



SKOCH GROUP

In collaboration with



TAX LAW EDUCARE SOCIETY
...spearheading information dissemination



Bhartiya Vitta Salahkar Samiti
Contributing in Nation Building



Second National Multi-Institutional Survey on MSMEs in India

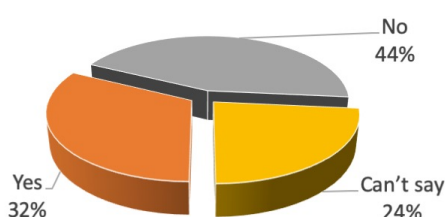
May 2020

Highlights

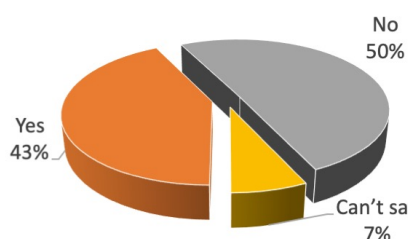
- 62% MSMEs are cutting jobs
- 78% MSMEs are cutting salaries
- 77% MSMEs need emergency funds
- Direct benefit transfer required

Survey Findings

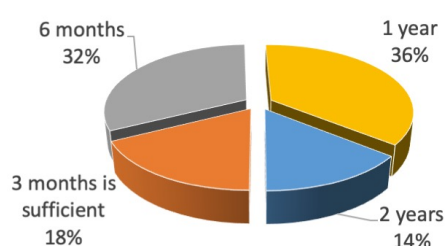
Government has announced a 20 lakh crore financial package under Atmanirbhar Bharat. Is this useful to you?



RBI has announced further three months moratorium on term loans and also the interest to be treated as term loan. Is this useful to you?



Term loan moratorium should be further extended by



Introduction

In end of April 2020, SKOCH Group conducted a national level multi-institutional survey of MSMEs in India in collaboration with Federation of Indian Micro, Small and Medium Enterprises (FISME); Bhartiya Vitta Salahkar Samiti and Tax Law Educare Society (TALES) to bring out felt needs of the MSMEs from a government rescue package.

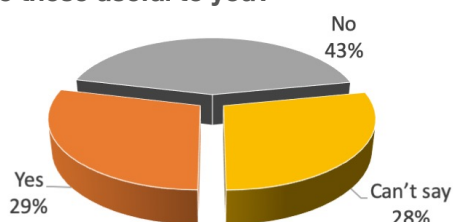
On 13 May 2020, Finance Minister Nirmala Sitharaman's announced a package of the Rs 3.75 lakh crore for MSMEs businesses, which included the following:

- Rs 3 lakh crore of collateral free automatic loans for businesses including MSMEs
- Rs 50,000 crore of equity infusion for MSMEs through a Fund of Funds.
- Rs 20,000 crore subordinate debt for stressed MSMEs
- The additional principle of turnover along with the investment was also added
- Government and CPSUs will release all pending MSME payments in 45-days
- Extension of the due date for ITR for FY'19-20 to 30 November 2020

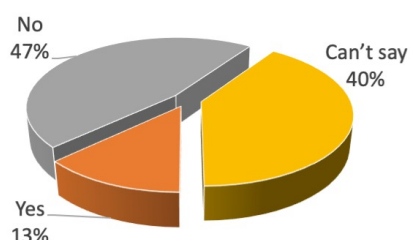
At the end of May 2020, we conducted the second survey to understand the response of MSMEs to the announcements made under the "Atmanirbhar Bharat Package" as well as the announcements by the Reserve Bank of India.

Response to Atmanirbhar Package

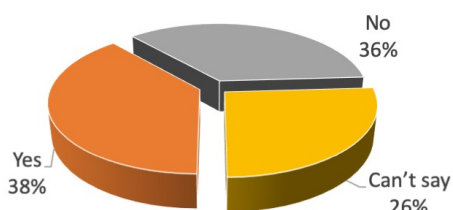
Government has announced some mega schemes for MSMEs under Aatmanirbhar Bharat on 12 May 2020? Are these useful to you?



