Strengthening DRM capacity under COVID-19 pandemic in cyclone/flood-prone area

- Guidelines for MSMEs and local government

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Executive summary

The Indian coastal state of Odisha is highly prone to disasters due to its specific geo-climatic condition that makes the state vulnerable to frequent floods, cyclones, droughts, and heatwaves. Its location on the east coast of India makes it one of the six most cyclone-prone areas in the world along with being the most vulnerable in terms of cyclone landfall. In the last century, out of 1019 cyclonic disturbances in the Indian subcontinent, 890 were along the eastern coast, and of these, 260 cyclonic disturbances had their landfall along the Odisha coast[1]. The presence of major river systems with many perennial rivers and their tributaries makes the region vulnerable to floods. It is the fifth most flood-prone state in the country. Its vulnerability to flash floods, landslides, earthquakes, and tsunami is also high.

The state has in place a dedicated and robust mechanism for the management of disasters and has won global accolades for its preparedness, response, and management of some of the recent cyclones such as 2013 Cyclone Phailin and 2019 Cyclone Fani. The government has also been proactive in designing special packages with a focus on food security, housing, livelihood assistance, environment management along with additional monetary assistance in aftermath of major disasters. In addition to schemes like the National Social Assistance Programme (NSAP), Madhu Babu Pension Yojana (MBPY), and Banishree that provide social protection, the government has provided soft loans to Micro, Small and Medium Enterprises (MSMEs) for handicrafts, small grants for fishery and coconut growers and promoted group insurance for the MSME units.

However, local authorities and MSMEs faced complex risks and challenges when the Super cyclone Amphan hit the state amidst the COVID-19 pandemic. This has highlighted the lack of adequate measures and considerations of disaster risk in businesses, supply chains and overall functioning of MSMEs. In the backdrop of this, the importance of Business Continuity Planning (BCP) with a focus on multi-hazard risk cannot be overemphasized. The local government has a crucial role in this regard. The project "Strengthening DRM capacity under COVID-19 pandemic in cyclone/flood-prone area" identifies this gap and lays down guidelines for MSMEs on business continuity and contribution to local communities and for local government on supporting such efforts. The guidelines put forth key considerations with regards to the following:

1. Business continuity planning for MSMEs
2. Role of MSMEs in supporting local communities
3. Role of local government in supporting MSMEs

Further, the guidelines include the necessary role of local authorities and stakeholders in reviving businesses post disasters. As the majority of the units in the study area belonged to the micro category, the guidelines may be more relevant to the micro-enterprises.

[1] https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_732468.pdf

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MSMEs act as catalysts of local socio-economic recovery and requires investment to rebuild infrastructure and financial back-up. The guidelines provide key measures and actions to strengthen risk awareness and communication among MSME units. In addition, it familiarizes the MSMEs with their potential roles and support they can seek from other stakeholders, particularly local government. It emphasizes the need for resilience in the enterprise setup and highlights actions that are essential to allow MSMEs to graduate from survival to sustainable status.

1. Introduction

This section discusses the broad overview of the MSMEs in India, their governance and recent challenges prevalent in the sector.

1.1 Overview

Micro, Small, and Medium-sized Enterprises (MSMEs) effectually offer the majority of jobs in the global economy. These can be directly tied into global, regional or local value chains with many of them being involved in industrial activities. MSMEs tend to create large employment opportunities at comparatively lower capital costs than large industries in addition to helping in the economic growth of rural areas. Khadi and Village Industries (KVI) are the two most popular representations of MSMEs in India. They create avenues for the sustainable employment of local artisans. In India, the overall contribution of MSMEs to the Gross Domestic Product (GDP) is at 30 per cent. Under the Micro, Small and Medium Enterprises Development Act, 2006, the MSMEs are classified into the following types:

i. Manufacturing enterprises, engaged in the manufacture or production of goods of any industry specified in the first schedule of the Industries Development and Regulation Act, 1951; or performing a value addition to the final product having a distinct name or character or use
ii. Service enterprises, which provide services
iii. Wholesale and retail

