

# E-RETAIL, CONSUMER DEMAND AND THE ROAD TO RECOVERY

AN EVALUATION OF CHALLENGES LINKED TO COVID-19 AND THE PATH FORWARD

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## ABOUT THE AUTHOR

Dr Megha Patnaik is a Fellow at the Esya Centre. Mohit Chawdhry is a Research Assistant at the Esya Centre.

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# EXECUTIVE SUMMARY

## DEMAND AND E-RETAIL

The Covid-19 pandemic and ensuing emergency responses across the world are expected to affect firms through supply chain disruptions in the short run and demand declines in the longer run. Given the high share of Micro, Small and Medium Enterprises (MSMEs) as well as the low income of households in India, the country is at risk of a protracted economic downturn, especially given the steady decline in GDP growth.

India needs a two-pronged approach to generate aggregate demand. First, to bring jobs and income back to poorer households, especially for the rural population. Second, to facilitate spending by households who have the willingness and capacity to pay, primarily in and around urban areas. This can be done by facilitating e-retail, which has been a preferred channel during this period. With the element of experience removed from physical shopping, we see a shift in the playing field between online retail and physical stores. E-retail is also more capable of complying with evolving government regulations such as distancing norms, making it both a safe and competitively priced channel to help meet consumer demand.

E-retail regulation in India has a chequered past. For instance, the Government of India's Draft e-Commerce Policy, which envisions e-retail as a segment within e-commerce, looks to regulate aspects ranging from data and digital infrastructure development to export promotion. It is essential that any future policy on e-commerce should support and incentivise technology adoption and sectoral transitions, such as from offline to e-retail.

## RESTRICTIONS ON E-RETAIL DURING THE LOCKDOWN

A survey of more than 2,000 online sellers conducted between April 27 and May 4 indicates the need for a facilitative policy direction. We find that most firms selling online prefer this channel to offline selling, but faced problems primarily of supply and demand during the lockdown period. A shortage of manpower was another important factor in this period, especially for firms that were previously operating at a larger scale.

Policy also played a role in hindering the operation of e-retail during the lockdown. A great deal of confusion was caused by unclear phrases and terms, for instance the definition of 'essential goods' was left unclear. There was further a degree of inconsistency and differentiation in policy formulation. The adoption of differing standards for online and offline retail during the pandemic, despite the benefits of e-retail such as contactless delivery, is of particular concern.

The lockdown had a substantial impact on retailer supply chains, both online and offline. The initial impact seems to have derived from the lockdown's sudden nature, and the resulting administrative confusion regarding passes, curfews, and freedom of movement. Businesses operating in multiple states or districts faced a significant challenge in obtaining the necessary permissions for their staff. Later in the lockdown they faced a shortage of labour as several migrant workers had shifted back to their villages or towns.

## ROAD TO RECOVERY

Actions by state governments will play a critical role in determining how well small retailers are able to recover. A rapid recovery will require cohesion and collaboration between governments at centre and state. With this in mind a five-step recovery process is suggested in our report.

The first steps are aimed at building trust and confidence in the policy-making process. We suggest that governments at various levels engage with different stakeholders to understand their concerns. Authorities should frame rules on the basis of feedback obtained in such consultation, and the principles of non-discrimination and non-arbitrariness. This will facilitate a level playing field that allows retail market participants to leverage their strengths and explore synergies between the digital and traditional channels.

Authorities must also review the crisis management playbook, including the legislative framework, keeping in mind lessons from the pandemic. A framework governing e-retail, or e-commerce more broadly, can take inspiration from the sectoral development bodies in Malaysia and Singapore, which have enabled local businesses to scale and compete globally.

## OVERVIEW

The Covid-19 pandemic is expected to impact the global economy initially through supply disruptions, and then via demand shocks and reinforcement between supply and demand in the longer run (Fornaro & Wolf, 2020). Estimates of the demand shock for the US economy suggest very large effects. An estimate is that “these shocks would threaten around 22% of the US economy’s GDP, jeopardise 24 percent of jobs and reduce total wage income by 17 percent” (del Rio-Chanona et al, 2020). The US Census household pulse survey empirically supports these projections: approximately half of US households have had at least one member lose employment since the pandemic began.<sup>1</sup>

In an attempt to control the spread of infection, the governments of several nations locked down their cities. India’s imposed a nationwide lockdown rated one of the world’s most stringent (Figure 1) as measured by restrictions on movement, public transport, gatherings, closures of schools and shops, and so on.

The Indian economy was already in poor health before the pandemic. GDP growth was declining steadily quarter by quarter, from 8% in mid-2018, to 4.5 percent.<sup>2</sup> Signs of decline initially seen in small and medium firms later spread to households and the corporate sector, with lower employment and consumption seen in household survey data.

