

➤ **MSME Sector**

○ **Definition**

- Manufacturing
 - Micro up to ₹ 25 lakh
 - Small from ₹ 25 lakh to ₹ 5 Cr
 - Medium from ₹ 5 Cr to ₹ 10 Cr
- Services
 - Micro up to ₹ 10 lakh
 - Small from ₹ 10 lakh to ₹ 2 Cr
 - Medium from ₹ 2 Cr to ₹ 5 Cr
- The government has proposed a bill as per which the definition will change to
 - Micro up to ₹ 5 Cr
 - Small from ₹ 5 Cr to ₹ 75 Cr
 - Medium from ₹ 75 Cr to ₹ 250 Cr

○ **Importance**

- There are about 65 million msme units employing about 120 mn people
- MSME accounts for 8% of GDP
- It accounts for 40% of the total exports
- It accounts for 45% of the manufacturing output
- After agriculture sector, it is the MSME which is the largest generator of employment

➤ **Problems/issues**

○ **Credit**

- As per the recently published economic survey
 - The MSME sector has received only 17.4% of the total credit outstanding
 - The growth of credit to the micro and small enterprises increased by 4.6% and that of medium enterprises has been 4.3%
- The bank lending to micro and small scale industries has fallen from 3.1% of GDP in FY14 to 2.2% in FY18. in the same period lending by banks to the medium scale industries fell from 1.1% to 0.6% of GDP
- As per RBI data, against a total demand of a loan of ₹ 32 lakh crore of loans for MSMEs, credit availability is only ₹ 11.10 lakh crore with majority of such enterprises depending upon informal sources of financing. To provide relief to MSMEs RBI has taken/will take following measures
 - Will appoint Accreditation of Credit Counsellors who will assist the MSMEs to prepare better project reports and help the banks in making better credit informed decisions
 - To issue final guidelines in P2P (Peer to Peer) lending. There has been an emergence of new players have entered MSME lending landscape in form of P2P companies, and these

entities use an online platform to match lenders with borrowers to provide unsecured loans

- A movable assets registry would be set up

- **GST**

- It has been a problem for the MSME units to shift to a new taxation regime, which has led to a higher compliance cost. But the benefit of being GST compliant for MSME is that its bookkeeping will be streamlined, financial/transaction history can be created which will make it easier to get access to get institutional credit
- Apart from this with introduction of GST, MSME sector has suffered cash flow problems because of the delay in providing the input tax credits

- Because of rupee depreciation the input costs have been rising. This will affect the exports as well as the bottom-line of the MSMEs

- Lack of skilled labour availability

- Issue with IRP under IBC

- The IBC doesn't provide any specific recognition to MSMEs and are part of the operational creditors. But the operational creditors do not have any say in the CoC (Committee of Creditors). Hence their recovery of the principal and the interest is at stake

- **NPAs**

- The MSMEs account for ₹ 81000 Cr of NPAs as of March 2018 (having said so, the corporate entities account for over ₹ 9.5 lakh Cr of NPAs)
- As per various surveys, the banks are expected to be having unrecognised stressed loans worth ₹ 7.7 lakh crore in corporate and SME sectors and expect around 35% of them to slip into the NPA category in the next few months
- RBI has recently changed the NPA classification norms for MSMEs from 90 days to 180 days
- Mr Raghuram Rajan in a recently submitted note to the Parliamentary committee has warned against the ambitious credit targets that are usually set by the government under MUDRA. His opinion is that these targets are achieved by abandoning due diligence and this will lead to creation of environment for future NPAs. he has also submitted that the SIDBI run credit guarantee scheme for medium and small enterprises is a growing contingent liability and needs to be examined with urgency

➤ **Reforms undertaken so far**

- Under PSL, 7.5% of the credit by the SCBs (Scheduled Commercial Banks) have to be given to Micro enterprises. Loans up to a certain limit to the MSME by the banks were considered as a part of PSL
- MUDRA - Micro Units Development and Refinance Agency
 - Set up in 2015 under PMMY (PM Mudra Yojana)
 - Objective was to provide refinancing the financial institutions that lend to micro/small businesses