The MSMEs are categorized into three tiers viz., Micro, Small, and Medium based on investment in plant, equipment and annual turnover. According to the government's notification of 01.07.2020, the categories were modified such that the investment threshold was increased and turnover was included in the criteria of categorization. As per the revised classification, in a micro-enterprise, investment in plant and machinery or equipment does not exceed one crore rupees (approx. 0.13 million USD) and turnover does not exceed five crore rupees (approx. 0.66 million USD); in a small enterprise, investment in plant and machinery or equipment does not exceed ten crore rupees (approx. 1.33 million USD) and turnover does not exceed fifty crore rupees (approx. 6.65 million USD); and in a medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees (approx. 6.65 million USD) and turnover does not exceed two hundred and fifty crore rupees (approx. 33.2 million USD).

1.2 Governance structure

The ministry for MSME consists of two divisions: a) Small & Medium Enterprises (SMEs) Division that primarily manages the administrative supervision, vigilance, media, implementation of the schemes relating to Performance and Credit Rating and Assistance to Training Institution, among others and assistance to training institutions; and b) Agro & Rural Industry (ARI) Division, that looks after the administration of two statutory bodies viz. the Khadi and Village Industries Commission (KVIC) and Coir Board and a newly created organization called Mahatma Gandhi Institute for Rural Industrialization (MGIRI). It also supervises the implementation of the Prime Minister's Employment Generation Programme (PMEGP).

Some of the major schemes which strengthen the MSMEs are related to:

a) Employment generation - Prime Minister Employment Generation Programme, PM Formalization of Micro Food Processing Enterprises Schemes, Self-Employment and Talent Utilization (SETU)
b) Financing schemes - Credit Guarantee Scheme, Emergency Credit Linked Guarantee Scheme
c) Promotion of business - ISO 9000/ISO 14001 Certification Reimbursement Scheme, Cluster Development Programme
d) Technological advancement - ISO 9000/ISO 14001 Certification Reimbursement Scheme, IT Incubator – for IT start-ups

At the state level, the Department of Micro, Small & Medium Enterprises has been created to promote and enhance the MSMEs in the state through guidance and scheme implementation. The state-level departments in addition to General Manager District Industries Centres of each district rejuvenate, facilitate for obtaining financial assistance from various financial institutions and thrust for facilitating and co-coordinating the growth and development of the MSME sector. Micro, Small & Medium Enterprises Development Institutes (MSME-DI), impart skill development training to MSME workers to sharpen their skills and provide techno-economic and managerial consultancy to MSME units in different states. State-level startup initiatives like Startup Odisha, by the state MSME Department, work towards the promotion of ideas/innovations of budding entrepreneurs in the state and guide them towards the development and improvement of products, processes and services.

1.3 Prevalent challenges in MSMEs

MSMEs in India are a part of the unorganized sector due to the majority of unregistered enterprises. According to the Economic Survey of 2018-19, 93 per cent of unincorporated non-agricultural enterprises are not registered. These units employ a vulnerable workforce of informal nature with no written job contract or paid leave and social security benefits. Disaster impacts are magnified for the vulnerable groups due to these disadvantages. Due to COVID-19, MSMEs were affected by the crisis from both the supply and demand sides. Labour unavailability due to lockdowns and supply chain disruptions were primarily considered to affect MSMEs. According to a survey by FICCI, 73 per cent of businesses reported a reduction in orders, and 60 per cent reported supply chain disruptions due to COVID-19. This underlines the current need to focus on the recovery of MSMEs to aid in overcoming the crisis and support in sustaining livelihoods in regions where economic activities are being disrupted by pandemics and disasters.

2. MSME Profile - Odisha

This section discusses the prominent MSMEs in Odisha and the impact of disasters on them.

2.1 Major MSMEs in Odisha

In Odisha, MSMEs provide the second largest employment after agriculture. The Micro, Small & Medium Enterprises (MSME) Department, established in 2011, has been active in the promotion of the local handicrafts, coir and small industries. As of 2018, 0.39 million MSMEs are operating in the state of Odisha. The informal sector is the largest provider of job opportunities in Odisha with more than 80% proportion of workers under self-employment and casual labour. Some of the prominent MSMEs clusters in the state relate to bamboo craft, handicrafts, food processing, coir, handloom etc. Figure 1 shows the growth of MSMEs in Odisha that has significantly increased since 2014-15.

