

ROLE OF MSMEs IN REVIVING INDIAN ECONOMY POST COVID-19 PANDEMIC

¹Dr. Anju Jain, ²Saumya Yadav

¹Associate Professor, Department of Economics, RBS College, Dr. Bhimrao Ambedkar University, Agra, Uttar Pradesh, India.

²Research Scholar, Department of Economics, RBS College, Dr. Bhimrao Ambedkar University, Agra, Uttar Pradesh, India.

Email- ¹ajainrbs@gmail.com, ²saumya0294@gmail.com

Abstract: Due to COVID-19 Pandemic and the crisis caused due to it has badly affected the entire economy and completely derailed the whole economic system of the country. It has severely disturbed the whole market demand & supply chain. Because of such crisis condition and depression in the economy, Indian Government has decided to cope up with such situation in a positive manner to help economy revive once again by boosting up small businesses, domestic industries and by encouraging Indians towards the new scheme of **ATMANIRBHAR BHARAT** by using indigenous products and to be **vocal for local** for the real economic growth and overall development. Finance Minister, Dr. Nirmala Sitharaman, on 13th May 2020 has also announced the **relief stimulus package** of Rs. 20 trillion in the form of credit guarantee, loans without collateral etc. for protecting the vulnerable MSME sector which got adversely affected by the lockdown due to pandemic outbreak. Now the major focus of Indian government is on MSMEs sector which is a ray of hope for some upliftment of the economy by injecting funds into the sector and also providing some flexibility in initiating businesses. MSME sector which is also one of the priority sectors will help the economy to overcome all the severities such as monetary & financial crisis, slowdown, problem of unemployment which is worst among all as a huge no. of people have lost jobs (both migrant as well as non-migrant) due to pandemic. As MSMEs are labor-intensive in nature, they will help in providing the employment opportunities to produce at large scale taking benefit of economies of scale & low investment. The addressal from government in restarting the MSME sector would compensate the job losses of people in rural as well as in urban areas and would help in restoring the demand for goods and services amid the fear of slump condition in the economy.

Key Words: MSMEs, COVID-19, Relief stimulus package, Crisis, Atmanirbhar Bharat, etc.

1. INTRODUCTION:

The Micro, Small and Medium Enterprises (MSMEs) are considered to be the backbone of the Indian economy as they play a very crucial role in terms of providing large employment opportunities at comparatively lower capital cost than larger industries and also in generating output and exports. They are the 2nd largest employment provider in the country and help in mitigating regional imbalances by assuring more equitable and efficient distribution of national income and wealth.

The MSME sector is also considered to be more dynamic and stimulating sector as it accounted for about 29% of the country's GDP in fiscal year of 2017 according to official data and which also contributes about 45% of India's total Industrial employment, 50% of India's total Exports, 95% of all industrial units of the country and more than 6000 types of products are manufactured in these industries by employing about 111 million people. More than about 6 crore MSMEs are currently operating in different areas across the country for building a new strengthened and self-reliant India. As each and every sector in the country has been badly affected by the outburst of the pandemic, the need is to make something good from the bad thing happening and to take opportunity to outshine by making optimum use of the available resources for sustainable revival of the economy. For the country like India which is developing in nature needs both the capital as well as labor intensive sectors for its growth. Role of MSME sector would be very crucial amid the pandemic situation which would help the economy from global downfall & crisis by producing in large quantity with relatively lesser investments. The pandemic has made India realized the scope and importance of the concept of **MAKE IN INDIA** campaign once again for making India self-reliant. Also, on 12th May 2020 recently PM Modi addressed the whole nation and focused on **5 pillars (SYSTEM, INFRASTRUCTURE, ECONOMY, DEMOGRAPHY AND DEMAND)** for strengthening and revival of the economy by knowing its potential.

