Revitalizing MSME Sector in India: Challenges and the Road Ahead

Srirang K Jha* and Ashish Kumar**

ABSTRACT
This article provides a razor-sharp commentary on the recent announcement of Finance Minister Nirmala Sitharaman regarding revival of the Micro, Small and Medium Enterprises (MSME sector) in the wake of Covid-19 crisis. The nation-wide lockdown induced by the deadly pandemic had almost crippled the MSME sector due to suspension of business operations, disruptions in the supply chain, loss of business, large scale reverse migration by the workers and above all, cash flow crisis. As a huge percentage of the MSME sector enterprises fall under micro and small units, vulnerability to external shocks are quite natural. Hence the government came forward to facilitate revitalization of the MSME sector through a slew of interventions. However, the relief package for the MSME sector announced by the government was criticized for its lack of sensitivity towards the specific needs of the micro and small enterprises. Moreover, some of the stakeholders were also not appreciative of the new classification of MSMEs.

KEYWORDS: MSME, Covid-19, India

INTRODUCTION
Micro, Small and Medium Enterprises (MSME) sector is currently at the receiving end due to the nation-wide lockdown since 24 March 2020 in the wake of Covid-19. Both the entrepreneurs and the workers have been walloped by the sudden closure of MSME sector so much so that an existential crisis has arisen. According to a survey conducted by the Federation of Indian Chambers of Commerce & Industries (FICCI), 60% of the MSMEs are deeply affected (Muralidharan, 2020).

The MSME sector is struggling for survival as substantial unpaid bills are lying in the various departments of the government of India, state governments, public sector undertakings as well as large private establishment. The predicament of MSME sector is likely to have catastrophic

*Associate Professor & Head, General Management Area, Apeejay School of Management, New Delhi E-mail: jha.srirang@gmail.com
**Assistant Professor, University School of Management Studies, Guru Gobind Singh Indraprastha University, New Delhi E-mail: ashish_prl@yahoo.com
implications for all the stakeholders. There are an estimated 6.33 crore unincorporated MSMEs engaged in non-agricultural economic activities, employing 11 crore persons across the country, contributing nearly 30 per cent of India's gross domestic product and close to half of the country's total exports (Pandey and Pillai, 2020). According to another estimate, there are 67 million MSMEs in the country out of which 96.7% of them fall under micro-enterprises employing less than ten workers (Mehrotra, 2020).

Despite its volume, scale and expanse, the MSME sector is vulnerable and can quickly become unstable and unviable, particularly in the presence of external shocks (Ghosh, 2020). Micro businesses (fewer than ten employees) and growing businesses (zero to five years old) are most vulnerable across all sectors (Liu and Parilla, 2020). As the small businesses have more significant credit constraints and are more sensitive to weak consumer demand, they are often hit hardest especially during Covid-19 like crisis resulting in minimal foot traffic and social interactions which are critical for such firms (Liu and Parilla, 2020). Shortage of funds is not the only constraint in the way of revival of MSMEs. According to a survey conducted by Mahratta Chamber of Commerce Industries and Agriculture (MCCIA), the majority of SMEs are working just on 20% capacity utilization due to unavailability of labour and supply chain disruption issues (Indian Express, 2020b). Small businesses have also been affected adversely due to Covid-19 even in some of the developed countries like the USA. According to a survey conducted by the National Federation of Independent Business (USA), 92% of the small businesses reported having been affected negatively due to the pandemic (Lake, 2020).

INTERVENTIONS FOR REVITALIZATION OF MSME SECTOR

The first thing that the Government of India did to rejuvenate MSME sector in the wake of Covid-19 pandemic was redefining the classification of micro, small and medium enterprises as under:

- A micro-enterprise, where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- A small enterprise, where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees;
- A medium enterprise, where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees (Govt. of India, 2020).

