Interventions required to revive the MSME sector post COVID-19 lockdown

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1 Overview

COVID19 pandemic is posing a serious threat to the lives and livelihood of people, in the country and the world, at large. The pandemic has already infected over 12,000 people in the country and more than 800 people in the state of Uttar Pradesh, till now. Considering the serious threat, it poses to the lives of people and in absence of any verified cure, the Central and the State Government selected the difficult path of lockdown. Although lockdown is expected to flatten the curve of COVID19 infections, it is also expected to slow down/ derail the economy. MSME sector being the most vulnerable segment of the economy is expected to take the first hit of this lockdown. As per industry estimates\(^1\) over 22% of MSME units in India will be shut if the lockdown in cities extends beyond four weeks and a staggering 43% will close if the lockdown extends beyond 8 weeks.

War against coronavirus must necessarily be fought on two fronts – Jaan (lives) and Jahaan (livelihood) fronts. While Jaan/lives aspect is taken care of through lockdown and medical preparations, Jahan/ livelihood aspect needs urgent attention and innovative thinking. Considering the majority (77% as per recent “Periodic Labour Force Survey” done by Ministry of Labour, Government of India) of the labour force in the country is employed in unorganized (primarily small and micro enterprises) sector, we can't simply adopt the models implemented by other countries. A major chunk of our labour works in Agriculture, Textile, Engineering, Mining, Construction, logistics and Service sectors and falls under unpaid leave bracket. They should be supported through alternative innovative routes.

With a national GDP share of approximately 30% and an employment contribution of 11.10 crores, MSMEs are the backbone of the Indian Economy. They are to be protected and resurrected through all possible means i.e. Financial, Ease of Doing Business, etc. The Governments should extend essential support to MSMEs by swiftly implementing the short-term and long-term action plan.

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2 Key steps taken by the Government of India & related institutions

Gol, RBI and SIDBI have extended support to industry primarily through wage support package, relaxation in loan payments and interest rates, etc. The primary aim of all these measures is to improve liquidity and save jobs, in the short term. Here are the key steps were taken by Gol and related institutions:

1. Gol is paying entire provident fund contribution (24% of basic pay; employers plus employee contribution) for workers who earn less than Rs 15,000 per month in companies having less than 100 workers. This will be applicable for three months

2. Employees' Provident Fund Regulations are amended to include the coronavirus pandemic as ground for allowing a non-refundable advance of 75% of the corpus or three months of wages, whichever is lower, from their accounts

3. Limit of collateral-free lending for Women Self Help Groups (SHGs) is increased from Rs 10 lakhs to Rs 20 lakhs

4. GST and Income Tax filing and payment dates extended:
   ► The date for filing Income Tax and GST Annual returns of FY 18-19, which was due on 31st March 2020 is extended until the last week of June 2020
   ► For enterprises having an aggregate annual turnover of Rs 5 Crore or less, the last date of filing GST returns for March, April and May 2020 is extended till the last of June 2020. No interest, late fee, and penalty to be charged for such enterprises
   ► For enterprises with a turnover of over Rs 5 Crore, the last date of filing GST returns for March, April and May 2020 is extended till the last of June 2020. However, in their case, it will attract the interest of 9% per annum from 15 days after the due date (the current interest rate is 18% per annum). No late fee and penalty to be charged, if complied before till 30th June 2020
   ► The date for opting for composition scheme is extended till the last week of June 2020;
   ► Further, the last date for making payments for the quarter ending 31st March 2020 and filing of return for 2019-20 by the composition dealers is also extended till the last week of June 2020

5. A moratorium period (from 1st April 2020 till 30th September 2020) is given to companies and LLPs wherein they need not pay any additional fees for any late filing of documents/returns/statements, irrespective of its due dates

6. The mandatory requirement of holding meetings of the Board of the companies within prescribed interval provided in the Companies Act (120 days), 2013, is extended by a period of 60 days till next two quarters i.e., till 30th September

7. 24X7 Custom clearance till end of 30th June, 2020

8. Invest India, an Investment Promotion Agency of Gol has created an online Business Immunity Platform (BIP) for addressing issues of businesses. The agency is also working with SIDBI (Small Industries Development Bank of India) for responding and resolving queries for MSMEs. GoUP is also addressing issues of MSMEs through a dedicated helpline and DICs

