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A MANAGEMENT ROAD MAP FOR MSME POST COVID-19

CA Ritu Dange¹, Dr. Bhagyashri Kanhere²

^{1,2}Organization: AISSMS's Institute of Management, Pune.

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Abstract

Indian MSME sector is the second largest MSME sector in the world, next only to China. With the capacity of producing 8000 varied products ranging from traditional to hi tech, this sector of Indian economy has a strategic significance that has the potential to attract not only the much-needed foreign investments but can at the same time be nurseries to innovation and entrepreneurship.

The impact of Covid-19 had been equally shattering on the developed and developing economies of the world. With the sudden jerk in the upstream growth movement, majority of the countries are now battling to get the economies back into track. India being no exception has introduced several measures for various sectors to support their survival and sustenance. The Indian MSME sector being the most impacted has been hit the hardest. With no production, less demand and severe supply chain constraint the demon of Covid -19 has eaten up substantial financial and operational strength of the enterprises in this sector.

This paper examines the challenges faced by the MSME enterprises during covid-19 and also attempts to review the acceptance of the 'special package' given by the Central government and the actions further initiated by MSME Ministry for lifting the sector. This paper also states the measures that can be taken by these enterprises on a suomuto basis to combat the severe financial and operational crunch in the covid -19 situation.

Introduction

The importance of MSME's sector can be gauged from the contribution it makes in the total exports of India. With over half of the exports coming from them, this sector has been one of the major sources of employment to the semi - skilled and unskilled labour class with approximately 110 million people working in it. As per the survey done by 'The world bank' seven out of ten jobs are generated by SMEs. It has been proved both theoretically and empirically that Micro, Small and Medium enterprises, MSME's as they are called have a huge role in equal distribution of nation income by providing balanced industrial growth, creating employment opportunity through employing local skills or by acting as an 'outsourcing partner' or a 'job worker' to large corporations. An addition to this is the fact that these small and medium enterprises do have the capacity to turn into giant corporate like Nirma, Infosys, Reliance etc. Many are still in the league of making it big with respect to their valuations like flipkart, Oyo and Ola attracting major foreign investments. A strong MSME sector also promotes a country's resilience to shocks by broadening and diversifying the domestic economy (UNDP 2013).

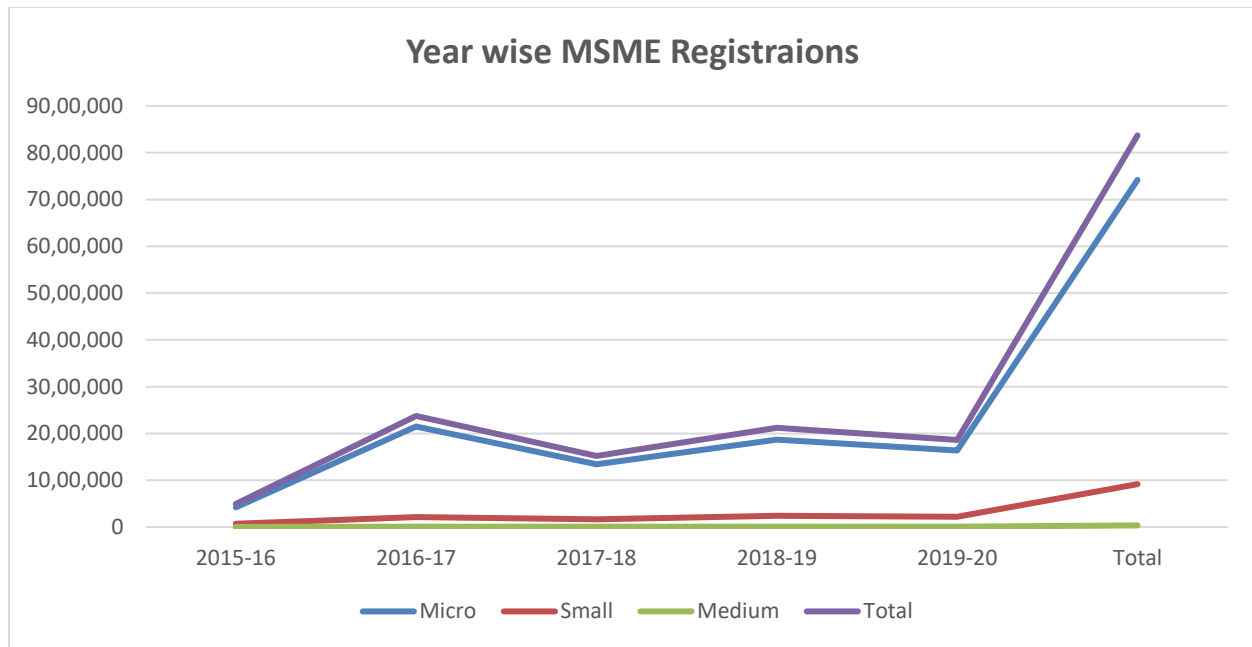
Tracking the MSME growth in Indian economy we could see a significant growth in the registrations of MSME

