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NEWSLETTER

FICCI-CONFEDERATION OF MICRO, SMALL AND MEDIUM ENTERPRISES (CMSME)

MSME NEWS UPDATE

1. Ministry launches online portal for MSME registration

The Ministry of Micro, Small and Medium Enterprises (MSMEs) on Tuesday launched a new portal for MSME registration. “The MSME registration process is fully online, paperless and based on self-declaration. No documents or proof are required to be uploaded for registering an MSME,” said an official release. The portal guides entrepreneurs step by step as to what they should know and what they should do.

After completion of the registration process, an ‘Udyam Registration’ Certificate will be issued. This certificate will have a dynamic QR Code from which the webpage on the portal and details about the enterprise can be accessed, the release added.

The Ministry also clarified that except this portal (www.udyamregistration.gov.in) and the government’s Single Window Facilitation System, no other private online or offline system, service, agency or person is authorised or entitled to do MSME registration or undertake any activity related to the process. “No enterprise is supposed to file for more than one Udyam Registration. However, any number of activities including manufacturing or service or both may be specified or added in one registration,” the official release added. The registration process is free.

Business Line, June 30, 2020

2. Himachal CM launches online self-certification facility for facilitating MSME

For the simplification of processes under the ‘Ease of Doing Business’ and to provide much needed relief to entrepreneurs, chief minister Jai Ram Thakur launched the online self-certification facility for facilitating Micro, Small and Medium Enterprises (MSME) in the state. He said that earlier the entrepreneurs had to take all the required clearances from concerned departments prior to setting up of the enterprise, which generally resulted in unnecessary escalation of project cost and wastage of time. He said that this online certification facility would not only save the entrepreneurs from cumbersome procedures, but also facilitate in setting up the enterprises at the earliest.

Jai Ram Thakur said that now with this online self-certification portal facility, the entrepreneurs would furnish a duly filled in “Declaration of Intent” to the Nodal Agency electronically on the portal. He said that the nodal agency would grant ‘Acknowledgement Certificate’ in the electronic format to the entrepreneur within seven days.

He said that with the start of this facility, there will neither be any inspection of the enterprise nor any required clearance will be sought from entrepreneur by the concerned departments for three years or till the enterprise starts functioning (whichever is earlier) under the Acts namely; The Himachal Pradesh Panchayat Act-1994, The Himachal Pradesh Municipal Corporation Act-1994, The Himachal Pradesh Fire Fighting Services Act-1984, The Himachal Pradesh Road Side Land Control Act-1968, The Himachal Pradesh Shops and Commercial Establishments Act-

1969, The Himachal Pradesh Societies Registration Act-2006 and The Himachal Pradesh Town and Country Planning Act-1977.

He said that state government has brought an ordinance regarding self-certification by MSMEs last year and it was passed in the winter session of the state Vidhan Sabha and was notified on January 18 this year after which rules were framed under the Act on June 11.

He said that from July 1 the new definition of MSME would come into force in the state. He said that now enterprises with investment up to Rs 50 crore on plant and machinery will fall under the MSME category. He said that since about 99.5 per cent of the industries in the state falls under this category, the online self-certification portal facility would go a long way in helping the entrepreneurs.

The Times of India, June 30, 2020

3. Govt mulling rules to address issue of delayed payments to MSME: Nitin Gadkari

The government will soon come up with rules to tackle the issue of delayed payments to micro, small and medium enterprises (MSMEs), although an imminent solution is unlikely, Union Minister Nitin Gadkari has said. Gadkari, who holds the charge of MSME and road transport and highways ministries, said that a solution to the pressing issue of untimely and stuck payment to small businesses will take at least four to six months, citing difficulties posed by the outbreak of Covid-19. “We are seriously considering making rules on this (delayed payments),” Gadkari said. “But the current period is fraught with difficulties,” he said.

“We are facing problems in making a decision because Covid-19 has made it difficult for everyone. You will have to wait for four to six months,” Gadkari added. The MSME ministry has found a way to settle Rs 40,000 crore worth of dues through its Samadhan portal so far, Gadkari said, adding that a lot of money owed to MSMEs is stuck with central government undertakings, state governments and private sector

The Economic Times, June 30, 2020

4. Loans to some small businesses shrink 7% in two months of lockdown

At a time when the government is pushing credit under its ₹3-trillion guaranteed loan programme, outstanding loans to micro, small and medium industries shrank by ₹34,627 crore in two months of the complete lockdown. This is according to the latest dis-aggregated credit data released by the Reserve Bank of India (RBI). Presented in the form of sector-wise credit data, this showed loans to small businesses in the industries segment shrank to ₹4.52 trillion as of 22 May, from ₹4.87 trillion as on 27 March. This is a 7.1% decline in outstanding credit to this segment.

Since banks started working on the guaranteed credit scheme from 1 June, details on the disbursal will not reflect in this data. However, the data shows how even after banks launched their own covid-19 emergency credit lines after the lockdown, it did not alter their existing risk-averse sentiment towards small businesses.

This data does not include all small businesses engaged in services. While outstanding bank loans to all services shrank 2% in the same period to ₹25.43 trillion, the central bank does not give a breakup of how much of it is to micro, small and medium enterprises (MSMEs). The problem is that while borrowers are lining up for increasing their limits through fresh loan sanctions, many remain reluctant to actually draw fresh funds.

Loans to other segments like retail and priority have also declined between 27 March and 22 May, showed RBI data. While total retail loans have shrunk by 2.9%, priority sector advances fell 3.5% in the same period. The decline in retail loans was led by a 2.7% decline in auto loans, a 3.6% fall in other personal loans and a 20% fall in advances against fixed deposits, albeit off a low base.

Livemint, July 01, 2020

5. World Bank to give $750 million funding support to MSMEs

The World Bank's Board of Executive Directors has approved a $750 million MSME Emergency Response program to support funding to micro, small, and medium enterprises (MSMEs), severely impacted by the COVID-19 pandemic. The programme will help in improving funding capacity of small finance banks (SFBs) and non-banking financial companies (NBFCs) for the MSME sector.

The World Bank said this programme will address the immediate liquidity and credit needs of some 1.5 million viable MSMEs to help them withstand the impact of the current shock and protect millions of jobs. The loan has a maturity of 19 years including a five-year grace period.

The Indian Express, July 02, 2020

6. GST Council may consider rationalising rates: Report

The Goods and Service Tax (GST) Council might consider rationalising the rates, finance secretary Ajay Bhushan Pandey has said. The measures may include reducing the number of GST rate slabs, and improvement in IT systems, Pandey told. "Rate rationalisation, removal of inverted duty structure to reduce friction among trade… at the same time we can have a lesser number of slabs," Pandey told.

The finance secretary said the GST Council will have to implement the "most practical option". During the lockdown, several states complained of delays & compensation payouts. "The GST compensation law provided that in case if there is a revenue shortfall then the GST Council will decide as to what needs to be done… That is exactly what is being discussed," Pandey told.

In 11 months of FY20, the Centre released over Rs 1.5 lakh crore to states as GST compensation cess payout, the report said. The GST Council had last met on June 12 and is expected to meet again. The council will discuss compensation cess to states and rationalisation of rates at the next meeting. Domestic GST collections in 2019-20 grew 9 percent, faster than the 7 percent nominal pace of economic growth, Pandey said. GST revenue collection in June 2020 was Rs 90,917 crore, as against Rs 32,294 crore collected in April 2020 and Rs 62,009 crore in May 2020.

