

**INTERNATIONAL JOURNAL OF LAW
MANAGEMENT & HUMANITIES**
[ISSN 2581-5369]

Volume 4 | Issue 1

2021

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MSME Sector in India: Pre & Post Covid-19 Scenario

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ABSTRACT

Covid-19 has taken the entire world into its grip and adversely impacted the Global Economy and as a result people's life. Almost all sectors of the Indian economy are adversely affected including the MSME sector which is its lifeblood. MSME sector was already facing huge turmoil due to plunge in Indian economic conditions than two economic shocks one is demonetization & another is GST reform impacted it deeply and then it faced covid-19 & Nationwide Lockdown which made it vulnerable.

This research paper attempt to study the MSME sector in India during a pre-covid-19 period starting from the year 2000 to 2019 than the post-covid-19 period from the year 2020 onwards and various financial & non-financial support measures taken by the Government of India pre covid-19 & post covid-19 under "Atmanirbhar Bharat Scheme" for the revival of Indian MSME sector.

I. INTRODUCTION

Micro, small & medium enterprises are in existence in India since independence but from 1960-the 70s they developed and progressed rapidly over the years, then Government of India enacted micro, small, and medium enterprises development act 2006 and included services in MSME definition.

Meaning of Term 'MSME':

MSME – "Micro Small and Medium Enterprises"

These enterprises are classified based on investment & turnover: (w. e. f 1st July 2020) Micro – investment, not more than 1 crores & annual turnover, not more than 5 crores. Small – investment not more than 10 crores & annual turnover not more than 50 crores. Medium – investment not more than 50 crores & annual turnover not more than 250 crores.

II. IMPORTANCE OF MSME SECTOR

1. Around 6.33 crore MSMEs are operational in the country, which employs around 11.10 crore workers.
2. MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP

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from service activities as well as 33.4% of India's manufacturing output.

3. India's MSME sector is an important segment of the Indian economy and it has emerged as one of the strongest parts of the Indian manufacturing sector.
4. MSMEs act as ancillary units to large industries spread all over the economy and promote industrialization in the country.
5. MSMEs have a significant contribution to exports during the last five decades.
6. As per the Directorate General of Commercial Information and Statistics, the share of MSMEs in total exports from India, directly and indirectly, was 48.10% for FY 2018-19, nearly half of India's total exports.
7. MSMEs total export is worth Rs. 6 Lakh crores, to which account for 35 % of pearls, gems, jewelry, Metals, & 8% for electrical & electronics equipment, and 11% for articles of apparels remaining 40% for other exports.
8. That's why MSMEs are also called the lifeblood of the Indian economy.

III. MSME SECTOR ROLE IN INDIAN ECONOMY DURING PRE COVID-19

1. Starting from **2000**, when banks & NBFC's in India started giving easy credit/loans for investments this created **a credit boom** in the market which lead to the diversion of the huge investment of funds in the real estate sector & lots of housing projects launched in the market.
2. Then India witnessed **the 2008 global financial crisis** which leads to the decline in world trade, so India's export was also decreased.
3. After the global crisis, export & investment both slowly started falling which **affected MSMEs & the real estate industry**.
4. However, from **2012**, India witnessed **an upward trend in its GDP growth rate** and became one of the fastest-growing economies.
5. **From 2013-14**, due to continuous fall in oil prices Government benefitted a lot but they didn't share this gain with the consumers & ultimately this gain benefitted Government in survival.
6. Around this time NBFC's & the banking sector injected huge funds in the real estate industry but the housing bubble burst out and **financial institutions suffered huge NPA's**.
7. This real estate bubble burst & NPA's **affected the sentiments of the consumers &**

financial institutions which lead to the decline in investment & credit to **small enterprises** who needed credit.

8. After **demonetization in 2016** & then **GST in 2017** India's GDP growth rate fall from **8.17% to 7.17%**, this trend continued further, and in **2018** GDP growth rate further fall to **reach 6.98%**.
9. Then the Indian economy witnessed a six-year low GDP growth rate of **4.5 % in the quarter of July-September 2019**.
10. This slowdown in GDP growth rate comes at a time when the economy is reviving from the trouble of two policy shocks in a sequence:
 - (a) Demonetization of currency in 2016;
 - (b) Introduction of Goods and Services Tax in 2017.

