COVID-19 recovery: SMEs and local value chains

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**MSME sector of India**

- Indian 'micro, small and medium enterprise' (MSME) sector contributed to 28% of the GDP (2019)
- About 64 million MSME units are operating in India representing different industry sub-sectors
- Provides employment to more than 110 million people
- MSMEs generally exist as clusters (each varying from 50 to 500 industries) – either homogeneous or heterogeneous
- MSMEs generally use obsolete and inefficient technologies and have low access to EE/RE technologies
- An estimated 200 energy intensive MSME clusters have significant scope for cleaner technologies
- Major issues faced by MSMEs are related to barriers around technology, finance and capacity
Impacts of COVID-19 on SME sector

• Disruption in supply chain of raw materials and finished products
  • e.g. non-availability of raw materials had led to production stoppage across different industry segments

• Stagnation in cash flow for meeting working capital expenditure

• Non-payment of wages had resulted in migratory workers returning to native places with huge uncertainties for reviving industrial production

• Low demands by end-uses in many industry segments led to low capacity utilization of the sector

• With SMEs providing forward and backward linkages with several medium and large industry sub-sectors, returning to the BAU scenario may take considerably longer duration
Opportunities for SMEs in post COVID-19 scenario

- SMEs use both thermal energy and electricity; energy accounts for about 15-35% of total production costs in energy intensive SMEs

- Use of inefficient technologies and practices offers huge opportunities for green recovery in SMEs
  - Energy efficiency (EE) measures will help in reducing energy consumption for long-term sustainability e.g. energy efficient motors, high efficient boilers, waste heat recovery, etc.

- Renewable energy (RE) options help in reducing the dependency on fossil fuels
Revival of SMEs in India: Atmanirbhar Bharat Abiyan (Self-reliant India)

• Announced by the Government of India in May 2020 after the lock-down, it provides upward revision of definition of MSME to avail benefits

• Emergency credit line to MSMEs for re-starting businesses
  • Rs 3 lakh crore (USD 40 billion, 100% credit guarantee by the Government of India, one year moratorium, etc)
  • Will benefit 4.5 million MSMEs

• Rs 20,000 crore (USD 2.7 billion) as unsecured loan to support working capital
  • Will benefit 200,000 MSMEs

• Rs 50,000 crore (USD 6.7 billion) equity infusion for MSMEs that are viable but need handholding.

• No global tenders allowed in government contracts worth upto Rs 200 crore (USD 26.9 million)
Revival ...contd.

- Promote E-market linkage for MSMEs as a replacement for traditional trade fairs and exhibitions.
- Use of fintech to enhance transaction-based lending using e-market place.
- MSME receivables from government and CPSEs to be released in 45 days; Government to monitor continuously the settlement of dues to MSME vendors from government and CPSEs
- SIDBI’s COVID Start-up Assistance Scheme
- Performance Linked Incentive for API, mobile phones and medical devices
- Special scheme for manufacturing parts of coaches and locomotives for Indian railways
- Preference for purchase from MSMEs for government tenders (e.g. railways)
- Many more …
Early signs of recovery in India; SMEs playing a pivotal role

- Economy on growth path again, showing V-shaped recovery
  - GST collections back to pre-COVID levels; October ‘20 levels 10% higher than Oct ‘19
  - Electricity and oil demands back to normal levels

- Automobile sector leading the recovery
  - Leading players register robust growth in last two months; ancillaries and supply chains doing very well
  - Policy focus on e-mobility
    - Push to component manufacturing

- Manufacturing and integrating in global supply chains in pharma sector
  - India emerging as a key player of global pharma supply chains, focus on health care sector
  - 2nd largest manufacturer of PPE kits in a very short duration
  - Manufacturing thousands of ventilators, N-95 masks & diagnostic kits in a quick time

- Many SMEs ventured into manufacturing new products and services during lockdown
De-carbonization of SME sector: Shift to electrification

- Electrification of heat offers huge opportunities for SMEs to reduce GHG emissions
- Right time for SMEs to invest in greener technology options utilizing the incentives provided by various governments for their revival.
- TERI with support from Shakti Foundation had recently undertaken a study on identifying electrification options in SMEs in India.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Present technology</th>
<th>Electrification</th>
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</thead>
<tbody>
<tr>
<td>Foundry</td>
<td>Coke fired cupola</td>
<td>Induction furnace</td>
</tr>
<tr>
<td>Aluminium extrusion</td>
<td>Oil fired crucible furnace</td>
<td>Electrical melting furnace</td>
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<tr>
<td>Tea processing</td>
<td>Coal fired hot air generator</td>
<td>Electrical resistance heater</td>
</tr>
<tr>
<td>Material handling</td>
<td>Diesel operated forklift</td>
<td>Electrical forklift</td>
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</tbody>
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Payback: 3-4 years
Barriers: High investment, lack of information
Thank you!

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