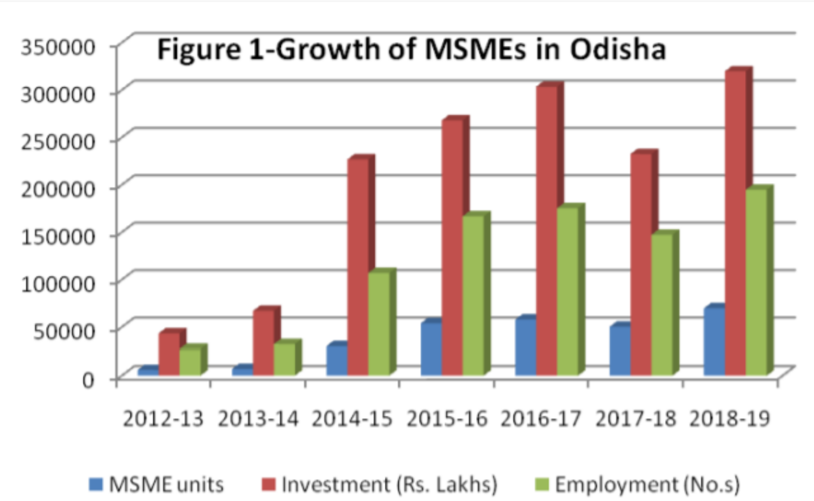

Figure 1: Growth of MSMEs in Odisha

Source: Odisha State Profile 2019-20

Odisha contributes 40% of the goods for export from the MSMEs of India. However, over 61% of the MSME units in the state deal with the repairing and servicing industry due to a lack of literacy, credit and skill training opportunities. These generate 43.1 per cent of the total employment opportunities created through MSME units.

MSMEs have made a praiseworthy contribution to the rural economy as well as the national economy at large. But MSME sector faces financial constraints and does not get the desired market reach for the products. To curb this, the Government of Odisha has in past taken action in the lines of youth innovation funds, trade fairs, Entrepreneurship Development Programme to train 32858 youths along with online 4-week trainings for entrepreneurs etc. District level facilitation cells promptly work towards project clearance and investment. Under the Micro & Small Enterprises Cluster Development Programme, 54 clusters have been identified and implementation has been ongoing for 5 clusters as of 2019.

2.2 Impacts of disasters on MSMEs

The coastal districts of Odisha namely Puri, Khorda, Ganjam, Balasore, Bhadrak, Kendrapara, and Jagatsinghpur are every year hit by massive cyclones that lead to damages to infrastructure and cause disruption in services. A large number of small and marginal farmers, landless labourers, and fishing communities in the coastal districts of Odisha are vulnerable to recurrent floods and cyclones. Districts like Puri are majorly rural with people occupied in small businesses like handicrafts that suffered losses estimated at ₹6,925 (approx. 92 USD) per artisan household and ₹5,000 (approx. 67 USD) per weaver household after cyclone Phailin. In recent years, cyclone Fani affected over 50,000 MSMEs and ₹ 4000 crores (approx. 532 million USD) of production and properties in the state. Around 904 private sector units in Puri and Khorda districts including hotels, accommodation units, tourist amenities suffered damage estimated at ₹132 crores (approx. 19 million USD). Several MSMEs are part of a supply chain that caters to large industries like machinery, steel etc. A delay on the side of the MSMEs can have huge consequences on the overall supply chain. The challenges they face during disasters can have a domino effect on the supply chain. Cyclone Amphan damages were lower and did not reflect the significant loss to the industry. However, the combined effect of COVID-19 and cyclone was higher in 2021 with an estimated revenue loss of ₹ 100 -150 billion.

