



INDIAN MSMEs: ROLE, MAJOR ISSUES AND OTHER PROBLEMS WITH SPECIAL REFERENCE TO LOCKDOWN EFFECT OF COVID 19 PANDEMIC

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ABSTRACT

Micro Small Medium Enterprise (MSMEs) is one the sectors of Indian Economy which is indispensable for the Country's Economic Growth. It account for 45% of total industrial production, 50% of total export and contribute around 30 % of Indian GDP. It is also second highest employment provider sector next only to agriculture. If proper care provided to this sectors it could lead India to become one of the developed economies of the world. India has the potential to do so with huge numbers of labour population. However, of late it has been observe that the MSMEs sector have been severely affected by economic slowdown which exacerbated by lockdown imposed in the wake of covid-19 pandemic.

This paper is an attempt to analyze the role and importance of MSME for Indian economy and also focus on major issues like lockdown effect, government role on reviving and support MSME, migrant worker issues and others problems faced by MSME sector in the present context which need immediate attention. These aspect have been dealt with the help of secondary sources of data, newspaper, reputed news portal, TV interview, Journals on related topic and personal experience.

Keywords: Economic growth, MSMEs, Indian economy, industrial production, labour population, lockdown effect

INTRODUCTION

MSMEs stand for Micro Small Medium Enterprise comes under the ministry of MSMEs, govt. of India. Its main role is to formulate rule and regulation, law pertaining to micro small medium enterprise in India. The definition of MSME is based on size of industry investment defined under section 7 of the micro small medium enterprise development (MSMED) act 2006. However, in may 2020 govt. of India has modified the MSME definition by including the turn over size along with investment size as now, a micro enterprise should have an investment of under Rs 1crore and turnover under Rs 5crore, small enterprise should have investment under Rs10crore and turnover below Rs 50crore, and a medium enterprise should have an investment Rs20crore and turnover under Rs100crore. MSME play a pivotal role in economic growth in India. It is considered as the backbone of Indian economy as it's constitute 90% of total enterprise in most of the economies and generating the second highest rates of employment after agriculture and account for a major share of industrial production and exports. Presently, despite its immense contribution in Indian economy it is facing a certain issues and problem which is hindering the smooth growth process and further Covid-19 lockdown has severely affected this sector. The current issues and problem of Indian MSMEs need immediate attention from the concerned authority and policy maker and need to be redress on priority basis so that MSMEs sectors can be back on its track.

Objectives of the Study:

1. To analyze the present scenario of lockdown effect on MSME in the wake of covid- 19 pandemic.
2. To highlight the importance of MSME in the development of Indian economy.
3. To assess the problem and solution pertaining to MSME.

Contribution of MSME in Employment generation:

As per the national sample survey(NSS) 73rd round conducted during the period 2015-16,MSME sectors has been created 11.10crore jobs (360.41lakh in manufacturing,387.18lakh in trade and 362.22lakh in other services and 0.07lakh in electricity in rural and urban areas across the country. The contribution of MSME in employment generation in India has been given in table no.1 below as follows:

Table- 1: Estimated employment in MSME sector

| Broad activity category | Rural | Urban | Total | Share (%) |
|-------------------------|--------|--------|---------|-----------|
| Manufacturing | 186.56 | 173.86 | 360.41 | 32 |
| Trade | 160.64 | 226.54 | 387.18 | 35 |
| Other services | 150.53 | 211.54 | 362.22 | 33 |
| Electricity | 0.06 | 0.02 | 0.07 | 0 |
| All | 497.78 | 612.10 | 1109.89 | 100 |

Source: MSME Annual Report 2018-19, table no 2.8

Role of MSMEs in Indian economy

MSMEs play a vital role in Indian economy. It is producing diverse industrial product to meet the demands of domestic as well global markets. Besides its contribution in employment generation it's also contributes in country's GDP. As per the data available with central statistics office (CSO), ministry of statistics & programme implementation, the contribution of MSMEs sector in India's gross value added (GVA) and gross domestic product (GDP) at current prices for the last five years is as follows:

Table -2: Contribution of MSMEs in country's Economy at current price (figures in Crores)

| Years | MSME GVA | Growth (%) | Total GVA | Share of MSME in GVA (%) | Total GDP | Share of MSME in GDP (%) |
|---------|----------|------------|-----------|--------------------------|-----------|--------------------------|
| 2011-12 | 2622547 | - | 8106946 | 32.35 | 8736329 | 30.00 |
| 2012-13 | 3020528 | 15.17 | 9202692 | 32.82 | 9944013 | 30.40 |
| 2013-14 | 3389922 | 12.23 | 10363153 | 32.71 | 11233522 | 30.20 |
| 2014-15 | 3704956 | 9.29 | 11504279 | 32.21 | 12467959 | 29.70 |
| 2015-16 | 4025595 | 8.65 | 12566646 | 32.03 | 13764037 | 29.20 |
| 2016-17 | 4405753 | 9.44 | 13841591 | 31.83 | 15253714 | 28.90 |

Sources: MSMEs Annual Report 2018-19, table no.2.1

MAJOR ISSUES: PRESENT SCENERIO**1. Lockdown effect on MSMEs:**

According to World Bank report, lockdown in India has impacted 40million migrant workers. The report says, "The lockdown in India has affected the livelihoods of a large proportion of the country's nearly 40 million internal migrants. Around 50,000-60,000 moved from urban center to rural areas of origin in the span of a few days". This wave of migration has caused negative effect on the growth of MSMEs. According to report published in Economic Times, it is estimated that over 25% of

India's 6.9 crore MSMEs may close down if the lockdown extend beyond four to eight weeks". The need of the hour is to observe the negative impact of lockdown on MSME which need to be address at the earliest possible time.