- MUDRA has launched three innovative products – Shishu, Kishor and Tarun
- So far in this financial year, the total value of loans disbursed under the scheme are worth ₹ 2.53 lakh Cr and the number of loans sanctioned are 4.81 Cr. The average size of loan sanctioned stood at ₹ 52706
- The total loans issued since the launch under the scheme are worth ₹ 6 lakh Cr to 12 Cr beneficiaries
- CGTMSE (Credit Guarantee fund Trust for Micro and Small Enterprises)
 - Was launched in 2000 and is known as UDAAN
 - This has been launched to provide credit availability to entrepreneurs (especially first generation) for whom getting access to credit is very difficult
 - Under this fund, the credit to the existing and new MSEs up to ₹ 200 lakh can be provided with a credit guarantee (up to certain limit)
 - Credit guarantee means that if a borrower doesn't repay, then part of the unpaid amount will be given to the creditor through this fund
- PPP (Public Procurement Policy)
 - As per this policy, the ministries, departments, CPSEs etc have to procure 20% of their requirements from the MSEs (Micro and Small Enterprises)
 - This was introduced in 2012
- Taxation reform - the government very recently has announced that the corporate tax for all the companies with turnover of up to 250 Cr to be reduced to 25% (from earlier 30%)
- New MSME bill – as per the draft the government wants to change the definition of the MSMEs based on the revenue rather than the existing practice of defining them based on investment in plant and machinery

➤ **Why these reforms now?**

- The MSME sector has come under lot of pressure with implementation of Demonetisation and GST.
- In the recent times, there has been a lot of pressure, on NBFCs which is expected to spill over to MSMEs as, the former are very important source of credit for the latter
- Between 2014 to 2018, the credit to MSMEs has actually shrunk from ₹ 4.7 lakh Cr to ₹ 4.69 lakh Cr despite the government introducing a host of reforms during this period such as Pradhan Mantri Mudra Yojana

➤ **The government by announcing 12 reforms has sought to address the five key areas/aspects**

- **Access to credit**
 - 59 minute loan portal has been launched. This will enable easy access to institutional credit for MSMEs. Under this portal loans up to ₹ 1 Cr can be granted in-principle approval in just 59 minutes. The link to this portal will be made available through the GST portal
 - Points about the portal

- It has been set up by SIDBI (Small Industries Development Bank of India)
- Under this the loans from ₹ 10 lakh to a crore rupees can be applied for
- The RoI (rate of Interest) will start
- It has been tested on pilot basis wherein more than 72000 loans worth ₹ 23852 Cr have been sanctioned
- In the past it has been seen that the banks prefer to give a large loan to a large company but by limiting the value of loan and ensuring that these are given to MSMEs the govt has achieved two objectives- ensuring flow of credit to MSMEs, ensuring large number of these businesses will get access to credit
- 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans. In case of exporters the interest rebate has been increased from 3% to 5%
 - The outstanding export credit has reduced from ₹ 41500 cr in August 2017 to ₹ 20500 cr in August 2018. This hike in interest subsidy is expected to increase the flow of export credit
 - This also comes after the month of September wherein for the first time in this fiscal the exports growth entered into a negative territory
- All companies with a turnover more than ₹ 500 crore, must now compulsorily be brought on the Trade Receivables e-Discounting System (TReDS). This will
 - TReDS is an online mechanism to facilitate the financing of the trade receivables
 - Enable entrepreneurs to access credit from banks, based on their upcoming receivables
 - Will resolve their problems of cash cycle
 - The MSMEs can receive the money in advance and not be worried about the buyer not making the payments
 - TReDS
 - Under this a seller will get a credit against the bill which is due to him at a later date. It is also referred to as 'bills discounting'. The credit will be given to the seller after discounting (the discount will be the interest paid to the financier)
 - The system will have three participants - seller, buyer and financier
 - The seller uploads the receipt which has to be accepted by the buyer. Once accepted different financiers will bid for this bill and the agreement is entered into. The discounted value is transferred from the financier to the seller and after the due date, the buyer transfers the amount into the account of the financier
 - The financiers cannot bid lower than the MCLR

