

**COVID-19 and MSMEs – A Review of Policies and Prospects  
with Special Reference to Uttar Pradesh and West Bengal**

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**Abstract**

*MSMEs form the backbone of the Indian economy and have become engine of economic growth in India. MSMEs are playing a very important and vital role in the Indian economy in terms of its contribution to national income, employment generation, export, removing poverty and inequality, promoting entrepreneurship and regional balance. But, after 1991 this sector is facing tremendous competition due to globalization and economic liberalization. An attempt has been made in this paper to analyze the contribution of the MSME sector on Indian economy and also try to examine the impact of nationwide lockdown due to Covid-19 pandemic with a review of the government policies to rescue the MSMEs from this crisis. The main objective of the present paper is to make a review of the policies and prospects for the MSME sector in India in the Covid-19 pandemic situation. This paper also study the impact of covid-19 pandemic on MSME sector and the hardship this sector is experiencing and review the Government reaction with its relief package to rescue MSMEs from this crisis. Finally, the paper has laid out the way forward for the turn around and rejuvenation of the MSME sector. The paper is based on secondary data and literature. The study is analytical in nature.*

**Keywords:** MSMEs, Atmanirbhar Bharat Abhiyaan, Collateral free loan, Covid-19 pandemic, Uttar Pradesh, West Bengal.

**I. Introduction**

The MSMEs sector is a major contributor to country’s GDP, export and employment generator. After agriculture, the MSMEs sector is the 2<sup>nd</sup> largest employer in India. This sector contributes significantly in economic and social development of India by fostering innovation, inclusive growth and entrepreneurship by creating job opportunities at a relatively low capital cost. The MSME sector makes up about 45% of the country’s total manufacturing output, almost 30% of GDP, 40% of India’s export and employs around 11 crore individuals before the pandemic. According to National Sample Survey Organization (NSOO), the share of MSMEs in the country’s total GDP during 2018-19 has been 30.3%. The share of MSME sector and its related product in total export during 2018-19 has reached 48%.

With the above background the main objective of the present paper is to make a review of the policies and prospects for the MSME sector in India in the Covid-19 pandemic situation with a

focus on Uttar Pradesh and West Bengal. The paper is based on secondary data and literature and it is analytical in nature.

**II. Contribution of MSMEs on the Indian Economy**

Now-a-days, MSMEs are diversified their activities in production of range of goods and services to meet the demand of both local and global markets by extending their domain in different sectors. The contribution of MSMEs in India’s GDP and GVA for the last few years is depicted in the following Table-1.

**Table-1: Contribution of MSMEs in India’s Economy at Current Prices**

Figure in Rs. Crores at current prices						
YE AR	MS ME GVA	GRO WTH (%)	TOT AL GVA	Shar e of MS ME in GV A (%)	Total GDP	Shar e of MS ME in GD P (%)
201 1-12	2600 574	-	81069 46	32.3 5	87363 29	30.0 0
201 2-13	3020 528	15.17	92026 92	32.8 2	99440 13	30.4 0

<b>2013-14</b>	3389 922	12.23	10363 153	32.7 1	11233 522	30.2 0
<b>2014-15</b>	3704 956	9.29	11504 279	32.2 1	12467 959	29.7 0
<b>2015-16</b>	4025 595	8.65	12566 646	32.0 3	13764 037	29.2 0
<b>2016-17</b>	4405 753	9.44	13841 591	31.8 3	15253 714	28.9 0

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation.

[Note: GVA – Gross value added at basic price (base year 2011-12). GVA estimated by production approach, (GVA=output - material input) and by income approach (GVA= compensation of employees + operating surplus + CFC).

GDP is derived by adding taxes on products, net of subsidies on products, to GVA at basic prices. FISIM: Financial Intermediation Services Indirectly Measured= total property receipts (dividend + interest +net profit on sale of investments) – total interest payments by the banking sector. ]

MSMEs have created 11.10 crores of jobs in the urban and rural areas across India according to the NSS 73<sup>rd</sup> round conducted during 2015-16. The following table depicts the distribution of MSMEs activity wise and category wise.

**Table-2: Activity-wise Estimated Employment in MSMEs**

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other services	150.53	211.69	362.22	33
All	497.78	612.10	1109.89	100

Source: Annual Report 2018-19 Ministry of MSMEs, GOI. [Website: [www.msme.gov.in](http://www.msme.gov.in) ]

**Table 3: Distribution of Employment in Urban and Rural Areas (Number in lakh)**

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
All	1076	31.95	1.75	1109.89	100

Source: Annual Report 2018-19 Ministry of MSMEs, GOI. [Website: [www.msme.gov.in](http://www.msme.gov.in) ]

**III. Lockdown and MSMEs**

**New Definition of MSMEs**

The existing criterion of definition of MSMEs is based on the **MSMED Act, 2006** and it was different for manufacturing and services units and it was also very low in terms of financial limits. On **June 1, 2020** the Cabinet approved the revised definition of MSME.