2.3 Impact of COVID-19 pandemic on MSMEs

COVID-19 pandemic induced lockdown resulted in an adverse economic impact on businesses in terms of disrupted the supply chains, reduced access to markets, decline in demand and supply, etc. These disruptions required the MSMEs to respond in a range of ways that ultimately affected the lives of people engaged in the business. Two-thirds of MSMEs in India are operated by socially vulnerable groups (Scheduled Caste/Scheduled Tribe/Other Backward Classes) and 20% by women. In Odisha, industries that are directly dependent on the Western and Northern final product markets had a difficult time resuming their businesses after the pandemic. There has been no sale either through exhibitions or through orders and as a result, huge unsold inventory has piled up with no capital for reinvestment on business. In the longer term, these impacts have largely been driven by layoffs and wage cuts which have lowered family incomes, pushing some into poverty and negatively affecting physical and mental health, living standards and child development. The economic crisis in the Indian subcontinent induced by the COVID-19 pandemic has further highlighted the risk of overlooking the direct and indirect links between business and human rights.

3. Business continuity planning

MSMEs are at a high risk of being severely impacted by the larger effects of the outbreak of COVID-19 and are also the ones that are important to ensure the survival of their business, local livelihood and well-being of their communities. Ensuring business continuity in times of disasters is critical to the overall functioning of businesses. The International Organization for Standardization (ISO) has defined a business continuity plan as standard procedures that guide organizations to respond, recover, and restore to a pre-defined level of operations following any disruption. It essentially covers the aspect of identifying possible internal and external risks, determining how those risks will affect operations, employing safeguards and measures to mitigate the risks, testing and reviewing procedures to ensure they work.

However, a majority of the MSMEs do not have a business continuity plan or a recovery plan. It is of crucial importance for MSMEs to draw up business continuity plans to be better prepared and have resilient businesses and supply chains to face any future disruptions. Risks of the MSME sector can be assessed across four internal processes, namely, human resources, operations, finance and technology/ innovation as shown in the framework in Figure 2. The three key external factors having a direct/indirect impact on the risk of MSMEs studied under the framework are exposure to various hazards (including biological and NATECH), market changes and government regulations.

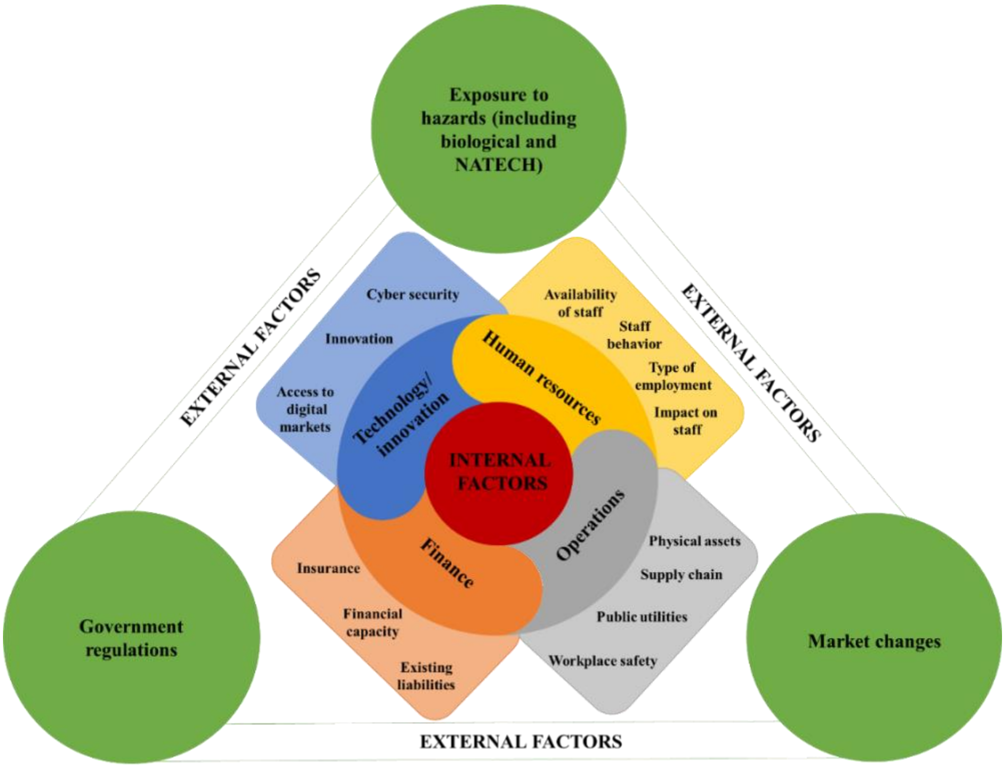

Figure 2: Framework for assessing risks of MSME

Source: Adapted from Conceptual Framework for QRE tool for MSME, UNDRR, 2020[2]

