

MSMEs must focus on quality and reliability

MSMEs in India are bearing the brunt of the greatest economic turmoil India has ever faced in recent history, as Covid-19 pandemic spreads itself across the length and breadth of the country. As an immediate measure to curb damages done to trade and industry, Finance Minister Nirmala Sitharaman rolled out a stimulus package, the first of which was for MSMEs, with the sole purpose of providing liquidity to restart business.

*The government plans to aggressively push its Make in India programme and MSMEs could seize the opportunity in gearing up themselves to the new normal and play a major role in making India a manufacturing hub. In an interview to **MVIRDC World Trade Center Mumbai, Professor Manoj Pant, Director, Indian Institute of Foreign Trade** says that revival of MSMEs will only take place when economic activity revives. Meanwhile, MSMEs should stress on improving quality of products and reliability of production. This would bring about better integration into supply chains and further build domestic and international trade.*

Excerpts of the interview:

Q1. Could you shed light on the extent of the impact of COVID-19 on the overall economy of India?

Well the immediate impact is severe because of the shut down of all economic activity globally. In India, the close link of production with population due to the labour surplus nature of the economy and the large informal economy involved in distribution necessitated a shutdown of not only production but all timely, world production and consumption came to a stop in all sectors barring food grains and medical supplies. Therefore, for the months of April-May, it would be safe to say that only 10-15 percent of GDP was in production.

Q2. How should MSMEs that are worst hit by the pandemic get back on track and sustain themselves during these times?

The MSMEs were hit particularly hard because of their dominance in the export sector. They account for about 40 percent of exports and merchandise exports which fell by about 60 percent in April alone. Second, MSMEs are highly labour intensive and shut down of labour service sector also impacted them. It seems to me that as the economic activity picks up, revival of MSMEs will follow. To aid this, government has announced some measures specifically for MSMEs in five packages announced by Finance Minister. The first package was specifically for MSMEs with the main objective to underwrite loans which are stressed and for other MSMEs that have taken loans from banks to restart operations. There are many other options but the idea is that MSMEs need in particular small operational loans to pay for initial advances. The government has also extended this facility to service sector MSMEs. The government is also building up to meet 20 per cent of contingent liability when MSMEs obtain loans from the banks. So, a considerable part of the riskiness of loans to MSMEs is underwritten which will induce banks to advance loans. On the demand side, as the world market is now opening up, and exports for June seem to

be on track, it would seem that MSMEs need to start operations once more using supply side leverage given by the government.

Q3. What is your opinion on FM Stimulus package and RBI's initiatives to help the economy revive?

Very small unit owners were also beneficiaries of the one time grant of Rs. 5000 given for maintenance in the strict lockdown month of April. In the first package announced by FM, about Rs. 26000 crore was committed to MSME subordinate debt, for their equity fund, for a partial credit guarantee scheme (which is mentioned earlier) and for also assuming Provident Fund (PF) liability of employers for their employees. These measures reduce both risk and cost of operations to MSMEs which should see things looking up soon. In addition, there are also state level schemes announced separately.

Q4. How should businesses align themselves to the new normal?

I think while physical distancing seems to be what all businesses, large and small, will have to learn to live with for some time, I don't see the strong service-manufacturing link changing dramatically so that the close link between big and small businesses should continue. In addition, given the unique close links between consumers and small business shown in recent lockdown, big aggregators like Amazon, Flipkart, etc. have found it useful to integrate small business owners into their vast distributional networks. I think, in the new normal, MSMEs might find that with the aggregators looking after marketing and distribution cost (which are substantial), MSMEs can concentrate on maintaining quality and reliability of production. Aggregators bring to MSMEs a much larger national and global market at no additional cost. However, quality in supply will have to be ramped up. So, the partnership can be cooperative rather than antagonistic. This will also allow MSMEs to integrate better in supply chains which govern domestic and international trade.

Q5. Exports of the country have declined considerably since the lockdown. What needs to be done to bounce back?

Even during the lockdown of March most ministries were working online to clear bottlenecks in production be they in supply movements or in port clearances. We now hear that the world market is at least back on track to hit Feb 2020 levels. Here, the pandemic might well see the world market react more positively than expected to a lifting of world-wide pandemic induced gloom. However, to move beyond long-term levels, MSMEs will have to pay greater attention to quality. In particular, MSMEs in gold and jewellery segments and in apparel will have to pay particular attention as, even before the pandemic, their exports had started to slow down.

Notifications

Press Information Bureau, Government of India

Update on COVID 19

<https://pib.gov.in/PressReleasePage.aspx?PRID=1632051>