

MSMEs in Building ATMA Nirbhar Bharat: Issues and Challenges

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ABSTRACT: The Narendra Modi government two months ago announced the 'Atmanirbhar' stimulus package to reboot India's micro, small and medium enterprises (MSMEs) sector, which was recently reclassified on the basis of turnover and investment.

With effect from July 1, 2020 as per the latest redefinition, a micro enterprise is reclassified as one in which the plant and machinery investment does not exceed one crore rupees and turnover does not exceed five crore, a small enterprise would be that in which investment shouldn't exceed ten crore with turnover up to fifty crore and in a medium enterprise the investment shouldn't exceed Rs 50 crore with turnover at Rs 250 crore.

Announcing this on May 13, Union finance minister Nirmala Sitharaman stated that this new classification was being made under the 'Atmanirbhar Bharat Abhiyaan' Economic Package to assuage India's economic predicament amidst the pandemic. Under this 'abhiyan' (scheme) the government has decided to provide Rs 3 lakh crores in collateral-free automatic loans to MSMEs aimed at providing additional working capital to existing customers of banks and NBFCs. Additionally, on July 2, 2020 World Bank announced a US \$750 million budget support to 15 crore MSMEs to increase liquidity access for viable small businesses impacted by COVID-19.

The 'Atmanirbhar Bharat Abhiyaan' is being hailed as major fiscal policy and relief measure package to assuage India's economic predicament amidst the pandemic with specific emphasis on MSME revival. But how far can this reclassification resuscitate the Indian economy which is barely recovering from the effects of the COVID-19 pandemic and has now been hit by the effect of a ban on Chinese products? Will these measures decrease the stress in the MSME sector?

Employing over 11 crore workers MSMEs contribute 29% of India's GDP and comprise almost half of its exports. While there are about 90.19 lakh registered MSMEs, there may be actually more than 6.33 crore MSMEs out of which 6.30 crore or 99.4% are micro-enterprises while 0.52% — 3.31 lakh are medium and 0.007% — 5,000 are medium enterprises. Despite holding 48% share in India's exports, the significance of MSMEs in creating sufficient opportunities or employment for the country's teeming millions has always occupied a secondary status.

I. INTRODUCTION

Ostensibly brought in to create five crore job opportunities and further refine the business scenario for Indian enterprises, these new limits are a major change to the classification of MSMEs. The earlier criterion, based on the Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006 was very low in terms of financial limits and did not include the turnover. The new classification has also ended the hitherto division of the enterprises into Manufacturing or Service industries.

The MSME sector has been facing a credit crunch for some time but nothing like the present freeze. Former SEBI chairman U.K. Sinha led expert committee on MSME sector had submitted its report exactly a year ago in July 2019, suggesting in the main that the (MSMED) Act, 2006 needs to be reimagined with focus on market facilitation and promoting ease of doing business. In the recent amendments, some of the suggestions have been adopted but others having a direct bearing on improving the 'ecosystem' for the MSME sector appear to have been disregarded. For example, the U.K. Sinha report recommended that since Micro and Small Enterprises (MSEs) face problems of delayed payments, all MSMEs must upload their invoices to an Information Utility. States must have

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more than one MSE Facilitation Council to cater to the high number of delayed payment cases. It had also recommended making 25% procurement from MSEs mandatory for PSUs through the e-market portal. [1] While the current stimulus will ensure adequate flow of credit, a major bottleneck that the MSME sector is facing, the fact remains that this is not entirely a novel initiative. The majority of the MSME sector comprises of the micro players which simply do not have the experience or resources, to use bank finance or engage in product promotion to ensure adequate returns. Real stimulus is possible only if credit flow is discernible. The '59-Minute loan Programme' that was launched by the government did ensure that loans were sanctioned in at the earliest but the actual disbursement was simply not there. Further the 'PSBLoansIn59Minutes' portal as of now caters only to existing entrepreneurs GSTIN, Income Tax returns, bank statement, but doesn't cater to new entrepreneurs.

