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INDUSTRY OUTLOOK

MSME INDUSTRY OF INDIA: OUTLOOK AND CHALLENGES

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Introduction

Micro, Small and Medium Enterprises (MSMEs), which are the growth driver of the Indian economy, are characterized typically by its informal nature with high employment-intensity, exports, substantial contribution to domestic GDP, operational flexibility with low investment requirement, etc. The significance of MSMEs stems, inter-alia, from the following facts:[1] a country-wide network of 63 million units. It provides employment to 110 million people. It contributes 30.3 per cent of GDP and 49.81 per cent of all India exports in the first three quarters of FY2020. Also, it is driver of growth and distributive equity globally.

"If I cannot do great things, I can do small things in a great way". Martin Luther King, Jr.

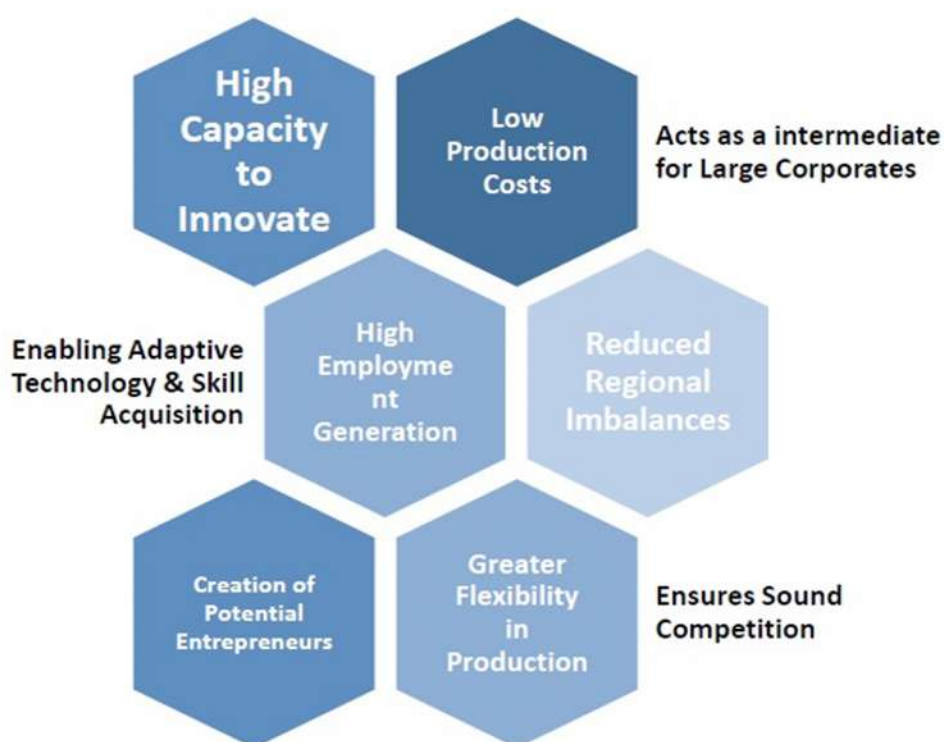


There are many women-led enterprises in rural, urban and semi-urban areas, which could potentially act as a catalyst to economic growth and structural transformation across the geographic and socio-cultural strata of the country. Hence there is a compelling need to leverage existing institutions and infrastructure to meet the crying needs of the MSMEs in general and 'new to credit' (NTC) and 'women-led' enterprises in particular.

The reasons for fast growth of MSMEs in India relate to the following factors:

- i) The enactment of MSMED Act 2006
- ii) Measures initiated by Government of India and RBI
- iii) Low Investment requirements
- iv) Location wise mobility
- v) Operational flexibility
- vi) Competitiveness in domestic and export markets
- vii) Indigenous technology- local requirements.

While there is a strong case for a deterministic small scale industry thesis, recent developments, such as the inexorable forces of demonetization, the rolling out of the Goods and Services Tax and COVID 19 have forced the sector to look at the future with some trepidation.



SMEs are the Engines of Development - generate employment, creates environment for entrepreneurship, promotes innovation and enhance inclusive growth, leveraging local resources

Definitional and Conceptual issues

The issue of definition of MSMEs/small and medium enterprises assumes importance because this definition is not uniform across countries with there being 60 definitions in 75 countries. In most cases, the criteria are the size of employment and quantum of capital investment/fixed assets. While in European Union (EU) countries, the defining characteristic is SME employing less than 500 employees, in the case of East Asia, the employment threshold is 50-100 workers. MSME definition was amended on 1st June 2020 [2] (which came into effect from 1st July 2020), since announcement of 'Atmanirbhar' package; the turnover limit for medium enterprises was revised upward to ₹250 crore from ₹100 crore as announced earlier. The new definition was brought after MSME Development Act 2006. Turnover limit increased up to ₹250 crore and investment limit raised to ₹50 crore (see Table 2).