The Government of India has announced several measures for stimulating the MSME sector facing a tough time due to nation-wide lockdown to contain the rapid spread of Covid-19. Table 1 presents a summary view of major interventions to put the MSME sector back on track and their concomitant implications.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Interventions</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Rs. 3 lakh crores collateral free automatic loans for businesses including MSMEs</td>
<td>45 lakh units likely to resume business activity and safeguard jobs</td>
</tr>
<tr>
<td>2.</td>
<td>Rs. 20,000 crore subordinate debt for MSMEs</td>
<td>2 lakh MSMEs likely to benefit</td>
</tr>
<tr>
<td>3.</td>
<td>Rs. 50,000 crore equity infusion through MSME</td>
<td>Likely to help expand MSME size and</td>
</tr>
</tbody>
</table>
Fund of Funds encourage them to get listed in stock exchanges

4. Global tender to be disallowed up to Rs. 200 crores Increased business opportunities for MSMEs
Unfair competition from foreign companies likely to be reduced, thus increasing the opportunities for Indian MSMEs to win the bids

5. E-market linkage for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions. Increased business opportunities for MSMEs

6. Rs. 2500 crores EPF support for business and workers for three more months Liquidity relief likely to 3.67 lakh establishments having 72.22 lakh employees

7. EPF contributions reduced for businesses and workers for 3 months to the tune of Rs. 6750 crores Relief likely to about 6.5 lakh establishments having about 4.3 crore employees covered under EPFO

[Based on Atmanirbhar Presentation Part 1: Businesses including MSMEs, Govt. of India, 2020]

CRITIQUE

Change in the definition of the MSMEs has raised the eyebrows of several stakeholders including Swadeshi Jagran Manch and Laghu Udyog Bharti – the two organizations which are ideologically close to ruling Bharatiya Janata Party. A primary concern of these lobby groups is that the turnover-based classification of MSME is likely to benefit the traders and assemblers who import from China at the cost of local manufacturers (Borpuzari, 2020). Further, in the opinion of Council of Leather Exports, classification of MSMEs should have been based either on investment or turnover as labour oriented sectors with Rs 20 crore investment in plant and machinery may achieve even Rs 500 crore turnover, which has now been capped at Rs 100 crore only (Borpuzari, 2020). Also, a considerable turnover is achieved due to the very nature of the final product, even with a much smaller investment in plant and machinery in specific sectors like the gems and jewellery and at the same time, some sectors have higher capital investments but lower turnovers (Ghosh, 2020).

Thus the stakeholders have mostly not appreciated the forward-looking move of the Government of India to change the classification of the MSMEs. While the new definitions do offer some privileges to MSMEs, in many cases, these cripple their operations too as in case of the global investment of the MSMEs, if it is more than the prescribed limit; they would no longer be able to enjoy the relaxations meant for them (Borpuzari, 2020). As such, for many firms, if either their investment increases or turnover increases, they will lose the status of an MSME – the new changes are not as beneficial to the sector as they could have been because the limit on turnover has been kept so less (Borpuzari, 2020). According to Ghosh (2020), the turnover criterion might provide an incentive to under-report and qualify as an MSME; though, under-reporting investment size is also a possible route for a unit to remain classified as an MSME.

Moreover, the announcement of the relief package for MSME Sector has received a mixed reaction from the stakeholders who had expected a better deal in terms of cash in hands in the form of sops. However, the relief package of the Government of India has mostly come across as cosmetic. The
MSME owners have severe concerns about the implementation of the relief package announced by the Government of India in word and spirit. In order to make the plan for revival of MSME successful on the ground, the government needs to closely monitor to ensure that banks transmit credit to the needy business units in the sector (Indian Express, 2020b). Moreover, the government departments, public sector undertaking and the other business establishments need to clear all the outstanding dues immediately to provide a fresh lease of life to the MSMEs without pushing them further to a debt-trap even if the government has come about a guarantor for the loans promised under the revival relief package. Expecting businesses and industries to avail additional loans at a time when there has been a severe reduction or evaporation of their incomes was like rubbing salt to their wound (Indian Express, 2020a).

Another concern about the viability of the relief package for MSME is the eligibility norms. It is believed in some quarters that micro-enterprises which comprise 99.4% of the 6.3 crores registered MSMEs in the country, may fall out of the eligibility criterion to get any benefits (Indian Express, 2020a). Interestingly, these micro enterprises employ 97% of the workforce in the sector, comprising 10.76 crore workers (Indian Express, 2020a). If the relief package fails to support the micro-enterprises, the whole purpose of the MSME relief package will be defeated even if some of them may benefit from the revival plan. Except for lip service, so far, not much attention has been paid exclusively to the micro sector’s viability, working capital requirements, credit leveraging capacities, or its market access (Ghosh, 2020).

