

**COVID-19 AND GOOD ECONOMICS WITH EMPATHY:**

**'FINANCE CLINIC' FOR SMALL ENTERPRISES**

*ISED Policy Briefs*

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## **'Finance Clinic' for Small Enterprises**

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**ISED Small Enterprise Observatory**

*Jointly with*

**ISED Centre for Financial Education & Research**

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### **About ISED Policy Briefs Series**

Brought out by the Institute's knowledge platform, the ISED Small Enterprise Observatory, titles under this Series are meant to stimulate a discussion on some of the latest developments in the economy and society. The contents of 'ISED Policy Briefs' emerge largely from the findings and experience of research work at the various Knowledge Centres of the Institute of Small Enterprises and Development. They are meant to be a backgrounder for policy debates and discussions at various levels.

## Preface

Unlike under a recession in the economy, the threats to businesses under Covid-19 are circular and cumulative. Both from the demand side, and the supply angle, there is a serious contraction of business activities, which essentially means a glut in the cash flow. ISED Centre for Financial Education and Research, a Division of the ISED, proposes a dedicated window, in order to address the issue: 'ISED Finance Clinic for Small Enterprises'(ISED-FCSE). It is expected to service the interests of MSMEs, and entrepreneurial aspirants, such as return migrants, start-ups, and women entrepreneurs.

This Policy Brief, brought out jointly by the ISED Small Enterprise Observatory and the ISED Centre for Financial Education and Research, is expected to contribute to the debates on 'Livelihood Crisis' and 'Enterprise Security', two critical areas of contemporary relevance.

The Institute wishes to thank the research team for its support and cooperation.

Cochin

April 12, 2020

P.M. Mathew

Director

# Covid-19 and Good Economics with Empathy: 'Finance Clinic' for Small Enterprises

By P.M.Mathew & M.Suresh Kumar

## Abstract

*Unlike under a sporadic recession in the economy, the danger threats to businesses under Covid-19 are circular and cumulative. Both from the demand side, and the supply angle, there is a serious contraction of business activities, which essentially means a glut in the cash flow. ISED Centre for Financial Education and Research, a Division of the ISED, proposes a dedicated window, in order to address the issue: 'ISED Finance Clinic for Small Enterprises'(ISED-FCSE). It is expected to service the interests of MSMEs, and entrepreneurial aspirants, such as return migrants, start-ups, and women entrepreneurs.*

*Key words: Finance Clinic, empathy, Covid-19, small enterprises, SME.*

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## 1.0. Introduction

COVID-19, as a pandemic, has shattered the budgets and operation of the majority of SMEs, globally, as also in India. A number of businesses have already closed down. The situation is graver in Kerala, as the majority of enterprises are tiny in nature. As the lock-down is lifted, the cycle of negative effects at the operational level are likely to get aggravated.

## 2.0. Unique Problems: Circular & Cumulative

Unlike under a sporadic recession in the economy, the threats to businesses today are circular and cumulative. Both from the demand side, and the supply angle, there is a serious contraction of business activities, which essentially means a glut in the cash flow. Corporate businesses, obviously, will come out of the mess due to their relative advantages, due to high reserve funds, liberal credit offerings, and easier access to alternative sources of finance.

Beyond the broad macro level concerns and imperatives, it is now time to **act** at the grass root level, supporting the entrepreneurs and aspirants to make a self-assessment of their current position. They need appropriate clinical support, in the form of problem identification and advisory support and suggestions at this critical stage. This is a basic condition for taking them forward on the right track, as post Lock-down period, the objective situation is, undoubtedly, going to be something different.

The web of constraints is as follows:

- Poor sales, large inventory.
- Delayed payments-government/private sector
- Bankruptcy of parent companies / debtors
- Unable to pay rates/electricity/water-along with huge backlogs.
- Damage of stock
- Wage bill arrears
- Unreliable labour supplies/ attrition
- Fund diversion due to exigencies

- GST related problems
- NPA/poor credit score
- Default in Bank & Finance, and legal actions.
- Debts in Business / Construction / Real Estate & Agriculture.
- Job losses in MSME and Financial constraints.
- Frustration of Contracts and loss of business.
- Rental & Lease disputes and Financial losses.

### 3.0 Need for Unique Solutions

Unique problems demand unique solutions. What is the nature of the MSME problem today? It can be summarized as a problem of 'vicious convergence' of growth retarding factors. Converging such vicious convergence into a 'virtuous convergence' is the challenge and responsibility of development action. The problem is dual in nature. On the one hand, it demands new solutions of a hybrid nature. Secondly, the solutions need to be taken forward on a real-time basis.

### 4.0 Finance Clinic: A Virtuous Convergence Platform

Against COVID-19, mounting debt is the thorny issue for businesses and individuals. Many of the SMEs today are in a ratchet of problems that are mutually reinforcing. Institute of Small Enterprises and Development proposes Finance Clinic for Small Enterprises ' as a virtuous convergence platform.

As pioneer of the India MSME Communication Programme (IMCP), ISED has a large network of MSME Associations, chambers of commerce and industry, State governments, and the State level and national SME promotion agencies. As such, the Institute gets incessant queries and requests from across the country on the emerging scenario. Falling confidence among the people, and among entrepreneurs in specific, is a yet another problem that can have disastrous consequences.

### 5.0 Organization

ISED Centre for Financial Education and Research, a Division of the ISED, proposes a dedicated window, in order to address the issue: 'ISED Finance Clinic for Small Enterprises'(ISED-FCSE). It will service the interests of MSMEs, entrepreneurial aspirants, such as return migrants, start-ups, and women entrepreneurs.

ISED-FCSE is a social responsibility initiative of the Institute, and considers it as a professional support to the Government of Kerala and the Union Government in their meticulous efforts for fire-fighting and managing the pandemic economics of COVID-19. With its vision of 'Sustainable Development through Enterprise', ISED has already offered several recommendations and strategic solutions to the Government of India and the State government.

The 'Finance Clinic' is equipped with a multi-disciplinary team of experts. In the context of the ongoing pandemic, the services are mostly offered on-line. The professional services of the Centre are fully free , except for specific tasks.

### 6.0 Conclusion

The project, as outlined, is proposed as a pilot initiative. Based on review of performance, its activities can be extended or can be restructured.

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