

COVID & MSME

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

On Monday, the Nikkei India Purchasing Managers Index survey revealed that the manufacturing PMI fell to a record low of 27.4 in April, down from 51.8 in March. Of particular concern during this period of economic distress is the condition of the micro, small and medium enterprises. As a series of reports in this paper has highlighted, for many of these small businesses, the difficulty of staying afloat is rising with each passing day. MSMEs are likely to be the most affected by this economic downturn, both sparked and accelerated by the [coronavirus pandemic](#), as they don't have the buffers of the bigger firms or access to cheap capital to help them tide over this period. With demand collapsing, and unlikely to rebound strongly in the near term, it will be increasingly difficult for these businesses to meet their obligations such as repayment of loans or wages to their employees. According to TransUnion Cibil, MSME loans worth Rs 2.3 lakh crore are at a higher risk of becoming non-performing. Further, the working capital requirements of these firms will rise as payment cycles are likely to be stretched, creating additional cash flow problems. This situation is unlikely to revert to normal in the near term even as restrictions on large parts of the country are lifted.

To ease the firms' financial distress during this period, the Reserve bank of India has announced several measures such as a moratorium on term loans, and easier working capital financing. Some public sector banks have also opened up emergency credit lines for businesses. However, the government response so far has been muted. Some measures have been announced, but they were mostly regulatory and administrative in nature. Reportedly, the government is working on a package to address the needs of the MSMEs. There are concerns over an across-the-board provision of relief measures and the open-endedness of such a package. There will also be issues of targeting.

And providing support to MSMEs operating in the informal economy will pose challenges. Yet the delay in announcing a relief package is surprising. Governments across the world have announced various measures ranging from wage support to direct subsidies to help these businesses tide over these difficult times. But, in India, more than a month after the national lockdown was announced, there is still no blueprint of how the government intends to support these businesses during this period.

There are several possible options for the government to consider. To begin with, all dues owned by governments and public sector undertakings to MSMEs can be immediately cleared. This will help ease their immediate cash flow woes. Second, with banks turning risk averse, credit flow to MSMEs is likely to be depressed as solvency concerns will dominate. In such a situation, the government could step in. It could set up a credit guarantee fund that backstops loans to MSMEs. There is a strong case for urgent government intervention — the costs of intervening early on will be much less than the price of delayed action.

The Indian Express is now on Telegram. Click [here to join our channel \(@indianexpress\)](#) and stay updated with the latest headlines

END