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To,
Shri Narendra Modi
Hon'ble Prime Minister of India

Smt Nirmala Sitharaman
Hon'ble Finance Minister
Govt. of India

Shri Nitin Gadkari,
Hon'ble Minister
Ministry of MSME
Govt. of India
Udyog Bhawan, New Delhi – 110011

Shri Sh A.K. Sharma, IAS
Secretary
Ministry of MSME,
Govt of India,
Udyog Bhawan, New Delhi – 110011

Subject: Financial support required by MSMEs in perspective of Covid-19 pandemic situation.

Sir,

Indian Industries Association (IIA) an apex body of Micro, Small & medium Enterprises (MSMEs) in North India is keeping regular watch on the changing situations for MSMEs under Covid-19 pandemic since its onslaught in India. IIA is in constant touch with more than 8000 members on regular basis and based on the feedback received from them is submitting representations to the State & Central Government from time to time.

Through this letter, we are submitting you the currect situation, facts, and needs of MSME Sector in India for your kind information and immediate necessary action :-

1. WHAT IS MSME AND ITS CONTRIBUTION? (How MSME sector is critical in times of Covid-19?)
2. HOW CAN INDIAN POLICY RESPOND TO THIS CRISIS?
3. WHAT MSME WANTS?

1. What is MSME and what it contributes (The MSME sector is critical in times of Covid-19)

While Indian policymakers face the tough task of containing a public health pandemic as well as formulating swift policies to protect the most vulnerable from its adverse economic effect, a committed response to support the MSMEs is essential, imminent and key to easing the impact of the crisis for these entrepreneurs, their employees and the Indian economy as a whole.

A large fraction of India's firms are small, informal and operate in the unorganised sector. Recent annual reports on Micro, Small and Medium Enterprises (MSMEs) indicate that the sector contributes to around 30% of India's GDP, and based on conservative estimates, employs around 50% of industrial workers. Over 97% of MSMEs can be classified as micro firms (with an investment in plant and machinery less than ₹25 lakh), and majority of them are unregistered with the government.

These MSMEs are uniformly spread across rural and urban areas and are equally represented in the manufacturing, trade and services sectors. Two thirds of MSMEs are operated by socially vulnerable groups (Scheduled Caste/Scheduled Tribe/Other Backward Classes) and 20% by women.

Additionally, more than 81% MSMEs are self-financed with only around 7% borrowing from formal institutions and government sources (Economic Census, 2013). Credit market interventions (cheaper loans, increased limits on NPAs) therefore may not benefit this sector directly. Since most MSMEs primarily operate on cash, they require immediate liquidity to cope with adverse events. Moreover, many micro enterprises are small, household-run businesses.

Given that other sectors of the economy and in particular, seasonal migration and agriculture, are severely hit by the lockdown, allowing these micro enterprises to operate smoothly could substantially help households cope with this economic shock. Hence, more direct measures of liquidity may be the need of the hour.

Lastly, MSMEs are spatially concentrated, with Uttar Pradesh and West Bengal accounting for around 30% of MSMEs and ten states accounting for around 75% of MSMEs. A joint effort from both the state and central government therefore, is critical. Supply-side interventions, in particular strengthening supply chains for MSMEs, can also help them weather the storm. Ensuring that the MSME sector has access to raw materials and robust downstream supply chains would not only help mitigate production shortages in the health and the essential goods sector, but given its size, also potentially slowdown the adverse impact on the Indian economy as a whole. The Government of India has already appealed to MSMEs producing medical and other essential products to register and sell in the Government's e-marketplace. This should be expanded to other sectors as well with co-ordination across different states to meet local supply and demand requirements.

The current corona virus pandemic (Covid-19) lockdown has substantially disrupted the operations of these MSMEs due to their dependence on the cash-economy that is severely hit by the lockdown, the physical non-availability of workers, and restrictions in the availability of raw materials and transport infrastructure. This will have substantial ramifications throughout the economy and therefore, a robust policy response is essential.

2. How can Indian policy respond to this crisis?

A useful place to start would be to examine the policy response of other countries in protecting their industries during the pandemic. From the International Monetary Fund's policy tracker (that tracks key economic responses to the Covid-19 pandemic across 192 economies), these policy responses can be broadly categorised into: (a) loan guarantees and immediate liquidity provision; (b) loan extensions and penalty waivers on repayment delays and (c) interest rate reductions on future loans. **For ready reference the IMF View is enclosed at Annexure-I.**

In line with the global response, the Government of India slashed interest rates, increased limits on Non-Performing Assets (NPAs) to prevent triggering insolvency, and offered payments from the government's share of Employee Provident Fund (EPF) to avoid layoffs.