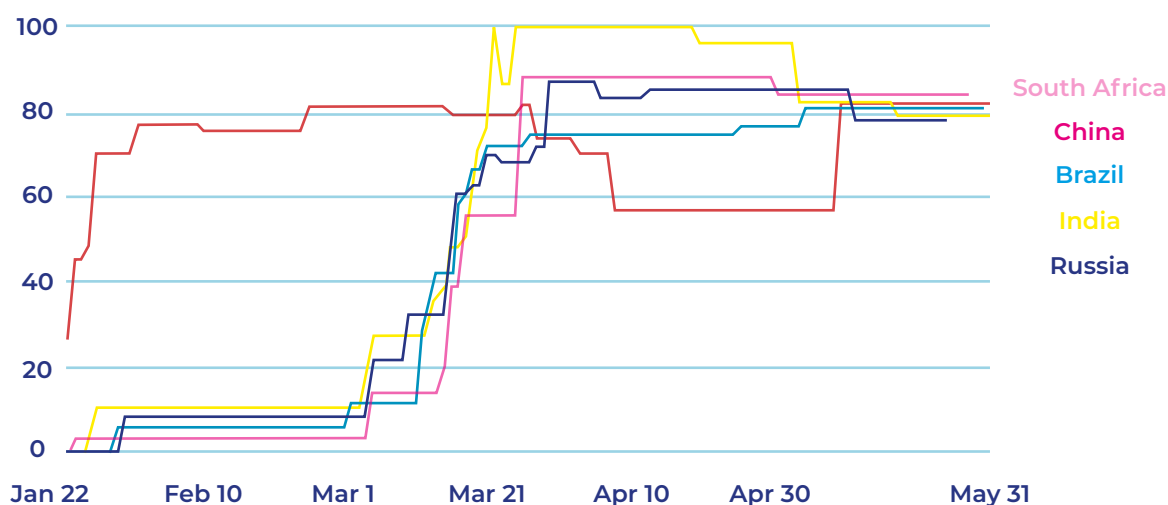
### IMPACT OF COVID-19 ON FIRMS IN INDIA

A survey conducted by FICCI in March 2020 reported that about 73 percent of members saw a drop in orders and 35 percent of respondents indicated inventory levels were up. The All India Manufacturers Organisation reported about 71 percent of firms were unable to pay either partially or fully the wages due for March 2020 either due to logistics problems or due to fewer orders. A recent micro-enterprise survey by the global alliance for mass entrepreneurship (GAME) found 57 percent of micro-enterprises to have no cash reserves due to the COVID-19 lockdown. The National MSME Task Force predicts compression of approximately Rd. 0.8-1.2 lakh crore in profits for companies with turnover between Rs. 75-250 crore by FY21.

Figure 1: Stringency of Lockdown among BRICS Nations

#### COVID-19: Government Response Stringency Index, Jan 22, 2020 to May 31, 2020

The Government Response Stringency Index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100= strictest response).



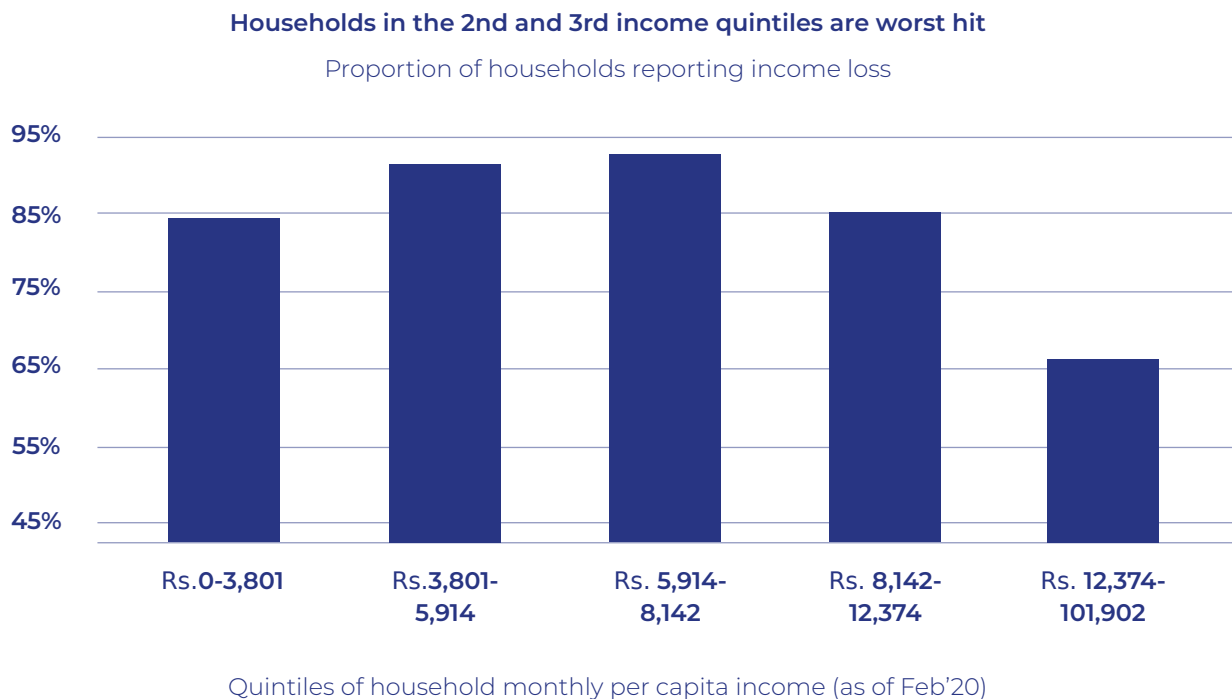
Source: Blavatnik School of Government, University of Oxford

We expect similar channels to drive down demand following the initial supply-side effects for India in the Covid-19 aftermath as well. We already see declines in the consumption of durables and passenger vehicles (Dev & Sengupta, 2020). Data from the Consumer Pyramids Household Survey shows that 84 percent of households reported a fall in income due to the lockdown, consistent with the unemployment rate rising from 7.4% on March 21 to 25.5% on May 5, and a decrease in labour force participation.<sup>3</sup>

## RECOMMENDATIONS FROM INTERNATIONAL AGENCIES

Ungerer, Portugal, Molinuevo, Rovo (2020) from the Global Trade and Regional Integration Unit of the World Bank argue that e-commerce can help further reduce the risk of new infections and can help preserve jobs during the crisis. Third, e-commerce can help increase the acceptance of prolonged physical distancing measures among the population.