These changes caused a short to medium-term **liquidity crunch** in the economy and the worst hit was cash-dependent.

11. This liquidity crunch **affected MSMEs** largely, they were finding difficulty in arranging credit for their working capital requirements.
12. During 2019, MSMEs were already facing huge repercussions of poor Indian economic conditions than Covid-19 came.

IV. MSME SECTOR ROLE IN INDIA POST COVID-19

1. Covid-19 came at the time when the Indian economy was already facing:
 - (a) A contraction in demand;
 - (b) Continuously declining GDP growth rate;
 - (c) Financial institutions in stress due to huge NPA's;
 - (d) Economic condition was poor;
 - (e) The government was facing budget issues due to scarcity of funds;
 - (f) The fiscal deficit was increased to 3.8% from the expected 3.3%;
 - (g) Means of Government were limited.
2. In the first quarter of 2020, the situation of India was already like the 2008 financial crisis than the addition of Covid-19 resulted in a devastating effect on each & every section of the economy, because:
 - (a) Due to closure of state & national border global supply chain of raw material &

finished goods collapsed;

(b) Demand & supply limited only up to spending on essential goods & services;

(c) Economic activities come to a standstill, livelihood of businesses, & migrant workers with no income are at stake.

3. Due to lockdown MSMEs are badly affected its impact is more visible on vulnerable MSMEs, reasons for this impact are as follows:

Role of MSME on supply side:

1. Lockdown contracted supply which affected the manufacturing sector at large;
2. Indian MSMEs largely depends upon the import of equipment's, raw material & other goods from China & other countries and due to lockdown they faced a shortage of raw material & increasing prices;
3. Many migrant laborers are still in their hometown & they are unwilling to come back because after lockdown they were compelled to walk for kilometers without food and money, even some of them lost their family members during walking;
4. MSMEs are facing scarcity of laborers or skilled labors if available than at a higher wage which increases the cost of production ultimately threat to survival;
5. MSMEs are also facing a financial crunch due to current economic situations.

Role of MSME's on Demand Side:

1. After lockdown consumers forced to stay at home, their expenditure became limited to only essential goods & services;
2. A decrease in sudden demands forced the enterprises to lay off employees, their salary cut, no new selections;
3. Due to this unemployment rate further increased which resulted in less disposable income with people so less expenditure and less demand;
4. India majorly exports to USA, UAE, Singapore, China, Hong Kong & other countries and due to Covid-19 demand from these countries affected;
5. This situation of international trade seems to deteriorate further;
6. Share of MSMEs in total exports from India, directly and indirectly, was 48.10% for FY 2018-19, nearly half of India's total exports (as per DGCIS);
7. Due to a decrease in demand from overseas, exports to countries is drastically reduced

and this further raised the question for businesses for their livelihood & survival;

8. Many MSMEs solely dependent on exports business & now they are in a vulnerable condition, & not only them but other stakeholders associated with them are also in vulnerable condition;
9. Also, the financial crunch will compel lots of MSMEs to close down in near future;
10. It clear from above that Covid-19 has created an abundance of problems for the MSME sector in India related to the crisis of supply, demand, & labor;
11. As the sustainability of the MSMEs sector in India is at stake, prospects of economic development & growth rate of GDP are also at stake because MSMEs contribute around 30%-35% of India's GDP.
12. Now the Indian economy will fall into a vicious circle which will lead it to recession & this time reason will be Covid-19;

V. RELIEF MEASURES FOR MSMEs BY GOVERNMENT OF INDIA PRE COVID-19

Non-Financial Support:

1. Technology up-gradation:

Technology up-gradation support is provided through the Credit Linked Capital Subsidy Scheme (CLCSS) for new or existing Micro, Small and Medium Enterprises (MSMEs). The scheme provides an upfront capital subsidy of 15% to MSMEs, This scheme currently includes 51 sub-sectors or products.

Financial Support:

2. Reimbursement of ISO certification fees:

In this scheme, MSMEs are allowed to claim reimbursement of 75% of the ISO certification fees or expenses up to a maximum limit of Rs.75,000/-.

3. Reimbursement of credit rating fees:

Under this scheme, MSMEs are allowed to take the reimbursement of fees they incurred getting their enterprises rated by credit rating agencies like CRISL, CARE, ICRA, etc's reimbursement allowed is 75% and the maximum limit will be based upon turnover of the enterprise.