2. DEFINITION OF MSMEs: OLD v/s NEW:

A. OLD DEFINITION OF MSMEs:

For the very first time, MSMEs, in India, were defined by **MSMED Act of 2006** which considered the defining criteria as investment in plant and machinery for manufacturing and investment in equipment for services as defined in the table (Table-1) below:

<u>ENTERPRISES</u>	<u>MANUFACTURING</u> (Investment in Rs.)	<u>SERVICES</u> (Investment in Rs.)
MICRO	<25 lakhs	<10 lakhs
SMALL	<5 crores	<2 crores
MEDIUM	<10 crores	<5 crores

Table-1: old definition of MSMEs

B. NEW DEFINITION OF MSMEs:

According to the recent changes made by the Indian government amid the COVID-19 Pandemic outbreak (formed a very prominent part of the announcements made under **ATMANIRBHAR BHARAT ABHIYAN**) the new definition of defining MSMEs follows the criteria which amalgamates both the manufacturing & service sectors and according to it investment alone is no longer the major player instead both the investment along with the turnover will now be considered for the new composite defining criteria which is shown in the table (Table-2) mentioned below:

<u>ENTERPRISES</u>	<u>MANUFACTURING + SERVICES</u> (In Rs.)
MICRO	Investment up to 1 crore Turnover up to 5 crores
SMALL	Investment up to 10 crores Turnover up to 50 crores
MEDIUM	Investment up to 20 crores Turnover up to 250 crores

Table-2: New definition of MSMEs

Through the stimulus package announced, MSME sector not only got substantial allocation but also been accorded the priority in the implementation of the measures for the revival of the economy. The new upward revision of MSME definition is a step towards ease of doing business and this would attract more investments and help in creating more jobs in the sector. Pumping of Rs. 20,000 crore as subordinate debt will provide equity support to the stressed MSMEs and this will benefit 2 lakhs stressed MSMEs. Equity infusion of Rs. 50,000 crores for MSMEs through fund of funds would form a framework to help MSMEs in managing the debt-equity ratio in their capacity augmentation. This will also help them in getting listed in stock exchanges.

3. PROBLEMS FACED BY MSME SECTOR:

There are various major problems that are being faced by the MSME sector for their recognition and in fulfilling their aim of providing employment opportunities and loosing their potential in overall economic growth and development:

- 1) Lack of adequate and timely credit facilities: According to a 2018 report by International Finance Corporation, the formal banking system supplies less than 1/3rd of the credit that it can potentially fund.
- 2) Unawareness about various schemes that are being facilitated by the government for their beneficial.
- 3) Unequal distribution of MSMEs all over the country due to lack of resources such as raw materials, unawareness of entrepreneurial skills, lack of credit as well as technical assistance from various concerned authorities at local, district and state level.
- 4) High cost of credit and financial facilities.
- 5) Most of the enterprises are not registered anywhere because they are too small. Being out of formal network, they do not have to maintain accounts, pay taxes or adhere to regulatory norms etc. which brings down their costs.
- 6) Lack of modernized technology and not much facilitation for more research and innovation.

- 7) Many MSMEs, especially smaller ones have already run out of money to pay salaries of staff, rents and other expenses on account of already slowing economy and prolonged lockdown due to COVID-19 Pandemic.
- 8) By increasing the limits in the new composite definition of MSMEs, more firms would be included into the sector and would crowd out the real small-scale manufacturers who are really needy.
- 9) Most benefits from such changes of MSME sector definition would be reaped by the bigger firms as banks would always prefer to provide credit facilities to the firms with higher sales as in case of default the recovery would be higher.
- 10) No. of beneficiaries from such schemes would be limited as only those firms would be eligible for the collateral free loans at concessional rates who already have an outstanding loan.

4. SUGGESTIONS AND VARIOUS MEASURES TO UPLIFT AND BOOST MSME SECTOR:

There are various schemes implemented by the government to uplift and improve the vulnerability of MSME sector as it is considered as the **engine of growth** for overall improved, equitable and inclusive growth of the economy as a whole and also to deal with the uncertainty that is prevailing in the present world due to the deadly disease. MSMEs play crucial role for our economy and if they don't get expansion or if they don't flourish, then the economy won't be able to taste the significance of real economic growth and hence the overall development of the economy.

Most of the MSMEs are unaware about the various schemes being provided by the government for reaping real benefits. Even if they are aware about the schemes, they are not able to utilize it in efficient way.