Figure 2: Distribution of Income Losses across Income Groups



Source: 'How Are Indian Households Coping Under The Covid-19 Lockdown? 8 Key Findings' by Marianne Bertrand, Kaushik Krishnan, and Heather Schofield, May 11, 2020.

Resuscitating aggregate demand is a major policy challenge for India. As shown in Figure 2, households in the second and third quintiles of income distribution before the lockdown are the worst affected. Spending ability remains with higher income households. India needs a two-pronged approach to generate aggregate demand. First, to bring back jobs and income to poorer households. Second, to facilitate spending by households with the willingness and ability to pay.

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# 1/ DEMAND AND E-RETAIL

The e-retail sector is a viable channel for boosting demand, given the restrictions on movement in the interest of health and safety. We expect e-retail to play a significant role, especially at the upper deciles of wealth and income, as this is a segment of consumers that can smoothly transition to online retail. Consumers in tier 2 and 3 regions can also benefit from the added convenience of home delivery. With the element of experience removed from physical shopping due to the coronavirus, there is a shift in the playing field between online retail and physical stores. Google's Covid-19 Community Mobility Report for India shows that even as the country's lockdown restrictions eased in May 2020, there was still a two-thirds dip in movement trends to retail hubs, compared to the baseline.<sup>4</sup> With retailers competing solely on prices and products, the online channel has a clear edge.

E-retailers are also more capable of complying with evolving government regulations, as products are sold by category rather than seller. For instance, the state cannot enforce product-wise regulations for retail stores for sheer lack of monitoring capacity; online, however, product categories can immediately be restricted to specific product IDs deemed essential. Indeed, technology-intensive platforms were readily able to map distribution location PIN codes onto red, green and orange zones, and continue to deliver in compliance with government norms.

There was an artificial suppression of demand across the country during the lockdown. We expect total demand for goods and services to increase in the short run following the initial opening up of the economy. However, the share of sales will shift towards online consumption. Lockdown restrictions on the movement of goods, especially for platforms operating at the national level, were counterintuitive. Other countries with lighter regulations on online platforms during their lockdowns are expected to recover faster through the demand channel.<sup>5</sup>

**As infections have peaked in some countries and not in others, a diversified strategy to cater to global aggregate demand will help firms sustain production during the pandemic. E-retail is an avenue for global market access – a theme for subsequent research. India can hope for quicker demand revival in urban areas, even as rural incomes are regained, but cities are also carrying the main load of the infection. This will require the calibrated containment of areas with high infection rates. E-retail is a promising choice, as long as the rulemaking is consistent and clear.**

## 2/ RESTRICTIONS ON E-RETAIL

While both traditional and online retail were impacted by the initial phase of lockdown,<sup>6</sup> the subsequent guidelines favoured traditional retail (Table 1). For instance, an order allowing e-retailers to deliver all forms of goods was issued on March 25 and subsequently withdrawn by the Union Ministry of Home Affairs (MHA) on April 19.<sup>7</sup> It was withdrawn on the grounds that allowing e-retailers to deliver non-essentials would adversely impact traditional retailers.<sup>8</sup> Although a level playing field is a laudable objective, it should not come at the cost of consumer welfare, or indeed the public interest in reviving aggregate demand.

Subsequently, the MHA issued an order that allowed most standalone shops in urban areas and almost all shops in rural areas to reopen and sell inessential goods. However, e-retail was still restricted to delivering essential goods.<sup>9</sup> A system of zoning, introduced on the basis of guidelines issued by the Union Ministry of Health and Family Welfare, also restricted the areas where e-retailers could operate effectively, while allowing shops to open even in red zones or hotspots. In its order issued on May 17, the MHA largely lifted all restrictions on retail operations, leaving it to state governments to adopt more stringent measures depending on the local situation.

*Table 1: Regulation of Online and Offline Retail during Lockdowns in India*

| Date of Order: | Zonation  | Status of Offline Retail   | Status of Online Retail  | Restriction on Transport   |
|----------------|---|--|--|--|
| 25.03.2020     | No zonation; complete lockdown  | Shops (outside shopping complexes and malls) dealing with the following were allowed: <ul style="list-style-type: none"> <li>• food, groceries, fruits and vegetables,</li> <li>• dairy and milk booths,</li> <li>• meat and fish,</li> <li>• animal fodder, fertilizers, seeds and pesticides.</li> </ul> | Delivery of all 'essential goods' was allowed, including food, pharmaceuticals and medical equipment:  | All transport services were suspended; transportation for essential goods only<br><br>No inter-state or inter-district travel other than for medical reasons or supplying essential goods. |
| 15.04.2020     | Identification of 'Hotspots' based on Union Ministry of Health and Family Welfare Guidelines<br><br>Activity within these hotspots was to be significantly regulated. | In addition to the above, certain relaxations were given to shops dealing with agriculture, aquaculture etc.   | The Guidelines mention no restrictions on operation of e-commerce companies. This was understood to mean that such companies could deliver non-essential goods after April 20. <sup>10</sup> | Movement of cargo allowed through all forms of transport, including trucks with 2 drivers and 1 helper   |
| 19.04.2020     | - same as above -   | - same as above -  | The above mentioned clause was removed. Delivery by e-commerce firms was again limited to essential goods.   | - same as above -  |