Anyway, the loan-based solutions may not work especially for the small enterprises (Chakrabarty, 2020). The government has kept aside its welfare-oriented stance in supporting the micro and small scale industries while promoting a market-based solution to the current crisis primarily in the form credits guaranteed by the government. Many stakeholders feel that the risk-averse banks may not be enthusiastic in obliging the owners of micro and small enterprises for want of necessary collaterals even though the government’s guarantee is there as a cover for such advances.

Moreover, the MSME sector cannot revive and thrive during the current scenario without augmented demand for products and services. As such, the mood of the people in the country is very low due to Covid-19. Already, so many people have lost their jobs or reeling under income insecurity. Even if the MSMEs are enabled to commence their business operations in terms of manufacturing and service offerings, there are hardly any takers in the market. Hence, without enhancing the spending capabilities of the consumers, reviving the MSMEs looks quite challenging. In addition to the cash in the hands of the consumers for the successful revival of MSMEs, the government needs to reduce the GST to push the demands upwards. Increased consumption is the only way out for reviving the economy in general and the MSME sector in particular.

Unfortunately, the government’s revival plan for the MSME sector is focused on the supply side. Nayyar (2020) has rightly observed: ‘the design of this relief package seeks to focus on the supply side, with an emphasis on providing liquidity through lines of credit, where the RBI is providing as much as Rs 8 trillion, rather than on the demand side by stepping up government expenditure, to minimize the cost to the government. The arithmetic is imaginative — as much as Rs 10 trillion of the relief package will have to be financed by sources other than the Centre and the RBI. Where will resources to bridge this massive gap, 4.4 per cent of the GDP, come from?’
Nayyar (2020) has further observed: ‘this stress on the supply-side, while neglecting the demand-side, reveals a flawed understanding of economies in crisis and little recognition of the reality when a prolonged lockdown has brought the economy on the verge of collapse. Even in normal circumstances, the speed of adjustment of the supply-side is slow because supply responses take time. In contrast, the speed of adjustment on the demand-side as fast as incomes spent raise consumption demand without any time-lag. At present, if there is little or no increase in demand, supply responses will be slower than usual because producers would not wish to pile up inventories of unsold goods. In terms of the chicken-and-egg parable, demand must be revived first to kickstart the economy’.

It is also essential that the safety of the workers is given utmost priority. Already, the workers’ rights have been curtailed by several state governments by way of suspending the provisions of social security benefits under various laws. Indeed, repercussions would be disastrous in case the MSMEs compromise with the safety aspects on account of reducing their expenses. Unfortunately, there is hardly any monitoring mechanism in place to ensure compliance of safety guidelines issued by the Government of India. Best way to promote safety at the MSME workplaces is to provide cash incentives with more reliable vigilance on compliances. Any lapse in ensuring a safe work environment may unleash havoc and endanger the lives of all the stakeholders, especially when the Covid-19 spread is alarmingly very high. Leaving the safety issue at the discretion of MSME owners would be catastrophic. It is heartening to note that some of the MSMEs have stated working on fine-tuning their safety at workplace programs. Sanitizing premises, thermal scanning of employees and distancing are the new mantra as the industry sector tries playing its part in reviving the economy in the wake of the Covid-19 outbreak (Indian Express, 2020b).

**PUBLIC POLICY IMPERATIVES**

There may be three ways in which the government can support the revival of the MSMEs. The first is to empower the promoters/owners of the MSMEs so that they can overcome the after-shocks of Covid-19 on their own. Secondly, MSMEs can fight the battle of survival collectively through federations, chambers of commerce and industries and industry bodies. Third, the government should create a holistic ecosystem so that the markets can do the course correction and enable the MSMEs to come out of the adverse impacts of the pandemic successfully in a natural process.