- 1) Immediate cash requirement by most of the MSMEs to cope up with the current adverse situation as they primarily operate on cash and loan processing takes time.
- 2) Aid by government of India in the form of providing collateral free loan worth Rs. 3 trillion over the next 5 months which is fully guaranteed by the government. The immediate short- term help is also provided by the RBI by announcing the 3 months deferral of loan repayment to MSMEs.
- 3) The new composite criteria of MSMEs by enlarging its coverage area and increasing its limits, is implemented during the pandemic by the government at this juncture for allowing bigger units now to come under MSME ambit to avail the benefits being provided under the sector.
- 4) Most of the businesses in MSME sector require financial support from government to cope up with the cash flow problems and the provision of Rs. 20,000 crores for stressed MSMEs would relief them from the inadequate demand.
- 5) Aim of the stimulus package being provided by the government is quite similar to the traditional Keynesian theory of Pump Priming i.e. income transfers to people having higher marginal propensity to spend can boost up the sagging demand which is caused due to sudden loss in income of the people due to the pandemic.
- 6) The idea of government of creating credit guarantee fund of Rs. 50,000 crores would help the fast growing and better performing MSME to grow into a bigger industry.
- 7) More direct liquidity measures for MSME is the need of an hour which could be forming of the fund targeted directly to ease or remove the liquidity constraints of MSMEs.
- 8) Provision of e- market linkage to MSMEs due to less possibility of trade fares resulted due to pandemic situation.
- 9) Monetary aid would be provided to the deprived small and medium enterprises who are unable to get credit from banks and financial institutions so as to impel growth and to make economy self-reliant.
- 10) The **Ministry of Housing and Urban Affairs** has recently launched special micro-credit facility scheme- **PM SVANIDHI (PM Street Vendor's Atmanirbhar Nidhi)** for providing affordable loans to street vendors enabling them to resume their work and earn their livelihoods.
- 11) PM Modi has launched the **CHAMPIONS** platform for MSMEs which stands for **Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength**. It is basically for making small units big by solving their grievances, encouraging, supporting and handholding. It is a real **one-stop- shop solution** of MSME Ministry.
- 12) The present pandemic condition has adversely affected the demand- supply chain and the idea of liquidity infusion in the form of relief package at this moment of time without the appropriate measures to revive the effective demand will not help MSMEs in overcoming the COVID-19 lockdown- induced crisis.
- 13) MSMEs would be benefitted in real terms if their dues owed to them by the central government would be repaid and the MSMEs that are suffering from dearth of working capital as well as dues would get real term benefits if these dues are paid promptly instead of providing loans.
- 14) The measures taken by government by promising to pay MSMEs their dues within 45 days span would help in making them self- dependent and self- reliant.

- 15) Provision of promising at least a partial wage guarantee for MSME workers during lockdown period and sometime after unlock time (may be 2 or 3 months) could help in providing some relief to employers and in generating incomes.

5. CONCLUSION:

MSME being the risky segment as around 9-10% of Non- Performing Assets (NPAs) of banks are from this segment and banks have also significantly cut down their exposure to MSMEs due to high stress. In fact, since last year banks have not really lent to this sector and the year on year growth rate has remained nearly flat at 0.7%. But after being adversely affected by COVID-19 pandemic, MSMEs need infusion of some credit guarantee funds so as to restart the businesses as it is the prime sector having potential to help economy to flourish and uplift its economic activities. It is also considered as the engine of growth and can result in inclusive and sustainable growth of the economy. As the economy got worst hit by the lockdown- induced crisis due to pandemic, nation once again realized the importance of MSME sector for its revival and to make India self- reliant in nature by encouraging people to use and produce indigenous products and by emphasizing Make in India campaign. Government has also decided to focus upon 5 pillars to strengthen the economy and stimulus package of 20 trillion has also been announced to overcome the liquidity crisis and to make business sector more flexible. New definition of MSME is also implemented to encourage ease of doing business. MSMEs need to be entirely aware about the various schemes and major initiatives taken by the government and also to utilize them correctly and efficiently to reap their benefits optimally. Awareness and the lack of knowledge become the constraining factors for MSMEs to provide the maximum benefits to the vulnerable population of the country and people remain avoidable of such beneficial services being provided by the government through various schemes under MSMEs. Also, the government schemes must be monitored and modified effectively to match up the needs of the MSME sector. This will strengthen the base of MSME sector and it will be more lucrative for the new entrants in the business sector.

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