Money Control, July 02,2020

7. RBI asks banks to reclassify MSMEs as per revised criteria

The RBI has asked banks, financial institutions and NBFCs to reclassify micro, small and medium enterprises on the basis of the new criteria. Last month, the government notified new criteria for classification of micro, small and medium enterprises (MSMEs) on the basis of turnover and investment in plant and machinery. "We advise you to initiate necessary action for reclassification of enterprises as per the new definition w.e.f. July 1, 2020 and issue necessary instructions to your branches/controlling offices in this regard, at the earliest," RBI said in a communication to banks, financial institutions and non-banking financial companies (NBFCs).

After 14 years since the MSME Development Act came into existence in 2006, a revision in MSME definition was announced in the Atmanirbhar Bharat package on May 13. The Reserve Bank further said in case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration. As per the revised definition, an enterprise is micro where the investment in plant and machinery or equipment does not exceed Rs 1 crore and turnover does not cross Rs 5 crore.

An enterprise is now classified as small enterprise, where the investment in plant and machinery or equipment does not exceed Rs 10 crore and turnover is not over Rs 50 crore. For medium enterprise, as per the new classification, the investment in plant and machinery or equipment should not exceed Rs 50 crore and turnover should be below Rs 250 crore.

The Economic Times, July 02, 2020

8. Buyers to pay interest for late payment on GeM portal

The government department and agencies, procuring goods and services from government e-marketplace (GeM) platform, will have to pay one per cent interest on late payments made to vendors, according to the department of expenditure. However, the interest amount will be deposited in an account maintained by GeM. The government has been repeatedly emphasising the need for prompt payment to vendors specially the MSME vendors. For procurement made on (GeM), buyers are mandated to make payments within 10 calendar days after generation (including auto generation) of consignee receipt and acceptance certificate (CRAC) on the GeM.

"In order to promote greater discipline and timeliness in payment to vendors, it is decided that whenever a CRAC is auto generated or issued by a buyer and payment is not made 10 days thereafter, the buyer organisation will be required to pay penal interest @1 per cent per month for the delayed payment beyond the prescribed timeline till the date of such payment," it said.

The charge of interest will be prorated for the period of delay. For example, if CRAC is generated on the first day of a month and payment is made by the buyer organisation on the 20th day of the month, interest for 10 days will be charged. The penal interest will be 10/30 multiplied by 1 per cent i.e. 0.33 per cent. It added that month may be taken as 30 days in all cases. Further, the department in an office memorandum said that the amount collected in this regard will be deposited in an account maintained by GeM.

"This interest will not be paid to the vendor and will be kept by GeM in a separate account which will be used only for the education of sellers/buyers or other purposes related to GeM of public procurement with the prior approval of the department of expenditure," it added. The conditions will be applicable for all procurement made from October 1 this year. The office of finance minister Nirmal Sitharaman tweeted "in order to promote greater discipline and timeliness in payment to vendors, especially #MSMEs, the government has issued an order to levy interest on late payment to vendors on the government e-marketplace".

GeM, launched by the commerce ministry in August 2016, is the national public procurement portal for an online, end-to-end marketplace for open, efficient and transparent procurement of goods and services by central and state government organisations. Currently, government departments, ministries, public sector units, state governments, and Central Armed Police Forces are allowed to carry out transactions through this portal. The portal provides a wide range of products from office stationery to vehicles. Automobiles, computers and office furniture are currently the top product categories. Services, including transportation, logistics, waste management, web casting and analytical, are listed on the portal. So far, 4,02,353 sellers and service providers are registered with the portal to sell 18,78,404 products and services.

The Times of India, July 03, 2020

9. Govt's new MSME push: Providing credit to individual entrepreneurs

The government is set to make changes in the Emergency Credit Line Guarantee Scheme (ECLGS) to enable lending to individual entrepreneurs, who comprise a large chunk of the over 6.3 crore MSMEs across the country. Industry sources said nearly 80-90 per cent of the MSMEs entrepreneurs such as truck owners, agriculture equipment owners, taxi drivers or shop owners — are not registered as MSMEs and take business loans in their individual capacity, who are currently not eligible for additional lending under this scheme. The National Credit Guarantee Trustee Company Ltd (NCGTC), which runs the ECLGS, is learned to have approved changes in the scheme making various individual entrepreneurs eligible for additional lending, sources said. Under the ECLGS scheme, banks are offering up to Rs 3 lakh crore of government-guaranteed loans — an extra 20 per cent of outstanding loans to their MSME borrowers that are non-NPA. However, first time borrowers, individual borrowers and NPA accounts cannot raise funds under the scheme.

"This is a serious issue and clarification is still awaited. There are 63 million MSMEs in India and more than 90 per cent of them, they take loan in their personal names, (like) a truck driver, or a small shopkeeper, or a taxi driver, or agriculture equipment owner — they will not form a firm and register it separately and then start the business. They will take loan in their own name and take a loan," said an expert.

The scheme makes individuals ineligible, due to which of our 2.36 lakh customers, 2.25 lakh individual customers are not able to get additional loans, he said at an MSME event organised by FICCI via a video link. "We believe a clarification is on the way, but that has not come in (so far)," he said. Under the scheme, interest rate of banks and financial institutions have been capped at 9.25 per cent per annum, while Non-Banking Financial Companies can lend at maximum of 14 per cent per annum. SBI MD CS Setty said the lender has received guidance from NCGTC that it is making necessary clarification that individual borrowers are also eligible under the scheme.

In an interaction with Finance Minister Nirmala Sitharaman, it was pointed out that nearly two third of MSME borrowers are individuals including truck owners. Responding to these comments, Sitharaman had said: "I think we are very close to give that opportunity to include individuals too in this NCGTC scheme."

Various MSME associations and industry chambers have suggested the government to make individual entrepreneurs also eligible borrowers under the scheme. Bankers expect disbursements under the scheme to rise significantly with the inclusion of individual borrowers, who have taken loans for income earning assets.

The Indian Express, July 04, 2020

10. Restructuring of MSMEs benefits PSB bottomlines

Several state-owned banks would have reported poorer numbers for Q4FY20 were it not for the benefit from the restructuring scheme for micro, small and medium enterprises (MSMEs). Some lenders may have posted losses in its absence, data show.

At least two profitable banks — Bank of Maharashtra (BoM) and Indian Overseas Bank (IOB) — may have made losses in Q4FY20 in the absence of the restructuring scheme as there has been little growth in business, sources told. BoM posted a profit of just Rs 58 crore and restructured 3,083 accounts worth Rs 283.83 crore. IOB's net profit was Rs 144 crore and it restructured 19,043 MSME accounts worth Rs 694.21 crore.

The largest number of accounts were restructured by Canara Bank — 1.27 lakh units worth Rs 3,472 crore. IDBI Bank's profit stood at Rs 135 crore. Between them, a clutch of 12 PSBs recast 5.06 lakh accounts with a total exposure of Rs 17,784.5 crore under the scheme, as on March 31, 2020. In contrast, the six private banks which have published their annual reports together restructured only 661 accounts with an aggregate outstanding of `308.66 crore, of which the recently reclassified IDBI Bank accounts for 502 accounts worth Rs 50.75 crore. HDFC Bank, the country's largest private bank, has recast only 27 accounts with an outstanding of Rs. 48.11 crore under the scheme.

The Reserve Bank of India (RBI)-approved restructuring scheme for MSMEs allows banks to restructure accounts which were standard as on January 1, without classifying them as non-performing assets (NPAs). This helps banks reduce the quantum of NPAs and also save on provisioning. With increasing talk of RBI coming up with a one-time restructuring scheme for stressed accounts, analysts wonder whether regulatory forbearance is coming back. Saswata Guha, director – financial institutions, Fitch Ratings, said while forbearance on restructuring of loan accounts is not unusual and is being undertaken in various regions globally given the extraordinary situation, Indian banks' track record on this account has been weak.

