



Confederation of  
Indian Industry  
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# POLICYwatch

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## Focus: Reviving MSMEs

### Message from Director General

## Rebuilding MSMEs – The Growth Engine of Economy

**M**icro, small and medium enterprises have been rightly termed as the growth engines globally. SMEs account for most businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. SMEs immensely contribute to drive innovation and competition in markets and hence are critical to the future of work.

**MSMEs have created a visible footprint of industrialisation in all regions of the country**

SMEs in India not only create employment at low capital cost, but they massively contribute towards uplifting and industrialising the rural

economy. While agriculture remains the core in rural India, it is the SMEs which have created a visible footprint of industrialization, large or small, in the most backward areas of the country. Their contribution to the national GDP is 29.7% and 49.66% to Indian exports.

India has a pronounced SME sector which is highly heterogenous. According to the MSME Ministry's FY19 annual report, the MSME sector is dominated by micro-enterprises. India has 6.33 crore MSMEs out of which 6.30 crore, or 99.4 per cent, are micro-enterprises, while 0.52 per cent, i.e. 3.31 lakh, are small and 0.007 per cent, or 5,000, are medium enterprises. It is largely the micro and the small enterprises which are affected the most because of the huge disruption in the supply chain owing to Covid-19.

Considering the importance of this sector, Government has announced a slew of measures under 'Aatmanirbhar Bharat' which has given some muscle to the SMEs to deal with this crisis, some of which have been landmark announcements. The classification of MSMEs had been revised, an ask of MSMEs for a long time, and by bringing in the revised classification a plethora of opportunities have opened for this sector.

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Udyam registration, another step which the Government has taken, ensures the payment for invoices within 45 days under the MSME Development Act, failing which the buyer is liable to pay compound interest monthly to the MSME on the invoice amount at three times the bank rate notified by the Reserve Bank of India.

There are several other important benefits provided by the government related to collateral / guarantee-free loans, interest subvention scheme, schemes for market support and export promotion. Fund of Funds is another very important initiative of the government which will provide financial support to organisations with growth potential through viability gap funding.

No less in importance is the launch of the Champion portal to help the MSMEs in terms of finance, raw materials, labour, permissions, etc. With the government amending rules disallowing global tenders in government procurement up to Rs 200 crore, this step is a shot in the arm for domestic players and will create lot of opportunities for the domestic industry to grow.

CII has been working with MSME membership to help them navigate this pandemic with minimum injury. We strongly believe that technology can be the biggest saviour for them for business continuity. Towards that, CII through its TechSaksham platform has been creating awareness about various affordable solutions available to MSMEs to offset the challenges and supporting them in staying connected with the global supply chain as well as staying competitive.

We have seen technology and digital transformation happening at an accelerated pace during the pandemic. CII has conducted workshops across the country to bring



technological and digital solutions right to the doorstep of our members. Another compelling area where CII has been actively engaged is making credit available to MSMEs. Through a month-long campaign, we have reached out to MSMEs across the country. We had more than 11,000 MSMEs registering to secure collateral free loan and, through our partner organisations, have facilitated in-principle approval for more than Rs 350 crore of credit. CII is actively working with the Government on making India Aatmanirbhar which will surely help MSMEs to become globally competitive.

MSMEs have demonstrated that they have the ability and flexibility to adapt to changes and have seen this as an opportunity to transform themselves, not just to stay afloat but to rise again with renewed passion and commitment. In the face of uncertainty, the SMEs have yet again demonstrated the ability to transform themselves at speed not seen before. ■

**Chandrajit Banerjee**

Director General

Confederation of Indian Industry

## “The revised definition will allow MSMEs to make investments, enabling them to become competitive and grow”

### How should we reimagine, reshape and redesign growth for MSMEs amidst the Covid crisis?

The COVID pandemic has impacted economies and industries across the globe, and India is no exception. MSMEs, with their limited resources, have been impacted more severely.

Rebuilding of operations as post-COVID-19 ‘resilient’ businesses will drive the market growth and these MSMEs will be the new innovators and disruptors. These businesses will sustain performance by reinventing their way of working and will position themselves for the next normal, with the imperative to reimagine, reshape and redesign.

Re-modelling of funding needs through credit risk, cash flow analysis, inventory reporting, insurance and Government grants requires financial strategy to mitigate current risks and hedge future risks. The overall perspective of businesses post COVID-19 and movement of MSMEs across India towards faceless and virtual transactions involving digitization will shape the new financing ecosystem of the country.

