Revival of Economy and Role of Professionals*

Backdrop

Amid the corona pandemic, several countries across the world resorted to lockdowns to "flatten the curve" of the infection. These lockdowns meant confining millions of citizens to their homes, shutting down businesses and ceasing almost all economic activity. According to the International Monetary Fund 'IMF', the global economy is expected to shrink by over 3% in 2020 – the steepest slowdown since the Great Depression of the 1930s. But in the coming years, the corona pandemic will serve as a turning point towards a new and better future. Most certainly, opportunities for businesses to become even stronger and more resilient when the global economy will witness renaissance and lessons learned during the corona pandemic will be intertwined in the business practices.

A characteristic of humanity has been our ability to rise up in the wake of a crisis. Our untiring human spirit will ultimately succeed from the COVID-19 pandemic stronger and better as species. The business and industrial growth after World War II created financial superpowers and set the stage for decades of prosperity. The financial crisis of 2008 resulted in stricter regulations and a more resilient financial system. The Covid-19 crisis will provide us with lasting lessons and opportunities for positive change.

Now, as some countries lift restrictions and gradually restarted their economies, here's a look at how the pandemic has affected them and how they have coped up.

COVID Impact on Economies : Global Perspective

The pandemic has pushed the global economy into a recession resulting into shrinking of economy and impeding the economic growth. The pandemic caused the largest global recession in history, with more than a third of the global population at the time being placed under lockdown. As per the analysis of multilateral institutions, COVID-19 global pandemic will leave the world economy worse off than the 2009 global economic and financial crisis. Its impact may be more comparable with the Great Depression of 1929.

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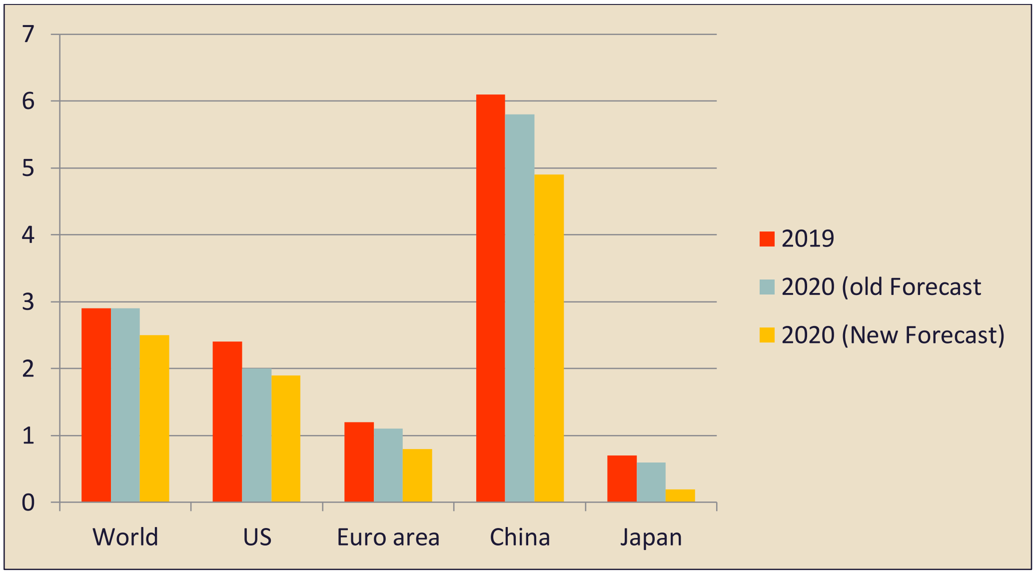
Views expressed in the Article may not express the views of the Institute.

Global Economic Growth Slowdown

The Organization for Economic Co-operation and Development (OECD) downgraded its 2020 real GDP growth projections for almost all economies.



The COVID-19 led to economic crisis and quite different from the 2009 global economic and financial crisis. The roots of the 2009 crisis emanated from the housing market crisis of the US and excessive lending by global financial institutions to households based on poor quality collaterals or sub-prime mortgage. This resulted into collapse of the credit markets across the world, leading to a collapse of credit demand across various economies. This was a demand-led crisis and it was addressed by individual and coordinated stimulus across the G-20 countries. On the other hand, the COVID-19 crisis may be deeper than the 2009 crisis. In fact, in most developed countries, the interest rates are near zero and any monetary stimulus may have limited effect.