"There is a high risk that stress in MSME accounts is being masked by the restructuring scheme, including those which have been in place for over a year now. The important aspect here is the return of restructuring, which had been done away with in 2018 for good reasons," Guha said. What will be important in the near term is whether the central bank accedes to a request for further one-time restructuring of loans and how they are likely to monitor the process given the banks' weak track record on restructuring, he added.

"There is a benefit in terms of interest accruals. If these accounts had been recognised as NPAs, banks would be unable to recognise interest income accruing from them. Besides, restructuring under the scheme entails only standard account provisioning. So even the provision burden comes down and that helps the bottomline," an expert said. The March quarter was a difficult one for public-sector banks with profits being eroded by provisions against bad loans, the Covid disruptions and the amalgamation process.

The Financial Express, July 06, 2020

11. Chinese imports: Banks delay issue of LCs, flag SME solvency concerns

Major state-owned banks are learnt to have slowed down the rate at which letters of credit (LCs) are issued for payments by Indian companies towards Chinese imports. With Chinese-origin consignments getting stuck at Indian ports, LCs issued by Indian banks are being encashed by the seller, even as Indian companies are unable to receive the imported goods.

Banks are of the view that sustained delays, especially at a time when units are in the process of restarting operations after the lockdown, could impact the solvency of smaller units. This could have a bearing on the repayment of loans taken by these units, banks have communicated, relaying viability concerns flagged by industry players from sectors ranging from auto to pharma and garments to electronics. They are likely to escalate the issue to the Reserve Bank of India and the Ministry of Finance through the Indian Banks Association, sources involved in the exercise said.

Normally, banks issue guarantees on behalf of importers and other customers in favour of beneficiaries abroad. LCs are issued to importers from the domestic branches in India, who guarantee payments to the funding bank of the exporter if the Indian importer fails to make the payment on the due date. An LC enables importers to negotiate good prices in sales contracts, as sellers or exporters receive payment immediately after the shipment.

Banks have turned cautious as reports of consignments being held up at ports continue and duty rates are being revised upwards for certain categories of products. “Goods are held up at ports for ‘inspections’. On the other hand, shipments were done on the basis of guarantees issued by banks. Money has gone to the seller (Chinese exporter) but the goods have not reached the importer (Indian buyer). This can affect the units which imported the material and led to defaults,” said a bank official, justifying the move to delay the issue of fresh LCs against imports from China.

After the skirmish along the Line of Actual Control, Chinese goods have been piling up at multiple Indian ports. These include consignments — both containerised and bulk cargo — where customs duty and GST have been paid but goods have not been released. “Many importers from pharma, auto, chemicals and capital goods sectors have complained. There are reports that duty is likely to be increased and more restrictions will be slapped on imports from China. Banks are turning cautious while extending guarantees for future consignments. We have informed the government about this situation as bad loans are set to rise after the moratorium on loan repayment ends in August,” said a source.

Last year, the value of imported Chinese goods in India was estimated to be $70 billion, mostly electronics, mechanical machinery, chemical and iron and steel goods. Banks have sought the government's support in speeding up the clearance of import consignments from China, especially inputs for various sectors. The "undue delay" is impacting their operations and might result in further financial losses for manufacturers already grappling with the Covid-19 crisis, they said.

A letter to the Central Board of Indirect Taxes and Customs earlier this month, said that the move by Customs authorities at several ports to undertake 100 per cent examination of goods originating from China, Hong Kong and Taiwan has "created undue delay in clearance of imported shipments of inputs, which are meant for manufacturing garments for exports" and that delay is affecting factory operations and that exporters fear that they "might fail to meet their delivery schedules".

In a letter to Finance Minister Nirmala Sitharaman and Commerce & Industry Minister Piyush Goyal, Road Transport & MSME Minister Nitin Gadkari had said the Union government can think of imposing restrictions on future imports from China, but stalling the release of goods already in Indian ports will hurt Indian business interests, especially those players who had placed their orders before the border clashes between the two countries.

The Indian Express, July 06, 2020

12. Commerce ministry to get PMO approval on list of items for Chinese import cuts

The government has held various meetings in the past two weeks with sectoral experts and businesses and is now preparing an official list of commodities that can be locally manufactured, an official said, adding that ample caution will be maintained before taking any decision even as voices against Chinese goods have been gaining momentum. The government is preparing for a transformational shift in six big areas of ease of doing business, logistics, land bank, Special Economic Zones and power sector to give a tough competition to China, the official said. A new foreign direct investment (FDI) policy is expected to be released soon aiming to curb low grade imports. India had tightened its FDI policy in April to curb opportunistic takeovers of Indian companies, by stipulating that all such proposals from bordering nations would require government clearance. The share of manufacturing in India's GDP will be increased to $1 trillion or more than double from the existing $0.39 trillion. "The trade and economic fundamentals will be made stronger before a clamp down on imports," the official said.

The Deccan Herald, July 07, 2020

13. SBI readies Rs 1k-cr B2B e-market only for MSMEs

State Bank of India (SBI) is set to invest $100-150 million (Rs 750-1,000 crore) and leverage its YONO platform to set up a business-to-business (B2B) e-commerce marketplace for micro, small and medium enterprises (MSMEs).

The country's largest lender hopes this will also help it better manage financing of small businesses. The plan, which has been cleared by the bank's executive committee, entails getting MSMEs on to the platform and providing funds based on the transactions that take place. The bank is hoping that it will not only help assess risk better but will also give it greater grip over receivables.

"We are engaging with the MSME ministry to create a marketplace for SBI customers to sell their products, called Bharat Craft, which is going to be an e-commerce and technology driven platform. It is in the initial stage of taking shape," said SBI MD Challa Sreenivasulu Setty. SBI is looking to design the platform using the Alibaba and Alipay model, where transactions and payments are routed through it, a source said.

YONO is currently used by the bank to hawk its products and as an e-commerce platform. It is expecting regulatory clearances to come through as the B2B marketplace is not going to earn it revenue but help with its banking business. Among banks, HDFC Bank already has an e-commerce platform SmartBuy. The bank uses the platform to provide merchants a marketplace. In return, the merchants extend a discount to customers of HDFC Bank.

Last year, MSME minister Nitin Gadkari had proposed two platforms for small businesses, including one for B2C, and suggested that the Government e-Marketplace (GeM) take up the job. But the plan did not find support, resulting in SBI stepping in on the B2B front.

At a webinar, SBI's Setty said state-run lenders are working with the ministry to provide hand-holding support to the MSME sector, which has received special attention in recent weeks with the government announcing a series of steps, including a guarantee-based lending, to help them navigate out of the Covid-19 crisis. So far, lenders have sanctioned loans amounting to Rs 1.1 lakh crore backed by government guarantee, Sidbi deputy managing director V S V Rao said, adding that if the Rs 3-lakh-crore limit was exhausted, a fresh look at the industry's needs will be taken.

The Times of India, July 07, 2020

14. Rule change to help over 270 stressed cos raise funds, restructure finances

More than 270 stressed companies, having default ratings on their debt instruments, are expected to benefit from recent relaxations in regulatory norms, enabling them to raise funds through preferential allotment. Even for those stressed companies which have not gone through the IBC (Insolvency and Bankruptcy Code) route, restructuring and fundraising has become easier after the Securities and Exchange Board of India (SEBI) relaxed regulations last month, industry sources said. Stressed companies can now restructure their finances outside of the IBC leading to timely settlement and reconstruction.

On June 22, Sebi eased its preferential allotment rules to help stressed companies raise capital, changed the pricing formula to reflect recent prices and exempted such companies from the open offer requirement. Earlier, exemption from preferential issue pricing and open offer was available only for those companies whose resolution plan was approved under IBC. However, the recent changes make these exemptions available even for those stressed companies that have not gone through IBC-led resolution. Sources said the move enables resolution despite IBC being suspended for six months. To provide relief to companies in the backdrop of the economic stress caused by the COVID-19 pandemic, the government had suspended corporate insolvency resolution filing under IBC for six months for any debt default after March 25, 2020.

