

Challenges and Opportunities for Micro, Small and Medium Enterprises

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Abstract: The ongoing COVID-19 pandemic poses an extraordinary challenge to the Micro, Small and Medium Enterprise (MSME) sector since this sector mostly comprises ‘offline’ enterprises relying on personal interaction and have much lower reserves of liquidity and less access to credit. The nationwide lockdown since 24th March 2020 is, therefore, certainly bound to break the back of the MSME sector. Given the widespread presence of MSMEs in the industrial and service sectors, the lockdown will have major interruption in the form of job losses, factory closures, manpower shortages in the urban areas due to the mass exodus witnessed during the early days of lockdown, increased bankruptcy and export order cancellations. The magnitude of the impact of COVID-19 has made many international organizations calling out for massive governmental support. A study carried out by ILO estimates the worst case scenario to be 24.7 million workers losing jobs, and the report mentions that “sustaining business operations will be particularly difficult for Small and Medium Enterprises (SMEs)”. A survey carried out by MSME industry associations in Tamil Nadu reports 44.7% revenue shortfall during the lockdown period. Given the smaller scale of operations and low level of digitalization, such entities may not be in an immediate position to adopt new technology and tele-working. Therefore, it becomes imperative on the part of government and financial sector to develop and implement multiple support systems for the enterprises in this sector.

Keywords: Liquidity, manpower, bankruptcy, digitalization, tele-working, support systems.

1. ROLE OF MSMEs IN INDIAN ECONOMY

MSMEs are considered as the backbone of Indian Economy due to its contribution in terms of output, employment generation and exports. According to the latest estimates, MSMEs contribute nearly 30percent of the Gross Domestic Product (GDP) and 31percent of the Gross Value Added (GVA). According to the Annual Report for 2018-19 by the Ministry of MSMEs, there are about 63.38million enterprises in the MSME sector, of which 31 percent engaged in manufacturing activities, 36 percent in trade and another 33 percent in other services. It also indicates that the MSME sector employs 111million workers, which is around 21 percent of the total employment. This sector plays a key role in India’s export basket too. In 2018-19, the sector’s contribution to total exports stood at 48.1%. Recent estimates suggest that the sector contributes about 48% to India’s total exports. An interesting feature of MSME sector is the presence of vast number of micro enterprises (95%), while the small and medium units account for 4.8% and 0.2%, respectively.

Despite its significant contribution, the MSMEs face multiple obstacles to growth. Among the various obstacles, access to finance is considered as the most pressing one. According to the Economic Census, 2013, almost 93% of the enterprises reported absence of institutional or non-institutional sources of finance. These enterprises with very little collateral or credit history face immense difficulty in obtaining formal finance. A look at the credit deployment to the MSME sector during 2016 to 2020 reveals that the sector bore the brunt with credit growth declining multiple times during this period. Part of this can be attributed to the demonetization drive, falling health of public sector banks and the introduction of Goods and Services Tax (GST).

2. GLOBAL POLICY RESPONSES

An UNDP report based on meta-analysis of seven survey studies in China highlights that over 30% of enterprises only have enough cash for less than one month of operation and only 10% of the enterprises have cash flows beyond six months. Another study carried out by researchers from Tsinghua University and Peking shows that only 4% of Chinese SMEs report that COVID-19 decreased their revenue by less than 10%. Among the sample firms, 17% report fall in the revenue by 10-20%, and nearly 26% of the firms report 20-50% fall in revenue, while 29% report more than 50% fall in the revenue. A large scale survey of 24,000 Chinese SMEs carried out by Ali Research Institute and China Household Survey and Finance Research Center reveals that 4/5th of the sample respondents report a loss of 10% of previous year's operating income. A survey carried out on the impact of outbreak of Japanese SMEs reveals a 26% decline in the sales. For Europe, available estimates suggest that about 90% of SMEs reported to be economically affected.

Table 1: Summary of Policy Instruments Adopted by Select Countries to Support SMEs

	Labour		Deferral					Financial Instruments			Structural Policies			
	Wage Subsidies	Self Employed	Income/Corporate Tax	VAT Value Added Tax	Social Security	Rent/Utilities/Local Tax	Debt moratorium	Loan guarantees	Direct Lending to SMEs	Grants and Subsidies	New Markets	Teleworking/Digitalization	Innovation	Training and redeployment
China	X		X		X	X	X		X	X		X	X	X
Brazil	X		X		X		X		X					
Germany	X	X	X					X	X	X				
Indonesia			X							X				
Italy	X	X	X				X	X	X	X	X	X		
Japan	X		X			X		X	X			X		
Korea	X	X					X	X		X	X	X		
Malaysia							X		X			X		
Singapore	X		X			X		X	X					
South Africa							X		X		X			
Spain	X	X	X		X	X	X	X	X	X		X		
Thailand	X		X	X	X	X			X					
Turkey	X		X	X	X	X	X	X	X	X				
UK	X	X	X			X	X	X	X	X				
US	X	X	X					X	X					
Vietnam			X			X								

Source: OECD SME Policy Responses, www.oecd.org/coronavirus.