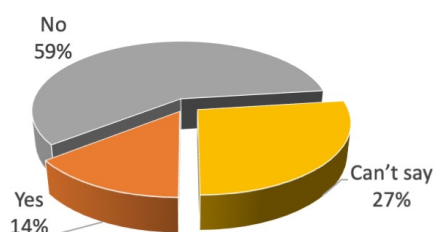
Government has announced Rs 50,000 crore of equity infusion for MSMEs through a Fund of Funds. Can you avail this scheme?



Government has announced Rs 3 lakh crore of collateral free loans for MSMEs. Can you avail this scheme?



Government has announced Rs 20,000 crore subordinate debt for stressed MSMEs. Can you avail this scheme?



On the overall Atmanirbhar Package cutting across all sectors, 32% respondents found it useful, 44% did not and 24% were 'Can't say'. The sense is that people have not been able to fully comprehend the package and perhaps it should have been explained in simpler terms and publicized more. The fact that the details of most proposals were to follow later did not help and respondents were vary of the possible fine-print.

The RBI proposal of a further three month moratorium on all term loans was better understood but fell short of expectations of MSMEs. 43% found it useful but only 18% found the three month extension to be sufficient. 32% would need another six months, 36% need another year and 14% need two years extension on moratorium.

On MSME specific announcements by the Finance Minister, only 29% MSMEs found them to be useful, 43% did not find them useful and 28% were undecided.

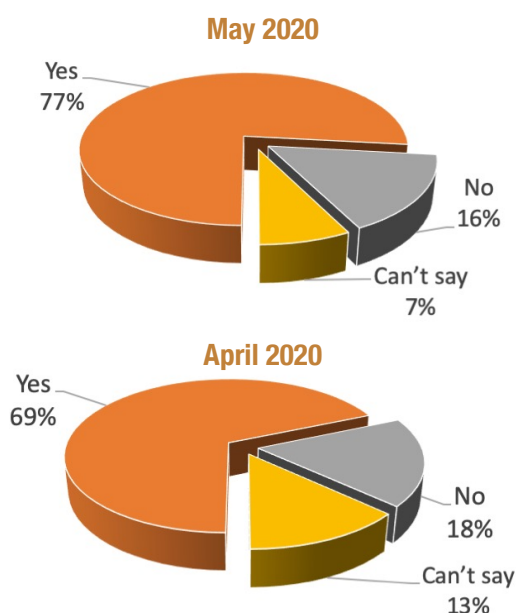
47% MSMEs felt that they cannot use the facility of equity infusion being introduced through a Fund of Fund scheme, 40% could not say perhaps for lack of clarity and 13% felt that this could be useful for them.

The response to Rs 3 lakh crore of collateral free loan scheme was better at 38% finding it useful. By the time the survey was being conducted the relevant circulars, eligibility and implementation details were not widely available. 36% did not find it useful and 26% were 'Can't say'.

A good number - 27% could not say if the 20,000 crore subordinate debt would be useful for them. 59% felt that they could not avail this scheme and only 14% felt that it will be useful.

Overall sense is that the package was difficult to understand and not addressing the felt-needs that MSMEs have and therefore the mood overall is grim.

Do you need emergency funds?

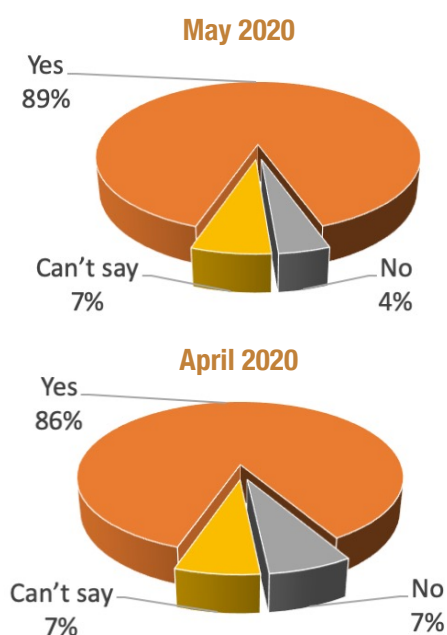


More MSMEs need emergency funds

77% MSMEs are in need of emergency funds as of end May 2020 compared to 69% in April 2020. Even the 'Can't say' have come down to 7% in May compared to 13% in April. The strain for funds is clearly showing.