I foresee changes to go further in operations, with a decline in manual and repetitive



**Shreekant Somany**

*Chairman, CII MSME Council & CII National Committee on Environment and Chairman & Managing Director Somany Ceramics Ltd*

tasks and rise in the need for analytical and technical support. The shifts in industry structure, customer expectations, and demand patterns will now require changes to made in operations strategies to create competitive advantage and new customer value propositions. This will call for substantial investment in workforce engagement and training in new skills, much of it using digital tools.

To cope with the times, the companies now need to reinvent the role of operations in their enterprises, creating new value through a far greater responsiveness to their end customers—including accelerated product-development and customer experience, innovation, mass customization, improved environmental sustainability, and more interconnected, nimble ecosystem management.

Post any crisis, businesses acknowledge that growth and scalability both are significant and that it will be important to build the ability to embed data analytics in decision making and creation of learning platforms that support both individual and institutional experimentation.

## What are the major policy advocacy initiatives CII National MSME Council has taken so far for helping MSMEs cope with this difficult time? Any success story you would like to highlight?

With 67% of CII's membership from the SME sector, we have initiated a host of impact-oriented measures towards policy advocacy for building competitiveness, capacity development and creating requisite support services.

CII has been actively engaged in bringing about policy level changes through focused policy advocacy with the government.

The movement of MSMEs towards faceless and virtual transactions involving digitization will shape the new financing ecosystem of the country.

The overall 6-point Agenda for MSMEs under the Aatmanirbhar Bharat initiative announced by the Hon'ble Finance Minister has been widely acknowledged by the industry at large and the CII National MSME Council played a crucial role by providing inputs on 5 out of 6 agenda points.

The change of MSME definition has been well embraced by all the stakeholders of the MSME sector, especially in these trying times and it has come as a ray of hope for the MSMEs in otherwise a gloomy year for businesses. This has been a long-standing recommendation of CII and we believe that it will open a whole new world of opportunities for MSMEs.

Earlier, one of the key challenges faced by MSMEs was the inability to make large investments in technology and in upgrading equipment without losing out on the MSME status. The revised definition will allow MSMEs to make these investments, enabling them to become competitive and grow and do well.

Recently, we presented the CII recommendations for the MSME sector to a Group of Ministers led by Smt. Smriti Irani, Hon'ble Minister of Textiles and Women & Child Development. This was also submitted to the Ministry of MSME. I would like reiterate some of our recommendations:-

### 1. Demand Creation

- Ministry of MSME can create 'Trade & Market Facilitation Centres' pan-India exclusively for MSMEs, for leveraging trade agreements / FTAs of India with other regional blocs and countries.
- There is need for a strong branding and marketing strategy of Indian MSME products especially made by Micro / Tribal / Rural enterprises in the global market. Indian MSME Demo Centres for demonstrating the micro and tribal products can be set up at international locations.
- A Global Trade Desk can be led by Ministry of MSME for direct connectivity with Indian embassies for effective exchange of information on demand for MSMEs products, country specific tariffs and compliances, market access conditions, details about buyers, etc. This initiative can be integrated with GMIS (Global Management Information System) portal, which Ministry of MSME is working on.



## 2. Technology, R&D and Innovation

- The already established tool rooms and technology centres under the Ministry may invite the large private enterprises to collaborate and operate such centres on a Public Private Partnership model. This will help bring advanced and cutting-edge technologies to the doorstep of the MSME Clusters.
- **Start Up – MSME Partnership:** To further promote R&D, we request that the Government carve out a deep tech fund that can support start-ups in emerging technology areas that require patent capital. These technologies can then be adopted by MSMEs at subsidized cost through Digital MSME Scheme. Such emerging technologies should be kept out of the ambit of

investment in Plant & Machinery in the new MSME definition.

## 3. Financing Needs

- Alternate financing sources must be made accessible to MSMEs through NBFCs and other sources.
- The issue of delayed payments needs to be resolved on an urgent basis and in a holistic manner at the highest levels in the Government. Unlocking of this money itself can provide a boost to the liquidity available to businesses.

Some other issues that require the attention of the Department of Heavy Industries & Public Enterprises and other line ministries include: -

- It is suggested that Payment Clause of all Government tenders should add:

“Payments to MSEs will be made as per norms of MSMED Act, 2006 and interest for delay will be automatically calculated and added in payment. Further, no clause to circumvent or override provisions of this Act is allowed”

- Barriers to finance such as credit appraisal, collateral based lending, credit guarantee schemes, etc. have been identified and put forth to RBI. We have also been engaging with RBI for several recommendations pertaining to finance.
- There could be a push for creation of credit registry that will share the credit history and all related information and reduction in the timelines from application to loan disbursal.