Countries have used varied forms of intervention to support the SMEs. The short run policy instruments in response to the pandemic are income and profit tax deferrals, loan guarantees and direct lending, and wage subsidies. Table 1 provides a summary of the policy tools used by the various countries to minimize the impact of the COVID-19 crisis on SMEs. In the case of wage support, the payment is either directly given by the government to the firms or through emergency funds created to finance wage support programs.

Policy Response from India

India has announced a slew of policy measures and funding support schemes for MSMEs directed towards lessening the adverse effects of COVID-19. These initiatives are summarized in Table 2.

Table 2: Policies and Measures to Support MSMEs in India

Policy Category	Government/ Government Agencies	Main Content	Key Points
Financial Assistance	Reserve Bank of India (RBI)	Deferment of loan instalments and interest	<ol style="list-style-type: none"> 1. Rate cuts introduced by RBI could result in reduction in bank's MCLR and external rates, thereby reducing the borrowing costs for MSMEs 2. The deferment of interest payment on working capital loans by three months is expected to help the MSMEs to meet their urgent needs such as wages and other urgent bills. 3. From March to June, MSMEs are exempted from paying loan instalments. 4. The move to introduce Long Term Repo Operations (LTRO) worth Rs 100,000 crore to help banks increase lending at cheaper interest rates is expected to benefit MSMEs. 5. Introducing a special refinance facility amounting to Rs. 15,000 crore to fulfil the sectoral credit needs of SIDBI is also expected to help MSMEs.
	Small Industries Development Bank of India	SAFE, SAFE Plus and start-up assistance schemes	<ol style="list-style-type: none"> 1. SAFE scheme is meant to provide working capital in the form of term loan for firms who are manufacturing any product or services related to fighting coronavirus. With no collateral, the loans will be released in 48 hours, at a rate of interest of 5 per cent. 2. SAFE Plus is proposed to provide emergency working capital to MSMEs which are producing goods and services directly related to fighting corona virus, against specific orders from the government / government agencies. With no collateral, the loans will be released in 48 hours, at a rate of interest of 5 per cent. 3. The start-up assistance scheme ensures quick working capital in 45 to 90 days to start-ups. Through this scheme, start-ups can receive a loan of up to INR 2 crore. The loan tenure is 3 years including a maximum moratorium period of 12 months.
Taxes	Central Board of Direct Taxes (CBDT)	Income tax refunds and GST returns	<ol style="list-style-type: none"> 1. Issued Income tax refunds worth Rs 5,204 crore to nearly 8.2 lakh small businesses since April 8, 2020 and proposes to issue refunds equivalent to another Rs 7,760 crore as early as possible. 2. Extended the date of filing Income Tax Return for all businesses for the financial year 2018-19 from March 31 to June 30, 2020. 3. Extended the deadline for filing GST returns from March to June 30, 2020.

They can be broadly classified under two categories: financial support and preferential tax policies. Some of these measures are meant to ease liquidity constraints. These include deferral of interest payment and loan installments. A set of policy measures by the Reserve Bank of India (RBI) is also expected to scale up lending to MSMEs at cheaper interest rates. The country has also stepped up direct lending to SMEs through public institutions. For instance, SIDBI has introduced two schemes to provide financial support to enterprises involved in the production of goods and services related to fighting coronavirus. While these measures certainly instill some hope to the MSME sector, there are still more steps that the government can take to safeguard the interests of this ailing business sector.

Saving Small Firms: The Way Forward

Some measures which need immediate focus on MSME sector include:

- Moratorium on current loans has to be extended at least for six months.
- The creation of an 'emergency fund' to help the micro segment in the MSME sector.

- Another possibility is the enhancement of Sishu scheme under MUDRA Yojana which will benefit the micro segment.
- The comprehensive package should also contain special provision for credit access to them.
- Those businesses which suspend or facing revenue decline should be provided wage subsidy up to three months.

As a long term policy measure, the pandemic provides an opportunity to increase the high speed broadband connectivity especially in the rural areas. This will enable the digitalization of MSMEs which will improve the competitiveness of these firms during the post COVID period.

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