The most immediate challenges remain paying salaries, vendor bills and other fixed expenses. This was the felt need voiced even in April 2020 survey but has not been addressed by the Atmanirbhar package that has been announced.

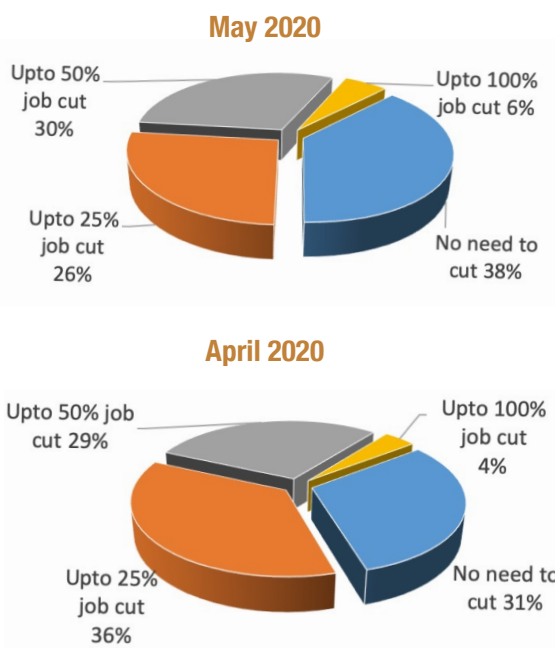
Do you think that there should be a consolidated financial help that should be directly transferred to MSMEs?



Direct Benefit Transfer (DBT) is required

An overwhelming 86% were in favour of getting a DBT from the government rather than a plethora of schemes and proposals. This number in April 2020 was also quite high at 89%. Respondents who 'Can't say' are constant in both the months at 7%. Quite a few analysts and economists too have favored a direct benefit transfer like was done for Jan Dhan Accounts for MSMEs to take care of immediate expenses that can not be met due to the loss of income.

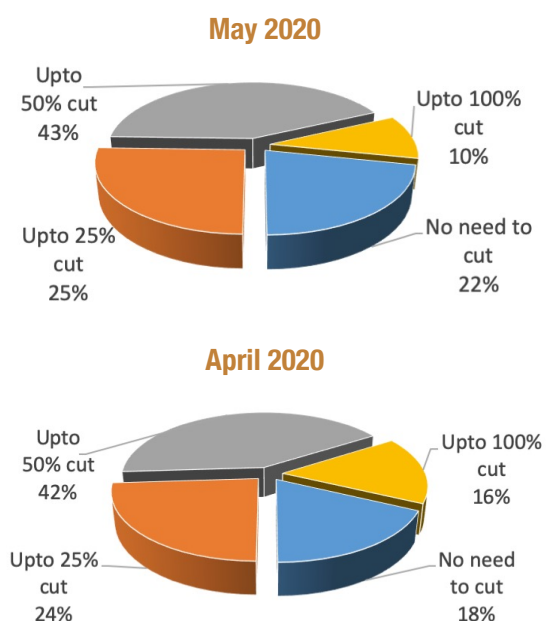
How many employees you need to reduce in the current situation?



62% MSMEs are cutting jobs

Of the MSMEs surveyed 62% are cutting jobs. In April 2020 69% were planning to cut jobs. Overall job-cut situation in the MSME sector seems to be quite bad. In May 2020, number of MSMEs cutting 100% jobs rose to 6% from 4% in April. 30% are planning to cut half the jobs and 26% are cutting a quarter of the jobs.

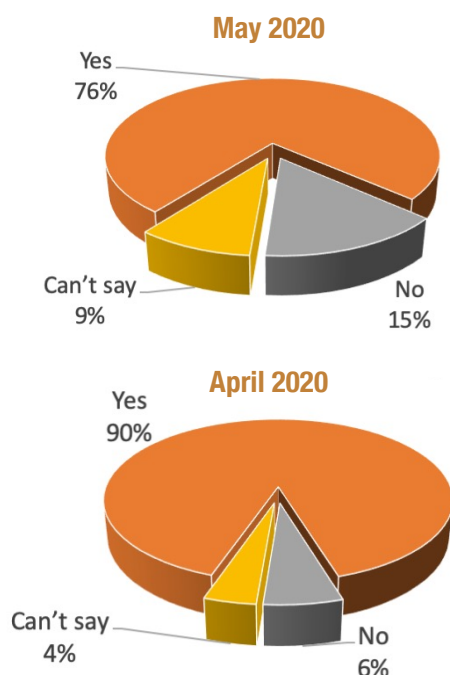
How much salary do you need to cut in May-July 2020?



