collateral-free automatic loans worth Rs. 3 lakh crores with tenure upto 4 years and moratorium of 12 months. This scheme covers 100% guarantee to banks and on principal and interest aiming to benefit 45 lakhs of MSMEs and this will be available till 31st October 2020. The government also infusing Rs. 50,000 crores as equity to MSMEs as fund of funds, to be considered as mother fund and a few daughter funds in order to increase the capacity as well as size of MSMEs. Global tenders upto Rs. 200 will be offered to MSMEs only [4]. Government has also redefined the MSMEs based on investment as well as their turnover. The new definition has replaced the earlier distinction between production and services units. Henceforth, investment upto Rs. 1 crore and turnover upto 5 crores will be called as micro units, investment upto Rs. 10 crore and turnover upto Rs. 50 crores will be known as small units, and investment upto Rs. 20 crore and turnover upto Rs. 100 crores will be called as medium business units [3].

Moreover, the central government announces a partial credit guarantee scheme of Rs. 20,000 crore for the MSMEs' promoters in order to increase the business equity. It is expected about 2 lakh MSMEs along with non-performing units will be benefitted from this initiative. In addition, the existing partial credit guarantee scheme is extended in order to assist low rated finance companies aiming to raise debt by covering debt papers of primary market in which the government will bear the first 20% loss. A total of Rs. 45,000 crores have been allocated for the partial credit guarantee scheme 2.0 to offer liquidity in paper rated AA and below and even unrated paper [3]. All MSMEs having turnover of upto Rs. 100 crore and with outstanding credit of upto Rs. 25 crores will be permitted to borrow 20% of their total outstanding credits as on February 29, 2020. This scheme will have four-year tenure and is open till 31st October,

2020 [3]. NBFCs (Non-Banking Finance Company), micro finance institutions and housing finance companies are facing difficulties in order to increase the debt capital as the debt market is under confidence crisis. Therefore, the government stepped into with Rs. 30,000 crore as special liquidity scheme lift up investment grade debt paper from both primary and secondary markets. The government has guaranteed such papers and is expecting to increase the confidence level in the debt market [3]. Finance minister had announced in March 26, 2020 as the workers earning Rs. 15,000 per month in business units where working people are less than 100 are at the biggest risk of losing jobs. Therefore, the government declared a proposal that EPF (employee provident fund) contribution of both employer and employee i.e., 12% will be reduced to 10% for March, April and May months aiming to increase the cash take away home. Now, the scheme has extended to further three months i.e., June, July and August [5] and expecting a benefit of 4.3 crore people and 6.5 lakh business units which releases a total amount of Rs. 6,750 crore liquidity [3]. However, for government PSUs, the employers' contribution will be 12% same as before whereas employees can pay 10% as per their interest [5].

3 Experts on MSMEs' Current Scenario and Economic Relief Package

Firms are in terrible situation where they are expecting ways to fix the demand problem and government is offering collateral-free loans to sail through the crisis. However, looking at the declining demand scenario, firms would not prefer to borrow more loans [6]. Even finance minister had also acknowledged that the firms were asking to bank to not to disburse any loans. Notably, where millions of people have lost their employment and declined purchasing power amid corona virus crisis, firms would not produce more product or services without effective demand. As they know that supply itself does not create any demand i.e., they would not show any eagerness in taking up more loans. This creates a vicious cycle, where lowering the production rate decreases the employment opportunities which leads to further compression of demand [7]. An immediate relief to MSMEs could be given by the repayment of Rs. 5 lakh crores of dues owed by central government and private sector [8] as the shortage in working capital has become the biggest issue for MSMEs. However, the government declared on 13th May 2020 to return the remaining dues to MSMEs within 45 days. Along with this, GST refunds are required to be expedited. These measures would make the firms 'Atmanirbhar' (self-dependent) [7].

