

COVID-19: Towards a Re-railing Package for the MSME Economy of India

ISED Scoping Paper

by
P.M.Mathew
&
J.M.I.Sait

PAHANKOL

720

ZDM₃

Institute of Small Enterprises and Development



ISED House, ISED Road, Cochin - 682028
Email: info@isedonline.org, seo@isedonline.org
www.isedonline.org

**COVID-19: Towards A Re-railing Package
for the MSME Economy in India**

COVID-19: Towards A Re-railing Package for the MSME Economy in India

by
P.M.Mathew
&
J.M.I.Sait

ISED Small Enterprise Observatory
Jointly with
ISED Centre for Enterprise Development

© Institute of Small Enterprises and Development 2020

All rights reserved. No part of this document may be reproduced or utilised in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage or retrieval system, without permission in writing from the publisher.

Institute of Small Enterprises
and Development, ISED House,
ISED Enclave, ISED Road,
Cochin-682 028, India
URL: www.isedonline.org
Email: info@isedonline.org



ISED Small Enterprise Observatory,
ISED House, ISED Enclave,
ISED Road,
Cochin-682 028, India
URL: www.isedonline.org
Email: seo@isedonline.org

Published by P.M. Mathew, for Institute of Small Enterprises and Development.

Series: **ISED Scoping Paper**

About ISED Scoping Paper

ISED Scoping Paper Series aims to accelerate the public availability of the research undertaken by ISED-associated people of all categories. It presents research results that, in whole or part, are useful for immediate policy decisions.. Our intention is to provide access to early results of research at ISED. Readers are encouraged to quote or reproduce material from ISED Scoping Papers for their own publications, as long as they are not being sold commercially. As copyright holder, ISED requests due acknowledgement and a copy of the publication. ISED publications seek to provide evidence and analysis that matters for entrepreneurial people and the planet.

Preface

Having gone through a rather unpleasant experience of a Lock-down of the Indian economy against the global experience of Covid-19, it is now time to have a review of the experience so far and to search for options for coming out from this crisis. Solving the “two-curve problem” is, by no means, an easy task. Governments, across the globe, have experimented with strategies based on their respective experience; India also has done so. Taking the country to a “new normal”, with much less pains for the masses is the challenge today. This paper advocates a four stage re-railing package for the country to come out of the present state of the national Lock-down.

This Scoping Paper, brought out jointly by the ISED Small Enterprise Observatory and the ISED Centre for Enterprise Development, is expected to inform and support the Government of India and the States to take appropriate decision regarding management of the Pandemic.

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

Cochin

Apr 14, 2020

P.M. Mathew

Director

COVID-19: Towards A Re-railing Package for the MSME Economy in India

P.M. Mathew & J.M.I.Sait

Abstract

Having gone through a rather unpleasant experience of a Lock-down of the Indian economy against the global experience of Covid-19, it is now time to have a review of the experience so far and to search for options for coming out from this crisis. Solving the “two-curve problem” is, by no means, an easy task. Governments, across the globe, have experimented with strategies based on their respective experience; India also has done so. Taking the country to a “new normal”, with much less pains for the masses is the challenge today. This paper advocates a four stage re-railing package for the country to come out of the present state of the national Lock-down.

Key words: National Lock-down, Re-railing package, India, Covid-19

1.0. Introduction

During a pandemic situation, the priority of public policy, first and foremost, is to understand the dimensions and magnitude of the pandemic, and to evolve strategies for containing it. Unlike many other countries, the Government of India, with the active support of the States, has made timely interventions in this area. It is important to understand that, apart from political will, the policy choices are dependent on the epidemiological compulsions, on the one hand, and the budgetary implications, on the other. Having a reasonably realistic understanding of the situation, the next challenge is to keep such initiatives going, without hampering the interests of the economy and of the welfare of the people. Keeping a right balance between the two, is the challenge of Pandemic Economics and public policy in general India is now on a vigorous search for sustaining the health, growth and sustainability of the MSMEs, a sector that really matter in its sustainable development agenda, in terms of output, employment, and opportunities. While sustaining agriculture is vital to ensure that people do not starve during the Pandemic and beyond, the health of the MSMEs is critical to ensure that the local economy is going, and that the Indian economy does not get derailed into second-order problems associated with this pandemic.