Growth of MSME's across India

Considering the earlier definition of MSME's there had been significant growth in the registrations under the MSME Act for the past five years. As per the latest reports from the Ministry of Medium Small and Micro Enterprises (Dec 2019) out of the total registrations under MSME Act nearly 88.62% are Micro Enterprises, 10.96% are small enterprises and barely 0.43% are Medium enterprises.

Table 1: Yearwise MSME Registration

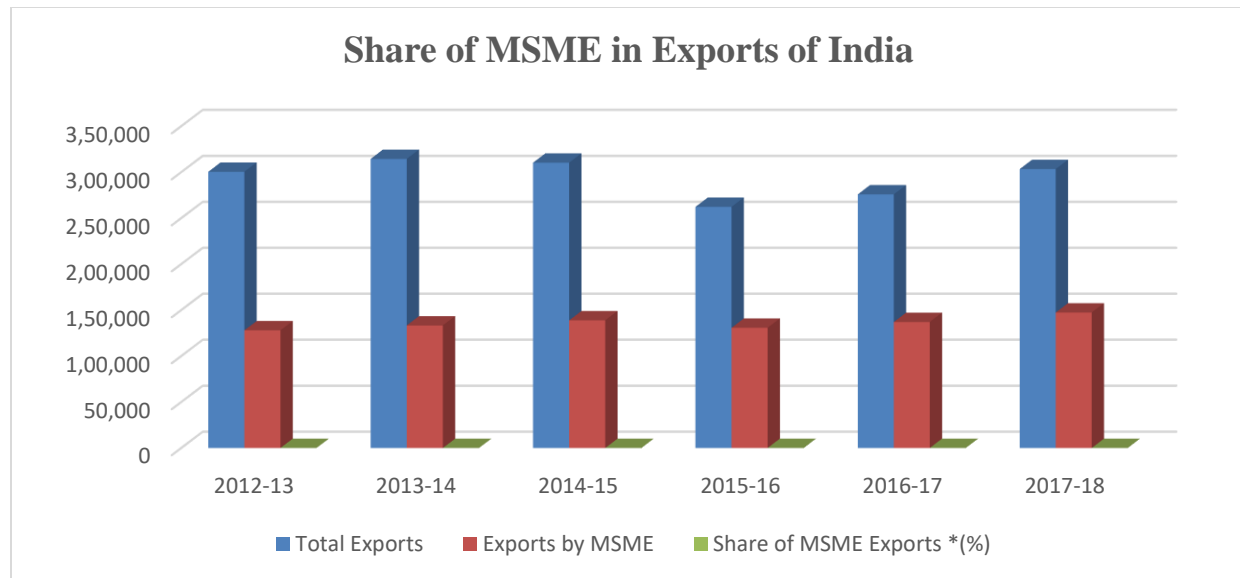
Year/Category	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Micro	4,21,516	21,47,908	13,44,612	18,70,932	16,32,644	74,17,612
Small	70,866	2,16,558	1,66,259	2,41,187	2,22,226	9,17,096
Medium	2,631	8,592	6,584	9,426	8,506	35,739
Total	4,95,013	23,73,058	15,17,455	21,21,545	18,63,376	83,70,447



The factors like Make in India, Digital India, Infrastructure development and procurement by large Indian and foreign corporate across industry sectors from MSME's and skill India have been instrumental in boosting the growth of MSME's In India in terms of registrations and contribution to GDP and exports.