A public provision for MSME workers as offering a partial wage guarantee for the lockdown period and another for three months in unlock period could directly assist employers along with guaranteeing incomes. Without effective demand, firms will produce lesser which lead to provide employment to fewer people, assisting business units with some wage guarantee scheme along with firms would provide a greater relief to MSME workers amid corona virus crisis. The Supreme Court has also said that firms, who are not able to pay full wages to workers during the lockdown period, will not be prosecuted in court [9]. Amid corona virus crisis, standing at the verge of collapse due to nearly no demand in the market (especially for small businesses) and being prosecuted for not paying full wages to workers hardly seems fair. In addition, a huge majority of MSMEs provide employment to contractual, piece-rate paid labours. It becomes easier for the firms to decrease the workers' wages as if they would not provide adequate papers of their association with enterprise. Hence, a wage guarantee program becomes significant in these conditions [7]. A bailout or relief from paying heavy electricity charges for a certain period of time amid corona virus crisis would greatly help in sustaining businesses of MSMEs. Only infusing liquidity would not help small businesses and could push their balance sheet to further deterioration if the demand does not revive [7]. However, MSMEs financing mostly comes from informal sources and this fact explains the

effort made by Reserve Bank of India to increase liquidity in the market have had created very limited impact on MSMEs [1].

In the interview with The Wire, former RBI governor Raghuram Rajan stated that Indian economy would become a shadow of its former self, if further measures would not be taken by the government soon. Considering the extent of catastrophe, the government should consult the opposition talent in order to tackle the situation as it can't be handle by the PMO (Prime Minister Office) itself. Situation demands to work on full strengths at all ends. He suggested to the government to not bow under the pressure of different rating agencies [10]. In response to the "Atmanirbhar Bharat" economic package, he said that no measure is adequate in this crisis, especially in India's case. Loans provided to MSMEs in the proposed package takes time to work, but, on the other hand, hunger is an immediate problem which needs to be addressed first [10]. Similarly, Prof. Abhijit Banerjee, Nobel Prize winner in Economics stated that purchasing power in India is not very high and due to lockdown, the poor people of country, now, do not have much money in their pocket and hardly have any purchasing power today. Currently, there is a huge decline in demand in the market. He also suggested the direct income support to the common people because they are the one who runs the economy, not the rich ones [11]. Rajan admitted that the US style bailout is not possible in India, debt relief can be offered to industries such as airlines. Financial sector has already been in the deep distress way before the corona virus stroke. It needs re-capitalisation, restructuring and the hole in the leaking bucket must be plugged. He clearly added that the public sector banks need better management [10]. Rajan said that MSME sector is already in most indebted conditions, and loans will only add to this. There is also an anticipation that bank will not permit loans to such MSMEs but using credit guarantee system will help to bail them out. He added that in order to help out MSMEs, a far better way is repayment of their dues. Union Minister of MSME Mr. Nitin Gadkari stated that the private sector and the government owed Rs. 5 trillion in dues to MSMEs. However, while announcing the economic package, finance minister Nirmala Sitharaman said that the government and public sector enterprises will return their dues to MSMEs within 45 days [10]. Rajan questioned the state governments who were suspending labour laws for three years. Firstly, they must go for the wider consultation and micro-management by centre before imposing such laws on labour. Secondly, without adequate discussion, protest may happen against it which will further disrupt the economy. And finally, the government should take care of migrant workers in cities as they are enticed to return to their villages. However, offering food grains to poor and unemployed migrant workers is not enough, they need other essential commodities too such as vegetables, cooking oil, and most importantly, money and shelter [10].

4 Conclusion

The Indian government has taken several initiatives in order to solve the MSMEs' problems, but as per the experts, no measure is adequate in this catastrophe. Union minister Mr. Nitin Gadkari also stated that the MSMEs of India are in the verge of collapse [4]. The government should use the opposition talent in order to tackle the economic situation as well as the COVID-19 crisis. The present research studies the current status of MSMEs amid corona virus crisis and the effect by the introduction huge economic package on MSMEs and in the country overall. Finance minister Nirmala Sitharaman introduced the 20-lakh crore economic package including 3 lakh crore for MSMEs in order to revive their business activities. As per the experts, the measures taken by central government with the introduction of such economic package is not enough, more measures are needed to be taken as suggested by former RBI governor Raghuram Rajan and Nobel Prize Winner Prof. Abhijit Banerjee and many more.

5 Competing Interest

I, Kailash Kumar Sahu, declare that there is no conflict of interest in this paper to the very best of my knowledge.

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