It is too early to provide an analysis of the effects of the corona virus outbreak on the global economy. The economic impact of the COVID-19 may be analyzed on the basis of the magnitude and pace at which it spreads and duration over which it lasts within India and across the globe. However, it is clear that various sectors will be affected and its economic costs are likely to be massive across the world and in India as well. The Covid-19-related disruptions have led to millions of people filing for unemployment benefits in US. In April 2020 alone, 20.5 million people filed for unemployment benefits in US, and this number is expected to rise as the impact of the pandemic on the US labour market worsens. An analysis by IMF report reflects a fall in both external and domestic demand. Further, supply shortages are expected to affect a number of sectors due to panic buying, increased usage of goods to fight the pandemic, and disruption to factories and logistics.

Impact on India

As the time is passing, COVID-19 is gaining steam in India and it may be said without an iota of doubt that there is a metamorphosis from global pandemic to economic pandemic. The global pandemic that has emerged in the past couple of months due to COVID-19 has adversely impacted the economic activities. This resulted into some degree of uncertainty on almost all the sectors of the economy. India's current growth prospects are highly constrained, as it has entered the COVID-19 crisis on the back of an economic downslide. The real GDP growth was estimated at 5%

for FY 2020 as per the earlier CSO (Central Statistics Office) release dated 28th February 2020. As more recent information for Q4 FY 2020 becomes available, this estimate may go down significantly. The IMF has projected India's FY 2020 growth at 4.2% and its FY 2021 growth at 1.9%. Other multilateral institutions have projected India's FY 2021 growth to range between 0.8% (Barclays) to 4% (ADB) with the median growth rate at 2.4%.

The steps taken to contain the spread of corona virus such as the nationwide lockdown have brought economic activity to a grinding halt and have impacted employment in various industries like transportation, construction, retail industry etc. Further, it has even impacted every aspect of human life, especially consumption pattern. There would be both supply and demand side disruptions. On the demand side, sectors bearing the brunt of the adverse impact of COVID-19 include sectors such as trade, transport, travel and tourism, hotels, sports and entertainment and also the financial services sector. On the supply side, there are disruptions which are coming through supply chain breakdowns emanating from countries such as China, South Korea, Italy, Spain, France, Germany, UK and USA. India has substantive trade relations through exports and imports with all these countries.

Fighting our way out: India's policy stimulus and preparing for the new normal

The first fiscal intervention came in the form of relief measures relating to statutory and regulatory compliance matters in the areas of Income tax, GST, customs and central excise, corporate matters, Insolvency and Bankruptcy Code (IBC), fisheries, banking sector and commerce on 24th March 2020. A provision of INR 15,000 crores was made to strengthen India's health infrastructure.

A more substantial relief package was announced on 26th March 2020 amounting to INR 1.7 lakh crores under the PM Garib Kalyan Yojana. Alongside, the state governments have been directed to use INR 31,000 crores accumulated in the *Building and Other Construction Workers Welfare Fund* a central fund, to support registered construction workers. State governments have also been advised to utilize the funds available under the district mineral fund for the purposes of testing, medical screening and prevention measures for containing the spread of COVID-19.

Thereafter, in order to revive the economy, Rs 20 lakh crore financial packages, titles as **'Atmanirbhar Bharat Abhiyan',** have been provided to boast the economy. This is total of 10 % of India's GDP. The economic package will help cottage industries, home industry, small-scale industries, MSMEs, which are the means of livelihood for crores of people in India. This package is also for farmers, who toil in different weather conditions and for the middle class who pay their taxes on time. The following short term and long-term measures are taken for supporting the poor, including migrants, farmers, tiny businesses and street vendors.