#### 4. Ease of Doing Business (EODB) and other Compliances

- We suggest MSMEs which are moving from the informal to formal sector should be exempted from approvals and inspections for 3 years under all state laws. After 3 years, they can obtain required approvals within 6 months.
- Allow existing MSMEs to seek renewal/ approvals based on self-certification, subject to satisfactory track record, rationalising compliance requirements, digitisation of process by streamlining and removing redundancies across key processes such as registering property, construction permits, etc. to help in EODB.
- High input costs (land and other factors) make MSMEs highly uncompetitive. We suggest 20% land to be reserved

for MSME in the upcoming SEZs or strategic corridors. Availability of plug and play scheme in well-developed industrial estates is a requirement.

We have seen some major success stories from our recently completed initiative planned under the Aatmanirbhar Bharat Mission and emergency credit lines for MSMEs.

CII in partnership with Ministry of MSME organized the MSME Money Mobility Initiative for MSMEs to bring convergence with regards to making available funding options and knowledge sharing on financial aspects to the entire MSME spectrum.

The initiative of Money Mobility comprised a month-long loan mela and a week long program. MSMEs across the country applied for their loan requirements on a CII customised platform. We received around 11,000 loan applications under the Loan Mela with 535 applications receiving the in-principle approval, to the tune of Rs 351.87 crore till 11 September 2020.

More than 20 banks were part of this initiative consisting of both public and private sector banks.

The Money Mobility week aimed at bringing both the demand and supply sides of credit on single virtual platform along with the active involvement of the key custodian for the MSME sector i.e. the Ministry of MSME.

Over 3,400 participants registered for the weeklong programme along with active involvement of 25+ financial institutions. Discussions were held around banks, NBFCs and small finance banks, credit rating agencies, fintech platforms, insurance solution providers, digital solution providers, tax advisers and capital market experts. ■

# Key CII Recommendations on Reviving the MSME Sector



The MSME sector is the backbone of the Indian economy and it has been adversely affected due to COVID-19. It is therefore important to ensure that right measures are taken for safety, while adopting practices to mitigate the economic and business impact of the pandemic.

In view of the current issues and challenges, CII suggests the following steps:

## Issues related to finance

- **Do not reduce sanctioning limits**

Instructions to be given for not reducing any sanctioned limits, both fund-based and non-fund based, till the end of the financial year for companies which have not defaulted over the last two financial years.

- **Subordinate Debt Scheme**

- I. Increase percentage to 20% of promoter contribution from present 15%.
- II. Increase cap from Rs 75 lakhs to Rs 200 lakhs for Medium Enterprises, while retaining Rs 75 lakhs cap for Small Enterprises.

- **Additional loans under ECLGS**

The benchmark for 20% additional loans under ECLGS should be changed from 29 Feb 2020 (which is somewhat arbitrary) to 20% of the sanctioned limits.

- **Payment to MSMEs**

The Government should set up a special MSME Factor Fund, to enable MSMEs to discount their bills to approved retailers in 15 days, and permit retailers to pay in 120 days, giving MSMEs faster realization, and simultaneously giving retailers increased credit. Interest charges above 45 days would be applicable to the retailer's accounts.



- **Moratorium on Repayments and Interest**

- Moratorium on repayment of loans, principal repayments and interest on loans to commercial banks for the next 6 months may be collected in 8 monthly instalments from 30th September 2020 to 31<sup>st</sup> March 2021.
- Moratorium on payment of Purchase Bills and L/Cs.
- Moratorium of 90 days on repayment of commercial papers.

- **Filing of GST**

- Centralized registration to be done instead of state-wise registration for suppliers of services having pan-India businesses such as insurance, banking, telecommunications etc. as was earlier prevalent in the service tax regime.
- Reduce interest rate liability from 18% to 3% or maximum to 6% on delayed payment of GST.
- Reduce interest rate liability from 24% to 6% on availing excess or inadmissible input tax credit.
- The due date of GST Annual Returns 9/9C for the FY 2018-19 to be extended from 31.10.2020 to 31.12.2020.
- The due date of GST Annual Returns 9/9C for the FY 2019-20 to be extended from 31.12.2020 to 31.03.2021.
- Job work Return ITC 04 for the year 2019-20 to be extended from 30.11.2020 to 31 March 2021.
- Reconciliation between the input tax credit availed by business and appearing in GSTR-2A for the current FY to be extended from 30.09.2020 to 31.03.2021.
- E-Invoicing being made mandatory from 1.11.2020 for the large taxpayers having turnover exceeding Rs 500 crore may be introduced on optional basis for the initial period of three months.