78% MSMEs are cutting salaries

For the period May-July 2020 43% are cutting salaries by half, 25% are cutting a quarter and 10% are planning not to pay anything at all. In April 2020 50% cut was by 42% respondents, 24% were cutting by a quarter and 16% were planning not to pay at all.

Do you think an 18-24 months moratorium on term loans is required?

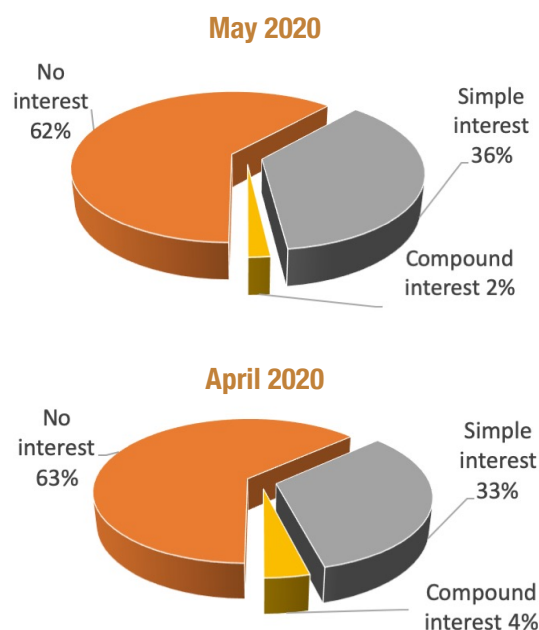


Longer moratorium on term loans is required

RBI has extended the moratorium on term loans by another three months, i.e., August 2020 and also converted the interest payable to a term loan to be cleared by 31 March 2021. This is found to be insufficient. 76% respondents feel that this should be extended by 18-24 months. In April 2020, 90% respondents wanted this.

MSMEs feel that a longer moratorium window announced in one go will help plan for revival instead of such announcements being made quarterly with the Monetary Policy.

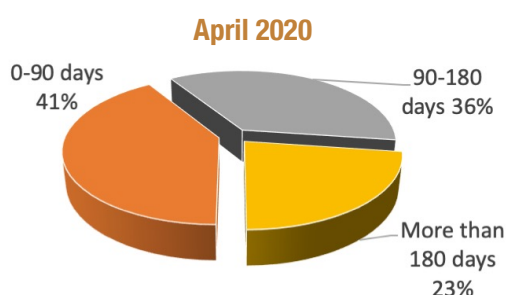
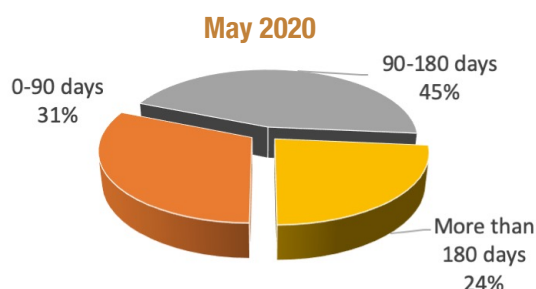
Do you think such moratorium should attract?



Moratorium should be interest free

62% want this moratorium period to be without any interest. This is about the same as 63% who wanted interest free moratorium in April 2020. 36% want to pay simple interest and only 2% of the respondents are agreeable to a compound interest.

