

IMPACT OF COVID-19 ON MSME

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ABSTRACT:

Micro, Small and Medium Enterprises (henceforth called MSME) sector is the backbone of Indian economy. These MSMEs are classified as micro, small and medium based on their investment in their business. While micro enterprises are equally distributed over rural and urban India, small and medium ones are predominantly in urban India. In other words, micro enterprises essentially refer to a single man or a woman working in their own from home. The world is battling with modern horrors like the COVID-19, which has left the entire world befuddled and, in the lurch, as to how one virus has brought the entire world to a standstill. It is a well-known fact that in the global supply chain, China plays a very pivotal role for India and its MSME sector as well, this sector is largely dependent on China for its raw material. The purpose of this paper is to understand Government Policy/Steps for MSME sector really make the dream come true as ATAMNIRBHAR BHARAT.

Keywords: *Covid-19, MSME, Make in India, MCA 21*

INTRODUCTION:

MSMEs have played a vital role in our economy and with low investment, it is giving the maximum employment in the country providing wide area of products and services. Contributing almost 30 per cent to India's GDP and about half of exports (data by Directorate General of Commercial Intelligence and Statistics (DGCIS)), MSMEs play a significant role in the economy. It is important that the Ministry of MSMEs draws up a policy framework with multiple scenarios for how to continue business operations, commensurate to the spread of the virus. Governments worldwide have been using various policy measures to soften the economic blow rendered to their MSME Sectors.

Objective:

- To understand the impact of COVID-19 on MSME
- To understand the Measures/steps taken by government for MSME during COVID 19 are effective or ineffective

Research Methodology:

The Research Methodology will be employed is Doctrinal. Doctrinal research is one of the fundamental methodologies of legal research. A doctrinal approach to research will focus on case-law, statutes and other legal sources. In doctrinal research, researcher mainly uses different judgments, treaties, statutes texts, legal journals, magazines etc., and from these he tries to collect all relevant material on the topic and then with reasoning power, researcher tries to find out gap, problem and draws out final conclusion. In this paper the researcher used Doctrinal method to find out the gap between the measures taken by government for MSME during COVID 19 and how far they are effective to resolve the problem faced by the MSME to make ATAMNIRBHAR BHARAT.

GOVERNMENT MEASURES FOR MSME SECTOR:

- The Ministry of Finance has announced several relief measures relating to statutory and regulatory compliance matters in view of Covid-19 outbreak.

The Central Government has brought in the Taxation and other Laws (Relaxation of Certain Provisions) Ordinance, 2020 on 31st March, 2020 which provides for extension of various time limits under the Taxation laws viz, the Income Tax Act, 1961, the Central Excise Act, 1944, the Customs Act, 1962 etc. Further, various notifications and circulars were issued for the compliance relaxation under the GST law.

- Relief under IBC

Considering the Covid-19 outbreak, the Ministry of Corporate Affairs, vide Notification S.O. 1205 (E) dated 24th March, 2020, enhanced the “minimum default threshold from INR One Lakh to INR One Crore.

That the said notification was issued post announcement made by the Hon’ble Finance Minister on 24th March 2020, wherein the Hon’ble Minister highlighted the amendment as a measure for protection of the interest of medium, small and micro enterprises (“MSME”) during this COVID-19 outbreak. The Press release dated 24th March 2020 issued by the Ministry of Finance read as under:

“Due to the emerging financial distress faced by most companies on account of the large-scale economic distress caused by COVID 19, it has been decided to raise the

threshold of default under section 4 of the IBC 2016 to Rs 1 crore (from the existing threshold of Rs 1 lakh). This will by and large prevent triggering of insolvency proceedings against MSMEs.”

Therefore, the amendment has proved to be a supporting medium for MSMEs to save them from insolvency proceedings due to default in payment because of Covid-19 situation.

- The Ministry of Corporate Affairs through the Insolvency and Bankruptcy Board of India, vide Notification No. IBBI/2019-20/GN/REG059 dated 29.03.2020, notified the amendment in the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 on 29th March, 2020.