Lake (2020) provides following suggestions to the promoters/owners of small businesses so that they can revive their enterprises:

- **Assessment of Financial Damage**: The promoters/owners need to assess the financial damage so that they can plan their financing needs to put their respective firms back on track;
- **Review of Business Plan**: The promoters/owners must take a second look at their business plans and see whether any course correction is required to revive their respective firms in the aftermath of Covid-19 pandemic;
- **Review of Funding Requirements**: Promoters/owners need to review their funding requirement in order to revive their firms after the pandemic;
- **Review of Budget to Account for New Spending**: While reopening the firms, they need to take caution to ensure the safety of workers, staff, managers and the visitors which might need extra spending;
Timelines for Revival: The promoters/owners also need to set the timelines for the revival of their respective plans;

Contingency Plan for Next Crisis: The promoters/owners also need to do planning for such crises in future.

Federations, chambers of commerce and industries and industry/sector-specific bodies need to work towards collective revival efforts instead of just looking up to the government for relief packages, subsidies and incentives. These bodies are quite vocal critics of the government measures. However, they have never showcased their efforts to revive the MSME sector in terms of conducting brainstorming sessions, scenario planning and strategic meetings to handle the crisis without the support of the government. Most of these bodies are subscription-based organizations, and collectively, they possess enormous resources and clout. However, they have not come forward with any concrete plans to help their members revive MSMEs in any significant way. It is high time that these bodies start reflecting on their roles and reposition them as proactive associations ready to march ahead in the collective interest of their members. Directly lobbying and critiquing the government may not help in the long run.

The government has the ultimate responsibility of putting a holistic ecosystem in place so that the MSMEs can survive and thrive in the post-Covid-19 crisis. The foremost task of the government in the revival of MSMEs is to bring back the workers who have migrated to their villages due to scare of the Covid-19. Assuring the workers of a safe work environment and providing the essential social security benefits are keys to bringing the workers back to work. Some of the state governments have suspended the labour laws for the time being, which may prove to be detrimental in terms of a steady supply of labour. The Government of India must take a decisive view on restoring the social security provisions of the labour laws. Secondly, the government also needs to iron out the supply chain disruptions so that the MSMEs can restart their business operations.

CONCLUSION

The MSMEs are facing an unusual crisis in the wake of Covid-19 in terms of suspended operations, labour shortage, supply-chain disruptions, lower demands for goods and services, cash flow crunch, among many other recurrent problems plaguing the sector. The MSME sector, the backbone of the economy that provides 25 per cent of employment, 32 per cent of the GDP and 45 per cent of exports, is unhappy despite the Rs 3 trillion line of credit for loans without collateral (Nayyar, 2020). In MSME stakeholders’ experience, lenders are not always supportive in extending loans, while buyers (central and state governments, public sector firms and the private sector) owe them as much as Rs 5 trillion which has resulted in a piquant situation in which they do not have the resources to pay wages or meet fixed costs on electricity, rent or interest during the lockdown period (Nayyar, 2020). MSME revival package announced by the Government of India has further dampened the mood of the stakeholders in the MSME sector.

Possibly, MSME stakeholders and opposition parties were expecting cash relief through direct benefit transfer as a one-time subsidy to all the micro and small enterprises which form the most significant chunk of the MSME sector. While the medium enterprises have different set of problems, and they can leverage the market-based solution of credit lines for surviving and thriving, micro and small enterprises certainly needed cash to overcome the present crisis. However, one should not forget that India has moved away from being a welfare state to a market economy since 1991. In the
market economy, the enterprises big or small have to tread their path and succeed despite all the odds.

Also, even the micro-entrepreneurs have an appetite for taking a risk, and that is why they are into some kind of business operations instead of working for a monthly salary. Besides indomitable risk abilities, these street-smart entrepreneurs have also learnt the tricks of organizing resources for their business operations. No wonder, there has been only 0.7% credit growth during April 2016—March 2020 in micro and small enterprises segment (Singh and Verma, 2020). Moreover, loan default rates in the MSME sector have been the lowest among the business loans (The Economic Times, 2020). So the Covid-19 crisis provides a unique opportunity to all of them to find their way out of the depressing scenario and write their destiny, not based on gratitude in the form of subsidies received from the state but to rely on their business acumen. Interestingly, unlike popular belief, the resilient micro and small entrepreneurs have not depended on bank credit too much.

REFERENCES