- Presently there are three online electronic platforms which have providing these services – Receivables Exchange of India, A.TReDS and M1xchange. These have been discounting the bills at interest rates in the range of 8 to 9.5%
- **Access to market**
 - The Public sector companies have been asked to compulsorily procure 25%, instead of 20% of their total purchases, from MSMEs
 - Out of the 25% procurement mandated from MSMEs, 3% must now be reserved for women entrepreneurs
 - All public sector undertakings of the Union Government must now compulsorily be a part of GeM and also get all their vendors registered on GeM (Presently more than 1.5 lakh suppliers have registered with GeM, of which 40,000 are MSMEs and the value of transactions made has crossed ₹ 14000 Cr)
- **Technology upgradation**
 - 20 hubs to be formed across the country, and 100 spokes in the form of tool rooms to be established. For this objective the government has allocated ₹ 6000 Cr. This will ensure that the MSME sector gets access to new technological tools
- **Ease of doing business**
 - Pharma MSME clusters to be formed and 70% cost of establishing these clusters to be borne by the Union Government.
 - Returns under 8 labour laws and 10 Union regulations to be filed only once a year (earlier they were supposed to file the returns twice in a year)
 - Computerised random allotment to decide which inspector to visit which establishment and the report has to be submitted on the portal within 48 hrs
 - Under the air pollution and water pollution laws, the environmental clearance and consent to establish will be merged as a single consent and the return will be accepted through self-certification
 - An Ordinance has been brought, under which, for minor violations (16 of the 81 compoundable offences) under the Companies Act, the entrepreneur will no longer have to approach the Courts, but can correct them through simple procedures
- **Sense of security for employees**
 - To provide social security for the employees, a new mission will be launched to ensure that they will Jan Dhan Yojana accounts, provident fund and insurance
- **What will these reforms do**
 - Ease the credit flow into this sector
 - Promote ease of doing business
 - Promote formalisation of these units
- **Will the reforms be sufficient**

- Implementation will be the key. For example, more than 90% of the MSMEs operate in the informal sector and it will be difficult for the banks to lend to these units as they do not maintain any kind of proper documentation and records (on the other hand, if they relax the appraisal criteria there is a risk of loans converting into NPAs)
- This doesn't address the structural issues faced by the sector (for example the Sixth Economic Census 2013-14, has pointed out that these units on an average employ only 2.24 people, which means the MSME sector on one side is neither able to adapt to the technology nor absorb more employees)
- Targeted lending has been fraught with concerns (as the banks are given the targets to achieve, they usually dilute the credit appraisal criteria in order to lend and meet the targets)
- These revenues of these businesses is very much dependent on host of factors and is very volatile. By asking the banks to go for targeted lending are we putting the higher credit risk on the banks
- The SME Chamber of India has stated that the loan value of ₹ 1 Cr would be a big amount for a Startup but not for well-established MSMEs, hence there is a need of increasing this to ₹ 25 Cr
- Small businesses also need access to land at competitive prices, lower power tariff, tax breaks, ease of doing business across the states etc

➤ **Concern**

- The set of reforms does not address the most fundamental question - "why are so many units working in the informal sector?" is it that, the regulatory environment dis-incentivizing firms to formalize and increase their scale of operations?

THE PACKAGE: PHARMA CLUSTERS TO TECH HUBS

- MSMEs registered on GST platform will get 2% interest subsidy on fresh loans
- New website to sanction loan up to Rs 1 crore within 59 minutes
- Single common form for eight labour laws instead of two
- Single approval for environmental clearance instead of separate approvals
- Rs 6,000 crore for 20 tech hubs and 100 centres as spokes
- Exporters who receive

- loans in pre-shipment and post-shipment period will get interest rebate of 5%, up from 3%.
- Plans for creation of special pharma clusters for which the government will bear 70% of cost
- Inspectors can only visit factories through random technology-based allotment and need to publish report within 48 hours
- PSUs to compulsorily procure 25%, instead of 20% of total purchases, from MSMEs