

COVID-19 recovery: SMEs and local value chains

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MSME sector of India

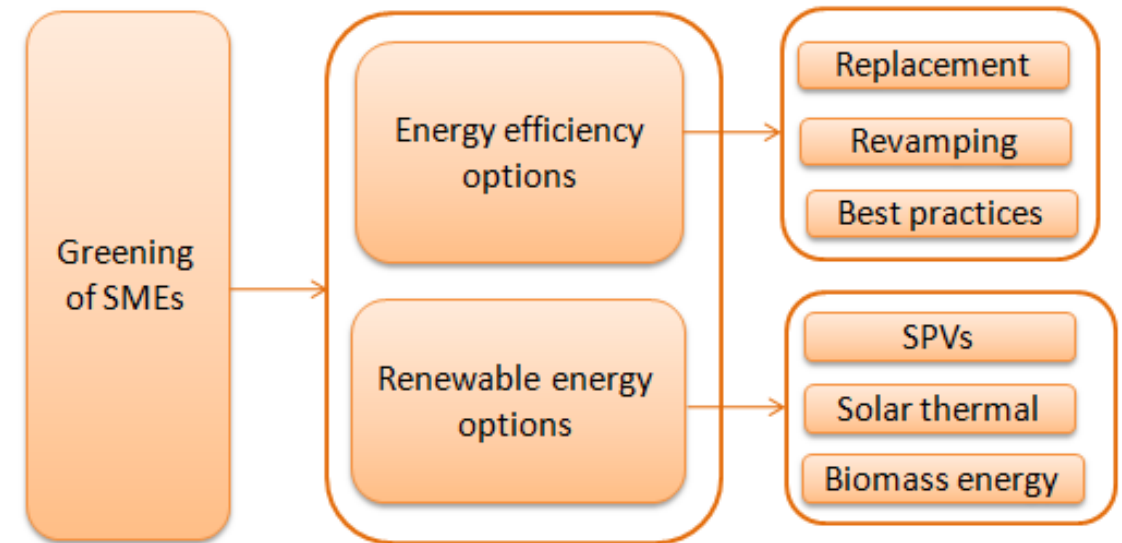
- Indian 'micro, small and medium enterprise' (MSME) sector contributed to 28% of the GDP (2019)
- About 64 million MSME units are operating in India representing different industry sub-sectors
- Provides employment to more than 110 million people
- MSMEs generally exist as clusters (each varying from 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.

Sector	Present technology	Electrification
Foundry	Coke fired cupola	Induction furnace
Aluminium extrusion	Oil fired crucible furnace	Electrical melting furnace
Tea processing	Coal fired hot air generator	Electrical resistance heater
Material handling	Diesel operated forklift	Electrical forklift

Foundry



Not viable at present electricity prices

Barriers: High investment, high electricity prices

Material handling



Payback : 3-4 years

Barriers: High investment, lack of information

Thank you !

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