2.0. Public Policy Initiatives So Far

The Union and State governments have initiated several steps for providing short term relief to the

MSME sector during March-April, 2020.

2.1. Government of India

The Union Finance Minister made an announcement on a relief package involving Rs.1.7 lakh crores. Subsequently, the Ministry has issued Taxation and other Laws (Relaxation of Certain Provisions) Ordinance, 2020, on March 31, 2020, in order to give effect to this announcement. The Ordinance provides for extension of various time limits under the Taxation and Benami Acts. It also provides for extension of time limits contained in the Rules or Notification which are prescribed/ issued under these Acts. It is understood that the Government of India is working on a post-Lock down relief package meant to revive the economy.

2.2. State Governments

While, in the Indian federal system, the State governments strictly follow the Central guidelines relating to the Lock down and its implementation, the operational part is largely confined to, closing the borders of the respective States, cluster based monitoring in high-risk areas, stepping up of testing facilities, gearing up infrastructure with the health system, promotion of volunteering etc. The State governments are waiting for further directions from the Union, though some States like Odisha have already extended the Lock down period.

3.0. The Economics of the Pandemic: How it Works

The economics of the pandemic is equally important as containing the pandemic *per se*, for four important reasons: First, for medical as well as economic reasons, a contingency plan need to be based on people's confidence. Secondly, a lock down is a period of opportunities, as it provides, for businesses and people alike, enough time to introspect on the beaten track and to shape new strategies. Thirdly, though the Finance Ministers may be worried about, as the Union and State Budgets go awry, it is important that such larger concerns should be shared by the community during such contingencies. During normal times, the economics of the Budget is never the concern of the common man, and especially for the organised groups. They judge the Budget on the basis of what they personally gain from it, rather than on the basis of the larger welfare implications. It is important to note that, today, the pandemic economics, in most States, is still in a rudimentary stage of discussions. Fourthly, the time has come for an inevitable participatory process, so that people's confidence that is vital for tiding over this crisis, is sustained without delay. Such confidence is crucially dependent on self-realisation, and support from stakeholders, including the government.. The right message that needs to be disseminated is that, humanity has outlived several pandemics like this, and that, we are more privileged to handle it because of our much more advanced position in technology and organisation.

The economics of the pandemics need to be discussed in terms of the magnitude of the disruptions in the economy on a comparative scale. There are three broad facets of the disruptions that are consequent of the COVID-19 pandemic. These may be discussed as 'demand side' problems on the one hand, and 'supply-related' or supply-chain related problems, on the other.

3.1. Turnover Disruptions

A sudden fall in output is the most visible and instant problem for the SMEs. The reasons could range from, a sudden panic situation created by incidents like, an employee getting COVID affected, to a lock-down decision by the government. A sudden fall in revenue leads to an adverse liquidity position

which, in fact, topples the business plan of the firm. This has happened in the case of poultry, and meat market during January-February, this year, based on apprehensions of bird-flu. Besides, based on actual or anticipated cut in income, fear of contagion, or heightened uncertainty, consumers may choose to reduce spending and consumption.

3.2. Supply Chain Disruptions

A supply chain is a network of a company and its suppliers to produce and distribute a specific product to the final buyer. The supply chain also represents the steps it takes to get the product or service from its original state to the customer.COVID-19 has disrupted the chain essentially for two reasons: First, interruption has taken place in terms of shortages of parts and intermediate goods. Many of the manufacturing SMEs in India are dependent on Chinese components and intermediate goods, and as such, since the beginning of January 2020,such rigidities have come into active play. On the other hand, the end markets of the products of many SMEs have been significantly affected in the form of reduction in orders from the buyer industries. This is a unique feature of India, as the country has a sizeable segment of manufacturing SMEs.