Change in Definition of MSME

Table 1: Old criteria: Based on Investment in Plant and Machinery

S. No.	Classification	Micro	Small	Medium
1	Manufacturing enterprise	Investment < ₹ 25 lakh	Investment < Rs 5 crore	Investment < ₹10 crore
2	Service Enterprise	Investment < ₹ 10 lakh	Investment < ₹ 2 crore	Investment < ₹ 5 crore


Source: Press Information Bureau (PIB) (3 June 2020); <https://pib.gov.in/PressReleasePage.aspx?PRID=1628925>

New criteria: Based on Investment in Plant and Machinery and Turnover

As per the decision of the Union Cabinet of February 7, 2018 [3], the definition of MSMEs in India underwent a significant change.

Cabinet Decision
February 7, 2018

Change in classification criteria of MSMEs



- Cabinet approves change in the basis of classifying Micro, Small and Medium Enterprises (MSMEs) from 'investment in plant & machinery/equipment' to 'annual turnover'
- Section 7 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 will accordingly be amended to define units producing goods and rendering services in terms of annual turnover as follows:

Classification	Annual Turnover	Impact
Micro Enterprise	Less than or equal to Rs. 5 crore	Will encourage ease of doing business
Small Enterprise	More than Rs. 5 crore but does not exceed Rs. 75 crore	Will make norms of classification growth-oriented
Medium Enterprise	More than Rs. 75 crore but does not exceed Rs. 250 crore	Will align classification norms to the new tax regime revolving around GST

[At present, the MSMED Act (Section 7) classifies MSMEs on the basis of investment in plant and machinery for manufacturing units, and investment in equipment for service enterprises]

Subsequently, there were some further changes as detailed below:

Table 2: New Classification of MSME Based on Investment in Plant and Machinery and Turnover

Manufacturing and Services	Micro	Small	Medium
Now, manufacturing & Service are not differentiated	Investment < ₹ 1 crore And Turnover < ₹ 5 crore	Investment < ₹ 10 crore And Turnover < ₹ 50 crore	GoI decision on 1 June 2020: Investment < ₹ 50 crore And Turnover < ₹ 250 crore (Now in force)

Source: Press Information Bureau (PIB) (3 June 2020); <https://pib.gov.in/PressReleasePage.aspx?PRID=1628925>

Interestingly, a Livemint news [4] analysis using CMIE Prowess firm level database showed that that the new definitions have excluded some small firms from the earlier inclusions. The bulk of the new entrants are in the largest sub-segment (medium enterprises) [see following Table 3] and a small fraction in the micro segment. The small segment actually saw 496 firms (nearly 9 per cent firms) excluded based on the new definition.

Table 3: Most of the New Inclusions are in the 'Medium' Category

Sl No.	Category (micro/small/medium)	Old Definition	New Definition	New Inclusions	New Exclusions
1	Micro	2873	3006	133	
2	Small	5751	5255		-496
3	Medium	2129	5872	3743	
4	MSME (Total) (Micro+Small+Medium)	10,753	14,133	[(3743+133) = 3876-496] = 3380 (Net Inclusion)	
5	Large (Non-MSME)	9687	6307		-3380
	Total	20,440	20,440	7123	-3876