Regulation 40C has been inserted to the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2020 to provide that the lockdown period shall be excluded for the purpose of calculation of the timeline of the Corporate Insolvency Resolution Process.

- Condonation of delay in filing documents on MCA 21.

The Ministry of Corporate Affairs vide Circular No. 12/2020 dated 30th March, 2020 and Circular No. 12/2020 dated 30th March, 2020, introduced the Companies Fresh Start Scheme, 2020 and revised the LLP Settlement Scheme, 2020.

Both the schemes provide a one-time waiver of additional filing fees for delayed filings by the companies or LLPs with the Registrar of Companies. The Schemes are effective from 1st April, 2020 and will exist till 30th September, 2020. The benefit is available not only to the companies or LLPs which may not be able to file Documents in time during the lockdown, but also includes existing defaulting companies or LLPs.

However, the above schemes are subject to certain exceptions mentioned therein.

- **Grievance Redressal for Food Processing Industries**

The Ministry of Food Processing Industries vide **Press Release dated 30th March, 2020** has formed a Task Force to address the grievances and resolve the problems faced by Food Processing and ancillary Industries. The Hon'ble Minister of Food Processing Industries also urged the need for a uniform format in all states regarding manufacture and movement of food products.

- **Movement of Essential Goods and Services**

The Ministry of Home Affairs, vide **Order No. 40- 3/2020-DM-I(A) dated 24th March 2020** (as amended) allowed the movement of essential goods and services. Further, the Ministry of Home Affairs issued a **Standard Operating Procedure** for supply of essential goods on 24th March, 2020 and directed all the State/ UT to setup a control room/ office with helpline to address the grievance or undue hardship faced by the supplier of essential goods or services.

Additionally, **Department for Promotion of Industry and Internal Trade (DPIIT)**, under the Ministry of Commerce and Industry, has set up a control room to monitor in real time the status of transportation and delivery of goods, manufacturing, delivery of essential commodities to common man and the difficulties being faced by various stakeholders during the lockdown period.

- **Employees**

The **Ministry of Labour and Employment** vide **Notification F. No. S-35012/01/2020-SS-II(Pt.) dated 29th March, 2020** allowed the Employee Provident Fund account holder to withdraw up to 3 months of basic wages and dearness allowance or 75% of the amount standing to the member's credit in the EPF account, whichever is less from the non-refundable advance by EPF members/subscribers during the pandemic.

- **Online Platform to help Businesses**

The Government has designed the Invest India Business Immunity Platform as a comprehensive resource to help businesses and investors get real-time updates on India's active response to Covid-19. This platform keeps a regular track on developments in controlling the Covid-19 spread, provides the latest information on various Central and State Government initiatives, gives access to special provisions, and answers and resolves queries through emails and on WhatsApp,

- **Power Sector**

The Ministry of Power, vide press release dated 28th March 2020, stated that due to the lockdown, consumers are unable to pay their dues to the Distribution Companies ('Discoms') which has affected the liquidity position of the Discoms thereby impairing

their ability to pay to the generating and transmission companies. Considering the above situation, the Ministry announced for the following relief to for the Discoms:

CPSU Generation / Transmission Companies will continue supply/ transmission of electricity even to Discoms which have large outstanding dues to the Generation / Transmission companies. During the present emergency there will be no curtailment of supply to any DISCOM.

Till 31st May 2020, the payment security mechanism to be maintained by the Distribution Companies with the Generating Companies for dispatch of power shall be reduced by fifty percent.

Directions have been issued to the Central Electricity Regulatory Commission to provide a moratorium of three months to Discoms to make payments to generating companies and transmission licensees and not to levy penal rates of late payment surcharge. State Governments are being requested to issue similar directions to State Electricity Regulatory Commissions.

- **Loan Rescheduling**

The Reserve Bank of India, vide Circular No. RBI/2019-20/186 dated 27.03.2020, announced a regulatory package for the borrowers and the lending institutions. All borrowers, including MSMEs, can avail the benefit of the package announced by the Reserved Bank of India.

