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REFERENCE NOTE

Impact of COVID-19 on MSME and Government Initiatives for its Revival.

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Introduction

The Covid-19 pandemic has impacted economies across the globe on different scale. Among others, the Micro, Small and Medium Enterprise are the hardest hit. A cross continental

survey of 1000 enterprises from 8 countries was undertaken by the International Labour Organisation in August 2020 to assess the impact of Covid 19 on SMEs.

The study inter alia revealed that 70 per cent of SMEs had to shut down operations. Half of those have temporarily closed their business by following direct instructions from the authorities, while the other 50 per cent have closed temporarily due to a reduction in orders, increasing cases of Covid 19 infection of staff or permanent lay off.

The causes for contraction of the Sector are manifold. Prominent among them as per studies are lower revenue, reduced demand for orders, shortage of cash flow, impact on labour force and prevailing uncertainties of the pandemic.

Impact on Indian MSMEs

Many micro, small and medium enterprises have temporarily shut their businesses due to the impact of COVID-19 crisis. A survey conducted by Endurance International Group drawn responses from close to 500 Indian micro, small and medium enterprises (MSMEs) in the first two weeks of June. One third of the respondents confirmed that they are temporarily shutting their business until normalcy resumes. The survey further revealed that this pause in business was more prominent among MSMEs in metro cities and those in the retail and manufacturing sectors.

MSME stands for Micro, Small and Medium Enterprise (MSME), introduced by Government of India in agreement with Micro, Small & Medium Enterprises Development (MSMED) Act, 2006. MSMEs are engaged in the production, manufacturing, processing or preservation of goods and commodities and help in the promotion of growth and development of Khadi, Village and Coir industries, in co-operation with concerned ministries, state governments and stakeholders.¹ These MSMEs are uniformly spread across rural and urban areas and are equally represented in the manufacturing, trade and services sectors. Two thirds of MSMEs are operated by socially vulnerable groups (Scheduled Caste/Scheduled Tribe/Other Backward Classes) and 20 per cent by women.²

Share of MSME on GDP

As per various studies, MSME is second largest employment generating sector after agriculture. It provides 80 per cent of jobs in industry with just 20 per cent of investment. It contributes around 31 per cent to nation's GDP and 45 per cent share of the overall exports and 34 per cent share of manufacturing output.³ As per the estimate of the Directorate General of Commercial Intelligence and Statistics (DGCIS), the Share of MSME related Products in total Export from India during 2018-19 is 48.10 per cent.

¹ SMEs are an important sector for the Indian economy and have contributed immensely to the country's socio-economic development. It not only generates employment opportunities but also works hand-in-hand towards the development of the nation's backward and rural areas. According to the annual report by the Government (2018-19), there are around 6,08,41,245 MSMEs in India.

² By Ritam Chaurey is assistant professor, Johns Hopkins University School of Advanced International Studies. Gaurav Chiplunkar is assistant professor

³ Cabinet approves Amendment to MSME Act to change classification criteria - GKToday

Efforts taken by the government to uplift MSME Industry after COVID 19

‘*Atma Nirbhar Bharat Abhiyan*’ or the Self-Reliant India Scheme of 2020 by the Government of India has given a new definition for MSMEs. The Atma Nirbhar Package announced by the Government provides various kinds of assistance to the economy including units in the MSME Sector.⁴ Under Atmanirbhar Bharat, Government announced a special economic and comprehensive package of Rs. 20 Lakh crore for all the sections of the society including Industries and MSMEs. Government has taken a number of initiatives to support the MSME sector in the country which include the following;

- i. Rs 20,000 crore Subordinate Debt for MSMEs.
- ii. Rs 3 lakh crores Collateral free Automatic Loans for business, including MSMEs.
- iii. Rs. 50,000 crore equity infusion through MSME Fund of Funds.
- iv. New revised criteria for classification of MSMEs.
- v. New Process of MSME Registration through ‘Udyam Registration’.
- vi. No global tenders for procurement up to Rs. 200 crores, which will help MSMEs.

The government has rolled out various schemes and recasted some old schemes to deal with the financial hardship of the MSMEs. Some of the schemes/programmes for promoting the MSME Industry are as follows :-

1.) Prime Minister’s Employment Generation Programme (PMEGP)

The Scheme is implemented by Khadi and Village Industries Commission (KVIC), as the nodal agency at the National level. At the State level, the Scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks. The Government subsidy under the Scheme is routed by KVIC through the identified Banks for eventual distribution to the beneficiaries.

2.) Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

The SFURTI scheme aims to strengthen the traditional industries which mean produce products for marketing from locally available raw materials, skills, technologies and having common fears and risks, produced and processed by a group of artisans, service providers, traders, suppliers of raw materials.

3.) Scheme for Promoting Innovation, Rural Industry and Entrepreneurship (ASPIRE)

ASPIRE was launched to set up a network of technology centres and to set up incubation centres to accelerate entrepreneurship and also to promote startups for innovation in agro industry.