Table 2: Share of MSME in Exports of India

(Amount in USD Million)			
Year	Total Exports	Exports by MSME	Share of MSME Exports *(%)
2012-13	3,00,400	1,27,992	43
2013-14	3,14,415	1,33,313	42
2014-15	3,10,352	1,38,896	45
2015-16	2,62,291	1,30,768	50
2016-17	2,75,852	1,37,068	50
2017-18	3,03,376	1,47,390	49
*Decimal points rounded off			
Source: RBI & Press Information Bureau/Directorate General of Commercial Intelligence and Statistics. (DGCIS)			



Review of Literature:

.Golla, Siva. (2018). “Growth and Performance of Micro Small and Medium Enterprises in India after MSMED Act 2006”. Stated that Micro, small and medium enterprises (MSMEs) are an extremely important segment of the developing economies contributing significantly to the gross domestic product (GDP) and exports. MSMEs are significant employment generators after agriculture. As per latest estimates, more than 51 million working enterprises employed over 117 million people and contributed nearly 8% to India’s GDP. Though it contributes more to the growth of economy, the sector has been facing various hurdles in India since long. The Study concludes that after enactment Micro, Small and Medium Enterprises Development (MSMED) Act 2006 which brought big changes in this sector by Government of India, there has been notable growth in this sector.

Nadaf, Rajahusain & Kadakol (2017). A Study of Major Problems, Prospects and Performance Aspects of MSME's in India, found in their study that despite an intricate and strict policy framework the progress of MSME's is hampered by few basic constraints which includes lack of technical know-how and skilled manpower, finance accessibility, inadequate in suburban and rural areas. They further observed that since 1991, with the introduction of reform measures in India the government had withdrawn many proactive policies for MSME's and introduced promotional policies to increase competitiveness of the sector. In terms of the size of the enterprises MSME's in India is highly heterogeneous with variety of products and services and also levels of technology.

Prasad, Ramesh & Mondal, Amitava. (2020). Impact of COVID-19 pandemic on Indian Economy with special reference to Indian MSME Sector: The paper assessed the impact of covid 19 in this sector and the revival strategy of to be adopted by the MSMEs to come out from this crunch. It concludes that the business practices of Indian MSMEs will totally change post covid. Digital Practices, innovation, accessing of finance and cash flows will be crucial. It also included that Rupees 3 lakh crore credit guarantee announcement for MSMEs will keep their heads above the water even as the economy slow down.

Objectives of the Study:

1. To know and study the impact of Covid 19 on Indian MSME's.
2. To review critically the relief package provided for MSME by Central Government
3. To review the MSMEs availing the relief package and the steps taken by Government of India on real time basis to support this sector.
4. To identify coping strategies that needs to be adopted by the MSME

Research Methodology:

The study is based on secondary data. Information pertaining to the MSMEs has been consolidated through various industry reports, newspaper articles, verified social media accounts and research studies done in the relevant field prior. Thinking and the conclusions has been made by aggregation of the above sources. The study is conducted based on the data available for the period of March 2020 to January 2021.

Impact of Covid-19 on MSME:

Although the relief package from government was announced amidst the lockdown to give some hope to this critically impacted sector, the effect of the covid-19 has been much more devastating. In a recent survey, it was estimated that a total of 10.9 million job loss were lost across sectors in 2020. According to CIBIL MSME loans worth Rs.2.3 lakh crore is at a higher risk of becoming non-performing. Most of these MSME's source their raw-material from China. With international flights and borders being closed and the leading tensions between both countries have led to shrinkage in production and exports.