4. Interest equalization scheme:

In this scheme under pre & post-shipment rupee export credit the interest equalization of 5%

per annum is available to all MSME exporters across all their merchandise exports.

5. Annual guarantee fee:

For prompting the borrower to maintain a good repayment track record on the borrowed amount an annual guarantee fee is charged from MSMEs by the trust CGTMSE (set up by the Government of India) it is a fixed % of the loan amount which varies between 0.75% to 1.80% depending upon the loan amount and trust provides them the guarantee of repayment in case of a default.

6. Borrowing without collateral:

The government of India has set up CGTMSE (credit guarantee fund trust for micro and small enterprises) a trust which facilitates MSMEs to get credit up to Rs. 200 lakhs or 2 Crores without any collateral requirements.

VI. RELIEF MEASURES FOR MSMEs BY GOVERNMENT OF INDIA POST COVID-19

“Atmanirbhar Bharat Scheme”

Non-Financial Support:

1. The revised definition of MSMEs:

Under newly revised definition both manufacturing and service sectors are now kept at the same footing for the classification based on investment, also now investment limit for both sectors is increased as well as a new criterion of turnover is introduced this will help in bringing so many enterprises within the meaning of MSMEs and get benefits of Government schemes.

2. Global tenders to be disallowed up to 200 crores:

The government has decided to disallowed global tenders for any procurement up to Rs. 200 crores this will help MSMEs to get the order without any foreign competition.

3. Marketing and Liquidity help:

For marketing, e-market linkage for MSMEs will be promoted which will act as a replacement for trade fairs and exhibitions. For liquidity all MSME receivables from govt. will be released within 45 days.

Financial Support:

4. 50,000 Crores of equity infusion for MSMEs through Fund of Fund:

Rs 50000 crore equity infusion for MSME has been arranged through fund of fund. Fund of

Fund will be set up with an initial corpus of Rs 10000 crores. Which will help MSME to increase its size as well as capacity and to get listed with the stock exchange.

5. Subordinate Debt for stressed MSMEs:

20,000 crores of subordinate debt are allocated for stressed MSMEs, by which around 2 lakh MSMEs are likely to get the benefit, this will help them to restart the business, secure jobs, and MSMEs whose accounts are NPA or in stress will be allowed to avail this benefit.

6. 3 Lakh Crores Collateral free loan:

The government has announced 3 Lakh Crores collateral-free loans which will help MSMEs to boost liquidity & working capital and restart the business, it will target 45 lakh units to resume business activity and safeguard jobs and MSMEs whose outstanding is up to Rs 25 crores and turnover is 100 Crores will be allowed to avail this benefit.

VII. CONCLUSION

As per the world health organization (WHO) "Covid-19" or "Novel Coronavirus" is a new strain of the virus and a lethal disease for human beings so WHO declared it a pandemic which resulted in worldwide lockdown's.

Due to Covid-19 & lockdown's almost all countries of the world suffered a lot, the most powerful economies countries reported themselves helpless, & situations uncontrollable. The Indian economy was already facing so many challenges and this nationwide lockdown kicked it so hard that we will continue to see its aftermaths in coming decades. It is not sure that what will be the fate of our economy and how much time it will take for revival, also almost all sections of Indian economy felt its effects deeply, which are not easy to be forgotten by coming generations as well.

Indian MSME sector plays an important role in the economy it has a significant contribution in GDP growth rate as well in total exports and not only that it employs a huge chunk of people that's why it is also called the lifeblood of the country.

Although the Indian Government was taking many measures before Covid-19 for promoting, helping, establishing, MSME sector but due to poor economic conditions since the 2008 global crisis & than two policy shocks demonetization & GST in 2016 & 2017 respectively resulted in further deterioration of the MSME sector and then Covid-19 & nationwide lockdown made them completely vulnerable.

Those MSME enterprises which solely dependent on exports are the worst hit, this created an environment where people are facing unemployment and enterprises are facing both demand

& supply problems. Post Covid-19 Government has taken so many financial & non-financial support measures for the MSME sector but their results are going to be visible after some time.

Today Indian economy got stuck in such a vicious circle that it is not going to be easy for it to come out and MSMEs are not going to remain untouched from that.

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