2. Bailout scheme to revive and sustain MSMEs:

The central govt. has announced Rs 1.7 lakh crore financial relief packages for MSME on 26th march 2020 under the Pradhan Mantri Garib Kalyan Yojna(PMGKY) for poor to help them to fight against the covid-19 pandemic. As per the packages the govt. has to pay the EPF (employees' provident fund) contribution for next three months of certain categories of employees. Further the union cabinet allocated Rs 3 lakh crore out of 20lakhcrore financial aids to revive Indian economy. This fund has mean for MSMEs support and announced under the Emergency Credit Line Guarantee scheme (ECLGS), and the special liquidity scheme for NBFCs which were come under the mega scheme Aatma Nirbar Bharat scheme. However despite many ambitious revivals plan announced by the govt. many experts believed that mere financial aids not sufficient enough to handle the current economic crisis situation. They believed that unless the confidence of the migrant workers are not winning back and letting them back to work it will be a big problem to be solved by the government.

3. Migrant workers issues:

One of the important current problems faced by MSME sector is the migrant labour crisis. Due to lockdown lakhs of workers were displaced and became jobless and fight for their survival. Migrant workers are the engine of growth for the development of MSME sector. In India most of the unskilled workers are absorbed in MSMEs thereby mutually benefited them. However due to lockdown both workers and MSME are badly affected. The central govt. has announced series of bailout packages for them specially loan facilities, RBI moratorium, and free food grains and to some section with direct cash transfer on their bank account etc. the govt. has in its economic stimulus packages provided for 5kg of food grain and Rs 500 per month for three month to poor women having Jan Dhan accounts. However former RBI governor Raghuram Rajan stated in an interview to Karan Tapar for news portal "the Wire", that mere financial aid announcement will not do and calling india Rs 20.9 lakh crores stimulus inadequate in providing for recovery of an economy cause by covid-19 pandemic. He said "packages gives free foodgrain but migrant workers, rendered jobless by lockdown and need of money to buy milk, vegetables, and cooking oil and pay rent. The world is facing the greatest economic emergency and almost any resources are inadequate". Further he stated MSME to whom the govt. announced credit line as part of economic stimulus were one of the most indebted sectors, and loans would only add to their indebtedness. Hence, migrant worker issues should be given priority if the MSME sectors have to be developed.

OTHER PROBLEMS OF MSME:

1. **Lack of credit faculties:** Comparatively in developed countries like France, UK, Germany and US has the MSME contribution of almost 50% to their GDP. Indian MSME has the potential to achieve the same but due to lack of credit faculties it could only reached around 30 % of GDP.
2. **Lack of marketing facilities:** in MSME, first growing market information is vital for marketing access but most MSME units is deprived of it because of smaller size and small scale of operation. Due to this, MSME sometime unable to tap market which could absorb their products and services. Secondly according to SBI group chief economic advisor Soumya Kauti Ghosh stated in the Eco wrap report(2019) that one of reason for MSME slowdown across sectors is the low awareness about various government initiatives and lack of compliance to statutory, legal, environmental norms by the MSMEs units.
3. **Lack of modern technology:** Due to poor consultancy support/service for access to modern technology related information, MSME in India still lack in technology. Technological up gradation in MSME is the need of the hour. According to report published in Financial Express, Indian MSMEs continue to struggle for technology adoption and it is mainly because of the lack of understanding and knowledge about digital tools for communication which has resulted in only 34% of Indian MSMEs adopting digital means.
4. **Lack of Foreign Direct investment:** Poor FDI flows in MSME sector is one of the problem which hinder the growth and efficiency. Multinational Corporation has a high influence on MSME in India because of which investor hesitate to invest in it. Further lack of FDI can be seen as though govt. has eased the FDI rules in the recent past but we are yet to see its benefit. Therefore it would be more difficult for the MSME to develop without FDI flows.

5. **complicated labour law:** In the changing scenario many expert believed that labour law in India are complex, outdated and archaic and not conducive to promote the interest of the industry. In the words of Harvinder Singh published in economic times (18 may 2018),”existing labour laws has lost its relevance with the changing times and in fact have inhibited the growth of MSME sectors. Labour law falls under the concurrent list of the constitution, which implies that both the centre and state can form law on it. When combined each state end up with over 200 different labour laws each one of them prescribing a different compliance format, a requirement that makes smaller factories prone to regular harassment by inspectors, high compliance cost and stringent penal provisions. This is disincentives for firm from growing beyond a point for instance; the trade union act of 1926 requires units with seven or more workers to allow forming trade unions. The factories act of 1948 mandates manufacturing units with 10 or more worker to have several working hour limits and workplace conditionality’s that become stricter with more workers.

The most burdensome of all is the industrial disputes act, 1947 which cover all industrial disputes and make it almost impossible for firms with 100 or more worker to fire anyone. Establishments require permission from the labour department to lay anyone off and such permission are rarely given even if the firm is unprofitable .as an expansion of firms come with high legislatives cost in India, it is rational for them to remain small”. Hence, there is an urgent need for labour reform and making the labour law less complex to ensure easy access, comprehension and implementation for MSMEs.

SUGGESTIONS/FINDINGS/REMARKS:

1. Indian labour laws should be made simpler, less complicated and compatible with the changing time. Focus should also be given to food and social security for workers so that they would be more secure while working for the MSME industry.
2. Bailout scheme for MSMEs should also focus in helping through direct financial assistance to industrial units which were severely affected by the lockdown along with the loans driven incentives announced by the government..
3. Credit and marketing facilities in the MSME sector should be prioritized by the policy maker so that sector becomes self sustainable.
4. Introduction of modern technology by replacing outdated one for rapid industrialization and allowing free flow of foreign direct investment (FDI) are the need of the hour.

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