| Date of Order: | Zonation   | Status of Offline Retail   | Status of Online Retail   | Restriction on Transport   |
|----------------|--|--|---|--|
| 24.04.2020     | - same as above -  | Standalone shops in urban areas and all shops outside malls in rural areas were allowed to open. Such shops could sell essentials and non-essentials.  | - same as above -   | - same as above -  |
| 1.05.2020      | Zonation system based on Red, Orange and Green zones introduced. These zones were to be determined on a district basis by the Union MoHFW. | Sale of essential and non-essential goods permitted by all shops, even within shopping complexes/malls in Orange and Green Zones. In Hotspots, shopping complexes were to remain closed. Only shops selling essentials in such complexes could open. | Delivery of essentials and non-essentials by e-commerce permitted in Orange and Green Zones.<br><br>In Red Zones i.e. hot-spots, only delivery of essentials was allowed. | Relaxations for inter-district movement of individuals residing in Orange and Green Zones.                             |
| 17.05.2020     | The same zonation has been maintained. However, discretion to demarcate zones has been left to state governments                           | Activities curtailed only in Containment Zones. Retail activity of all kinds is allowed in other zones, subject to state government guidelines   | Delivery of essentials and non-essentials is allowed in all areas, except containment zones, subject to state government guidelines                                       | Gradual resumption of inter-state transport by air and land. However, state governments free to disallow such movement |

*Source: Various government orders*

Many national governments took the opposite approach – they gave preference to e-retail over traditional retail. In the UK, for example, retail shops could only sell essential goods until June 15, when the lockdown was lifted, while e-retailers were delivering non-essentials through most of the lockdown. Similarly, in New Zealand, which has followed a graded lockdown response, retail outlets were required to close their premises in a level 3 or 4 lockdown, while the online delivery of goods was permitted at all times. The situation was similar in the Philippines.

*Table 2: Status of E-Commerce during Lockdowns in Other Countries*

| Nation  | Status of E-Commerce   | Status of Retail  |
|---|--|---|
| United Kingdom (England)  | Delivery of essentials and non-essentials allowed as normal  | Retail shops can only sell essential goods. This restriction was lifted on June 15  |
| Spain   | - same as above -  | While retail shops were generally closed to the public, a long list of shops dealing with essentials, hygiene products etc. were allowed.   |
| New Zealand (follows a 4-level alert system, which stipulates what activities may be permitted) | Restrictions on online delivery of goods appear to be placed only in lockdown level 4 (the highest level)  | Under lockdown level 4, only supermarkets, dairies and petrol pumps can open their premises to the public. Under level 3, retail is possible, but only through delivery or non-contact collection |
| Italy   | While not stated explicitly in the guidelines, it appears from media reports that the online sale of goods, essential and non-essential, was permitted.  | Retail sale activities were suspended, with the exception of basic necessities and food. As in Spain, an exhaustive list of 'basic necessities' was published.                                    |
| The Philippines   | Certain restrictions were placed on the online delivery of goods, particularly food. However, by and large online retail appears to have been allowed. Reports indicate the sector may have grown during lockdown. | Retail was limited to essential goods through supermarkets, convenience stores etc.   |

*Source: Authors' compilation*

**Evidently India's restrictions on e-retail operations were more onerous than required, and may have caused undue harm to demand recovery. They may also have stifled the potential of e-retail to ensure secure and contactless delivery of both essential and non-essential goods. These challenges were compounded by the fact that 'essential goods' were nowhere clearly defined.**

For a better sense of what may constitute essential goods, reference can be made to the Essential Commodities Act of 1955, which empowers the Union government to regulate the production, supply, distribution etc. of such commodities, and also to specify which commodities are essential.<sup>11</sup> So far, however, the Essential Commodities Act has been used only to

regulate the production, sale etc. of hand sanitiser and masks, excluding a gamut of products such as groceries, office requirements, etc. As a result retailers were left grappling with the question of whether laptops, charging equipment or even foodstuffs such as packaged cereal would be deemed essential.<sup>12</sup>

The problem was later acknowledged in a letter issued by the MHA which sought to provide some clarity on what constitutes essentials. This only adds to the confusion surrounding retail policy, as it is usually the Union Ministry of Consumer Affairs, Food and Public Distribution that makes the determination.

By contrast, nations such as Spain and Italy specified what goods would be considered essential (Box 1).

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*Box 1: Essential Goods*

ITALY

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1. Frozen products
2. Computers, peripherals, equipment for telecommunications
3. Household appliances
4. Food, beverages and tobacco in specialized stores
5. Automotive fuel in specialized stores
6. IT and telecommunications equipment in specialized stores
7. Hardware, paints, flat glass and electrical and plumbing and heating material
8. Sanitary equipment
9. Lighting articles

SPAIN

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1. Food, beverages, products, and basic necessities
2. Pharmaceutical, medical, optical, and orthopaedic establishments
3. Hygiene products
4. Press and stationery
5. Motor fuel
6. Tobacco and cigarettes
7. Technological and telecommunications equipment
8. Pet food
9. Internet, telephone, or correspondence
10. Dry cleaners and laundries

*Source: Authors' compilation*

## 3/ RESTRICTIONS ON SUPPLY CHAINS

Supply chains for all kinds of goods were disrupted by the lockdown. Initially the disruption was due to the uncertainty and confusion prevailing after the lockdown was announced. While some e-retailers chose to temporarily suspend their services, others were forced to close because their warehouses had been sealed by the police.<sup>13</sup> This initial shock was intensified by restrictions placed on the inter-state movement of goods, and lack of clarity as to which goods were essential.