While these policy measures are encouraging, they are biased towards the larger, and more formal/organised firms. However, the measures are inadequate for the smaller, informal/unorganised firms, which form an overwhelming majority of India's industrial landscape.. Thus, it is unlikely that these small firms contribute to EPF and may not benefit from the Government's contribution to EPFO.

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3. <u>What MSME Wants?</u>

The current circumstance worse than the great depression of 1930 have created extra ordinary circumstances which require extra ordinary dispensation.

In terms of Section 10 of Management Disaster Act, 2005 a National Plan for MSME Sector for the devastating effect it has had should be formulated.

Special attention needs to be drawn in terms of Section 12 and Section 13 of the Disaster Management Act, 2005 which are reproduced as under for ready reference:-

12. <u>Guidelines for minimum standards of relief.</u>—The National Authority shall recommend guidelines for the minimum standards of relief to be provided to persons affected by disaster, which shall include,—
(i) the minimum requirements to be provided in the relief camps in relation to shelter, food, drinking water, medical cover and sanitation;
(ii) the special provisions to be made for widows and orphans;
(iii) ex gratia assistance on account of loss of life as also assistance on account of damage to houses and for restoration of means of livelihood;
(iv) such other relief as may be necessary.
13. <u>Relief in loan repayment</u>, etc.— —The National Authority may, in cases of disasters of severe magnitude, recommend relief in repayment of loans or for grant of fresh loans to the persons affected by disaster on such concessional terms as may be appropriate.

<u>IIA THEREFORE PROPOSE FOLLOWING COMPOSITE PACKAGE FOR MSME UNDER PRESENT CIRUMSTANCES DUE TO COVID-19 PANDEMIC</u>

(A) <u>Banking</u>

1. All loans (Term loans, WCTL and Debit/Credit Cards) should carry a Interest Rate of not more than 6.5%.
2. No Interest should be charged upto 31st March, 2021
3. The Moratorium of EMI should be extended upto 31st March 2021
4. No Processing charges should be levied for renewal of Loans/Limits upto 31st March, 2022
5. The Limit of mandatory collateral free Loans limit of 10 lacs should be extended to 20 lacs. (CGTME)
6. Ad hoc increase of WCTL limit should be increased on 0 % Margin upto 31st March, 2022
7. For Working Capital Bills Payable should be considered for 6 months instead of 3 months.
8. Short Term Working Capital Bridge Loan upto 2 Cr. For a period of 3 years should be provided on demand to mitigate compelling demands of expenditure at Interest Rate of 6 %. (Commercial Banks and SIDBI)
9. NPA Norms should be extended to 1 Year
10. No penalty should be levied for delayed submission of stock statements etc)
11. Inspite, of the fact that RBI has come out with a COVID 19 package on 27th of March, 2020, the Banks yet to follow the instructions as the RBI directions are only advisory.
12. Inspite, of the fact that RBI has increased the liquidity in the Banking system, the Banks are reluctant to lend to MSME as the RBI Directions are not mandatory.

13. It is therefore essential that if the Package has to be meaningful, it should be issued under Disaster Management Act, 2005 and RBI Directions should be issued under Section 24 of the RBI Act.
14. SLIIC (State Level Inter Institution Committee) of RBI should meet monthly to monitor the progress of Bank Lending.

(B) Recoveries

As in the case of IBC all insolvency proceedings are proposed to be kept in abeyance for 1 year and Banks are proposing to the government to keep IBC proceedings in all pending cases to be suspended for 2 years.

It is therefore submitted that all pending proceedings under SARFAESI Act 2002, DRT Act 1993 or any other recovery including auctions should be suspended for 2 years.

(C) Salary and Wages

Salary and wages during the lock down period should be paid from ESI

And those not covered under ESI but registered with State Industries Department DBT should be done after seeking their details.