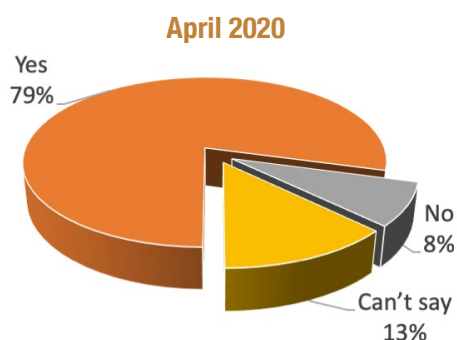
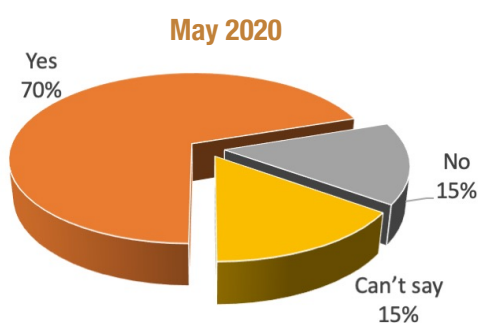
How much time does your buyer take to pay you these days?



Delayed payments remain a huge problem

Only 31% payments are received in under 90-days. 45% take between 90-180 days and 24% are taking more than 180- days. This number for under 90-days was 41% in April and has gone up now. The provision of payment within 45-days under the MSME act remains dysfunctional.

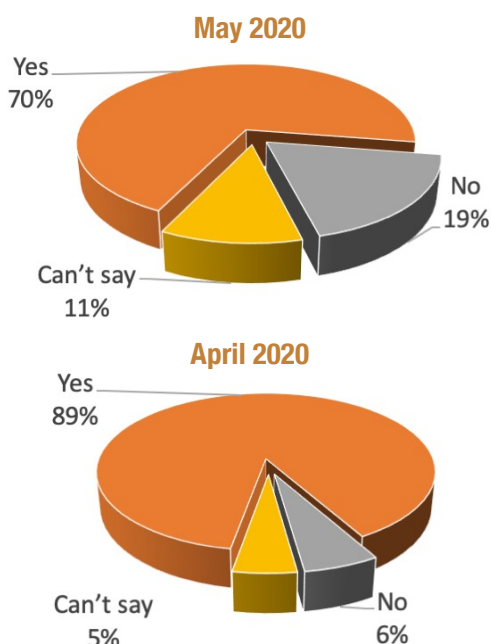
Enhance credit limit two-times



A higher credit limit is required

These delays are resulting in working capital going awry and 70% of the respondents require a doubling of the limit. 15% 'Can't say' if they need such an enhancement. In April 2020, 79% wanted the limit to be doubled. Under Atmanirbhar Package, some respite has been given to accounts that were fully utilised as on 29 February 2019. No such respite has been made available to requirements after this date.

**Do you need collateral-free credit
on the basis of invoices raised?**

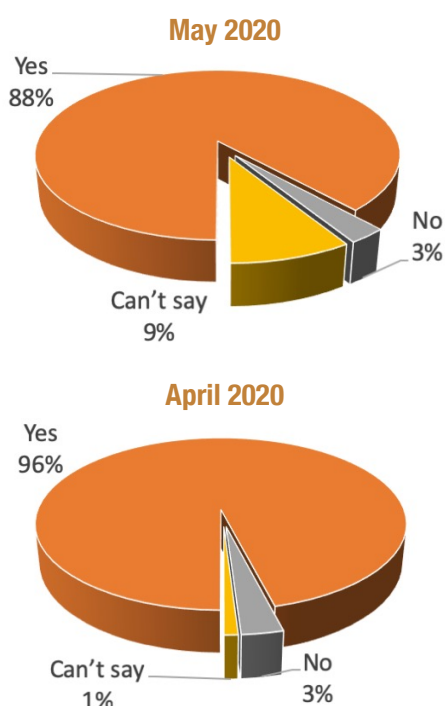


Cash flow lending should be introduced

U K Sinha Committee report of RBI had recommended a second window to TReDS for invoice based, collateral free finance for the seller. This idea has now been discussed for a long time and repeatedly demanded as an urgent measure by MSMEs. 70% of respondents in May 2020 again asked for this facility. 11% were 'Can't say'.

The volume on TReDS system has gone down substantially post-COVID and the number of buyers registered on it remains low.