According to a study conducted by AIMO (All India Manufactures organization) almost 25% of the firms and 43% of the shops will face closure in the first 8 weeks of lockdown. As per the recent survey done by India report, the impact of Covid -19 has been witnessed in the following ways mainly by the MSME Sector:

1. Fall in demand especially of 'non- essential items' have resulted in the substantial reduction in income.
2. Disrupted supply chain has especially hit several rural area enterprises where they are facing acute shortage of stock
3. Increase in transportation cost as most of them have to pick up stock collection and also for deliveries.
4. Decreased cash inflow from business has compelled them to use their savings for household expenses.
5. The brunt of the lockdown has been born primarily by enterprises providing 'non-essential' supplies.

E-commerce hesitancy, centralized approach and the traditional way of doing business through brick and motor style have been the dominant traits of this sector. This pandemic has forced them to move out their cocoon and think of survival issues by challenging this dichotomy. With most of them trying to survive these times by entering in to the digital world, that mostly comprises whatsapp as the platform. As majority of the MSME comprises of micro players most of them lack experience, resources and finances and technology backed production.

Aatmanirbhar Bharat- The Big Dream

The revision of definition of MSME during the Covid-19 crisis, by the central government has been with a clear objective of 'being realistic to time and promote ease of doing businesses'. With the new definition the distinction between manufacturing and service industry diminishes and the classification now is based on turnover basis rather than on investment on 'plant and machinery' as per the earlier definition.

Existing MSME Classification: Based on Investment in Plant and Machinery			
Classification	Micro	Small	Medium
Manufacturing Enterprises	Investment < Rs. 25 Lakhs	Investment <Rs. 5 Cr.	Investment <Rs. 10 Cr.
Service Enterprises	Investment < Rs. 10 Lakhs	Investment <Rs. 2 Cr.	Investment < Rs. 5 Cr.
New MSME Classification: Based on Investment and Turnover			
Manufacturing and Service	Investment < Rs. 1 Cr and Turnover< Rs. 5 Cr	Investment < Rs. 10 Cr and Turnover< Rs. 50 Cr.	Investment < Rs. 20 Cr and Turnover< Rs. 100 Cr.

The relief packages announced by the government is seen to be giving a big boost to this sector. The biggest hurdle pre-covid which the MSME faced and still do is the lack of financing. According to a 2018 report by the International Finance Corporation (Part of World bank), the formal banking system supplies less than one third (about 11 lakh crore) of the MSME credit need that it can potentially fund, so most of the funds come from informal sources.

Cash dried now, the '3 lakh collateral free automatic loan' as part of the package provided with an objective of additional working capital to the existing customers of banks and NBFC. Additionally, the World Bank announced a US \$750 million budget support to 15 crore MSMEs to increase liquidity access for viable small businesses impacted by covid -19. To enlist few more incentives those are given:

1. 20000 crores subordinate debt for stressed MSMEs whose accounts have become NPA. The Government of India will provide a support of Rs. 4000 crores to bank who in turn will pass it on to MSME in the form of debt which the promoter can infuse as equity in the unit. The main aim of this inducement is to restart the business and produce new jobs.
2. 50000 Equity infusions for MSME through funds of funds. Funds of funds will be setup with a corpus of Rs.10000 crores. This will be operated through a mother fund and few networking daughter funds and would provide equity funding to MSME and give an aid to get them listed on the main board of Stock exchange.
3. Global tenders will be disallowed up to Rs.200 crores. Now onwards global tenders up to Rs.200 crores will be awarded to MSME Companies giving more opportunity to domestic companies and cut foreign competition.
4. To combat the liquidity crunch faced by these enterprises the MSME's receivables from Government and CPSEs will be released within 45 days.

But the question that needs spotlight is 'Are these incentives enough for the MSMEs to tide through this severe crunch, when they have not only been hit financially but operationally too?'

With low demand, labour constraint and a seemingly long uncertainty, can these measures prove effective in bringing back or even sustaining the revenues of these enterprises in the long run?