ISSUES AND CHALLENGES:

According to a recent survey, about 26% of businesses surveyed said their sales and purchases have been impacted due to the virus outbreak. MSMEs are grappling with problems like low liquidity or cash flow and lack of workforce as the daily-wagers have gone to their villages.

Businesses that are into manufacturing will also take a hit on export business as the situation remains uncertain. The services sector is also slowing down with more people opting for social isolation.

- **Tax Relaxation:**

It is pertinent to note that while tax cuts may be necessary for larger businesses, such measures will exclude the informal sector where employment and turnover will not meet minimum thresholds required to pay income tax or to be registered under the GST. Relief for informal workers and tiny micro-enterprises with 5-10 workers, will need to be targeted such that it reaches them, in time to save their lives and livelihoods. The role that trade unions and other labour market institutions in India can play in identifying these businesses and workers, should also be encouraged. The government will need to collaborate with manufacturing and retail trade associations, and pay heed to the findings from surveys they have been conducting with their member businesses.

- **Make in India**

This is the right time for the Government to roll out sops to MSMEs that manufacture locally. The Government e-Marketplace (GeM) could be of great use to suppliers looking for purchasers and vice versa. Investing in online infrastructure while also encouraging small businesses to source locally could help improve manufacturing while also cutting on our import costs. It makes the really make in India dream come true in real sense.

- **Delay MSME loan repayments or extend tenures**

Most businesses are looking for financial support from the government and doing this can help them cope with cash flow problems. Relaxing bad loan norms could also be a saving move for this sector. As the RBI pumps in more cash into the banking sector, deferring or relieving the MSMEs of loan repayments could come as a welcome move.

- **Inventory management for exporters**

Businesses that are into exports could use some help with inventory management. In the Union Budget 2020, Sitharaman proposed building warehouses at block/taluk level. If the government could allot subsidised warehousing to exporters while figuring out the supply chain side of things, it could potentially help support the economy.

- **Permanent structures to support**

With 99 percent of MSME sector enterprises categorised as micro, it is clear that a large percentage of the persons employed in this sector work in these vastly informal

enterprises. Wage support could be made available to workers employed in such units. In India, the government has not yet announced a wage support or subsidy package to incentivise employers to retain employees during this crisis although it has directed employers in all commercial establishments to continue paying wages, as per due date, without any reductions. Permanent structures to support the informal sector have been long overdue, and the hope is that these will be set up immediately post crisis recovery. A wage support or subsidy package would enable employers to pay salaries and other statutory dues to daily wage workers, especially in such units. The structural issue of the means of identification of these enterprises aside, a policy framework that contemplates wage support during these challenging times, will help address the woes of MSMEs.

- **Self-Employed Or Owner-Managed Enterprises**

There may be room to compensate (subject to a cap) self-employed business who can prove a decrease in turnover. The government can approve such compensation subject to demonstration of reduced income, for instance, by way of documented decline in predicted revenue due to cancelled orders, restricted movement of goods and labour etc. The framework could also make it imperative for businesses to draw up cash flow forecasts for how they will operate if compensation were provided for a fixed time-period. The policy framework must account for self-employment separately since this includes hawkers, small shopkeepers, those offering private services such as plumbers, electricians, drivers etc. who do not fall into the regular or casual salaried workers in other enterprises.

Conclusion:

Covid-19 is a crisis with an unforeseeable ending. What is clear though is that the government and businesses—both large and small—will have to work together to ensure the protection of workers, be ready for risk-management in terms of phased re-starting of business operations and be prepared and open to structural changes in business activities. It is important that the government introduces a policy framework to soften the economic blow rendered to the MSME sectors, not just in the short-term but also for the long term, considering both supply and demand side impacts. There shall be measures to mitigate impact on MSME labour workforce, defer utility and

social security payments, enhance access to credit and specific measures for self-employed.

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