9. Reserve Bank of India took steps to improve liquidity in the financial system:
   ► 3 months moratorium on repayment of term loan EMIs
   ► 3 months deferment on payment of interest on working capital loans
   ► Reduced benchmark repo rate by 75 basis points to 4.4%
   ► Reduced cash reserve ratio (CRR) by 100 basis points to 3% for 1 year
► Easing of working capital financing via margin reduction and/or reassessing working capital cycle route

10. Additionally, Small Industries Development Bank of India (SIDBI), launched various schemes to provide financial assistance to medium and small enterprises that are engaged in the manufacturing of products or offer services related to fighting the novel coronavirus, which has been declared a pandemic. Here are the details:

► Under SAFE (SIDBI Assistance to Facilitate Emergency response against Corona Virus) scheme, medium and small enterprises engaged in the manufacturing of hand sanitizers, masks, gloves, headgear, bodysuits, shoe covers, ventilators, goggles, testing labs, etc. can avail loans up to Rs. 50 lakhs at a fixed interest rate of 5% for a maximum loan repayment tenure of 5 years. Loans under the scheme are collateral-free and may be sanctioned within 48 hours of applying and submission of documents

► Under SAFE Plus scheme, SIDBI offers to provide emergency working capital of up to Rs 1 Crore @ 5% per annum to MSMEs against their confirmed government orders for products or services related to fighting the novel coronavirus

► Under SIDBI’s SMILE (SIDBI Make in India Soft Loan for Enterprises) a special window is opened for financing the healthcare sector including hospitals, nursing homes, clinics, etc. for requirements related to fighting Coronavirus
3 Key interventions proposed

As per our discussion with various MSME industries and industry bodies, a lot is still to be done to save and resurrect the MSME sector during the COVID19 crisis. We have summarized these recommendations based on category and urgency. Here are the details:

<table>
<thead>
<tr>
<th>Recommendations Category</th>
<th>Immediate Steps</th>
<th>Mid Term Steps</th>
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</table>
| **Addressing Tax and Compliances/Approvals related issues** | - Interest on late payment/deferment of taxes may be foregone till the situation becomes normal; the facility should apply to MSME enterprises having aggregate annual turnover of Rs 50 Crore or less  
- Delays in discharging social security liabilities may be condoned without any penal action for the next 6 months  
- Incentives/concessions due to MSMEs/industries at large under Central/State policy shall be disbursement to them on urgent basis  
- Both Central and State Government should allow industries to operate with the previously granted approvals (licenses/approvals/NoCs) till 31st March 2021, based on self-declaration; if this is not possible for all industry segments it should be done at least for white and green category industries and industries dealing in essential supplies such as medicines, medical devices, gloves, masks, PPEs, food items, etc.  
- Existing applications regarding approvals (licenses/approvals/NoCs) should be processed on a priority basis, within the next 30 days | - Developing an efficient (easy-to-apply, speedy and complete) system for transmission of incentives/concessions under Central/State Industrial Policy  
- Budget 2020 proposed to launch a scheme for giving subordinate\(^2\) debt to MSMEs stressing on the working capital challenge faced by the industry. This should be implemented as soon as possible to support MSMEs  
- The completion date of the state-sponsored projects needs to be reconsidered and extended without liquidated damages, till such time the fear of COVID-19 is over  
- New enterprises shall be allowed to start operations based on self-declaration |

| **Addressing Financial & Liquidity issues** | **Central Government, State Government, and PSUs should release all due payments (including GST refunds) to MSMEs** | **Interest subvention on all MSME loans till 31st March 2021; the aim should be to bring down the cost of capital for MSMEs to 5% per annum. This could also be done through the reduction of benchmark rates by** |