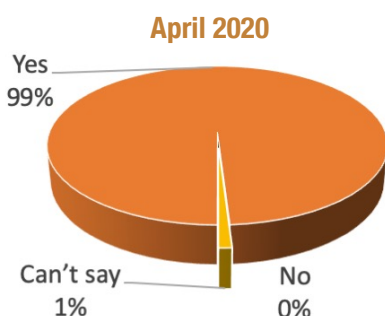
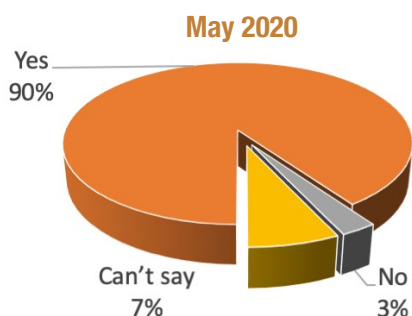
**Release Government Payments
instantly**



Government payments still delayed

88% want government payments to be made urgently. As per Mr Nitin Gadkari, Hon'ble Minister for MSMEs, nearly Rs 5 lakh crore is outstanding with the government in unpaid MSME bills. The situation with state governments is even worse.

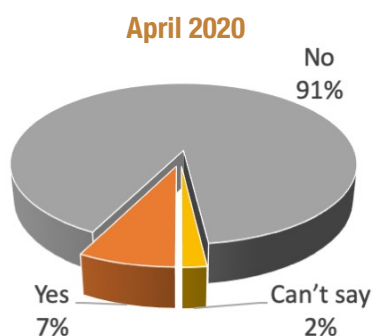
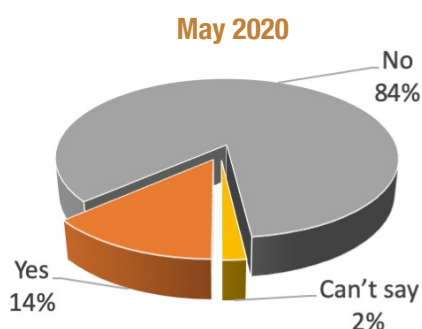
Release government / GST refunds instantly



Release Income Tax and GST Refunds

90% MSME respondents want immediate refund of income tax and GST that is due from the government. There has been some respite in GST refunds but Income Tax still remains a big problem.

Have you availed COVID Emergency Fund through your bank?

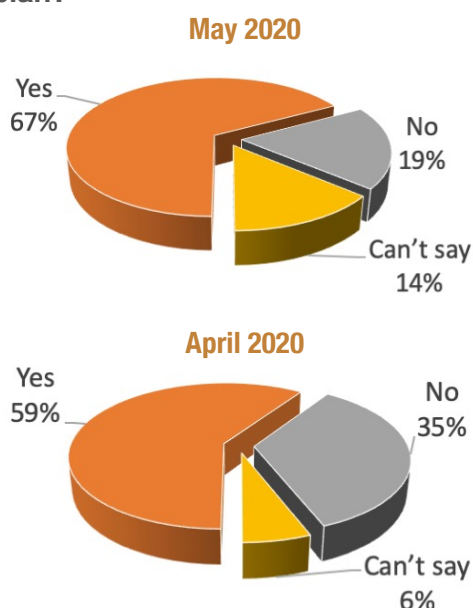


Covid Emergency Fund through banks not available

84% respondents say that they have not been able to avail this fund. This is an improvement from April 2020 when 91% were not able to avail the facility.

Most of them report bank unwilling to provide facility as a reason.

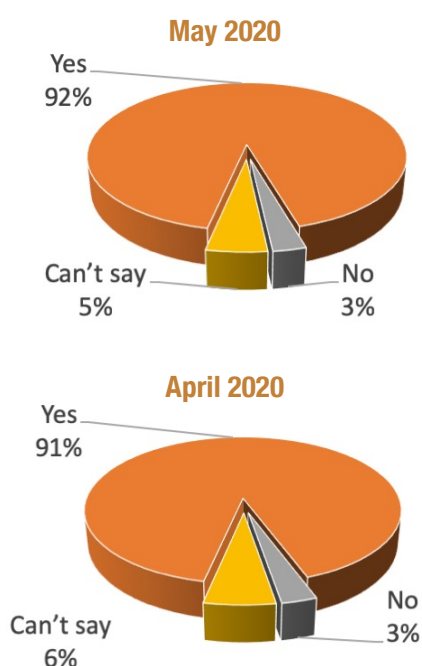
Do you think every Ministry should announce their own MSME rescue plan?