- Free food grains supply to Migrants for 2 months
- Technology system to be used enabling Migrants to access PDS (Ration) from any Fair Price Shops in India by March, 2021 [One Nation One Ration Card]
- Scheme for Affordable Rental Housing Complexes for Migrant Workers and Urban Poor to be launched
- 2% Interest Subvention for 12 months for Shishu MUDRA loanees- Relief of Rs. 1500 crore
- Credit facility for Street Vendors of Rs 5000 crore.
- Extension of Credit Linked Subsidy Scheme for MIG under PMAY (Urban) to housing sector and middle income group [package Rs. 70,000 crore]
- Rs 6,000 crore for creating employment using CAMPA funds
- Additional emergency Working Capital of Rs 30,000 crore for farmers through NABARD

- Concessional credit boost of Rs 2 lakh crore to 2.5 crore farmers under Kisan Credit Card Scheme

On the monetary side, the Reserve Bank of India 'RBI' has reduced the repo rate to 4.4% on 27th March 2020 and further reduced to 4% on 22nd May, 2020 led to historic low level. Various liquidity-augmenting and regulatory measures have also been undertaken so far. Liquidity augmenting initiatives include a reduction in the CRR, targeted long-term repos operations (TLTROs), reduction in the reverse repo rate, special refinance window for all India financial institutions, and eased overdraft rules for state governments. The regulatory initiatives of the RBI include permitting commercial banks and financial institutions to provide moratorium period of 3 months on payment of installments in respect of all term loans and deferment of interest on working capital facilities for 3 months on all such facilities. The RBI has further extended the moratorium period on bank loans by another 3 months to help the people and industry impacted by the ongoing lockdown.

Corporate Governance Reliefs in view of COVID-19

Sl. No.	Heading	Details In brief
1.	**Minimum Amount of Default under the IBC.**	Under the IBC, the minimum amount of default for initiating insolvency proceedings against the defaulting company has been increased from INR 100,000 to INR 10,000,000.
2.	**Moratorium for filings required under CA 2013 and LLP Act.**	A moratorium period between April 1, 2020 through September 30, 2020 has been provided for filing of any document, return, statement etc., required to be filed in the MCA-21 Registry, irrespective of its due date would not attract any additional fees. This provides an excellent opportunity to companies and Limited Liability Partnerships ("LLPs") to cure their ongoing and past non-compliances during this window significantly reducing the compliances and financial burden on these entities.
3.	**Periodicity of Board Meetings**	In terms of the CA 2013, all companies are required to hold a minimum number of 4 meetings of its board of directors ("Board") every year with a period of not more than 120 days between 2 consecutive meetings of the Board. The gap between 2 consecutive meetings of the Board has been extended to 180 days till the next 2 quarters.
4.	**Requirement of Resident Director**	Non-compliance of a minimum residency in India for a period of 182 days by at least one director on the Board would not be treated as a non-compliance for the financial year 2019-20.
5.	**Applicability of Companies**	Applicability of Companies (Auditor's Report) Order, 2020 has been shifted to financial year 2020-21 instead of financial year 2019-20.

	(Auditor's Report) Order, 2020	
6.	**Meetings of Independent Directors**	Independent Directors are required to hold at least 1 meeting without the attendance of Non-independent directors and members of management. For the financial year 2019-20, if independent directors of a company have not been able to hold even 1 meeting, the same would not be viewed as a violation.
7.	**Extension of Time for Creation of Deposits Repayment Reserve**	Requirement to create the deposit repayment reserve of 20% of the deposits maturing during financial year 2020-21 before April 30,2020 has now been extended till June 30, 2020
8.	**Extension of Time for Investment or Deposit of Maturing Debentures**	Requirement to invest or deposit 15% of the debentures maturing during financial year 2020-21 in specified methods of deposit or investments before April 30,2020 has now been extended till June 30, 2020
9.	**Extension of Time for Declaration of Commencement of Business**	A company incorporated after January 12, 2019 and having a share capital could not commence any business or exercise any borrowing powers unless a declaration of commencement of business is filed by the company within 180 days of its incorporation. This requirement has been relaxed and an additional period of 180 days has been provided in this regard.

Corporate governance best practices to tide over the ongoing crisis & Roles of Professionals

A crisis of the degree of the Coronavirus pandemic is not merely a health and well-being issue, but also a huge economic and operational challenge for India Inc. In fact, nationwide lock down has thrown several types governance challenges including matters relating to financial, operational, compliance & risk, stakeholder related matters that can lead to disruptions with a long-term impact.

For example, an organisation that does not accurately and transparently review its financial forecasts and earnings disclosure in light of the uncertainty of the current environment, may end up with disproportionate actual earnings. This can raise doubts on the ability of the company's senior management and its board to preempt the risks. Additionally, this could erode shareholder value, may have a regulatory implication, or at worst may jeopardise the reputation of a corporate house.