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\(^2\) Subordinated debt (also known as a subordinated debenture) is an unsecured loan or bond that ranks below other more secure loans or securities with respect to claims on assets or earnings.
• Loan moratorium and interest waiver/ subvention for MSME sector for at least 6 months; loan moratorium has already been provided by Govt for 3 months
• Loan Moratorium should be extended to the units active on TReDS platform
• Increase in cash credit limit for meeting the demand of working capital by at least 25%; though RBI, under LTRO window, has provided cheap credit to banks it must flow down to the industry immediately
• Loosening the norm that identifies the loan as NPA. This step would not only save the industry (borrower), it would help banks (lender) also
• Freezing loan accounts for a certain period, say for 03 months, can be considered
• Lending to MSME sector should be categorized as “core business activity” which otherwise is categorized under “priority sector lending”
• Fund of Funds for MSMEs as recommended by UK Sinha committee must be given shape on urgent basis

RBI. With demand at an all-time low, reduction in interest rate is not expected to increase inflation
• Greater measures and monitoring is required to ensure that banks lend to industry
• Using technology and new/ alternative lending routes/ models to reach out to a large section of MSME enterprises. NBFCs and Fintech lenders should be promoted by RBI to offer unsecured loan products to micro and small enterprises. Banks can engage with NBFCs and Fintech lenders through co-generation models

### Addressing Operational & Policy Related Issues

• Immediately allowing unrestricted movement of logistics thereby helping to unblock the entire transportation channels which are stuck at various levels currently - factory site, highways, and ports, etc.
• Waiver of electricity duty, electricity fixed charge, property tax, lease rent for at least 06 months to meet liquidity shortfalls, more so when these units are supporting the labour force by paying salaries
• Wage support subsidy shall be extended 50% of basic for the next 6 months, from 24% for the next three months; the eligibility criteria should also be related to

All policies and schemes related to MSMEs should be tweaked to suit to the COVID-19 situation - simplify/ relax guidelines
• Expand the scope of CGTMSE to bring additional loans under it
• The Government should work towards creating product/ sector-specific production clusters wherein the entire production value chain of the product/ sector is available. To make such clusters globally competitive the Government should intervene through incentives, world-class public infrastructure, viability gap funding, etc.
• To address skilled labour gap, every industrial area should be mapped with local training centers like ITI/ Polytechnic/ Engineering College/
<table>
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<th>Addressing issues faced by Export oriented units</th>
<th>Tool Room/ Others; required infrastructure can be developed in the selected centers through existing/new schemes</th>
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<tbody>
<tr>
<td>1. Creating a separate helpline and control room both at Central and State Government level to address export-related issues of industries.</td>
<td>1. Incentivize productivity and competitiveness improvement measures like digitization, automation, technology upgradation, etc. through simplified schemes</td>
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<td>2. Advising export-oriented units on export substitution in the short term</td>
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<td>3. The government may consider extending the export payment from 9 months to 12 months</td>
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<td>4. EPCG export obligation period be extended for 1 year</td>
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<td>5. Exports incentives under MEIS to be substantially increased, at least double of what they were earlier in MEIS for all sectors and products</td>
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<td>6. Exports incentives distribution should be made through cash transfer to the exporter rather than issuing licenses and import duty credits for 1 year</td>
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<td>7. Automatic revalidation of all duty-free authorizations for one year to enable the industry to import inputs at the right price with greater ease</td>
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<td>8. Considering the liquidity challenges and slow consumer spending, RBI should extend the remittance period from 9 months to 15 months</td>
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<td>9. Making an enabling environment for reviving exports through policy, incentives, and ease of doing business measures</td>
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<td>10. Provide/ increase transport subsidy for exporters for transporting goods to the ports; extend export transport subsidy to truck/train cargo to neighboring nations like Nepal, Bangladesh, and Bhutan</td>
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<tr>
<td>11. Development of a robust system for effective implementation of all export promotion schemes</td>
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Revival of MSME sector post COVID19 lockdown
4 Other key interventions required to resurrect industry