Each sectoral ministry should announce a MSME package

67% say that this is required. However, the perception gap is that while MSMEs want a sector wise financial rescue package for MSMEs in that particular sector, the ministries are offering to promote their sectors to MSMEs through subsidies etc. In this time of emergency, this may be complete sub-optimal utilisation of resources.

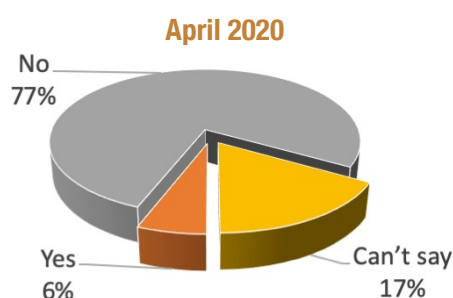
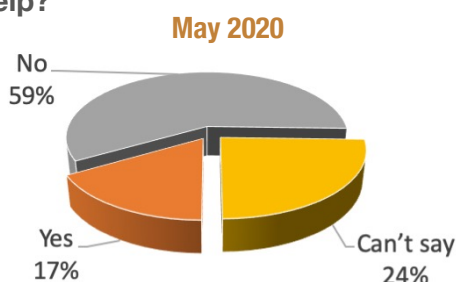
Do you think that there should be one integrated electronic platform for identifying, delivering and monitoring financial support?



One electronic platform for relief

MSMEs want one common electronic platform similar to Aadhaar Bridge that could be used to identify, benefit transfer and monitor relief to MSMEs by various ministries. This is very similar to how various ministries use Aadhaar bridge and banking system to directly transfer benefits. 92% MSMEs want this. While the technical capability exists and the matter has been discussed for a very long time, the implementation stays on the back burner.

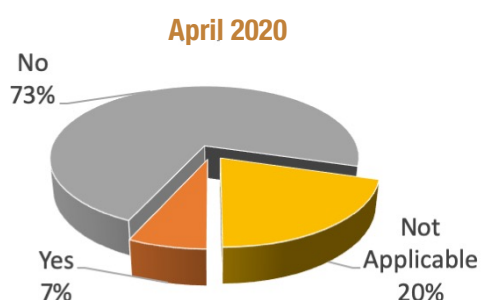
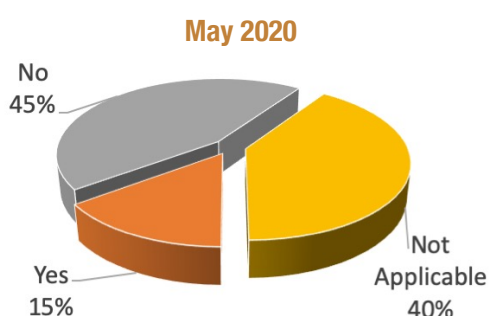
Do you think your business will survive without government financial help?



Sentiment on survival improves

59% respondents feel that their business cannot survive without government help. This is down from 77% in April 2020. Overall Atmanirbhar Bharat package has a role to play in this improvement as it is showing the government sincerity to help.

Have you availed Government's scheme for paying provident fund for employer and employees?



Provident fund support improves

15% respondents have been able to avail of the scheme for paying provident fund for employers and the employees by the government. This is up from only 7% in April 2020. 40% respondents say that the scheme is not applicable to them up from 20% in April 2020.

Recommendations

There seems to be a big gap between the felt-needs of MSMEs and the policy action proposed. This needs to be bridged to avoid massive job and livelihood losses. In this context, we repeat the same recommendations that were made in April 2020 as still valid