Based on this, the following sections lay down suggestive measures for MSME units by building on their experience with cyclones/floods amidst the COVID-19 pandemic for drawing up their plans for the management of businesses during similar complex risks. It is worthy to note that MSMEs are not homogenous entities and their capacities, risks and over functioning vary based on them being micro, medium or small enterprises. With the majority of the units in the study area being the micro-enterprises, the guidelines are mostly informed by their needs and challenges. Thus, the guidelines may seem more relevant to micro-enterprises.

Business continuity and recovery planning lead to good business results and directs affected businesses to be resilient in the future. MSME units may use scenario techniques and knowledge gained from affected business partners, reliable media, and government to inform the business continuity plans. To ensure business continuity, some aspects related to preparedness, human resource management, operations management should be taken into

[2] https://www.businessqre.net/aboutTool

consideration. The following subsections discuss the actions towards the same for MSME units.

3.1 Steps for developing business continuity plan and integration of COVID-19 protocols by MSMEs

i. MSMEs units should develop a Business Continuity Plan (BCP) chalking out the scope, objectives, and activities to be carried out to ensure continued functioning and minimal disruption during disasters. The actionable should be conveyed to the various stakeholders and employees.

ii. MSMEs units should identify the Prioritized Activities of the business and carry out a detailed business impact analysis identifying the most important assets, available resources, and impact of disruptions.

iii. Detailed risk assessment should be carried out through hazard, vulnerabilities, and capacity analysis and also priorities the risks to which business is exposed.

iv. Fire risks should be assessed and mitigated for the MSMEs dealing with chemicals and other flammable or hazardous materials. Such units should abide by laid down fire safety guidelines including being adequately ventilated and using fire-resistant materials.

v. Biological and other public health hazards should be taken into account while doing the risk assessment for the business and appropriate protocols should be integrated in BCP.

vi. Prevention and mitigation plans should be developed, involving both structural and non-structural mitigation measures based on the nature and establishment of the business to prevent new, reduce existing, and manage residual disaster risks.

vii. MSME units should plan and make basic provisions for the management of the COVID-19 pandemic in their premises. They must follow hygiene practices and covid appropriate behavior to curb the spread of the virus amongst the employees. Regular sanitization should be done every day. A reasonable stock of disinfectants and personal protective equipment (PPE) should be available on the premises.

viii. MSME units should make arrangements to screen and monitor symptoms and health updates of the employees/workers.

ix. MSME units should make sure employees/workers comply with COVID-19 and other protocols laid down by the local authorities.

x. Preparedness and capacity development plan should be developed for the business by detailing and streamlining roles and responsibilities of the different sections of the business/personals of the business. Regular training can help strengthen the institutional and financial mechanism

xi. Response, continuity/resuming and recovery plans should be developed for restoring the normal operations of the business. Continuity strategies should focus on restarting Prioritized Activities immediately using alternative or temporary measures.

xii. Appropriate arrangements should be made to continue business operations with the limited capacity of human resources due to COVID-19 restrictions and lockdown restricting their availability

xiii. Effective coordination and communication linkages should also be established with concerned stakeholders including respective government departments, response agencies, emergency operation centers, neighboring communities, etc.

xiv. MSMEs should establish a coordination mechanism with parent departments to avail insurance, relief, emergency loans, subsidies, and other financial aid under the state and national government schemes and programs.

xv. Ensure incorporating plan for quick and detailed damage and need assessment for the business which can assist availing external support at the earliest.