All recommendations mentioned above to save and resurrect industry will go in vain in the absence of consumer demand. Hence the Government should make every effort to revive consumer demand. Two basic levers for sustaining and reviving consumer demand are periodic flow/ availability of funds with consumers and higher disposable income, respectively. This translates into saving jobs and wages for the working class of the country, who are the major consumers. Here are the steps we recommend to save jobs and increase disposable income with Indian consumers:

a) Industry should be encouraged/ incentivized to save jobs and go for alternatives to retrenchment in really grim situations. Here are some alternatives to retrenchment -
   I. Temporary layoffs: employers can ask employees to stop coming to work for a short period. Employers, however, must pay 50% of the gross salary during the days they are temporarily laid off. Employers can also ask employees to take up to 50% of their annual leave and any layoff period cannot exceed three months
   II. Reducing workdays: Employers can implement a shorter working week for the next three months. In this situation, employees shall be paid on a pro-rata basis. However, in no situation net and gross salary of the employee can be less than 50% of what he was getting before the crisis

b) Steps Central Government could take to stimulate consumption/ spending -
   I. To stimulate spending at an individual level, personal income tax rates should be relaxed
   II. Additionally, GST rates need to be reduced
   III. All cesses and surcharges need to be eliminated for individuals
   IV. Interest-free EMI plan should be created for the purchase of auto, domestic holidays, domestically assembled consumer goods and real estate, in addition to personal tax rebates for auto and real estate purchases
Our offices

Ahmedabad
2nd floor, Shivalik Ishaan
Near, C.N Vidhyalaya
Ambawadi
Ahmedabad - 380 015
Tel: +91 79 6608 3800
Fax: +91 79 6608 3900

Bengaluru
12th & 13th floor
"U B City" Canberra Block
No.24, Vittal Mallya Road
Bengaluru - 560 001
Tel: +91 80 4027 5000
Fax: +91 80 6727 5000

Bengaluru
12th & 13th floor
"U B City" Canberra Block
No.24, Vittal Mallya Road
Bengaluru - 560 001
Tel: +91 80 4027 5000
Fax: +91 80 6727 5000

Bengaluru
12th & 13th floor
"U B City" Canberra Block
No.24, Vittal Mallya Road
Bengaluru - 560 001
Tel: +91 80 4027 5000
Fax: +91 80 6727 5000

Bengaluru
Ground Floor, 'A' wing
Divyasree Chambers
# 11, O'Shaughnessy Road
Langford Gardens
Bengaluru - 560 025
Tel: +91 80 6727 5000
Fax: +91 80 2224 0695 (13th floor)

Chandigarh
1st Floor
SCO: 166-167
Sector 9-C, Madhya Marg
Chandigarh - 160 009
Tel: +91 172 671 7800
Fax: +91 172 671 7888

Chennai
Tidel Park
6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: +91 44 6654 8100
Fax: +91 44 2254 0120

Delhi NCR
Golf View Corporate
Tower - B
Sector 42, Sector Road
Gurgaon - 122 002
Tel: +91 124 464 4000
Fax: +91 124 464 4050

Delhi NCR
3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity New Delhi - 110 037
Tel: +91 11 6671 8000
Fax +91 11 6671 9999

Delhi NCR
4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
NOIDA - 201 304
Gautam Budh Nagar, U.P.
Tel: +91 120 671 7000
Fax: +91 120 671 7171

Hyderabad
18, iLabs Centre
Hitech City, Madhapur
Hyderabad - 500 081
Tel: +91 40 6736 2000
Fax: +91 40 6736 2200

Jamshedpur
1st Floor,
Shantiniketan Building
Holding No. 1, S8 Shop Area
Bistupur, Jamshedpur - 831 001
Tel: +91 657 663 1000

Kochi
9th Floor “ABAD Nucleus”
NH-49, Maradu PO
Kochi - 682 304
Tel: +91 484 304 4000
Fax: +91 484 270 5393

Kolkata
22, Camac Street
3rd Floor, Block C
Kolkata - 700 016
Tel: +91 33 6615 3400
Fax: +91 33 6615 3750

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (west)
Mumbai - 400 028
Tel: +91 22 6192 0000
Fax: +91 22 6192 1000

Mumbai
5th Floor Block B-2
Nirion Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: +91 22 6192 0000
Fax: +91 22 6192 3000

Pune
C-401, 4th floor
Panchshil Tech Park
Yerwada (Near Don Bosco School)
Pune - 411 006
Tel: +91 20 6603 6000
Fax: +91 20 6601 5900
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