Even as more than 270 companies are already having default ratings on their debt instruments and other papers, the number of such firms is expected to rise as the economic lockdown that was imposed earlier had led to a deterioration in financial position of various companies.

While many companies took moratorium on their term loan instalments and MSMEs are being offered additional 20 per cent credit under the Emergency Credit Line Guarantee Scheme, fundraising through the capital markets is seen as a measure that will provide durable financial strength to a stressed company. The revised Sebi norms are also in conformity with the IBC rules which prevents promoters and promoter group entities from participating in the restructuring of the company.

These restrictions are put in place to ensure that promoters do not settle their own dues at significant haircuts. However, Sebi has allowed promoters/ promoter group entities to attract outside investors for their companies. Restructuring through this route is expected to be helpful at a time the IBC has been temporarily suspended. The preferential issues pricing norms for stressed companies have been revised to average of recent two weeks, instead of the higher of the average of 26 weeks and two weeks prices.

For companies facing stress, the 26 weeks average price usually tends to be much higher compared to recent prices, dissuading prospective investors from picking up stake in a company due to fears of over valuation. "The COVID-19 pandemic has pushed a lot of healthy companies into stress and worsened the situation for already stressed companies. Most of these companies have seen a rapid dive down in their share prices since March 2020 and are facing serious challenges in raising funds from investors," sources said, explaining the rationale behind tweaks in the pricing norms.

The Indian Express, July 07, 2020

15. Karnataka mulls elimination of 'surprise' checks of factories

In one of the boldest reforms as part of ease of doing business in the state, the Karnataka government is set to eliminate 'surprise' inspections of factories. There are 12 different Acts that deal with the inspection of factories by various departments to check compliance of rules pertaining to pollution, minimum wages, legal metrology, bonus, wages and gratuity among others.

The proposed reform is likely to be implemented before January 31, 2021. The reform suggests prior inspection notices to industries and inspection report to be uploaded within 48 hours of inspection. "The move is aimed at preventing unnecessary litigations. A prior notice to factories will be entered into registry. It will help industries to prepare themselves with proper records and helps us avoid lot of litigations," a top labour department official told. As part of a new system, the government is looking at making it mandatory for the government departments to serve notices to the industrial units before going on any inspection. The reform also suggests allocation of inspectors is done centrally and no inspector will be assigned to the same factory in subsequent years. "Surprise inspection was a hurdle for the industry. I think, the move by the government is coming at a right time," an expert said. "The need of the hour is to strengthen laws and the proposed change only makes workers further vulnerable. This is also in violation of Labour Inspection Convention, 1947," said an expert.

The Deccan Herald, July 08, 2020

16. 99% businesses in India now in MSME category

A change in definition of micro, small and medium enterprises (MSME) has turned India into a country of small businesses as nearly 99% of the entities now fall under the category based on the twin parameters of investment and turnover. An entity can be classified as a micro enterprise if investment is up to Rs 1 crore and turnover does not exceed Rs 5 crore. The corresponding figures are Rs 10 crore and Rs 50 crore for small and Rs 50 crore and Rs 250 crore for medium enterprises. Investment in plant and machinery has been the traditional parameter on which MSMEs have been classified, enabling them access to various sops such as concessional finance, though the main benefit of excise duty relief has been lost ever since the GST regime was implemented. Government sources told that numbers with the GST authorities show that 99% of the entities have a turnover that fits into the MSME definition. More than half the businesses registered with GST Network have less than Rs 20 lakh turnover, the earlier registration threshold. As an added relief, export turnover has been excluded to enable more units to get the benefit. Similarly, income tax department's analysis showed that when it comes to investment, the written down value of assets, that is after depreciation, there are a few thousand entities in India that have investments in plant and machinery or equipment that exceed Rs 50 crore, the ceiling for medium enterprises. The numbers have come as a surprise to policymakers as the definition was finalized before looking at them in detail. It is only now that the MSME ministry has sought to plug the gaps as it detected that by using one Aadhaar number, five Udyog Aadhaar Numbers could be generated, encouraging businesses to split their units into five separate entities and claim all the benefits. It has now decided to tap the income tax and GST database to get a better picture of enterprises claiming benefits.

The Times of India, July 08, 2020

17. Govt to private lenders: Step up lending to small biz

The finance ministry is prodding private sector banks and non-banking financial companies (NBFCs) to step up loan approvals and disbursals to small businesses under a government-guaranteed scheme after it emerged that most lenders, barring HDFC Bank, have been slow off the block. Of the Rs 48,000 crore sanctioned by private players, around Rs 20,000 crore is estimated to have been sanctioned by the country's largest private lender, officials told, prompting the government to nudge Axis Bank and ICICI Bank to take up the scheme more aggressively. HDFC Bank has so far disbursed around Rs 8,000 crore. Sources said there were detailed deliberations with the private players. Latest data released by the finance ministry showed that banks had so far sanctioned top-up small business loans of around Rs 1.14 lakh crore, with the share of private banks estimated at around 42.5% — higher than the 36% share in credit that they had at the end of 2019. In the MSME segment, however, private players and NBFCs are seen to have a higher share of the pie.

While the share of sanctions is high, public sector banks have fared better on disbursements, where the share of private lenders was estimated at just under 37%. "Public sector banks were off the block early and they are moving as per our expectation. But most private lenders, including NBFCs, have been a little slow. We have requested them to speed up things," said a finance ministry official. Among the public sector lenders too, SBI is far ahead of competition, accounting for Rs 20,628 crore, or over 31%, of the sanctions by this segment, estimated at almost Rs 66,000 crore. In terms of disbursals, SBI has 37% share among the state-run players.

As part of the post-Covid-19 package, Emergency Credit Line Guarantee Scheme was launched under which the government covers the risk of default for additional 20% loans to businesses with annual turnover of up to Rs 100 crore and outstanding debt of up to Rs 25 crore. The government is hoping to sanction up to Rs 3 lakh crore through the special window.

The Times of India, July 08, 2020

18. Assam changes MSME ordinance norms; allows no conversion of agri land

Facing protests over an ordinance to facilitate MSME units, the Assam government said that it will modify the rules and no exemption would be given for setting up industries on agricultural land. Addressing a press conference, Assam Industries and Commerce Minister Chandra Mohan Patowary said Chief Minister Sarbananda Sonowal held a special meeting on the backdrop of protests against the ordinance and decided to modify it "Earlier, there was a provision (in the ordinance) that after getting the Acknowledgement Certificate, agricultural land would be deemed converted for non-agricultural purposes to set up an industry. But now it is proposed that so far as land is concerned, no such exemption will be given," Patowary said. The business enterprises will have to take all the permissions, clearances and approvals related to land before starting any unit, he said. Opposition parties had demonstrated against the MSME ordinance, claiming that it would alienate indigenous people from their agricultural land. "After detailed discussion, it was unanimously decided that stringent measures and provisions should be made so that the right of the indigenous people over their land is protected and kept unaffected. "Accordingly, a provision has been proposed to be made in the draft MSME Ordinance that all the provisions of the Assam Agricultural Land (Regulation of Reclassification and Transfer for Non-Agricultural Purpose) Act, 2015 and other land laws will have to be followed and adhered to for setting up of any enterprise," he added. No exemption will be given under the Act or any land related law for any business initiative or business enterprise, Patowary added.

