STIMULATING MSME ECONOMY IN THE FACE OF COVID-19

A policy note built on the inputs from
MSME Business Membership Organisations (BMOs)

Background

Onset of COVID-19 has been rightly compared with World War and the road map to come out of it desires to be drawn as in war-economics, with the intent to keep the morale of the people high. The obvious priorities for the policy are employment; ensure that money reaches the neediest and that essentials remain available and affordable. McKinsey & Company has recently published a paper assessing the adverse potential impact of COVID-19, sector by sector for Q1FY21 over the last Q of FY20, across 3 different scenarios ranging from the most optimistic to the worst, as per the durations of the lockdown. Now that lockdown 2.0 has come into operation, we may witnessanunemployment rate in the non-agricultural MSME sectorfar higher than 23.4% of gross unemployment. This could lead to further stress on the society.

Government of India has taken several steps in the right direction and is doing so on a continuous basis. This note draws upon the inputs drawn from more than 100 business membership organisations (BMOs) of MSMEs across several sectors and geographies inIndia, the members of the Board of Trustees and the senior staff of the Foundation of MSME Clusters (www.fmc.org.in) and suggests some measures to further promote the cause of the MSME sector.

Who are the key stakeholders in the MSME ecosystem? There are essentially 3 majoractors besides MSMEs themselves. These are the Government, with public finance andsignificantbuying power; the Financial Institutions (FIs) that include banks, NBFCs and the Micro Finance Institutions (MFIs)that provide formal credit. The MSMEs themselves are a very large andheterogeneous segment that sells directly to the consumers or other MSMEs, buy from other MSMEs and compete among themselves for no less than half of their gross output. So, a very significant share output and employment of MSMEsrests upon what it produces locally and sells locally or regionally. With that outline of the eco-system what are the roles of the various stakeholders that we can envisage as a part of the war economy retrieval process, that will probably alter several paradigms of the past for everyone, including the MSMEs.

What can the Government do as the first stakeholder?There is a lot of debate around the world to design and release fiscal stimulus package ranging from 1% to 10% of national GDP to reboot the economies. Some of this money for the stimulus package will come from re-organisation of existing public finance, while the rest of it from public debt and may be printing of new currency notes. While we have witnessed the announcement of first such economic stimulus package of Rs. 1.7 lakh crore,more such stimulus money is keenly demanded and awaited by the national chambers of commerce and industries, representing mostly the interests of large private sector members. The foremost questionis to assess where and how the new support stimuluspackagegoing to be spent and for what. This is where there is need for increased accountability unlike in the past with business as usual. The large public and private sector institutions stand to gain due to this. ***This is where the targeting of public finance must come with a social contract where large enterprises must pass on the benefit given to them so that it reaches their contract labourer and contractor MSMEs that in turn maintain and generate employment.***

There are some sectors that can be identified as more significant levers for livelihood creation as compared to the others. There is an unequal correlation between the credit offtake as a percentage of the gross credit and the employment levels across different sectors. For example, airlines and hotels reflect this ratio at 1:8 which means against 1% of the gross credit this sector supports 8 million jobs. Similarly, construction and real estate reflects the ratio at 1:5, freight and logistics 1:11, manufacturing at 1:3.9 and consumer & retails at 1:4.2.***These may be further broken down at the level of products, geographies and levels of jobs to draw up the road map forstimulating credit inflowsto high employment generating sectors.***

Construction & real estate sector is the biggest employer in non-agricultural segment. This is also the sector that will be very adversely impacted thus giving not much hope from the markets. ***The government, post lockdown,can use MNREGA to support hybrid credit financing models (grant and credit) that can promote low costhousing by linking up with other existing public schemes.***This will help to use local labour especially migrant skilled labour and local materials, thus ensuring that money reaches the hands of the needy. ***Many other migrants will be reluctant to go back to the cities and they must be supported at this stage to create their own micro & household enterprises, preferably in groups capitalising on their social capital.*** The ongoing NRLM initiative and various other state level group initiatives that target group enterprises may be collaborated with for the same. In order to synergise the various initiatives, new public schemes of assistance must be drawn up at the Ministry of MSME, GoI to take it forward. For this, the public procurement must be leveraged to stimulate such enterprises for the short as well as long term.