- Extend moratorium on all term loans by two years. First year should be free of interest, and only simple interest charged for the second year. Payment of interest should be only after the situation stabilises, and the businesses get back to normal.
- The most critical immediate challenge for MSMEs is working capital limit. It requires an increase of two times to help meet their working capital requirements.
- One unified electronic platform should provide all services and financial support to MSMEs. They should integrate the platform with GSTN and Income Tax databases.
- Increase in credit limits and other support may come through the respective banks and financial institutions. They can take the information from the central electronic platform.
- The definition of MSMEs needs to change to turnover based. Turnover based categorisation is transparent and in tune with the economic and technological changes.
- CGTMSE needs to be more autonomous. Its board should draw technical expertise from other financial institutions. There should be multiple credit guarantee institutions to spread the risks.
- Multiple exchanges should invoice finance as in TReDS model. The financing system should be based on cash flow. This is important under the current environment when there is a lot of uncertainty regarding the payments. The banks need to extend credit to the small businesses based on invoices. Genuineness of invoices can be ascertained through the GST Network.
- Multiple agencies may offer financial support and stimulus to MSMEs while being linked to one common electronic platform.
- The government does not have any existing system to identify all the deserving MSMEs. We should develop a technology-based system to enable identification of all MSMEs transparently.
- Development of an app based credit network is the best option. We may link it with the GSTN system, Income Tax system or any other available database. It should link the system details of sellers and buyers. This app based system can enable real-time assessment and disbursement of credit to MSMEs.

SKOCH Group is India's leading think tank dealing with socio-economic issues with a focus on inclusive growth since 1997. The Group companies include a consulting wing, a media wing and a charitable foundation. SKOCH Group brings an Indian felt-needs context to strategies and engages with Fortune-500 companies, State-Owned Enterprise, Government to SMEs and Community-Based Organisations with equal ease. The repertoire of services includes field interventions, consultancy, research reports, impact assessments, policy briefs, books, journals, workshops and conferences. SKOCH Group has instituted India's highest independent civilian honours in governance, finance, technology, economics and social sector.

Federation of Indian Micro and Small & Medium Enterprises (FISME) evolved into a large national Federation of geographical and sectoral associations of Micro, Small and Medium Enterprises (MSMEs) in 1995 following India's embarking upon liberalization in 1991 and India's accession to WTO in 1995. Till then it used to be known as National Alliance of Young Entrepreneurs which was established in 1967. It works for 'Survival and growth of MSMEs'. It focuses on creation of an eco-system which is enabling to entrepreneurship and competitive at the same time. The key thematic areas of work at FISME constitute: Securing market access for MSMEs in India and abroad and ensuring competitive functioning of factor-markets; Advocacy reforms; execution of MSME development projects funded by GoI, as well as by all major multilateral and bilateral agencies. With over 730 associations as its members, FISME network reaches out to over 2 million MSMEs. For detail please visit: <http://www.fisme.org.in>

Bhartiya Vitta Salahkar Samiti (BVSS) is a leading think tank of Indian finance professionals having membership from CA, CS, CMA, Tax Advocates, Bankers, Educationists, Finance consultants, Brokers, CxO's & Board of Directors of large corporations as its members. BVSS has been making professional representations on important policy matters to Governments, and other Regulatory authorities from time to time. We have been able to influence them by providing a wholistic view to the decision makers. BVSS has also represented professional community in judicial and quasi-judicial forums, and helped improve the existing legal frameworks. Our representatives have been appointed on various expert committees formed by Government, The Institute of Chartered Accountants, The Institute of Company Secretaries, Department of Company Affairs, Customs and Excise Department, etc.

Tax Law Educare Society (TALES) has been established in year 2005 as a non-profit making voluntary organization, with the main objective to educate general public and professionals on Taxation, Law and Allied Matters. The Society caters to the needs of its members in particular and tax paying public in general, and ensures that its members keep pace with the changing times. It also provides courses for self-development for its members and professional course students. 'Tax Law Educare Society' functions through its Managing Committee, which has various sub-committees dealing with all subjects of professional interest. The Society be a catalyst for bringing out better and more effective Government policies & laws and for clean & efficient administration and governance. It promotes healthy interface between the tax consultants, business community and the government. The society also makes representations to various authorities on different laws which are in the offing. It also publishes its monthly journal, which is subscribed not only by its members but by corporate bodies. The Society is a principle-centered and learning-oriented organization to promote quality service and excellence in the tax, law and accounting profession and shall be proactive to change. The Society harness talent of and disseminate knowledge to professionals, build skills and networks amongst them and encourage them to adhere to highest ethical standards and professional integrity. The Society also provides citizens' education programs like budget talks, group discussions, citizen programs etc. It also provides to members an environment conducive to the pursuit of knowledge and encourage them to achieve their potential to become complete professional in their field.

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Email: info@skoch.in; Website: www.skoch.in