On June 29, the state government approved the 'Assam Micro, Small and Medium Enterprises (Facilitation of Establishment and Operation) Ordinance, 2020', putting an end to the process of taking multiple permissions for MSMEs for three years. Any person, who intends to start an enterprise, may furnish a self-declaration with an undertaking to follow all Acts and rules, according to a provision of the ordinance. Patowary said land falling in restricted categories like public grazing reserve, village grazing reserve, wetlands, eco-sensitive zones, heritage, historical, archaeological sites; religious institutions and tribal belts and blocks will not come under this ordinance, Patowary said. The minister informed the media that over 3.50 lakh people have returned to Assam in the COVID-19 time and if they desire to establish MSMEs, they may require their own land for the purpose. "Keeping in mind the apprehensions of the people, the government has decided to make more stringent arrangements so that there should not be any ambiguity and there should be complete clarity that the rights of the local people are protected," he added.

The Economic Times, July 10, 2020

19. Room for more fiscal support in India: IMF

A top IMF official has said there is room for more fiscal support in India in the near term, particularly for vulnerable households and SMEs, given the severity of the country's economic situation due to the Covid-19 pandemic. Vitor Gaspar, Director of the International Monetary Fund's Fiscal Affairs Department, said a complete and successful implementation of the existing support measures (in particular, food provision to households) is of paramount importance.

“Given the severity of the economic situation, in the near-term there is room for more fiscal support, particularly for vulnerable households and SMEs (small and medium-sized enterprises),” he said. Over the medium-term, India will continue to have a very limited fiscal space, and a credible and well-communicated consolidation plan will be urgently needed once the coronavirus pandemic subsides, Gasper said.

The economic impact of the Covid in India has been substantial and broad-based, he said, adding that high frequency indicators point to a sharp decline in economic activity, as reflected in the industrial production, business sentiment (in the purchasing managers index), vehicle sales and trade. In the June World Economic Outlook (WEO), growth in fiscal year 20/21 was revised down to -4.5%, he said. The downward revision compared with the April WEO was driven primarily by the continued rise in the number of Covid cases in India.

The Tribune, July 11, 2020

20. Nitin Gadkari’s mantra for economic recovery; asks industry’s help to fulfill Atma Nirbhar Bharat dream

As India continues to face the heat of coronavirus, Union Minister Nitin Gadkari has asked India Inc to help the government in economic recovery. He has also pushed for taking up PPP (public private partnership) model projects, asking stakeholders such as banks, financial institutions, MSMEs, and agriculture, among others to create demand and address the need of liquidity in the economy. “The banks, financial institutions, MSMEs, industries, agriculture, infrastructure, everywhere we need to plan and with an appropriate vision we need to move fast,” Nitin Gadkari, Road Transport, Highways and MSME Minister, said at an event. He also said that the need of the hour is to push demand by PPP projects as there is a liquidity crunch in the economy.

Talking about the MSME sector, he said that micro-small and medium enterprises is an important sector for development of the country and there is a need to make MSMEs strong, boost exports while also reducing imports. The same is in line with Prime Minister Narendra Modi’s call for reducing imports and boosting exports by supporting local manufacturing under Atma Nirbhar Bharat mission. Nitin Gadkari also said that the industry bodies must come forward for ‘Atma Nirbhar Bharat’ and asked them to work in 115 aspirational districts to boost rural economy and make India a superpower.

Currently, MSMEs contribute about 30% to the country’s GDP growth and accounted for 48-50% exports, Nitin Gadkari said, adding that the sector has created more than 11 crore jobs. He also suggested that the industry must now tap foreign capital investment. Meanwhile, amid rising coronavirus cases in India, a rating agency has further downgraded India GDP outlook for the current financial year. ICRA has said that it has sharply downgraded the India

GDP forecast from 5% earlier to 9.5% as localised lockdowns and rising number of cases arrest the economic recovery made so far.

Financial Express, July 16, 2020

21. Government to compile list of MSMEs that shut down post-Covid

Amidst reports of many smaller businesses shutting shop during the course of the lockdown, the Prime Minister's Office (PMO) has sought a list of all such businesses from the ministries of Commerce and Micro Small and Medium Enterprises (MSME). According to sources in the PMO, over the past few days, Prime Minister Narendra Modi and his team had conducted a series of review meetings on the state of the economy with various ministries. The sorry state of the MSME sector and small businessmen was one key issue that was discussed.

"The government has initiated many steps during the lockdown to support small businesses. However, there are reports of many businesses shutting down. The PMO has asked the concerned ministries to submit details on industries which had to shut operations during lockdown, sector-wise, before September," a senior PMO official said. According to the Annual Report of the Department of MSMEs (2018-19), there are 6.34 crore MSMEs in the country. Out of this, the industry claims that at least 15 per cent have either shut shop or are in grave danger of shutting down their business.

Since there is no official study on the number of closed units, the PMO has sought a detailed report on this to initiate the next line of action. "For two months, these businesses faced production issues and now, if they face a further three months of lack of demand, they will die," India's former chief statistician and renowned economist Pronab Sen said. Since the lockdown was imposed, the Centre has initiated a credit guarantee scheme worth Rs 3 lakh crore. Under the scheme, the Centre provides 100 per cent backing for a pre-aproved loan sanction of 20 per cent of the borrower's outstanding amount.

The New Indian Express, July 16, 2020

22. KVIC opens footwear training centre for leather artisans in Delhi

A first-of-its-kind footwear training centre for the marginalised community was inaugurated here by the Khadi and Village Industries Commission (KVIC). "The KVIC-CFTI Footwear Training-cum-Production Centre, located at Gandhi Darshan, Rajghat, will provide a comprehensive two-month training programme to leather artisans for making high-quality footwear," the MSME ministry said in a statement. The centre has been established with the technical know-how of the Central Footwear Training Institute (CFTI), Agra, a unit of the MSME ministry. The training centre will also provide logistics support to the artisans in starting their own shoe-making business once their two-month training is completed. The artisans will also be provided a tool kit worth Rs 5,000 for carrying out their activities in future. The centre is equipped with advanced tool kits and the machinery has been set up in a record time of less than two months. The inauguration was, however, delayed due to the lockdown. The Khadi and Village Industries Commission is also setting up a similar footwear training centre in Varanasi. KVIC Chairman VK Saxena said, "Through this training centre, we are trying to rope in maximum people with shoe-making activities. The programme has been so designed that in just two months, the artisans will be able to manufacture all kinds of footwear. This will increase their income by manifold."

The Economic Times, July 17, 2020

23. Only 10% manufacturing units report higher output in April-June: FICCI Survey

The proportion of manufacturing units reporting an increase in output dropped to 10 per cent during April-June 2020 from 15 per cent in the previous quarter, according to a quarterly poll by industry body FICCI. The survey, which drew responses from over 300 manufacturing units from both large and SME segments with a combined annual turnover of over Rs 2.5 lakh crore, revealed that the automotive sector is the worst hit in terms of ongoing operations in the factories as per the demand and current orders post easing out of lockdown restrictions. Other sectors where operations remain abysmally low are leather and footwear, electronics and electricals & textiles machinery. Moreover, the percentage of respondents expecting low or same production is 90 per cent in April-June 2020-21 which was 85 per cent in the last quarter of 2019-20. Hiring outlook for the manufacturing sector shows a bleak picture as 85 per cent of the respondents mentioned that they are not likely to hire additional workforce in the next three months.

“This presents a worrisome situation in the hiring scenario as compared to the previous quarter Q-4 of 2019-20, where 78 per cent of the respondents were not in favour of hiring additional workforce,” FICCI said. The outlook for exports is subdued and seems to be substantially affected due to COVID outbreak and other restrictions in place, as only 8 per cent of the participants are expecting a rise in their exports for the first quarter of 2020-21 and 10 per cent are expecting exports to continue to be on same path as that of same quarter last year.