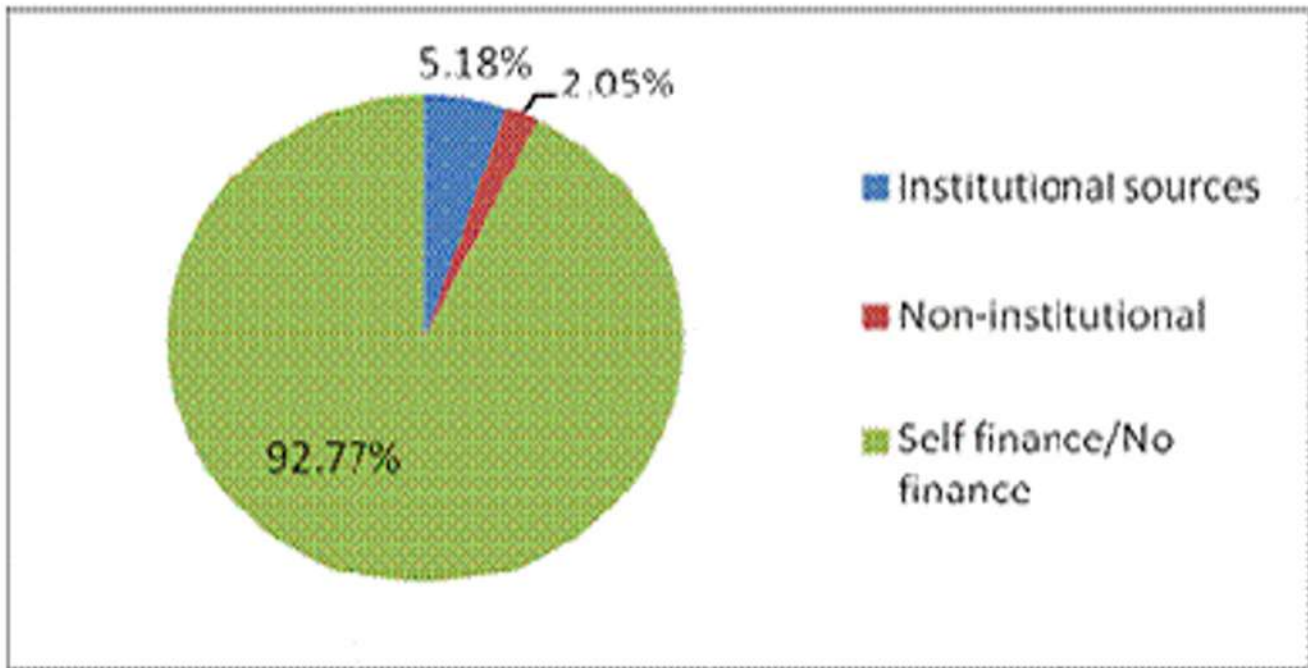
Source: "Why MSME Package Won't Make Small Businesses AtmaNirbhar" (27th July 2020) Livemint. Available at <https://www.livemint.com/news/india/why-msme-package-won-t-make-small-businesses-atma-nirbhar-11595836717377.html>

Centrality Of Finance

In terms of the 4th Census of MSMEs, only 1.5 million units (6 per cent MSMEs) are registered and 94 per cent unregistered. It is disconcerting to note that only 25 per cent of MSMEs avail finance from banks/financial institutions; 75 per cent source funds from promoters, friends and relatives, etc. An important study by CAF, ISB, Hyderabad revealed that over 50 per cent financing for MSMEs comes from non-bank, non-market sources. In terms of CGTMSE, Collateral free loans to MSMEs upto Rs.200 lakh (upto Rs. 100 Lacs for Retail Trade) to Micro & Small Enterprises, as defined under MSMED Act, 2006. The coverage of the Scheme has been extended to all new and existing Micro and Small Enterprises (both in the Manufacturing Sector as well as in the Service Sector) as defined under MSMED Act, 2006.