These reliefs have been brought keeping in mind three purposes that are person, enterprises and reversal of demand slowdown. If we speak with reference to demand reversal that is not possible in the immediate scenario and looks distant for now cause of job losses and economic slowdown. As an enterprise, again funds cannot be made available to the enterprises at an immediate level. Further most of the incentives are available for enterprises registered under MSME Act only and as per the MSME census only 4.3% of the entire MSME segment is registered and has access to the policy support leaving significant enterprises on their own. At personal level everyone is impoverished- which is an economy wide phenomenon.

Additionally, the relief package should be focused more on MSMEs associated with sectors like hospitality, tourism and white goods producing industry where the factors like low demand or zero demand have prevailed for last four months and the trend is going to continue for a year till all people across India are vaccinated.

There has been raising demand by MSMEs across platforms for waiver off electricity bills and GST payment with government aid for payment of salaries and other fixed expenses. More so the industry is demanding assistance through direct benefit transfer just like Jandhan accounts and not routed through loans modes which may further add up the financial pressure post the extended moratorium period. Foremost emphasis should be given for inclusion of enterprises, those outside the formal finance fold and currently represent 95% of the sector. Alternate mechanism for catering the financial needs and providing requisite support to these unorganized set of enterprises should be taken up by the government. Though the government has announced release payment within 45 days for MSME, strict adherence should be monitored for payment dues.

MSMEs are the backbone for any economy and their growth is dependent on the performance and progression of large enterprises. Most of the SME, in India are working as an 'outsourcing agent' or 'Job worker' to the listed and large scaled enterprises. The lesser the time taken by these giants to strike back the more replica effect of it will be seen in the MSME sector too.

Review of the relief package announced by the Central Government:

This segment of the paper reviews the response of the MSME's towards these packages and how many of these enterprises have approached the financial institutions for availing these packages.

1. **Release of payment due towards MSME sector:** As per the latest update given by the MSME monthly journal, CPSE has cleared the payment amounting to Rs. 13,400 crores owed to micro, small and medium enterprises within a period of 5 months.



Ministry of MSME @minmsme · Nov 24

MSME Ministry thanks Govt. agencies & corporate world for supporting the MSEs in covid period. Payments before festive season enabled many of them to do business & earn for the whole year. Keep supporting#msmechampions @PIB_India @PMOIndia @FinMinIndia

pib.gov.in/PressReleasePa...

Reported Month in 2020	Total Dues/ Transaction by close of Month	Amount Paid During the Month
May	2346.82	1785.85
June	2550.82	1903.39
July	4122.4	3154.01
August	3809.42	2952.95
September	4760.52	3746.68
October*	5096.53	4044.1

As reported till 23rd November, 2020)

MSME Ministry thanks Govt. agencies & corporate world for supporting the MSEs in covid period. Payments before festive season enabled many of them to do business & earn for the whole year. Keep supporting#msmechampions

2. Distressed Assets Fund- Subordinate Debt for MSMEs –credit guaranteeScheme –Sub Debt(CGSSD): With GOI assistance of Rs.4000 crore, provisioning of Rs. 20,000 crore as sub-ordinate debt to provide equity support to the stressed MSMEs has been launched. As per the latest data available from the MSME, guarantee to 121 borrowers amounting to Rs.12.49 crore has been extended.

3. Funds of Funds scheme for MSMEs: The guidelines of self-reliant India(SRI) fund (also known as funds of funds for MSMEs scheme) with a corpus of Rs. 10,000 crores which will leverage equity infusion of Rs. 50,000 crore for MSMEs has been issued on 5th August 2020. For anchoring the mother fund, NSIC Venture Capital Fund Ltd (NVCL), Subsidiary company of National Small Industries Corporation Ltd (NSIC) has been incorporated under the companies Act,2013 with a commitment to operationalize the SRI Fund.