⁴ PNS New Delhi

4.) Entrepreneurship and Skill Development Programme (ESDP)

The objective of the programme is to motivate youth representing different sections of the society including SC/ST/Women, differently-abled, Ex-servicemen and BPL persons to consider self employment or entrepreneurship as one of the career options.

5.) Credit Guarantee Fund Scheme for Micro and Small Enterprises

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) was launched by the Government of India to make available collateral-free credit to the micro and small enterprise sector. The number and amount of Guarantees approved under the CGTMSE during the last 2 years is given below:⁵

Year	No. of Credit Facilities Approved (in lakhs)	Amount of Guarantees Approved (in Rs. crore)
2017-18	2.63	19065.91
2018-19	4.36	30168.57

6.) Pradhan Mantri Mudra Yojana (PMMY)

Pro-entrepreneurship and self-employment Scheme, Pradhan Mantri Mudra Yojana (PMMY) was launched by Prime Minister Narendra Modi in 2015. It has disbursed 91 per cent of the loan amount sanctioned during a little over the first three quarters of the financial year 2020-21.

7.) Credit Linked Capital Subsidy - Technology Up-gradation Scheme (CLCS-TUS)

8.) Micro & Small Enterprises - Cluster Development Programme (MSE-CDP)

9.) National Scheduled Caste and Scheduled Tribe Hub (NSSH), etc.

Champions Portal

It is a real one-stop-shop solution of MSME Ministry. The Prime Minister has launched an online Portal “Champions” on 01.06.2020. The portal covers many aspects of e-governance including grievance redressal and handholding of MSMEs. Through the portal, 19,593 grievances have been redressed up to 17.09.2020.

Samadhan Portal

Ministry of MSME has launched SAMADHAAN portal to enable Micro & Small Enterprises (MSEs) to directly register their cases on the portal relating to delayed payments by Central Ministries / Departments/ CPSEs/ State Government & other buyers.⁶

⁵ 22 JUL 2019 5:00PM by PIB , <https://pib.gov.in/PressReleaseDetailm.aspx?PRID=1579757>

⁶<https://pib.gov.in/PressReleasePage.aspx?PRID=1657892> , 22 SEP 2020 8:02PM by PIB Delhi

The 59-minute loan approval scheme

MSMEs launched by Prime Minister Narendra Modi in November 2018 has enabled the disbursement of 2,03,120 loans involving Rs 56,773 crores as of November 30, 2020, according to the data sourced from the MSME Ministry.⁷

Steps taken by Government Bodies for Strengthening the MSME Industry Post Covid-19.

KVIC

- Setting up of Community Kitchens for providing food packet to migrants
- Distribution of food packets in Delhi ,Jammu ,Nagpur ,Bengaluru ,Thane ,Palghar,Jaipur ,Coimbatore ,Patna ,Varanasi ,Cuttack and Hyderabad.
- Release of Rs 1000 per month to each registered artisan from the Artisan Welfare Fund Trust.

COIR Board

- Coir association (COCOMANS) Pollachi and Coir Board members provided all vegetables and food to public and coir workers in Coimbatore districts.
- Coir Board employees raised Rs 4 lakhs approximately for donating to PM Cares relief fund.

NSIC Board

- MSMEs availing Raw Material Assistance against Bank Guarantee prior to 01/03/2020 allowed moratorium of 03 months for repayment of outstanding dues.
- Accounts of MSMEs to be frozen to avoid outstanding in the books in cases where outstanding is going to touch 99.99% of BG value.

Long Term Strategy for Sustainability of the MSME Industry Post COVID 19

“Smart Industrial Village” Policy

- To achieve an inclusive and equitable growth model with percolation of wealth.
- To promote de-centralized economic structure to avoid concentration of the population resulting into the exodus of migrant workers.

Promoting “Swadeshi” Ideology via Policy & Strategy Drafting

- By price advantage incentive for import substitution & indigenous product development.
- Price Advantage incentive is a percentage additional advantage on a price to Indian supplier compared with cost of import for a particular product.
- Defining & introduction of “Indian quality standard & certification” system to provide “non- tariff barriers” cover for incentivizing locally manufactured “SWADESHI” products.
- To stimulate the local investment in manufacturing segment through promotion schemes & incentives, so that India becomes manufacturing hub.
- Access to Information Technology Enabled Services (ITES) at an affordable cost would bring the MSME sector on a level playing field with bigger players.

⁷ PM Modi’s 59-minute MSME loan: 93% applications disbursed till November 2020, marginally up from August - The Financial Express

- To promote innovation and upscale MSMEs to withstand global competitions.
- Technological upgradation of the MSMEs to minimize external risks to tolerable levels.
- Encouraging corporatisation of the MSME sector.
- Encouraging innovations through setting up of large number of business incubators in educational institutions.
- Formulation of long term policies for the timely receipt of payments by MSMEs. Financial Assistance to MSMEs
- Prioritize lending to MSMEs from banks by including small enterprises in the earmarked priority sector and raising sub-target limit to 10% from 7.5%.
- Collateral free & MUDRA small loans to encourage self employment.
- Relaxing ceiling on working capital by banks.