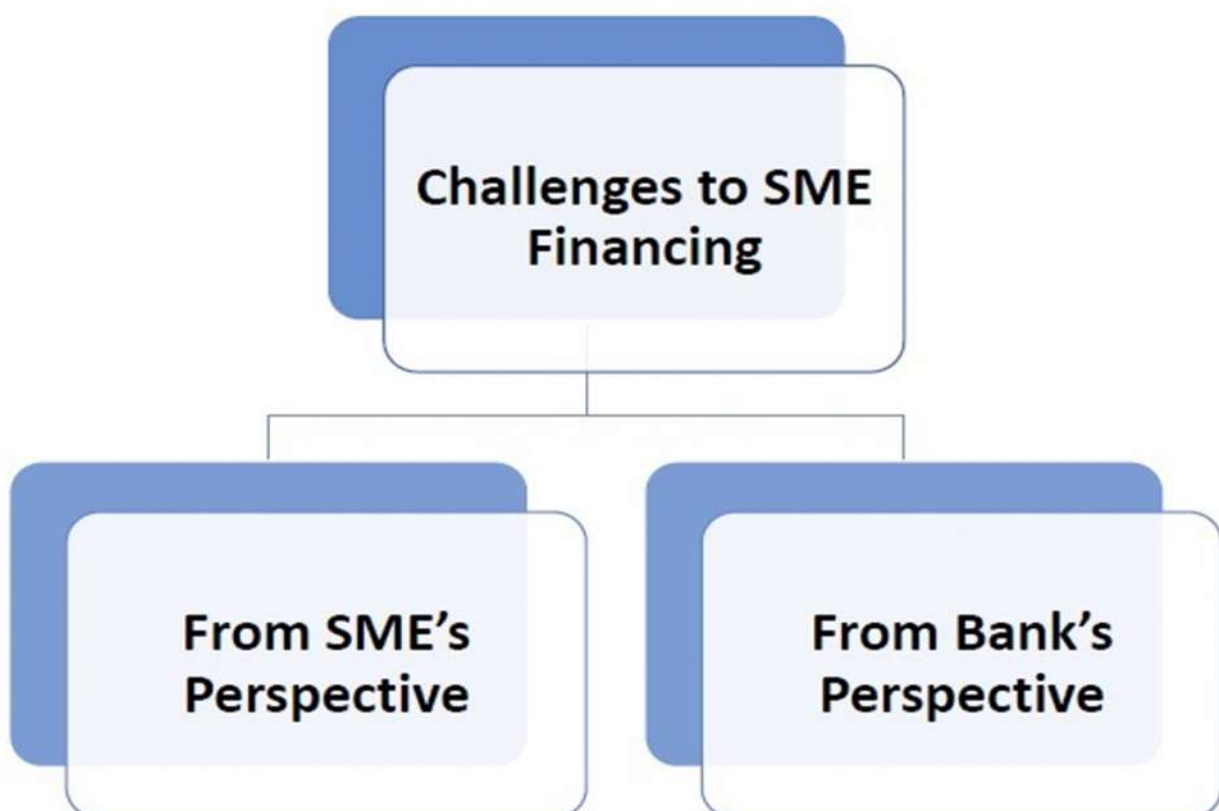


Chart-1.1 : Financial Exclusion in MSME Sector



In terms of CGTMSE, Collateral free loans to MSMEs upto Rs.200 lakh (upto Rs. 100 Lacs for Retail Trade) to Micro & Small Enterprises, as defined under MSMED Act, 2006. The coverage of the Scheme has been extended to all new and existing Micro and Small Enterprises (both in the Manufacturing Sector as well as in the Service Sector) as defined under MSMED Act, 2006. All Scheduled Commercial Banks (SCBs) have invariably a MSE Loan policy, Restructuring / rehabilitation policy and Non-discretionary One Time Settlement (OTS). Given the staggering requirements, the avowed national policy and the implications of sustained growth of MSMEs for both economic growth and distributive equity in the country, interventions are required to (i) ease access to finance, (ii) ease working capital requirements, (iii) mitigate risk for MSMEs

The challenges faced in availing finance could be seen basically from two points of view-from the perspective of MSMEs and the perspective of banks:



The challenges faced in availing finance from the perspective of MSMEs are the following:

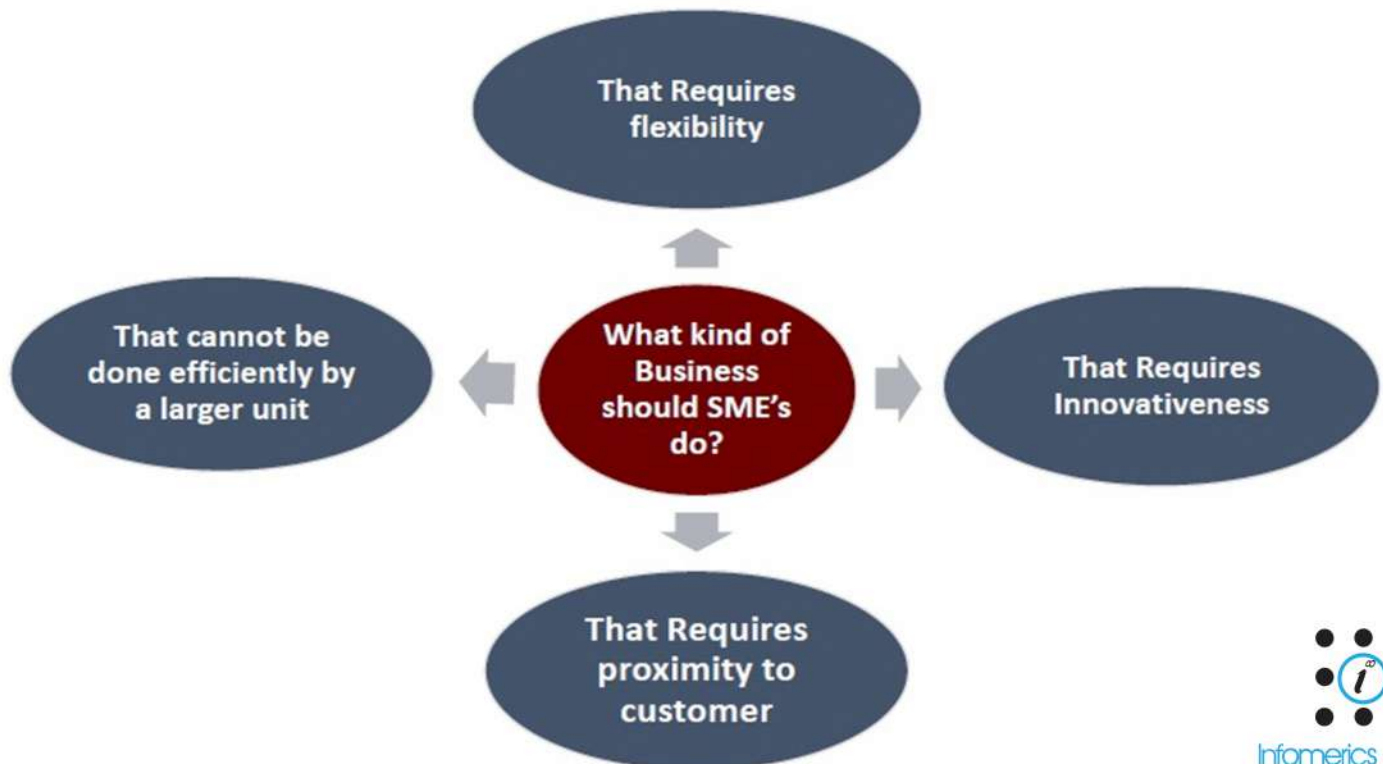
- 1. Nearly 85 per cent of MSMEs suffer from "credit constraint".
- 2. Approximately 70 per cent do not use "formal credit".
- 3. Informal credit is costlier with stringent requirements.
- 4. Nearly 23 per cent of MSMEs disappear in two years and nearly 52 % exit the market in four years due to business failure, bankruptcy or other reasons.