The generation of e-way bills, which is a proxy for the movement of consignments with values above ₹50,000 dipped to an all-time low early in the lockdown.<sup>14</sup> It became onerous for companies (that were allowed to operate) to transport raw material to production centres and finished articles to market. For example, while the food processing and pharma businesses were allowed to operate even during the first lockdown, the packaging industry was severely affected by shortage of raw material and workers, affecting these firms' ability to operate.<sup>15</sup>

Delivery of goods within states was also hampered by various issues. First, there was little clarity regarding the procedures and protocols to issue passes to delivery executives and other essential staff. Companies with operations across districts or states had to apply to various authorities for permissions, due to lack of collaboration between tiers of government.<sup>16</sup> Further, there was confusion about the validity of passes: the first batch of passes, for instance, was valid only for the first lockdown i.e. till April 14. Industry representatives asked for long-term curfew passes to be issued to avoid repeated applications and validations.<sup>17</sup> The situation did not improve when a zone-based system was introduced, and e-retail entities were required to obtain passes to operate even in green zones.<sup>18</sup>

Second, the administration was ill equipped to deal with the sheer number of requests for movement passes. This was evidenced by long lines of people waiting for passes at police stations, and the inundation of online portals with requests.<sup>19</sup> It was in recognition of this that the Secretary MHA issued an advisory to state governments suggesting they grant authorisation letters and passes to facilitate the necessary regional movement and to reduce disruption to the supply chain.

Supply chains were also affected by restrictions on the movement of labourers. Manufacturing and e-retail are labour intensive industries. The MHA, in an attempt to ensure the livelihood of all workers, had issued an order requiring full payment of wages to all workers by industries, shops and commercial establishments.

**While workers' welfare is vital, the order reduced incentives for workers to return to their places of work. Large numbers of workers had migrated back to their hometowns or villages. Although the order was stayed by the Supreme Court and has now lapsed, governments must work with industry to incentivise workers to return to their jobs, safely and securely.**

## 4/ SURVEY OF ONLINE SELLERS

There are several compelling reasons why small businesses register to sell on online platforms over other channels. These include: getting the opportunity to reach a larger market and scale up their operations by leveraging infrastructure support provided by e-retail platforms, selling their products to foreign markets with a smooth and low investment transition process through in-house services like warehousing and delivery, timely payments that ensure regular cash flows, and the ability to take up small orders at lower cost.

The factors driving small firms online have been heightened by the pandemic. Small firms are more wary of issues of cash flow, warehousing, and delivery, as well as reaching customers even with small volumes of demand. We can continue to expect businesses to move activity online, to maintain safety and compliance objectives, and to meet their sales targets as far as possible.

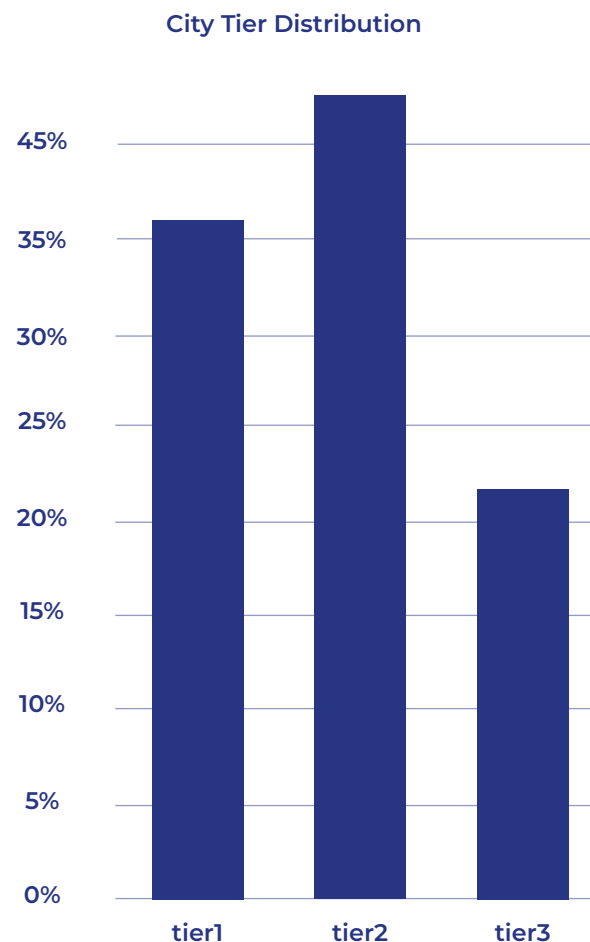
### E-COMMERCE AND RECOVERY IN CHINA

**Han, Sun, Chu and Wu (2020) find a systematic decrease in e-commerce sales by 22% during the COVID-19 outbreak (Wuhan shutdown) on Alibaba, with transaction-level data across 339 cities in mainland China. However, e-commerce in most cities recovers fairly fast within five weeks since the shutdown. The constraints in logistics capacities significantly drive the decline and recovery of e-commerce sales.**

There is no empirical research on the role of e-retail during the pandemic in India. In particular, there is no research on perceptions of the use of e-retail by small sellers and MSMEs. We conducted a survey of 2,000 sellers, the largest of its kind during this period, to determine (a) seller preferences for sales channels, (b) the types of challenges faced by MSMEs/ sellers during a phase of the nationwide lockdown, (c) the heterogeneity in perceptions and challenges across different tiers of cities and towns, and (d) the magnitude of impact of the lockdown and pandemic on sellers.