III. DISCUSSION

Special insolvency resolution framework for MSMEs has been envisaged under the Atmanirbhar package. Now if an MSME finds itself incapable of meeting its financial obligations, the insolvency resolution process could be initiated at default of at least Rs 1 lakh. But this may not find financial creditors coming on board and cooperating. So those creditors that are falling below the Rs 1 crore limit, or are owed upto Rs 1 lakh by larger private firms (or public sector undertakings) cannot invoke insolvency. Under these circumstances, bank managers would rather not lend.

Under the Rs 3-lakh-crore loan scheme for MSMEs, guarantee will be provided by the National Credit Guarantee Trust Co. Ltd (NCGTC). However, this facility is extended only for the existing borrowers with revenue of up to Rs 100 crore. While banks can charge a fixed interest rate of 9.25% with no guarantee fee to be given to NCGTC, the interest rate for non-banking financial companies (NBFCs), is fixed at 14% which is equivalent to their cost of funding preventing cost cover for the spread in a collateral free scheme. NBFCs continue to be the go-to lender among MSMEs, and they should be restored as the priority lending list. Further restrictions such as closely watching repayment ability of those who have taken the three-month moratorium on loan repayment, or no loan extension till the interest for 2-3 months moratorium period is serviced will become hinderances for MSME borrowers. [2]

Earlier the government had tried to encourage disbursement of collateral free loans under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMCE). Although the intention was commendable the ground reality was that no bank or NBFC would be willing to lend under this scheme because you can only apply to government to refund a guarantee after 18 months. No bank would be willing to take that hit in its balance sheet. The waiting period needs to be reduced to six months from the present 18 months.

According to Fitch ratings liquidity and asset-quality challenges to remain as key sector issues, as companies navigate the pandemic-led disruption in the months ahead. "The performance of India's non-bank financial institutions (NBFIs) in the financial year ending March 2020 (FY20) was characterised by muted asset growth, funding challenges and the coronavirus pandemic-related slowdown, which started in March 2020."

The current package and reclassification are not sufficient to rescue the MSME sector from the assaults of the COVID-19 pandemic and the ban on the Chinese products along with a hugely decreased demand. The #RebootIndia campaign will not succeed until the entire ecosystem for micro players with the MSME sector is simplified to encourage even undergraduates to boldly venture into initiating a business.

The compliance framework at present is far too elaborate. While conceptually it is a commendable idea, and it has simplified interstate business the fact remains that it has mushroomed paperwork. Small players usually do not have the required documents nor do they have the capital to get the expertise services. For the MSME players only one identifier ex. Aadhar or company GST should be obligatory; all other identifiers like import export number, registrations with various entities such as Udyog Aadhaar portal, GSTIN, NSIC, etc should be dispensed with in

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order to free up the time of the entrepreneurs, who get enmeshed in this paperwork. UK Sinha report had suggested making PAN the Unique Enterprise Identifier (UEI) for the MSME. [3]

Another factor that should have been considered is the MSME player's exposure towards share market to raise capital for business expansion. Lack of Equity capital restricts the growth momentum of MSME delaying the market opportunities in an increasingly competitive global market. To really thrive MSME players operating in an informal manner need support in terms of infrastructure.

IV. RESULTS

The government should invest in providing more back-end services to improve performance of the MSME segment which in turn are suppliers for big industrial houses. The sector also suffers from lack of technology-based production activities. Without technological application and low investment in R&D activities the sector simply cannot become competent. Globally available technology could be subsidised by the government so that the product quality of the MSME players can be improved using existing resources. This also requires the help of academic institutions as.

Apart from these bottlenecks are the issues of low demand in the economy in large measure because of the COVID19 pandemic and the ban on the Chinese goods. Amidst a border standoff with China, Union minister Nitin Gadkari announced that China will not be allowed to invest in India's MSME sector and imports from China will be discouraged. This appears to be an impulsive reaction in response to China's military aggression and can have devastating impact on Coronavirus-hit MSME businesses. A hike in import duty or placing of non-tariff barrier on items can make input cost expensive by 10-40%. [4,5]

V. CONCLUSION

On the bright side domestic MSMEs are known for producing expensive but better-quality products in comparison to the poor-quality Chinese products which dominate the unorganised retail sector. Despite the many issues that the sector is facing, a committed credit provision, simpler compliance framework and technology upgradation will succeed in #rebootinginda as manufacturing units contemplate shifting their operations from China to India. [6]

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