The coping strategy from the SME's perspective could be as under:

From the SME's perspective



From the SME's perspective



The challenges faced in availing finance from the perspective of bankers are the following:

- 1, Marked “informational asymmetries”
2. Intrinsic “higher risk”
3. Sizeable “transaction costs”
4. Lack of collaterals
5. Lack of “credit bureaus”

In an attempt to provide an impetus to lending to MSMEs, several mandatory lending targets have been prescribed by the Government of India. These targets relate to:

- ☒ 20 per cent year on year growth in lending to MSEs (micro and small enterprises)
- ☒ 10 per cent annual growth-number of micro-enterprises accounts
- ☒ 40 per cent of total advance to MSE should go to Micro.
- ☒ 20 per cent of total advance should go to MSEs.
- ☒ 60 per cent of total lending should go to MSEs.

Given that the assessed debt demand of MSMEs is ₹ 69.311 lakh crores, of which only 16 per cent (₹10.9 lakh crore) is formally financed, these targets are of considerable contextual significance in driving MSME lending in India.

It is greatly disconcerting to note that despite concerted and coordinated efforts made by the Government of India, the Reserve Bank of India and various segments of the institutional credit system in India, the high cost of informal borrowing (almost 40 per cent), which exceeds twice that of formal borrowing, severely strains the finances and the cash flows of MSMEs in India. New banks and NBFCs are changing the rules of the game for MSMEs and making such loans more affordable and less hassle-free. This is why going forward, formal lenders (banks and NBFCs) could meet the potential demand of underserved MSMEs in a much greater measure. Towards this end, there has to be an accent on encouraging supply chain financing on both ends, viz., vendor finance and also dealer finance with the support of the anchor bank; online Invoice Discounting Platform introduced by the RBI; pre-approved loans based on bank’s CIBIL scores/past default history; fast track products/schemes by various banks with lenient terms. Such welcome measures, which focus on transparency and regulatory compliance to further gain confidence of the formal financial channel, would also bolster both the top and bottom-lines of the institutional credit system in the country.

In the case of MSMEs, issues of cost, adequacy and timeliness of credit; non-insistence on collaterals for loans covered under CGMSE of Credit Guarantee Fund Trust; small value accounts with high transaction costs; poor knowledge level of bank staff; scrupulous implementation of the Delayed Payments Act by the Parliament; sickness, high delinquency rates and NPA management; non-rating/inadequate external rating are of utmost importance. Other important aspects hampering the salubrious growth of the sector include insufficient books of account, bills, invoices creditor/debtor details; improper financial statements; inadequate information; lack of compliance to statutory requirements; diversion of funds for non-productive purpose or working capital funds for fixed investment requirements and delayed execution leading to cost and time overruns and heavy borrowing from outside sources. MSMEs require timely and affordable loans. Despite the clear guidelines of the Government of India and the Reserve Bank of India, banks are unable to fully meet the needs of direct lending to MSMEs because of high customer acquisition cost caused by low ticket size loans given the low digital penetration among MSMEs;

b) MSMEs' reluctance in contacting banks because of lack of complete plans and documentation required by banks and c) the misconceived thrust (which could devastate the balance-sheets, should such loan accounts go bad) on extending large ticket loans for industry and infrastructure to expand balance-sheets.