4. Rs. 3 lakh crore collateral free Automatic loans for MSMEs Businesses: Additional working capital finance of 20% of the outstanding credit as on 29th February 2020, in the form of term loan as a concessional rate of interest has been provided to the MSMEs.The amount has been 100% guaranteed by the Government of India providing a total liquidity of Rs.3 lakh crore to more than lakh MSMEs.

5. Champions Portal: For helping and hand holding the MSMEs an ICT based technology systems named ‘Champions Portal’ was been launched on 1st June 2020. This portal will be offering the following service:

- A dual framework With Central Control Room in New Delhi, and 68 state level control rooms are created for providing support on local level to MSMEs in areas like finance, market access, technology upgradation and skill development.
- Resolve the grievances pertaining to Government departments/Ministries. To make it more fast track 16 ministries and 25 state government has been involved and more are still in the process of such inclusion.
- 54 Banks/FIs/RRBs/SFCs have also been included in the portal for answering the queries related to credit.

25,000 queries/grievances have been received on the portal and of that 98% (24,550) queries have been responded till 15th December 2020.

Self measures that MSMEs can adopt to boost their own business.

Extensive use of digital media: As it is said, the best way to find help is at the end of your own elbow, the MSMEs will have to find ways and means of theirsurvival. With the changing global needs, where digital marketing plays a critical role, it is high time for them too to start utilizing these platforms. A positive review on any social media platform can definitely bring in an opportunity. Most of the MSMEs have understood the pivotal role played by digital platform. As per the latest data available from a CRISIL survey, the adoption of digital channels such as online aggregators or market place Social media, and mobile marketing has increased from 29 percent using them before covid to 47 percent using them post covid. This jump was marginally higher for small enterprise, from 29 percent to 53 percent.

Re-examine your finances:

Reassess the operating cycle and rework on finances and options as money can be tied up for a longer period of time. Consider bill discounting techniques and use of TReDs as a means of maintaining liquidity. Ensure that optimum stock levels are maintained and unnecessary cash is not stuck there. Preparing a budget would help in giving a analyzing and providing a fact check for cash flow. Taking a review of fixed assets and disposing the once with low returns can help tide over the liquidity crunch.

Embracing the change:

Resisting the change would make you make you obsolete, adopting to change will make you grow. Educating oneself for all the facilities available to MSME’s and evaluating the need to avail these relief can help the MSMEs tide up better.

Thinking of strategic alliance in the form of merger, Hive offs and consolidation can help Medium enterprises to sustain and survive. Change in business line (like dealing in essential, pharma, logistic supplycan be considered as they are going to be in demand for the time now.

Conclusion:

Although the lockdown has been harsh to this sector but the opportunities which have opened in the form 'Local for vocal' will definitely help. With this backdrop, the Central Public sector enterprises (CPSE), Central ministries and departments have procured goods and services worth over Rs.4203 crores in the financial year 2020-21 so far. That amounts to a healthy rate of 32.22 percent (minimum limit being 25%) as per the data published on the public procurement policy monitoring portal 'MSME Sambhand'. Another major push has been the made by the Indian Railways to boost the khadi industry with a huge purchase order worth Rs.48.90 crores. With a budget allocation of Rs.15700 crores for FY 2021-22 which is double the amount allocated last year(FY 2020-21).

Slowly but surely the commitment of government to uplift and facelift the MSME sector can be seen. What now needs to be done is that more and more enterprises can be included in the structure to expand it in an equitable manner. Government efforts should be directed towards making the policies and the relief package reach to the maximum enterprises based on 'Push' method rather than adopting a 'Pull' method. Further the paper would like to suggest that these policies/packages should be discussed in the panchayat programs and Programs like 'Mann ki baat' where connect with the people is direct and informal. We would also like to suggest that the big corporate who are dealing with small and medium enterprises should as a part of their CSR, conduct sessions about the policies related to MSMEs. The distant dream of 'Atma Nirbhar' Bharat we all know rest largely on the shoulders of MSMEs who majorly are not in the mainstream as of now. We need to shorten this gap sooner than we hope so that the economy bounces back.

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