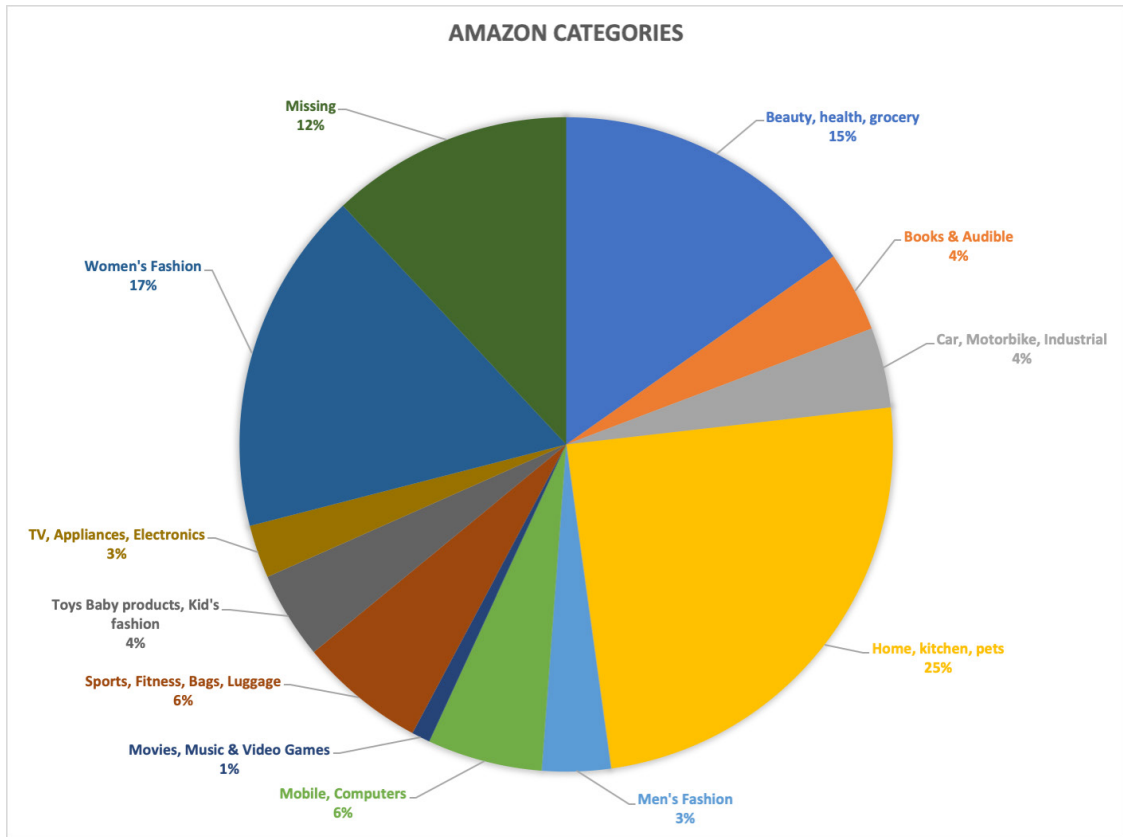
The survey was conducted between April 27 and May 4, 2020 (during the second lockdown) and included over 2,000 sellers across 41 product categories in the metros and smaller towns. The distribution of the sample across city categories (Figure 3) and aggregated product categories (Figure 4) is shown below.

Figure 3: Distribution of Survey Respondents by City Population



Source: Seller survey

Figure 4: Distribution of Survey Respondents over Product Categories



Source: Seller survey

## OVERALL FINDINGS

The first outcome we note is a strong preference for online sales relative to offline: 76% of firms in the sample responded that selling online is strictly preferred to offline. Among firms operating in both markets (to which the question can be considered directly applicable), 70% of the sample strictly preferred online sales.

Second, most firms primarily faced problems of supply and demand during this period. Shortage of manpower ranked lower, being listed only half as often by firms as a barrier to their operations. The results on demand are consistent with the descriptive evidence in the first section of this report. This shows that it is imperative to allow demand to be discovered and fulfilled wherever possible, without imposing any artificial restrictions. This is possible only when e-retail marketplaces remain operational, allowing orders to be placed, online platforms enable this

We find very little variation in the biggest disruptors of operations across cities. It may be expected that firms in Tier 1 cities faced less difficulty than elsewhere. However, Table 3 shows the similar trends we saw across the tiers, suggesting that the lockdown disrupted operations without too much geographical variation. Therefore, there is no reason to assume that sellers in larger cities will require less support to get back on their feet.

*Table 3: The Biggest Challenges Faced in Resuming Operations*

|                | Supply | Demand | Manpower |
|----------------|--------|--------|----------|
| <b>Overall</b> | 51%    | 49%    | 21%      |
| Tier 1 cities  | 54%    | 48.5%  | 24%      |
| Tier 2 cities  | 47%    | 49%    | 20%      |
| Tier 3 cities  | 55%    | 48%    | 19%      |

*Source: Seller survey*

Third, we consider the magnitude of the impact of sellers on the Amazon e-retail marketplace. 60% of respondents said they would not be able to recover losses due to Covid-19 in the current year. Over half said it would take them more than six months to recover from the effects of the lockdown. Once again, as shown in Table 4, the situation did not vary much across city tiers.

*Table 4: Impact of COVID-19 and the Lockdown*

|                | Cannot recover loss | >6 months to recover |
|----------------|---------------------|----------------------|
| <b>Overall</b> | 60%                 | 54%                  |
| Tier 1         | 57%                 | 53%                  |
| Tier 2         | 62%                 | 54%                  |
| Tier 3         | 56%                 | 51%                  |

*Source: Seller survey*

Although the effects of supply disruptions may improve in the short run, we expect demand effects to be longer lasting, reinforced by declines in hiring as well as pay cuts. For firms across the country, it is imperative to allow demand discovery and fulfilment wherever possible.