The survey also assessed if there is any change in sourcing strategies of the manufacturers to reduce dependence on one country. The results showed that in certain areas like automotive, textiles machinery and leather/footwear firms are looking at alternative sources of inputs/raw materials. In terms of back to business status, the survey noted that on an average, firms are operating depending on the sectors between 28 per cent to 63 per cent of their capacities with workforce deployment ranging from 33 per cent to 57 per cent.

This assessment is also reflective in order books as 85 per cent of the respondents in April-June 2020-21 expected lesser number of orders as against 54 per cent in January-March 2019, said FICCI. The industry body’s latest quarterly survey assessed the sentiments of manufacturers for Q-1 (April-June 2020-21) for 12 major sectors namely automotive, capital goods, cement and ceramics, chemicals, fertilizers and pharmaceuticals, electronics & electricals, leather and footwear, medical devices, metal & metal products, paper products, textiles, textile machinery, etc.

The survey found that overall capacity utilisation in manufacturing has witnessed a decline to 61.5 per cent in January-March (Q4) 2019-20 as compared to 76 per cent in Q-3 2019-20. The future investment outlook looks subdued as only 22 per cent respondents reported plans for capacity additions for the next six months as compared to 28 per cent in the previous quarter. High raw material prices, high cost of finance, uncertainty of demand, shortage of skilled labour and working capital, high logistics cost, low domestic and global demand due to imposition of lockdown across all countries to contain spread of coronavirus, excess capacities due to high volume of cheap imports into India, lack of financial assistance, unstable market, complex procedures for obtaining environmental clearances, high power tariff, are some of the major constraints which are affecting expansion plans of the respondents, FICCI said.

Besides, 76 per cent of the respondents expect either more or same level of inventory in April-June 2019, which is considerably less as compared to the previous quarters, where around 82 per cent respondents expected either more or same level of inventory in Q-4 2019-20 and Q-3 2019-20.

Average interest rate paid by the manufacturers has reduced slightly to 9.4 per cent per annum as against 9.9 per cent per annum during the last quarter and the highest rate remains as high as 14.5 per cent. The recent cuts in repo rate by the RBI has not led to a consequential reduction in the lending rate as reported by 65 per cent of the respondents, FICCI said. Based on expectations in different sectors, all the sectors are likely to register low growth in Q-1 2020-21. The primary reason for such depressed expectations seems to be the imposition of lockdown, restricted exports and other guidelines in place as a response towards COVID outbreak, FICCI said.

The cost of production as a percentage of sales for manufacturers in the survey has risen for 64 per cent respondents. This is considerably higher than that reported in Q3 2019-20, where 55 per cent respondents recorded increase in their production costs. Industry respondents have attributed the hike in production costs primarily to high fixed costs, higher overhead costs for ensuring safety protocols, drastic reduction in volumes due to lockdown, lower capacity utilization, high freight charges and other logistic costs, increased cost of raw materials, power cost and high interest rates. Sectors like textiles and textiles machinery have only one third of the total labour force engaged in the operations and are hence facing labour shortage. Similarly, automotive and leather & footwear have also witnessed around 35 per cent workers attendance at factories

Financial Express, July 19, 2020

24. MSME promoters undergoing insolvency proceedings may be able to retain control of company

Promoters of Medium, Small and Micro Enterprises (MSMEs) will be able to retain control of their companies, even as they undergo insolvency proceedings, under a special insolvency framework for MSMEs, according to government officials. Finance and Corporate Affairs Minister Nirmala Sitharaman had recently said the Corporate Affairs Ministry was finalising a special resolution framework for MSMEs under Section 240(A) of the Insolvency and Bankruptcy Code (IBC). The proposed framework for MSMEs will follow a “debtor in control” model for insolvency proceedings, while ordinarily the corporate insolvency resolution process follows a “creditor in control” system.

Only MSMEs themselves will be able to apply to initiate bankruptcy proceedings through this mechanism, meaning that lenders and operational creditors will not be able to initiate insolvency under this framework. The Corporate Affairs Ministry has already suspended initiation of insolvency proceedings by lenders, operational creditors and corporate debtors under Sections 7,9 and 10 of the IBC, respectively, till September 25 to protect companies impacted by the COVID-19 pandemic from insolvency proceedings.

“This framework will minimise disruption in the operations of such distressed MSME as the management will remain in controls throughout the process,” a senior government official told The Sunday Express, noting that in normal insolvency proceedings, an insolvency professional is appointed to manage the company who then hands over control to a successful resolution applicant, if any.

“When an IP takes over control it takes time for them to learn about the business and then begin delivering results and then control is handed over again to the successful applicant”, said the official, adding the key intent behind the framework was to allow promoters to retain control, protect jobs and prevent MSMEs from going into liquidation.

Experts have noted that a lack of interest among bidders for distressed MSMEs has contributed to a large number of these companies having to undergo liquidation proceedings.

The official noted that financial creditors and operational creditors would not be able to initiate insolvency proceedings under the new framework and there may also be some other relaxations under the new framework.

Section 240(A) of the IBC also exempts MSMEs from Section 29(A) of the IBC, which prevent any party with a history of default – including the promoters of the company undergoing insolvency proceedings – from bidding for the company. Experts said the move would likely speed up insolvency proceedings and that it would help promoters negotiate a reduction in liabilities with creditors, while continuing to manage their businesses.

“It is like a pre-packaged insolvency process, the owners will negotiate a restructuring or reduction of liabilities with lenders,” said Manoj Kumar, partner at law firm Corporate Professionals, adding: “This process could be faster and because the existing management knows the nuances of the company it is easier to ensure the continuation of the business while promoters try to find an investor or money to revive the company and negotiate with creditors.”

Kumar also said that while lenders and suppliers could not currently initiate insolvency proceedings against companies under the IBC, they could try other recovery methods such as debt recovery tribunals, the SARFAESI Act or seek to invoke personal guarantees. He added some MSMEs may prefer initiating insolvency proceedings under the proposed special resolution framework.

The Indian Express, July 19, 2020

25. CBDT signs pact with MSME Ministry to share depreciation, turnover info of small biz

The income tax department will start sharing data on depreciation, sales and gross turnover of micro, small and medium enterprises as reported in their ITRs with the MSME Ministry. The Central Board of Direct Taxes (CBDT) signed a memorandum of understanding (MoU) with the Ministry of Micro, Small and Medium Enterprises (MSME).

"The MoU will facilitate seamless sharing of certain Income-tax Return (ITR) related information by the Income Tax Department to Ministry of MSME. This data will enable Ministry of MSME to check and classify enterprises in Micro, Small and Medium categories...," the CBDT said in a statement. The CBDT in an order had directed Principal Director General of Income Tax (Systems) to share information with the MSME Ministry.

Section 138 of Income Tax Act empowers income tax authorities to share information/ details of its taxpayers with other Government agencies, as may be notified. The information to be shared include depreciation on plant and machinery as reported in ITR3, 5 and 6, sales/gross receipts of business as reported in ITR-3, 5 and 6; and gross turnover/gross receipts as reported in ITR-4.

"To facilitate the process of furnishing information, Principal Director General of Income-tax (Systems) would enter into a Memorandum of Understanding ('MoU') with Notified Authority of Ministry of MSME, Government of India which inter-alia would include the mode of transfer of data. Maintenance of confidentiality, mechanism for safe preservation of data, weeding out after usage etc," the CBDT order had said. The timeline for furnishing information will also be decided by Principal Director General of Income-tax (Systems) in consultation with the concerned Ministry and included in the said MoU, the order added. The CBDT statement said that the MoU will come into force from the date it is signed.