Definition of MSMEs is revised and distinction between service sector and manufacturing is also eliminated. The new composite definition includes both investment limit and turnover along with upward revision of investment limits.

Revised MSME Classification			
Composite Criteria : Investment and Annual Turnover			
Classification	Micro	Small	Medium
<b>Manufacturing &amp; services</b>	Investment< Rs. 1 cr. And Turnover<Rs. 5 cr.	Investment< Rs. 10 cr. And Turnover< Rs. 50 cr.	Investment< Rs. 50 cr. And Turnover<Rs. 250 cr.
<b>Note: Exports of goods or services or both, shall be excluded while calculating the turnover.</b>			

The ministry of MSME, GOI and its sub-organizations have proposed to take many actions to relief MSMEs from this lockdown and post lockdown economics situation.

**IV. Problems faced by the MSMEs**

Considering the size, shape, distribution and form of MSMEs, it is not very tough job to visualize the extent of problem they would confront in future. Most of the MSMEs are not registered and the main reason is that they are too small. Many micro units do not qualify for GST. It has both positive and negative side. Being not registered they do not have to follow government regulations including pay taxes; maintain accounts etc which reduce their costs. But these become constraints for the government to help them in crisis as they are not registered they do not exist or enlisted in the government book.

Another problem of this sector is the delays of pending payment of dues from their buyers which include big firms and PSEs and GST refund in time is also an issue for the sector.

## V. Strategies for Sustainability of MSMEs in the Post-lockdown Period

To increase competitiveness, the government is going to provide Information Technology Enabled Services (ITES) at a subsidized cost, promote innovation, upscale, technological upgradation, encourage corporatization of MSMEs, so that MSMEs can compete with the bigger and global players.

**Loan to MSMEs:** The MSME sector will be one of the main concerns for the government during and post-lockdown time and it will be very tough for the MSMEs to keep themselves afloat in future. The MSMEs are tremendously affected by both pre-pandemic economic recessions and Covid-19 pandemic along with nationwide lockdown.

### Collateral Free Automatic Loans

The government will also motivate for self-employment by providing MUNDRA small loan and **Rs. 3 lakh crores collateral free automatic loans** to MSMEs of upto 20% of their loan outstanding at the end of February. The loans will have 4 year tenure with 12 months moratorium period on principal repayment and **100% credit guarantee** cover to Banks and NBFCs on principal and interest.

### 'Fund of Funds'

Through 'Fund of Funds' system **Rs. 50,000 crores** equity infusion will be provided for MSMEs with good track record, growth potential and viability to expand in size as well as in capacity. There is a proposal that initially the government will provide Rs. 10,000 crore and it will be raised to Rs. 5,000 crore to support distressed MSMEs through 'daughter funds' and the Mother Fund (i.e. the Fund of Funds).

### Partial Credit Guarantee Scheme

A partial credit guarantee scheme of Rs. 20,000 crore (subordinate debt fund) will be infused through CGTMSE (managed by SIDBI) to enable promoters of these MSMEs to enhance their equity in their businesses. It is expected by the government that about two lakh distressed and NPA and functioning MSMEs will be eligible for this subordinated debt fund.

### Big Firms Have To Reveal their Dues to MSMEs

The government had decided to make it mandatory for large firms to reveal their dues to the MSMEs and guarantee timely payments to MSMEs.

The government instructed the Centre and its undertakings to **pay the dues of MSMEs within 45 days of delivery** of goods and services.

## VI. What More Need to be done?

Both RBI and the Government of India are trying to help MSMEs but it may have limited impact due to structural constraint. So there are no easy and readymade answers. The new definition will bring about many benefits that will help MSMEs to grow in size. This was made under 'Atmanirbhar Bharat Abhiyaan Economic Package' to alleviate India's economic misery amidst the pandemic.

So we have to keep in mind that most of the measures taken by the government are to solve the problems of liquidity. The liquidity infusion measures without proper and adequate measures to increase the demand will not help MSMEs to overcome the Covid-19 driven nationwide lockdown induced crisis. The dilemma here is that the MSMEs are unlikely to borrow even at competitive interest rates if the economy is in crisis and sinking.

The current package and re-classification are not sufficient to rescue the MSME sector from the assaults of the Covid-19 pandemic and the ban on the Chinese products along with a hugely decreased demand. The #RebootIndia campaign will not succeed until the entire ecosystem for micro players with the MSME sector is simplified to encourage even undergraduates to boldly venture into initiating a business.

## VII. Conclusions

The relief package is expected to break the logjam of credit market and confidence of the business community, MSMEs and bank and NBFCs, that is both the borrower and lenders through assurance of the government will be willing to backstop their commitments.

Despite the many issues that the sector is facing, a committed credit provision, simpler compliance framework and technology upgradation will succeed in #RebootingIndia at a time when many foreign manufacturing units are contemplating shifting their operations from China to India.

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