3.3. Financial Intermediation-related Problems

Following the outbreak of the Pandemic, the Reserve Bank of India has announced some measures relating to credit delivery. The RBI's COVID-19 Regulatory Package, entitled Statement of Development and Regulatory Policies, released on March 27, 2020, brought in certain regulatory measures to mitigate the burden of debt servicing brought about by disruptions on account of the pandemic, and to ensure the continuity of viable businesses. In this regard, the detailed instructions are relating to: (i) Rescheduling of Payments – Term Loans and Working Capital Facilities; (ii) Easing of Working Capital Financing; and iii) Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA). All the steps are, obviously, of some relief to the MSME sector. The RBI has increased the borrowing limit of all States and Union territories under the WMA facility by 30% from the existing limit. It has also extended the realization period for export proceeds.

4.0. COVID-19 Mitigation Packages: Key Components

Globally, soon after the outbreak of COVID-19, countries have taken steps to understand and monitor the situation, and to announce packages for its mitigation. India also announced a package, as discussed above.

4.1. General Policies

Many countries, around the world, have initiated general policies, such as, tax reliefs, rearrangement of payment schedule of taxes and fees etc., as initial relief measures. In India also the announcement made by the Government of India, and most of the States are on the same lines. The announcements of the Reserve Bank of India also go on the same lines.

A response to such relief measures, are often based on the actual subjective perceptions of the entrepreneurs, as also the objective reality based on the short term experience. As such in India, several of the MSME Associations have demanded a specific package targeting the MSMEs.

4.2. Participatory Policies

Participatory policies are public policy measures that are shaped and implemented with the active participation and engagement of business Associations. The distinctiveness of such policies is that, the burden of addressing the pandemic, and of evolving strategies, is shared among the government and the businesses. The advantage of such a policy approach is that, while implementing a mitigation programme, the government can also ensure business confidence, which can profitably be carried forward to a phase of post-COVID revitalisation. There are countries where the SME associations are engaged actively on a partnership mode, in public programmes for enterprise development.

4.3. Specific Measures

Specific measures addressed to the SMEs are those measures that are strictly targeted on the basis of a strong evidence-base. Such measures are often

employed, and are able to be employed by countries having strong business demography monitoring system, such as an Enterprise Observatory, or a regular state-of-the-sector reporting system. Countries having such strong monitoring system are only few in numbers. The case of European Union, USA, Japan, and Canada stand out. Countries having active labour market policies (ALMPs) also are able to make immediate policy responses on these lines.

4.3.1. Reduction of Working hours

The characteristic feature of these kinds of policies is flexibility and relief for companies and workers. Reduction of working hours, sick leave and temporary lay-offs belong to this category.

4.3.2. Financial instruments

Targeting and adapting of financial instruments to the requirements of SMEs is another strategic option followed by many countries. Some examples are, tax reliefs, guarantees, and grants. Pay check Protection Programme, or PPP Loan Scheme of the USA, is an example. However, unless there is meticulous care on the details of implementation, the scheme is likely to fail.

4.3.3. Procurement /Delivery and Late Payment

‘Procurement and late payment’ is a method that can be adopted in the product and factor markets. In the factor market, government can intervene by making public procurement of a massive scale, and by making partial or full payment instantly. This would, at a time, help to reduce problems of storage and damage, on the one hand, and reduction of liquidity stringency of the SMEs. This is relevant in the case of items like processed/semi-processed foods and other relatively perishable items. Apart from the direct help to the SMEs, it is likely to make a big impact on the whole value chain, extending up to the farm producers.

If public procurement norms are strictly targeted on the basis of a war room strategy, a number of