The Pioneer, July 21, 2020

26. BIS launches "Know Your Product" initiative to support MSMEs

As an initiative to support and promote Micro, Small & Medium Enterprises (MSMEs), BIS commenced series of programmes under "Know your product" to facilitate understanding of the Indian Standards being followed by the enterprises for operating the BIS certification (popularly known as the ISI-Mark Scheme). This mechanism serves as a support mechanism for the industries in resolving their problems and also to receive feedback on the standards for taking up with the Technical Committees responsible for formulating the standards. Two sessions of the series were held for manufacturers of 'Irrigation Equipment' and 'Disinfectant Fluids' which were attended by the participants through video conferencing. The sessions were well received by the participants who appreciated the initiative of BIS as support mechanism to MSME.

Mail Today, July 24, 2020

27. Special resolution framework for MSMEs soon, to have 'better acceptance' of genuine failures: IBBI chief

MSMEs are soon likely to have a special insolvency resolution framework, currently at an advanced stage of preparation, under section 240A of the Insolvency and Bankruptcy Code (IBC) while a pre-pack (pre-packaged) resolution framework is also being worked upon, according to Insolvency and Bankruptcy Board of India chairperson M S Sahoo. The market participants and the ecosystem would be nimbler, and they would find innovative ways of implementing innovative resolution mechanisms, PTI reported citing Sahoo. "There would be better acceptance of genuine business failures and consequently, entrepreneurship would flourish. IBC would emerge stronger," he added.

IBBI chief Sahoo told the news agency in an email interview that the focus is on a swift response as Covid's situation evolves ahead and recalibration of the ecosystem in sync with the all "new normal". The efforts are being made to speed up the processing of cases under IBC by having a provision for the pre-pack plan. Here, the company and its creditors will agree upon a resolution plan in advance.

Sahoo said that the Code would consolidate good behaviour through its features that seek promoters and external resolution applicants to compete for a firm's insolvency resolution. This would be different from all previous ways wherein creditors were allowed to look for a resolution only from existing promoters. However, Sahoo added that the timeline is a key issue that is not resolved yet. "The market performs better where there is little time between the execution of the transaction and its consummation. Hopefully, a special framework for MSMEs and prepack resolution would be faster," he said.

Finance Minister Nirmala Sitharaman in order to help Covid-hit MSMEs had raised the default threshold sharply from Rs 1 lakh to Rs 1 crore under section 4 of IBC. "This will by and large prevent triggering of insolvency proceedings against MSMEs," said a press note issued by the Finance Ministry. Recently, the Cabinet had promulgated an ordinance to suspend the insolvency proceedings for at least six months from starting from March 25 amid the Corona pandemic.

Financial Express, July 26, 2020

28. GeM to be integrated with Indian Railways' e-procurement system: Official

Government e-Marketplace (GeM) and Indian Railways' e-procurement system are working on ways to integrate both the platforms with a view to further widen the ambit of the Commerce Ministry's portal by enhancing its buying and selling process, a senior official said. The official said that currently a feasibility assessment is going on for integration of government procurement portal GeM with Indian Railway Electronic Procurement System (IRePS) and Integrated Material Management System (iMMS).

"This is a technical integration. It will also help in creating a uniform procurement system. We are looking at the possibility of integration. We are doing the assessment first and then we will integrate," the official from Commerce Ministry added. After assessment of integration of the platforms, Railways and GeM will decide the further course of action for completion of the process.

Explaining the integration process, the official said "we will build a bridge between the platforms. Whatever data Railways use for publishing bid on its e-procurement system, that data can be used to create bid as per market-place model of GeM".

GeM is working on a series of steps to further improve buying and selling process for ministries, departments and other agencies. The Commerce Ministry launched the online platform for public procurement in August 2016 with the objective of creating an open and transparent procurement platform for the government. Currently, government departments, ministries, public sector units, state governments, and Central Armed Police Forces are allowed to carry out transactions through GeM.

GeM is coming up with a more dynamic, transformational and vibrant portal by adding advanced features such as powerful search engine, revamped brand and product approval process and faster creation of categories for goods and services through tender analysis. The portal provides a wide range of products from office stationery to vehicles. Automobiles, computers and office furniture are currently the top product categories. Services, including transportation, logistics, waste management, web casting and analytical are listed on the portal. Currently, 4,20,403 sellers and service providers are registered with the portal to sell 20,40,768 products and several services.

Live Mint, July 26, 2020

29. Two months into MSME credit scheme, 43% of Rs 3 lakh crore sanctioned

Banks have sanctioned 43.5 per cent of the targeted Rs 3 lakh crore under the Emergency Credit Line Guarantee Scheme (ECLGS) for stressed Micro, Small and Medium Enterprises (MSMEs) as on July 23, with sanctions and disbursements rising sharply over the last few weeks, official data show.

Two months after the launch of the scheme, cumulative loan sanctions have risen to Rs 1.30 lakh crore from Rs 1.10 lakh crore on July 1, with both private and state-owned banks stepping up credit deployment, according to most recent data. Disbursements as a proportion of the total amount was 27.35 per cent at Rs 82,065 crore as on July 23, up from 17.41 per cent or Rs 52,255 crore as on July 1.

Sanctions and disbursements under collateral-free MSME loans scheme have picked up pace with private banks joining state-owned lenders in expanding credit deployment. Along with other measures aimed at timely clearance of dues, the scheme seems to be helping in improving the liquidity position of MSMEs, enabling them to survive the economic downturn.

Under the ECLGS scheme, banks are offering up to Rs 3 lakh crore of government-guaranteed loans — an extra 20 per cent of outstanding loans to their MSME borrowers that are non-NPA. With a little over three months still to go, the scheme is on course to meet the Rs 3 lakh crore target, a top source in the banking industry said. Average disbursement per loan account by private banks is nearly 5.6 times that of state-owned banks. Launched on May 23, the scheme is open until October 31 or until Rs 3 lakh crore has been is sanctioned, whichever is earlier.

For banks and financial institutions, the interest rate has been capped at 9.25 per cent, while for NBFCs it is 14 per cent. 100 per cent guarantee coverage will be provided by National Credit Guarantee Trustee Company (NCGTC).

Of the total sanctioned amount of Rs 1.30 lakh crore as on July 23, private sector banks have sanctioned loans worth Rs 58,673 crore; the remaining Rs 71,818 crore has been sanctioned by public sector banks. Private sector lenders have focussed on larger accounts.

Disbursement by private sector banks stood at Rs 34,433 crore; for public sector banks at Rs 47,631 crore. Average disbursement per borrower by private banks was Rs 14.95 lakh, while PSU banks disbursed an average of Rs 2.66 lakh per borrower. A total 38.19 lakh accounts have been sanctioned loans, while disbursements have been made to 20.16 lakh accounts. The government has targeted 45 lakh units for support under the scheme.

State Bank of India has disbursed the highest amount of Rs 15,112 crore, followed by Canara Bank (Rs 5,796 crore), Punjab National Bank (Rs 5,295 crore) and Bank of Baroda (Rs 4,947 crore).

To promote timely clearance of the dues of vendors, especially MSMEs, the government has decided to levy interest on late payment on the government e-marketplace (GeM) for all procurements from October 1 onwards. Under the GeM procurement rules, buyers must make payments within 10 days of the generation of consignee receipt and acceptance certificate. The government has also barred global procurement tenders up to Rs 200 crore in order to support local enterprises and MSMEs. Contractors have been given extensions of up to 6 months to complete their obligations by all central agencies including the Railways, CPWD, etc.

The Indian Express, July 27, 2020

30. COVID-19 pandemic may hit tourism, MSME, aviation sectors hard, says RBI survey

The aviation, automobiles, construction, MSME, and tourism & hospitality sectors are likely to be the hardest-hit ones by COVID-19 pandemic, according to an RBI survey. The apex bank carried out a systemic risk survey "to capture the perceptions of experts, including market participants, on the major risks faced by the financial system". The survey was published in its financial stability report released recently.