## Trade

- **Logistics/ Supply chain**

Appropriate ministry / departments to provide clarification on the status of manufacturing units that are integral in the supply chains of milk-food and pharmaceutical products. In absence of such clarifications, many



food and pharma units may run out of raw materials, packaging materials and many other such items leading to disruption in supplies and closures.

## • Exports/ Imports

- Waiving of demurrage at ports and railway warehouses.
- As there is slow down in import and export processing, the checks should be removed/ reduced for some time.
- To handle parts coming from suspected places / countries, the Government of India should issue directions based on best practice or research. Allow a 60-day delay in launch of Euro 6.
- PCFC (packing credit in foreign currency) loan against export order is being taken by exporters with an agreement with banks to hand over documents with bill within a certain time period, but due to lockdown, industries are closed and shipments are held up. Exporters are not able to hand over the documents to banks within the committed period. Banks to be instructed not to pressurize the exporters in case they are not able to hand over the documents within the timeframe.
- Although the Finance Minister has announced that Customs will work 24x7, due to lock down, related services and manpower at ports are not available and custom clearances are getting delayed.
- Similarly, export consignments at foreign ports are also not getting cleared due to lockdown in most countries. It is proposed that demurrage arising out of such delays at foreign ports should be covered in ECGC/Marine Insurance Policy.
- Loss of material due to expiry of shelf life due to delay in clearance beyond 30 days at Indian/foreign ports should also be covered in ECGC/ Marine Insurance Policy.



## Other Recommendations

Monitor payment delays by Central Public Sector undertakings to MSMEs closely through a portal for complaints and ensure necessary funds are provided and utilized for this purpose.

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MSMEs which have adopted technology have been able to combat COVID better. We should make efforts to take up technology adoption in a mission mode and make MSMEs globally competitive. We need to focus on development of affordable and commercially viable technological solutions in India. I appreciate the work done under Project TechSaksham, a CII initiative which has been playing an impactful role in technology adoption for MSMEs. As CII National MSME team, we would like to run public private model partnerships with the Government especially the Ministry of MSME and bring out clear roadmap with a 'Technology Adoption Mission' for MSMEs in India.

**Sameer Gupta**

*Co-Chair, CII National MSME Council and  
Chairman & Managing Director, Jakson Group*

The upcoming era is going to be more focused towards digital lending. Small Finance Banks (SFBs) are moving towards digital lending which will help MSMEs to mitigate risk and cost of borrowing. SFBs being fairly new players with more focus in Micro lending space, the coming years will see a spurring growth in the role played by the said banks in financing small and medium enterprises as well.

**Sarvjit Samra**

*Past Chairman, CII Punjab State Council and  
Managing Director, Capital Small Finance Bank*

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With a target from 40% to 60% contribution of MSME exports, the Indian economy can achieve a lot more. Considering the global scenario amidst Covid, there is an opportunity for Indian MSMEs to take advantage of lower demand for Chinese products and services and therefore, we suggest the following key strategies: (I) Evaluate and enable readiness of MSMEs to export their products and services, which can include identifying tariff lines, FTA access, market price points, sectors creating impact in MSME trade and other considerations; (II) Recognize areas where improvements are required in order to be able to export efficiently; this strategy will include quality & standards, new set of SOPs for export, EoDB measures, regulations and procedures, and (III) Support integration of Indian MSMEs into the Global Value Chain which can include targeted interventions such as developing a system of identifying HS based potential products imported by target countries, purely relating to MSMEs and Indian MSMEs in turn could manufacture those products.

**Sushil Aggarwal**

*Member, CII National MSME Council and Chairman, Avro India Ltd*

For diversified alternative viable solutions to be available, it is important that more players emerge to cater to MSME credit problems. With this enhanced emergence, there will be a continued innovation and offering of customized financial solutions which is the need of the hour for MSMEs to strive and thrive. This will lead to the overall creation of a healthy competition that will be complementing the conventional financial solutions available in the market.



**Jyoti Prakash Gadia**

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For suggestions, please contact Sharmila Kantha, Corporate Communications at [sharmila.kantha@cii.in](mailto:sharmila.kantha@cii.in)

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