Off-suggested measures, such as, involving the banks and financial institutions in a greater measure, enhanced flow of credit to micro-credit, simplification and facilitation of loan procedures, processing and documentation and strict measures to check default, particularly willful default by recalcitrant borrowers could partially help to overcome the problems of grossly inadequate and inordinately delayed credit to MSMEs. Given high and rising NPAs of PSBs in the MSMEs, FinTech, private sector banks and NBFCs, which have markedly lower sectoral NPAs can drive sustained growth in bank lending to MSMEs. The Government of India and the Reserve Bank of India have spearheaded attempts to accelerate formalization of MSMEs. Increasing digitization of MSMEs is largely attributable to data connectivity, demonetization and a maturing data infrastructure across the board. Considered in a proper historical and comparative perspective, data connectivity shifts in India have truly been extra-ordinary but there is a compelling need to go to scale and make such efforts sustainable over the long haul.

Despite the Government of India mandating a 45-day repayment period under the MSMED Act 2006, the issue of delayed payments and working capital mismatch has been an issue of long-standing concern to the MSMEs in India. It has been estimated that total outstanding payment by buyers to registered MSMEs in India could be about ₹15 lakh crore with the average payment period for MSMEs being in the range of 3 to 6 months and is customarily inversely proportional to the size of the enterprise. Towards this end, supply chain financing (SCF), enhancing capacity on 'digital invoice generation' and heightened consciousness could partially alleviate the ills of the sector in this crucial respect.

To enable MSMEs to adapt themselves to the emerging environment and to promote the growth of small scale and tiny sector in the desired manner, there is a compelling need to focus on four basic factors in influencing the development of MSMEs - marketing, credit, technology and infrastructure. While the fostering of a conducive ecosystem for the MSMEs is a function of various forces and factors, some basic contextually significant factors could be identified and isolated. These factors relate to "Seed" (entrepreneurial mindsets and skills), "Soil" (infrastructure, connectivity, access to markets, access to credit/capital) and "Climate" (local culture, role models, and ease of doing business) to succeed in these volatile times.

Financing Issues and Bad Assets of MSME

The deployment of bank credit towards MSME showed moderate uptick in by March 2021 compared to March 2020, in Micro & Small category, although this increase of 2.5 per cent is less than what was observed in the deployment of credit which increased to 3.2 per cent from March 2019 to March 2020. In Medium category, the credit saw a decline of 4.4 per cent from March 2019 to March 2020 but saw a huge jump of 57.8 per cent in the subsequent year (see Table 4: Deployment of Bank Credit to MSME).

Category	Outstanding as on (₹ crore)			Variation (%)	
	29 th Mar,2019	27 th Mar,2020	26 th Mar,2021	27 th Mar,2020 / 29 th Mar,2019	26 th Mar,2021 / 27 th Mar,2020
Micro & Small	1046690	1080373	1107236	3.2	2.5
Medium	136633	130588	206122	-4.4	57.8

Source: RBI Press Release (30th April 2021) on Sectoral Deployment of Bank Credit – March 2021.

Note1 – Micro and Small Enterprises include credit to micro and small enterprises in manufacturing and services sector and include Priority Sector Lending Certificate (PSLCs).

Note2 – Medium Enterprises include credit to medium enterprises in the manufacturing and services sector.