The results (of the survey) pointed out the five sectors mentioned above that are adversely impacted by the coronavirus pandemic. Respondents opined that "while most sectors face sizeable and immediate revenue losses, the adverse impact is seen in sectors where consumption spending is discretionary in nature".

Within the tourism sector, around 90 per cent of the respondents stated that the "prospects of recovery within the sector in the next 6 months appear bleak". The aviation sector appears to be a close second, with nearly 85 per cent of the respondents categorising the future prospects as grim. Several experts are of the view that the aviation sector need the government support as it has high fixed costs. The sector is highly leveraged and is among the worst-hit sectors, it added.

In the Micro, Small & Medium Enterprises (MSME) sector, 60 per cent of the respondents view a bleak recovery in the future, while 50 per cent of them in the automobile and construction and real estate sector feel the chances of revival appear gloomy in the future.

Incidentally, construction was already faring any better before the government announced the lockdown. Over 24 per cent of loans to this sector were categorised as non-performing as of March 2020, second only to gems and jewellery where around 25 per cent of the loans had already gone awry. As per the survey, the impact of COVID-19 is likely to remain for 3-5 years and may affect the "quality of credit in the books of banks, the general risk-taking ability of entrepreneurs, investments in capital markets and real estate, and the saving pattern of households".

Business Today, July 27, 2020

31. Pre-pack plan for insolvency to be tested with MSMEs

As the government readies to roll out pre-packaged insolvency solutions for micro, small and medium enterprises (MSMEs), it has suddenly discovered that the plan could be held up in procedural issues. The ministry of corporate affairs (MCA) -- which has already held detailed consultations with stakeholders, including the Insolvency & Bankruptcy Board of India (IBBI) -- is looking at ways to implement the decision to have special window for MSMEs, given that the law requires the government to first place the notification in Parliament for 30 days.

With Parliament session still a few weeks away, various options are being considered as finance minister Nirmala Sitharaman announced the move two months ago, sources told TOI. The ministry is, however, keen that the concept of pre-packaged insolvency could be tested out with MSMEs. Under a pre-packaged insolvency plan, debtors and creditors agree upon the restructuring plan in advance, helping up speed up the process.

The Economic Times, July 28, 2020

32. India set to ban import of weapons that can be produced indigenously

In keeping with the Aatmanirbhar Bharat Abhiyan, the Defence Ministry proposes to ban the import of weapons that can be made in the country. This suggestion has been made in the second draft of the Defence Procurement Policy (DPP) 2020, in line with the announcements made during the Aatmanirbhar Bharat presentations in March. The DPP 2020 will now be called Defence Acquisition Procedure (DAP) 2020, according to the draft put out by the Ministry.

The Defence Ministry will notify a list of weapons/platforms banned for import, which will be updated from time to time based on the requirements of the various Services, the draft said. The preparation of this negative list is on. Besides, a budget head has been created by the Defence Ministry for 'Make in India' projects and a provision is being made for domestic capital procurement. An industry expert welcomed the move, saying it will mark a fundamental shift in India's approach that has evolved to include acquisition of technology instead of just procurement of equipment. This is also being seen as a booster for MSMEs.

According to the 48th report of the Parliamentary Standing Committee on Defence, India's major equipment imports include rockets, simulator and component repair facility for tanks from Russia; laser designation pods, radars, aircraft pods, radios, weapons for 'Garud' commandos and missiles from Israel; aircraft, helicopters, missiles, artillery guns and simulators from the US, and aircraft, ammunition, bimodular charge system and high zone modules of artillery guns from France.

India currently exports indigenously developed patrol vessels, helicopters, sonars and radars, avionics, radar warning receivers, small arms, small calibre ammunition, grenades, telecom equipment, coastal surveillance gear, simulators, bullet-proof jackets and body armour. These will be the low hanging fruits for completely shutting the doors to imports.

The Business Line, July 28, 2020

33. Exporters lose over two-thirds of duty remission benefits after govt caps MEIS outlay

The MEIS would remain valid until December this year and is to be replaced with a more WTO-compatible scheme, RoDTEP, which reimburses all levies (that are not subsumed by GST) paid on inputs consumed in exports. If India's foreign trade in goods and services have in recent quarters been a continuous drag on the gross domestic product (GDP), the pull-down effect could be far stronger in the current fiscal. By capping the outlay for the Merchandise Exports from India Scheme (MEIS) at Rs 9,000 crore for the April-December period, the revenue department has deprived exporters of over two-thirds of the duty remission benefits they are entitled to. The move could also have wider implications for exporters of assorted goods as the denial of the benefit will suffice to blunt the already-narrow edge they enjoy in key markets over competitors, trade source says.

Fearing a shortage of funds following the revenue department's decision, the commerce ministry has, for the time being, blocked the online module for claiming MEIS benefits since July 23.

Financial Express, July 29, 2020

34. Ensure funding to bankable proposals: Banks, NBFCs told at meet with PM Modi

Prime Minister Narendra Modi joined a meeting with heads of banks and NBFCs, where the need for introspection among bankers in order to ensure "bankable projects" do not suffer from lack of credit in the name of past non-performing assets (NPAs) was discussed. While the Centre emphasised, it will support the banking system, it was noted that "small entrepreneurs, SHGs, farmers should be motivated to use institutional credit to meet their credit needs and grow". "Each bank needs to introspect and take a relook at its practices to ensure stable credit growth. Banks should not treat all proposals with the same yardstick and need to distinguish and identify bankable proposals and to ensure that they get access to funding on their merit and don't suffer in the name of past NPAs," the Prime Minister's Office (PMO) said in a statement after meeting. "It was emphasised that the government is firmly behind the banking system. The government is ready to take any steps necessary to support it and promote its growth," it added.

The meeting comes amid demands by banks and non-banking financial companies (NBFCs) seeking additional liquidity for lower rated companies, alongside onetime restructuring of loans to support them during the present downturn. The Centre has utilised the financial system to inject liquidity and a major portion of the over Rs 20 lakh crore Atmanirbhar Bharat package, comprising of banks providing loans to micro, small and medium enterprises (MSMEs) and the Reserve Bank of India providing systemic liquidity and other regulatory concessions. The meeting discussed ways to increase credit penetration through collaborative use of digital technologies. "Banks should adopt fintech like centralised data platforms, digital documentation and collaborative use of information to move towards digital acquisition of customers. This will help increase credit penetration, increase ease for customers, lower costs for banks and also reduce frauds," the PMO statement said. While reviewing the existing loan schemes, the government said that banks need to be proactive and actively engage with the intended beneficiaries to ensure that the credit support reaches them in a timely manner.

The Indian Express, July 30, 2020

35. Central government to set up single-window clearance for business

The central government is working on a single window portal which will reduce the time for businesses to get clearances, further increasing India's ranking in the ease of doing business, Commerce and Industry Minister Piyush Goyal said.

"The government is genuinely working to create a true Single Window System which is completely digital and provides for unified and integrated business procedures. In addition, we will also encourage risk based self-regulation and third-party certifications," Goyal said.

Goyal said that the government is also working on a fast-track mechanism for micro and small industries. As a step further towards this initiative, the minister informed that a soft launch of the Land Bank Portal will be undertaken soon. With six states on board, it will showcase five lakh hectares of land that has already been identified.

This will allow online viewing of land available for companies, from their distant offices, precluding the need to frequently visit the offices of land-owning agencies. While interacting with industry representatives about various initiatives taken by the government, he added that government will expand it to more sectors.

"Production linked incentives are in pipeline for 12 major sectors like APIs and electronics. The government plans to expand the horizon to as many as 20 sectors," underlined Goyal. Responding to industry's suggestion for broadening the Business Reform Action Plan to include factors such as access to finance, he said improving availability of long-term finance for the industry is one of the steps that is under consideration.

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