(D) GST

1. Across board reduction of GST Rate by 5 %
2. No Interest or Penalty/Extra charge for delayed payment upto 31st March , 2022
3. Flexibility in payment of GST of any month (3 B)
4. All Cancelled GST Registration to be restored immediately without payment of Interest or Penalty or any charges.
5. GST Rate on Masks, Sanitizers, Gloves and IR Thermometers to be 0 %
6. No restriction on part payment of Tax

(E) Income Tax

1. Last date of filing returns of 31st MARCH be extended to 30th September, 2020 and that of 31st July 2020 to December 2020
2. No Interest or Penalty for late filing of returns upto 31st March, 2022

(F) Late Payment

1. All late payments made by Government Departments, Corporations and Private parties to pay interest automatically as per the MSME Act, 2006.
2. Person responsible for intentionally delaying the payment be made personally liable to pay penalty of 25% of the amount due remaining unpaid.

(G) Supply Chain Transportation

1. Hassle free movement of goods (Raw Material and Finished Goods) at the Borders and within the state should be ensured.

2. Persons found delaying the transportation or holding back the transportation, which is accompanied by valid documents be liable for 3 months imprisonment and personal penalty of 5% of the Invoice value of goods being transported.

(H) FORCE MAJEURE

The delivery time during period of lock down should be automatically extended to avoid litigation.

(I) Medical Policy

Low Premium cost Medical policy be designed specially who do not fall within the ESI net.

(J) Sanitation

1. State Governments should make arrangements to sanitize the Industrial Areas on regular basis effectively free of cost
2. State Government be directed to conduct Covid-19 Tests in Industrial Area on regular basis free of cost.

(H) Exports

- Nirvik scheme announced by Finance Minister during Budget speech for exporters should be immediately implemented.
- Post Covid-19 and during its onslaught the exports have become highly risky. As such the remittance should be covered through ECGC. The premium at present being very high should be borne by Government for all MSME exporters.

We hope you will find IIA's proposals in the best interest of MSME Sector as well as Indian economy and consider these for urgent implementation.

Thanks & regards,

Pankaj Kumar
National President

ANNEXURE-I

THE IMF VIEW

“Whatever it Takes” Lifeline to Small Businesses

APRIL 23, 2020

By Kenneth Kang and Changyong Rhee

Asia was hit hard by the first wave of the coronavirus, as the sudden stop in activity struck households and firms simultaneously—first in China, then elsewhere in Asia, and now globally. Policymakers responded swiftly with aggressive spending to support the medical response and vulnerable households and firms. And central banks took swift actions to expand liquidity.

While this helped support financial markets and sentiment, we may be on the cusp of a new, more dangerous phase of “economic deleveraging” as firms struggle to repay loans and pay workers in the face of a sudden collapse in cashflow and tighter credit.

Full stop

In Asia and elsewhere, small and mid-sized enterprises are at greater risk in this new deleveraging phase. They are also concentrated in services where the containment and social distancing measures have hit the hardest. Compared to large corporates, small firms have thin cash buffers, are more leveraged, and rely mainly on short-term loans and retained earnings. Against this “crisis like no other,” small businesses face severe cashflow shortfalls with few financing alternatives.

Banks need to step forward in a major way to provide the working capital, but banks too are facing their own pressures, as large firms access credit lines to boost cash reserves. With banks looking to service first their largest customers, smaller firms will be left behind to fend for themselves.

The approach in Asia so far—to encourage loan rollovers through regulatory forbearance and guarantees and provide cheap lending to banks—will help but may not be enough to save small and mid-sized firms, given banks’ capacity and reluctance to take on this risk. Neither step addresses the massive need for new working capital to keep workers employed as cashflows dry up. Some private surveys suggest that small businesses, as the major employers in these economies, may have less than 3 months of cash left, raising the specter of a wave of defaults and a surge in unemployment.

To prevent this, smaller firms need a temporary lifeline—an economy-wide “working capital bridge loan”—that goes well beyond current policies. Such financial support is essential for maintaining jobs and incomes and preventing the downturn from turning into a prolonged depression that permanently damages the economy. Only the public sector has the means to extend this lifeline in the face of a such an unprecedented shock.

Bridging the divide

The question then is how best to do this while maintaining the proper incentives. One idea would be for the government to create a special purpose vehicle—a temporary public entity tasked for a specific purpose, namely to facilitate new working capital loans to small and mid-sized firms.

To address those most in need, only the firms that can show they were sound borrowers last year but are now experiencing significant revenue declines from the virus, would be eligible. They would apply to banks for a new 3-year loan covering working capital needs and payments (interest and principal) falling due over the next 12 months. In return, the firms would commit to maintain employment while avoiding dividends or share buybacks.