## EFFECTS BY EMPLOYMENT CATEGORY

It is important to note that most firms in our survey sample were small. Responding to the question ‘How many people/families are associated with your business and would have been impacted by temporary closure?’ nearly 50% said that 1–4 people were affected, while only about 11% said the number exceeded 20. There was little difference in firm size across city tiers (Table 5).

*Table 5: People Associated with the Firms and Impacted by the Lockdown*

|                | 1-4 | 5-10 | 10-20 | 20+ |
|----------------|-----|------|-------|-----|
| <b>Overall</b> | 48% | 30%  | 11%   | 11% |
| Tier 1         | 49% | 29%  | 12%   | 11% |
| Tier 2         | 53% | 26%  | 11%   | 10% |
| Tier 3         | 56% | 29%  | 6%    | 10% |

*Source: Seller survey*

We can use these responses to examine whether firms of different sizes are affected differently, either in the degree to which they are affected, or in the factors that are challenging their normal operation. Since there is little variation in impact across tiers of cities (with the smallest cities’ distribution tilting only slightly towards smaller firms), we examine responses from the overall sample in Table 6.

*Table 6: Impact split by People / Families Affected*

|       | Cannot recover loss | >6 months to recover |
|-------|---------------------|----------------------|
| 1-4   | 58%                 | 49%                  |
| 5-10  | 62%                 | 56%                  |
| 10-20 | 60%                 | 60%                  |
| 20+   | 59%                 | 59%                  |

*Source: Seller survey*



We do not find any clear trends in the degree to which firms of different sizes were affected, as shown in Table 6. However, Table 7 shows that smaller firms were more likely to report supply and demand challenges to their operations during the period of lockdown, and less likely to report manpower problems, as they are small.

*Table 7: Challenges Faced split by People / Families Affected*

|       | Supply | Demand | Manpower |
|-------|--------|--------|----------|
| 1-4   | 53%    | 51%    | 15%      |
| 5-10  | 50%    | 47%    | 24%      |
| 10-20 | 47%    | 43%    | 32%      |
| 20+   | 41%    | 41%    | 29%      |

*Source: Seller survey*

## 5/ ROAD TO RECOVERY

The MHA order issued on May 30 moved towards an ‘unlock’ and the gradual resumption of all forms of business. The order also devolved the power to create containment zones and impose local lockdowns to state governments.<sup>20</sup> While decentralised decision-making does allow the rules to correspond more closely with ground realities, the challenge of fragmented jurisdictions is equally real.

The initial unlock period did see a revival of economic activity or a few ‘green shoots’ of recovery. However, this was soon stopped by the vastly different containment strategies adopted by state governments. These decisions precipitated operational issues for businesses working across states, which must now comply with different regulations and restrictions pertaining to curfews, zonation etc. in almost every state (as illustrated in the map below).<sup>21</sup>



**Major restrictions:** Personal care businesses, such as salons and barbers, gyms and most non-essential businesses remain closed. Restaurants and bars may not seat patrons. Face coverings and six-foot distancing are required, and public gatherings larger than ten are not permitted

**Moderate restrictions:** Many of the above businesses may reopen with limited capacity, while bars and gyms remain closed.

**Minor restrictions:** Bars, theaters, casinos or concert halls may reopen, with larger groups permitted.

Besides interstate variations, companies must also address different operating circumstances. For example, several important economic centres and hubs of production such as Bengaluru, Hyderabad and Pune continue to be locked down intermittently. Imposing and lifting lockdowns in this manner affects the ability of industry to normalise supply chains and hinders the augmentation of demand.<sup>22</sup>

To address these unique challenges faced by governments and businesses, we recommend the following five-step path to recovery:

### **Step 1: Hold meetings with all relevant parties in order to accurately gauge concerns and formulate adequate responses**

In order for policy to be effective, it must address the needs and problems of all stakeholders. Holding regular meetings with representatives of small sellers, MSMEs, e-retailers, transporters and distributors will allow governments to assess their concerns in a holistic and inclusive manner. Consultations can also ensure accountability, transparency in decision making and the creation of a feedback loop to help precise policy decisions. Dynamic channels of interaction will help take away from the suddenness of state actions, and allow industry adequate time to make operational arrangements.

### **Step 2: Create a level playing field that allows stakeholders to effectively play their roles**

Government decision making should provide a level playing field to all market participants. For example, rules regarding zones and the supply of essential goods unduly favoured offline retailers despite the health advantages of e-retail. Arbitrary decisions result in a sub-optimal market response. The focus instead should be to enable stakeholders to function in accordance with their relative strengths. It is illustrative that supply chain disruptions have given impetus to a hybrid model of retail, involving synergies between large online retailers and small brick-n-mortar or kirana stores. Small offline retail outlets are better able to respond to changing consumption patterns and ensure uninterrupted delivery of goods, even during lockdowns, while benefiting from improved logistics and better price and consumer discovery.<sup>23</sup> In this context, policy ought to be geared towards facilitating cooperation rather than skewing competition.

### **Step 3: Ensure collaboration between different ministries and tiers of government**

There are more than 500 orders across various levels of government pertaining to the pandemic. While a dynamic policy response is necessary, businesses require a certain degree of clarity and certainty in order to function. Hence there is a need for a mechanism whereby the centre, states and industry can effectively coordinate. The Union Cabinet has already set up an Empowered Group of Secretaries (EGoS) to bolster investment and guide state governments in policy formulation after the pandemic. Each ministry will also be required to set up Project Development Cells (PDCs) to facilitate any investments pertinent to them.<sup>24</sup> These are steps in the right direction, and can be made more effective by working in concert with state governments. The EGoS could be expanded to include the Cabinet Secretary from each state, while the PDCs could work directly in coordination with the respective department in the states.