The Board of Directors jointly with senior management has to assess the business impact of Covid 19 and the possible course of actions relating to business and operational issues. The professionals including the Company Secretary (CS) may provide consultancy services and guidance on various strategic, governance and compliance issues. Below listed are some vital areas where Company Secretaries, as professionals or as Key Managerial Persons can add value to the corporate world in coming out of the corona shock.

1. **Assessing the Business Continuity Risk**

   During the lockdown period, most of the organisations manage their operations from remote locations and therefore the organization should ensure that the critical control functions should continue operating. Organisations must ensure that key control activities are performed. Contracts for key vendors/third parties should be reviewed and key provisions should be assessed such as force majeure, governing law and data protection, to ascertain impact these might have on critical functions. Further, foreseeing challenges in fulfilling the commercial contracts with Customers should be re-look once again and re-assess clauses relating to non-performance. Force majeure clause in commercial and other contracts may be revisited and it is to be ensured that such clause provide protection against the pandemic.

2. **Accessing the working capital requirement and management**

   The professionals can help the business organisations in accessing the working capital requirement to cope-up with this crisis and suggest the best avenues or sources through which the requirement of working capital may be procured.

3. **Meeting Statutory Obligations**

   The Professional including company secretaries may provide guidance on various strategic, governance and compliance issues, while they navigate unprecedented challenges. There are numerous relaxation provided by the government under Income Tax, GST, Customs, Central Excise, Companies Act, 2013, SEBI, IBBI, Labour Law, Competition Law, FDI etc.

   Meeting requirements for Board and General meeting/meeting of independent directors may be complied with the relaxations provided by Ministry of Corporate Affairs. Other relaxations by MCA including matters relating to repayment of deposits which have financial implications may be availed. Necessary intimations relating to disturbance in importance manufacturing facility due to disturbance in supply chain may be informed to stock exchanges.

4. **Financial Continuity and Going Concern**

   Coronavirus have a significant impact on a large number of businesses. Some entities which were previously a going concern may no longer be. Many that continue to be a going concern may now face material uncertainties relating to their ability to continue as such. It is unlikely to be appropriate to take a blanket approach. Each entity must be assessed based on its own situation. Auditors' should evaluate the corona virus impact on the going concern of the entity and discuss this with those charged with governance.

5. **Internal controls and audit functions**

   The Professionals should analyze the impact of Covid-19 on the effectiveness of functioning of internal controls system and audit and ensure that any material changes in internal control over financial reporting will be properly disclosed in the next periodic report.

6. Data Privacy considerations / Cyber Risk

Working from remote locations is increasing as a means of practising social distancing during the COVID-19 pandemic. It has become a complicated and challenging task for the companies to respond to immediate remote working requirements while ensuring the data security. Dissemination of sensitive company data can have fatal repercussions. However, under remote working circumstances, maintaining control over data, especially unpublished price sensitive information, might pose certain barriers. The Boards may consider implementation of the following practices:

1. Use company protocol for sharing data
2. Updating information technology and communications system

The professionals may provide cyber threat intelligence strategies to help keep cyber-attacks at bay.

7. Year-end physical verification

Considering the lock-down, it will not be possible for the entities to conduct physical verification of inventory and cash balances as on the cutoff date of 31st March 2020. The auditor shall perform alternate audit procedures to ensure the appropriateness of the stock levels / cash balances as on the reporting date.

8. Communication with internal and external stakeholders

The Board should circulate transparent communication among all stakeholders including the government, regulators, shareholders and employees. Additionally, organizations must plan to send out periodic communication to let employees know that whistleblower channels are open and active and encourage employees to report concerns, potential misconduct and related internal control weaknesses without the fear of retaliation.

9. Avoiding Ethical Traps

The primary purpose of the Board Leadership is to create, preserve and grow shareholder value and contribute to the nation's wealth legally and ethically. During and after this Covid-19 pandemic also the Boards should ensure re-dedication of the management to simple principles of behavioural ethics.

Source:

1. https://www.grantthornton.in/globalassets/1.-member-firms/india/assets/pdfs/covid-19_corporate_governance_best_practices_in_the_time_of_crisis.pdf
2. https://www.mondaq.com/india/corporate-governance/914870/corporate-governance-reliefs-announced-in-view-of-covid-19
3. https://www.ey.com/en_in/tax/how-india-can-revive-economic-growth

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