There is already anticipation for shortages of labour that all enterprises are likely to face, whether small or large. The government must undertake quick primary surveys to identify where from the migrant labour comes from and where there are shortages, geography by geography. ***Armed with this information, special transport arrangements may be drawn up to match the demand & supply of labour across India.***

What can the Financial Institutions do?Liquidity is the key to revival of MSMEs. Banks, NBFCs & MFIs will therefore need to be supported by public financing to keep up the momentum. The micro and household enterprises will suffer the most and therefore ***the public support needs to be extended to the MFIs& NBFCs***that have the outreach to the

MSEs. They in turn must pass on the benefit to their borrowers. ***The coffers of credit guarantee trust may be further beefed up*** at this time to enable further lending to the eligible micro & small enterprises.

What role must the large private sector play?Globally, protectionism will come to the fore for at least 2-3 years. Several large and long supply chains are likely to be broken or disrupted, particularly in food, textiles, clothing, pharmaceuticals and even electronics. ***This is an opportunity for the large enterprises to set up not only their own enterprises but also collaborate with small players with shared value chains. There are several products made by the artisans across various clusters that offer high perceived value but have a scope for significant scaling up provided investments are made in common production, technology & designs infusion, branding and retailing.***

Suggested way forward: Based on the inputs received from the BMOs; the Board of Trustees of FMC & the senior FMC staff had a discussion to come up with specific recommendations that are stated as under, duly grouped into various thematic areas.

Finance

1. 3 months moratorium is not enough for many MSMEs with longer working capital cycles and slow recovery of the markets. ***The moratorium may therefore be extended to 6 months.***

2. The proposed moratorium of 6 months does not include waiver of interest rate. It is understood that the compound interest will be charged later. ***It is proposed that the interest during the moratorium period may either be waived off completely or at least partially.*** This will imply a subsidy of Rs 45,000 crores approximately with partial waiver of 50%.

3. Working capital loans may be provided to an estimated 2 million artisan units with an estimated average loan requirement of Rs 10,000 a month. Assuming a working capital cycle of 3 months, a loan requirement of Rs 6,000 crores is estimated. **A loan fund of Rs 6,000 croresbe created for provision to the artisans at zero percent rate of interest for a year, amounting to an interest rate subsidy of Rs 720 crores.**

4. ***While NBFCs and MFIs are giving moratorium to micro enterprises, they are reportedlynot getting that benefit from the Banks. This support may be given.***

5. ***The current account limits with working capital limits of the MSMEs be increased by at least 75 per cent with the Government standing guarantee for the same.***

6. ***Payments stuck with large public and private sector units may be released as soon as possible.*** Government has already given such instruction. This may be followed up rigorously.

7. ***At a time when industry is not using electricity, minimum charges on electricity (as per contract demand) should be waived off.***

Labour

8. Most of the MSME labour earning more than Rs 15,000 will not get covered by the support for PF contribution of the Government. ***This limit may be raised to Rs 30,000 without a cap on number of persons employed.*** It is also suggested that this money be given as wage subsidy to MSMEs based on their GST returns.

12. Over the years, industry is paying continuously to ESI and a lot of fund is stuck there. ***The contributed money to ESI may be partially channelized for providing training in OHS for MSMEs, especially for COVIDS19.***

13. Labourers who have gone home should be given confidence to return to their work areas. ***Adequate transportation mechanisms may be made for migrant labour to return.***

14. Several industries includingtourism, hotels and restaurant sectordo not predictthe migrated workforce to return. ***Skill development institutes may be asked to create digital training modulesto trainnew workforce while the migrant workers be encouraged to take up local entrepreneurship***.

15. Where the workers are not digital friendly and do not have smart phone, ***approved/certified medical agencies/CBOs be organizedto provide health and safety training at factory sitesin clusters.***

Raw Material

16. Imported raw materials (sports goods, silk, rubber) or raw materials which are sourced from distant places (rubber) are not coming. ***Transport of these select imported materials may be allowed.***

17. Raw materials at ports and containers depots cannot be shipped; however, MSMEs have to spend rents for that. This may be waived off.

Market Promotion

18. Promote e-market place for artisans whose marketing channels will get severely restricted as melas and trade fairs will not take place for quite some time.

Conclusions: It is time for turning the COVID-19 crisis into an opportunity. In the immediate future, the public policy must use these difficult times to transform our public support systems & engagements with the key stakeholders to build a resilient economy in the long term.

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