### **Step 4: Re-evaluate the legislative framework to deal with a pandemic**

The Union government's response to the virus has been rooted in two legislations, the Epidemic Diseases Act, 1897 and the Disaster Management Act, 2005.

The Epidemic Diseases Act is a colonial era legislation enacted to control the bubonic plague. It has been used by state governments to impose requirements relating to quarantine, distancing etc. However, it has no provisions for inter-state coordination, ill suiting it to handle a nationwide challenge. The Act's provisions continue to be out of sync with reality in terms of definitions and restrictions.<sup>25</sup> It was to be replaced by the Public Health Bill of 2017, which has yet to be passed by Parliament.

The Disaster Management Act, passed in the aftermath of the Indian Ocean Tsunami, has as its primary objective to provide effective disaster risk reduction, prevention and recovery. It contains several provisions to ensure government coordination right up to the district level.<sup>26</sup> The Union government has chosen to classify the Covid-19 outbreak as a disaster, bringing its management into the ambit of this Act, and as a result the National Executive Council of the National Disaster Management Authority has been issuing directions and orders to Union ministries and state and local governments. But using the Act in such a manner is fraught with concerns.

First, it is unclear whether the DM Act was envisioned to combat the situation posed by a pandemic. Its provisions and definitions seem to relate more to disasters such as floods, earthquakes and droughts.<sup>27</sup> Against this backdrop it appears that the orders issued by the National Executive Council are beyond the purview of the parent Act. A further concern is that orders are issued solely by the executive, without parliamentary oversight. Other nations including the UK have enacted laws in response to the pandemic, which were debated in their parliaments, reducing the scope for arbitrariness and misuse. Centralised decision making under the Act contradicts the principles of executive accountability and federalism.

The Act also lacks provisions to deal directly with the economic consequences of a disaster. While the RBI and Union Ministry of Finance have announced monetary and fiscal measures to stimulate the economy, these remain outside the scope of the Act. By contrast several other nations have enacted holistic legislation to address the pandemic's economic and financial impact.<sup>28</sup>

In the short term, India could take a leaf from the UK's book and enact a law dealing specifically with Covid-19. This would provide much needed certainty and clarity and also prevent the arbitrary extension of stringent measures beyond the period of the outbreak, in line with India's democratic ethos.

In the long term, it is essential to repeal the Epidemic Diseases Act and replace it with the Public Health Bill of 2017, or a suitably modified Bill that incorporates our experience of the coronavirus outbreak.

### **Step 5: Establish an enabling regulatory environment for e-retail**

The Union government released a Draft National e-Commerce Policy in February 2019 which seeks to create a 'regulatory environment which ensures there is genuine competition in the market, which encourages entrepreneurship and innovation'.<sup>29</sup> As part of an update to this draft, reports suggest the government may create a regulator for the e-commerce sector encompassing e-retail.<sup>30</sup> Such a regulator will likely be tasked with resolving disputes, imposing penalties and regulating data-sharing, to fulfil the above mentioned objectives and strengthen the domestic e-commerce sector.<sup>31</sup> These developments are in line with India's stand on e-commerce at the World Trade Organisation, where it maintains its sovereign right to create domestic rules to protect MSMEs.<sup>32</sup>

In a preceding section we illustrated the importance of e-retail in ensuring the supply of goods during the Covid-19 pandemic. It is essential that any future policy on e-commerce should support and incentivise technology adoption, so that the retail sector becomes more resilient to shocks. Such a policy should also consider the emerging hybrid model of e-retail, wherein online retailers are tying up with local physical shops to facilitate goods delivery.<sup>33</sup> Such a model promises to extend the benefits of digital innovation to smaller retailers as well as consumers, by synergising retail offline and online.

India could also look at existing best practices, such as those followed by the Malaysian Digital Economy Corporation or Singapore's Infocomm Media Development Authority.<sup>34</sup> For instance, the Malaysian body has increased technology adoption by small entities, and its National e-Commerce Roadmap looks to make strategic investments in select e-commerce firms. As a result, several Malaysian brands in the e-commerce and e-retail space such as Rakuten, Lazada etc. have emerged as globally competitive companies.

**The pursuit and implementation of global best practices will require a mindset shift in the governance of technology transitions in India, to favouring enablement over restriction. Increasing evidence of the integral role of technology during this global health crisis, such as the survey data analysed here, must precipitate such a paradigm shift.**

## ENDNOTES

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5 Legacy government rulemaking on e-commerce is an additional barrier to growth for the Indian e-commerce sector. These barriers include ever-changing FDI rules, unresolved issues of data localisation and source code disclosure, the multiple reports on technology related activities that various government agencies are releasing, and the problems of rule of law in licensing and investigation. The government's stance in continuing to over-regulate platforms has resulted in limiting this segment's scope.

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11 The commodities currently included are:

(1) drugs.

Explanation.—For the purposes of this Schedule, “drugs” has the meaning assigned to it in clause (b) of section 3 of the Drugs and Cosmetics Act, 1940;

(2) fertilizer, whether inorganic, organic or mixed;

(3) foodstuffs, including edible oilseeds and oils;

(4) hank yarn made wholly from cotton;

(5) petroleum and petroleum products;

(6) raw jute HI jute textiles;

(7) (i) seeds of food-crops and seeds of fruits and vegetables;

(ii) seeds of cattle fodder; and

(iii) jute seeds.

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