On the public side, the central bank would provide funding to the special purpose vehicle to purchase these new "working capital loans" from the banks, thus freeing up space for banks to lend more now. The central bank would be secured by the assets of the special purpose vehicle and receive some loss protection from the government's initial equity investment.

Banks would retain the remaining portion of the loan to keep "skin in the game." To manage losses, the special purpose vehicle would look to maximize recovery value and have banks collect on defaulted loans through foreclosure and bankruptcy. While this idea can apply easily to bank-centered economies, it could be extended to those with more-developed capital markets in Asia, such as Japan or Korea, by securitizing these loans and selling the tranches to institutional investors for broader risk sharing with the private sector.

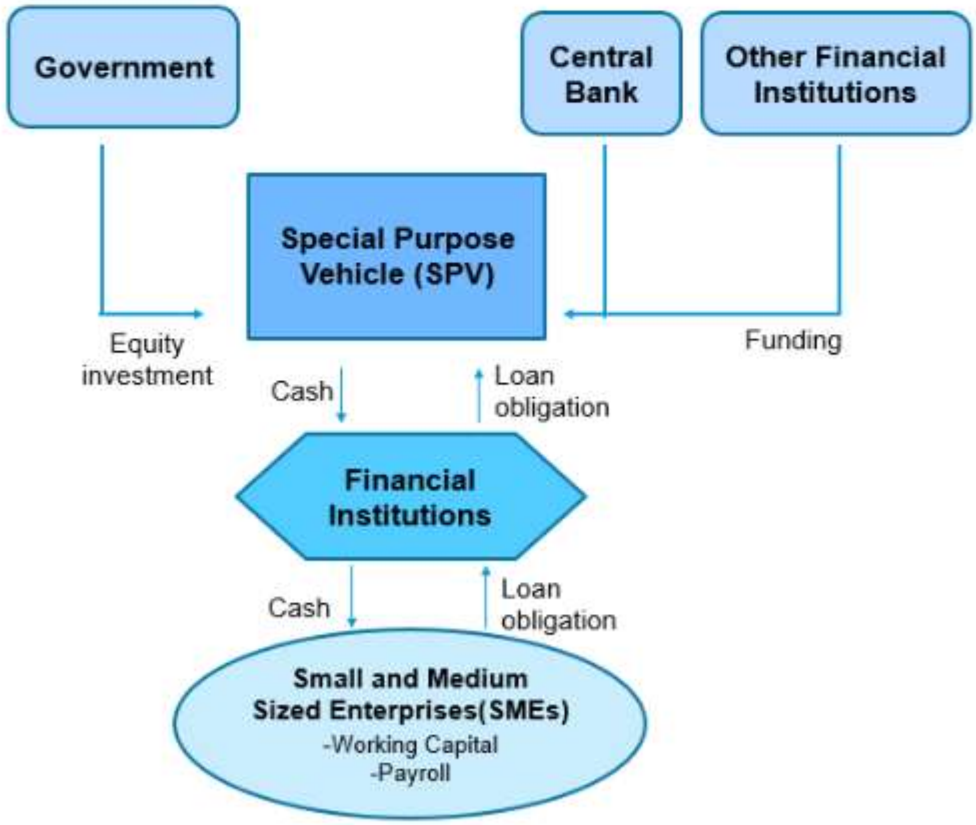
Whatever it takes

The alternative is for governments to use their budgets, but the difference between the current crisis and past ones is the enormous scale of financing needed to roll over working capital loans for an extended period. Many emerging markets in Asia have limited fiscal space to fill in this gap using credit guarantees or lending but are under immense pressure to do whatever it takes to prevent large layoffs and defaults. Some are considering commercial banks or even the central bank directly financing the extra fiscal spending (i.e. direct monetization).

For these economies, a risk-sharing mechanism as described above that uses the flexibility of central bank funding can achieve this objective while preserving hard-earned central bank independence and banking soundness. Fiscal policy, by providing some loss protection, can complement monetary policy and enhance the potential economic benefits through greater lending. Governments and central banks in advanced economies, such as the U.S. Treasury and the Federal Reserve with its Main Street Lending Program , have introduced similar special purpose vehicles with some public risk sharing to support distressed companies.

Given the exceptional measures needed in this crisis, emerging markets in Asia could borrow a page from this playbook to do whatever it takes to rescue their economies.

Financing smaller firms
A central bank lending program can incorporate public risk sharing.



Source: IMF staff.

INTERNATIONAL MONETARY FUND