3.2 Staffing and space management as per COVID-19 protocols

i. MSME units should assess the impact of the disaster on their migrant and temporary workers. They should plan to minimize such impacts on their workers.

ii. In case of high absenteeism due to COVID-19 infection, the MSMEs should have a backup of third-party manpower.

iii. The employees of the MSME units should be provided with multi-skill training to take up unfamiliar roles during an emergency.

iv. There should be proper staff management to ensure enough space so that each person is at safe distance from each other. Wherever necessary, wooden/glass partitions can be used to create separate workspaces and proper ventilation should be ensured.

v. There should be designated spaces at the entrance of the units for sanitizing the employees before they enter the building.

vi. There should be provision to store sanitizers, masks, emergency equipment, relief materials, supplies for management of COVID-19, etc. adequately in the premises.

vii. On receipt of early warning for cyclones/floods, the premises/buildings of MSME units, if not safe, should be vacated in an organized manner. There should be safe distances maintained along with employees wearing masks.

viii. The activities and shifts inside the MSME unit's building should be divided into staggered timings/schedules to limit interaction and ensure a physical distance of 6 feet among the staff. Open areas should be preferred for the majority of the activities to prevent direct contact, to the extent possible.

ix. MSME units should have employees identified and trained in rescue operations and first aid. These employees should act as volunteers during an emergency to assist in the evacuation and basic response. They should also have an idea of the basic precautions and measures to be undertaken for their safety and for managing and taking care of COVID-19 positive persons.

3.3 Operations management to ensure continuity and minimise business loss

i. MSME units should plan to keep essential records and data safe with backups at different offsite locations or on the cloud.

ii. MSME units engaged in manufacturing operations should keep spare parts in safe/separate locations or old equipment as an emergency replacement to restart operations. This can be considered vital for taking the business continuity approach forward.

iii. MSME units should pay special attention to the availability of supplies. Alternative suppliers should be identified for sustaining the production. The supplies and inventories should be stored at different physical locations to prevent damage to all stock.

iv. A logbook should be maintained for keeping a record of all the equipment to avoid any misplacement or theft during lockdown and calamities.

v. MSME units should have provisions for separating damaged goods, supplies, raw materials. There should be a provision for selling damaged finished goods at a discounted price. In the case of perishable items, the MSME should contact the local government to ensure that disposal conforms to local procedures and avoid illegal dumping.

vi. The MSME units should increase awareness of employees and management on the information required to support insurance claims and compensation schemes by the government so that these can be availed by relevant stakeholders with minimum hassles.

vii. The vulnerable groups and employees with comorbid conditions should be provided with options of offsite work or work from home to avoid the fear of contracting COVID-19 while commuting to work or at work.

viii. The MSME should ensure that all employees receive prompt medical attention and precautionary measures are taken for their safety before they report to work.

ix. MSME units should have provision for alternative transportation facilities for staff during emergency evacuation during a disaster.

x. MSME units should establish a business recovery plan and formulate a recovery team with clear responsibilities for all components of the recovery plan. It would be beneficial for the recovery team to calculate the cost for each component in the recovery plan.

xi. MSME units should be flexible to adopt new technology. Due consideration should be given to minimize the lead time for installation and training for using new equipment and technology.

xii. The MSME units should periodically run an analysis of financial forecasts. Factors beyond control like an increase in suppliers' charges, lockdown, increase in taxes should be considered to assess cash flow and profits. The financing structure should be planned such that it meets the new needs of the business.

xiii. Planning of communications and intelligent communication with different stakeholders (including employees) at the right time is necessary. Transparency in communication would set the pace for efforts and would keep in control the ongoing processes.

xiv. MSMEs units in a similar field of work can collaborate and share knowledge on handling challenges, new technologies, and developing collective standards for businesses within an industry or the specific region.

xv. Transportation of the finished goods to the market locations (other than local markets) can pose a major logistic issue for the MSME clusters. MSME Units should explore different options for this purpose. If required, they should seek assistance from local authorities or humanitarian agencies.

xvi. Planning on a robust sales strategy is important to sustain a business-post calamity. In order to reopen and re-establish businesses, MSME members should attend promotional campaigns or events organized by government or business membership organizations during the COVID-19 pandemic to strengthen marketing.