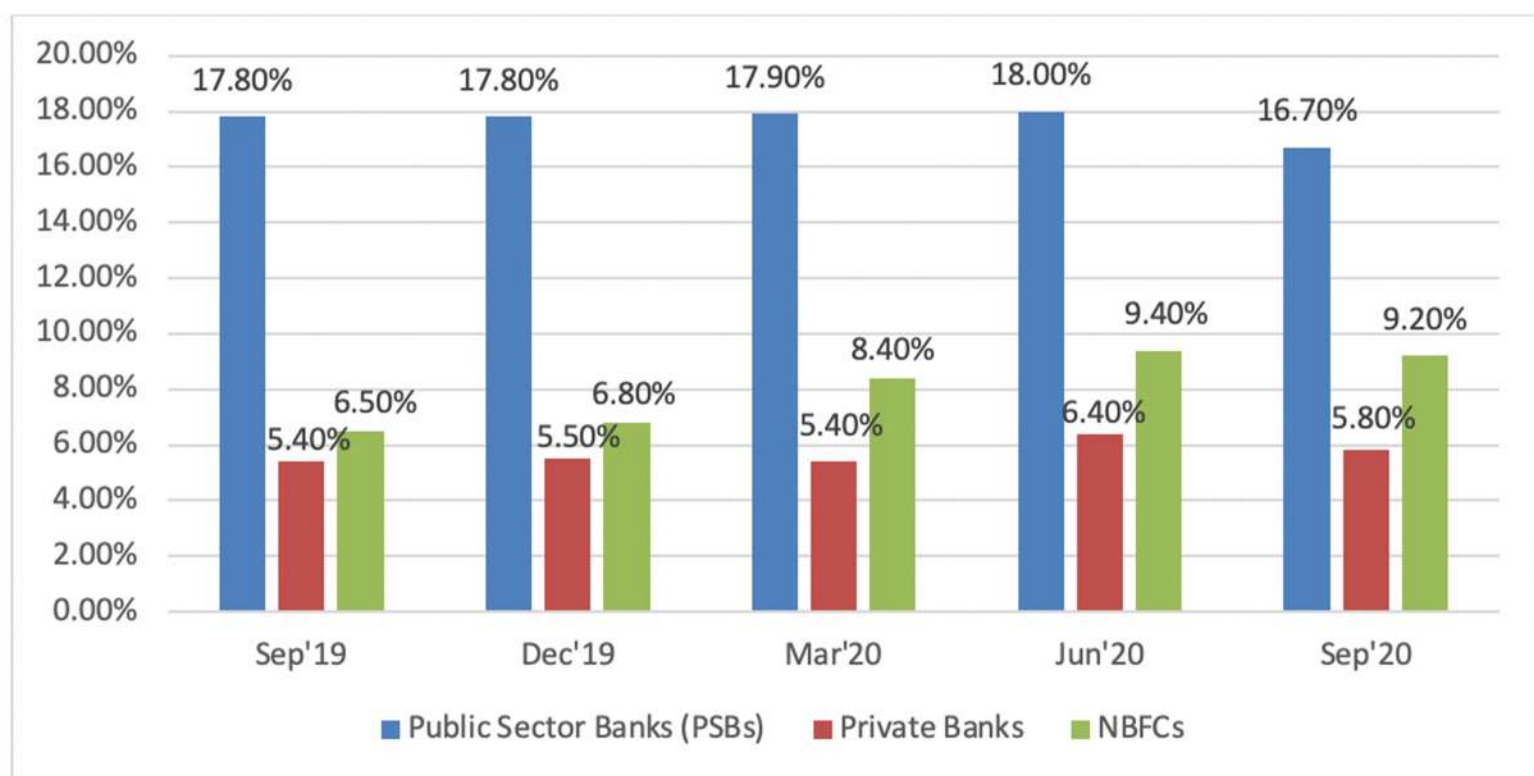
Available at https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51507 .

Despite the increase in credit disbursement, there remains a gap in the 'amount needed' and 'amount disbursed' to the sector. For example, an IFC report in November 2018, stressed that promoter of more than 22 million MSME in India have to depend on their own funds, or loans from friends and families for capital requirement. Such sources remain often inadequate or expensive. The credit gap was estimated at ₹25.8 trillion (USD 348 billion) that implied that MSME's financing needs will increase at a rapid pace. [5]

Moreover, enterprises need institutional sources of debt and equity. But debt from Banks/NBFCs requires collateral, which sometimes becomes difficult for early-stage MSMEs and entrepreneurs. Hence, the aspect of risk capital/equity becomes crucial for many small-scale operators' working capital [6]. In this regard, the Government of India (GoI) has initiated the setting up of Funds of Funds (FoF) with a corpus of ₹10,000 crore, for providing equity funding for MSMEs with growth potential [7].

The bad loan ratio in the MSME segment stood at 12.1 per cent for Sep'20 which is marginally lower from 12.5 per cent as were on Sep'19. [8] But it can be seen that before Sep'20 quarter, NPA rates kept on rising across lenders on loans to MSMEs (see Figure 1) and it is only in Sep'20 quarter that the segment has improved a bit.

Figure 1: GNPA Rates of Lenders to MSME over the Quarters (in per cent)



Source: MSME Pulse, 2021 by SIDBI and TransUnion CIBIL.

Available at <https://www.sidbi.in/files/article/articlefiles/2021-02-18-194143-gkaq4-MSME-Pulse-Feb-2021.pdf>

Government Measures

The government has been keen on reviving the MSME sector and has taken various reforms and measures, including the change in definition (as discussed above), some of which are listed below: -

- **Credit to MSME Entrepreneurs:** With a view to incentivize credit flow to the micro, small, and medium enterprise (MSME) borrowers, in February 2021 Scheduled Commercial Banks could deduct credit disbursed to new MSME borrowers from their net demand and time liabilities (NDTL) for calculation of the cash reserve ratio (CRR). In order to further incentivize inclusion of unbanked MSMEs into the banking system, the RBI stated that the exemption currently available for exposures up to ₹25 lakh and for credit disbursed up to the fortnight ending October 1, 2021, has been extended till December 31, 2021. [9]

- Resolution Framework 2.0: Borrowers i.e., individuals and small businesses and MSMEs having aggregate exposure of up to ₹25 crore and who have not availed restructuring under any of the earlier restructuring frameworks (including under the Resolution Framework 1.0 dated August 6, 2020), and who were classified as 'Standard' as on March 31, 2021, shall be eligible to be considered under Resolution Framework 2.0. Restructuring under the proposed framework may be invoked up to 30th Sept. 2021 and shall have to be implemented within 90 days after invocation [10].