Checklist for emergency supplies and safety measures to be stored on-site

- ✓ First aid kits
- ✓ PPE kits and masks
- ✓ Sanitisers

- ✓ Emergency lights and flashlights
- ✓ Alternate communication systems (radios etc.)
- ✓ Plastic covers and tarpaulins
- ✓ Safe storage spaces and provisions for the storage of raw material, machinery and finished products
- ✓ Emergency contact numbers well-displayed at multiple sites of the premises

4. Role of MSMEs in supporting local communities

MSME units are capable of creating local employment and livelihood opportunities for the community including vulnerable and marginalized populations. They can establish linkages toward the sustainable development goals through providing services to the local communities. Some of the actions that the MSME units can adopt in their business practices to contribute to the local community are discussed below.

i. MSME units should actively participate in government programmes and develop actions for making the communities sustainable and resilient. These actions can bring together relevant stakeholders through a common platform to analyze, discuss, and act on resilience, and sustainable development.

ii. Enforcement of strict policies and practices that do not discriminate against the poor should adopted by MSME units. They can recruit, train, and employ local community members, including those living in poverty due to the lockdown, in-migrated workers, and integrate them into the MSME value chain.

iii. MSME units should adopt equal remuneration policies and exclude preferences based on gender, religion and other discriminatory grounds. Inclusion of social impact as a core business strategy, organizing career coaching opportunities for the young adults of the local community would enhance access to financing and add to the enterprise's goodwill.

iv. MSME units can directly engage with community members to promote local and responsible sourcing practices and climate adaptive practices.

v. MSME units with support from local governments can develop business models to help artisan groups, SHGs of the region, who have lost income due to the COVID-19 pandemic and other disasters. Through this, they can be facilitated to sell their products beyond local markets. They can assist the groups to receive certifications and trainings to enhance their business.

vi. MSME units can engage the local community for management and maintenance of the premises after a disaster. Local community participation would bring a sense of ownership and enhance options for livelihood generation.

vii. MSME management and employees should follow adequate COVID-19 protocols and should promote vaccination while helping the affected community members and kin of employees.

5. Role of local government in supporting MSMEs

The role of local government is very crucial in strengthening and supporting the local businesses and building their resilience to disaster risks. They are also instrumental in establishing local cooperation and mobilization mechanisms at the local level for building their capacities and supporting them during disasters by promptly providing relief to them. The local government can also leverage the MSME units by actively engaging them in suitable response and other DRR activities based on their capacities, nature of products, and services they can provide for the same. The contribution of other local stakeholders and institutions can further benefit the overall functioning of MSMEs and associated local communities. Some of the key actions are discussed below.

i. The local government should support the rebuilding of the MSME units and take adequate actions to strengthen their resilience to future shocks and disruptions.
ii. The local government should motivate MSMEs to undertake business continuity planning, should support sensitisation and training on these aspects, and provide initial handholding of the units for laying down business continuity.
iii. For smooth functioning of MSME units, the local government should have policies and SOPs to guide the tax and revenue departments in order to ensure waiver of taxes/tax holidays post disasters.
iv. The local government should provide adequate directions to cooperative societies/ banks/insurance agencies on disaster relief measures for MSME sectors and carry out the proper implementation of the same.
v. The local government can introduce soft-term loans with longer repayment terms along with an increase in credit limit for MSME units to support vulnerable groups.
vi. There should be a helpline established by the local government which can assist MSME units to assess losses from disasters and filing for insurance claims.
vii. The government should design schemes to help MSME units in micro-franchising. This will help in the poverty alleviation of the local communities.
viii. The government should facilitate the digitalisation of businesses to introduce online stores and online payment while providing training and maintenance facilities to MSME units.
ix. Banks need to have a proactive approach to ensure the revival of MSME clusters through assistance on accounts, book-keeping, overdraft, capital limit increase etc.
x. The local government should motivate MSME units to set up disaster management funds at the local level for emergency support to local community members.
xi. The local government should identify MSME units and facilitate them with bulk orders and connect them to corporate clients. Integration of producer groups to take up multiple methods of production and modes of sale would help in reviving the businesses.
xii. The local authorities can help business owners identify risks to their business and mitigate them.
xiii. The local government and district-level industrial centers can support MSME units in the risk-proofing of businesses.