- Collateral free automatic loans of ₹3,00,000 crore for standard MSMEs: These loans will have a tenure of 4 years, 12-month moratorium on principal repayment and do not require any fresh collateral or guarantee fee. The banks and NBFC extending this credit are to be provided 100% credit guarantee cover by the government on interest and principal. These loans were to be initially availed till 31 October 2020 [11] which later got extended till 30th June 2021. [12] These measures are estimated to benefit 45 lakh units.

- ₹20,000 crores subordinate debt provision for stressed MSMEs: Two lakh MSME which are NPA or are stressed can avail of this facility. Government will provide ₹4,000 crores as Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) who will in turn provide partial credit guarantee support to banks. The debt given by the banks will be used to infuse equity in the unit by the promoter [13]. This scheme has been extended from 31st Mar'21 to 30th Sep'21. [14]

- ₹50,000 crore equity infusion into MSMEs that have potential and viability through fund of funds: Fund of funds (FoF) with a corpus of ₹10,000 crore to be set up. Only ₹10,000 crore will be from the Budget presumably. The rest would be leveraged through mother funds and daughter funds.

The above measures are complemented with some general measures to reduce the burden of atrocities that are being faced by people related to this industry. Some of them are highlighted below: -

- Pre-packaged Insolvency Process (PPIP): This is a new provision that has been added by the government in April'21 [15] which allows the 'corporate debtors' and 'creditors'[16] to jointly pass a pre-packaged resolution in case of insolvency to maximize the value of assets of the corporate debtor and promote entrepreneurship while balancing the interests of all stakeholders.

- Separate Production Linked Incentives (PLIs): NITI Aayog is considering a separate PLI scheme for MSMEs since most of the PLI schemes benefits the larger enterprises and smaller ones get devoid of any benefit whatsoever. The plan is under talks and may soon be out for implementation [17].

- SIDBI Assistance to Healthcare Sector in War Against Second Wave of COVID-19 (SHWAS): The scheme entails providing term loans and working capital term loans for purchase of equipment/machines up to 2 crores with rate of interest being 4.50 per cent to 5 per cent per annum with up to 60 months of repayment period along with 12 months moratorium [18].

- SIDBI Assistance to MSMEs for Recovery & Organic Growth During COVID-19 Pandemic (AROG): The scheme entails providing term loans and working capital term loans for purchase of equipment/machines up to 2 crores with rate of interest being 5.50%-6% per annum with up to 60 months of repayment period along with 12 months moratorium [19].

- Liquidity Facility of ₹15,000 crore to SIDBI: To support the continued flow of credit to the real economy in the aftermath of the COVID-19 pandemic, SIDBI will be sanctioned ₹15,000 crore for a period of up to one year. This facility will be available at the prevailing policy repo rate [20].

Apart from the above measures, Government of India (GoI) has taken many measures to revive the MSME sector. The budget allocation for MSMEs, for example, increased from ₹6,552 crore in FY 2018-19 to ₹7,572 crore in FY 2020-21 to more than doubling it at ₹15,700 in FY 2021-22; [21] automation and digitization of the processes of business loans through launch of web portal www.psbloansin59minutes.com; Interest Subvention Scheme for Incremental Credit to MSMEs; disbursement of record credit under Credit Guarantee Scheme for Micro & Small Enterprises; new Technology Centers; launching of MSME Samadhan Portal for delayed payments and Sambandh Portal for Public Procurement Policy, CHAMPIONS portal etc.

The performance of one such scheme, i.e., Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), which is mainly a demand centric scheme, is given below.

Table 5: The Performance of the Credit Guarantee Scheme

Year	Number of Proposals Approved	Approved Amount (₹ Crore)
2017-18	2,63,195	19,065.90
2018-19	4,35,520	30,168.57
2019-20	8,38,947	45,215.35
2020-21	6,19,687	31,349.39

Source: CGTMSE; <https://dashboard.msme.gov.in/cgtmse.aspx>

During the month of March 2021, (as on 25.03.2021) as per the data provided by CGTMSE, 95,361 guarantees have been approved involving an amount of ₹3,468.84 crore. During the current FY 2020-21 (from 01.04.2020 to 25.03.2021), a total of 6.98 lakh guarantees have been approved involving an amount of ₹33,881.51 crore. [22]

Additionally, the World Bank has announced a USD 750 million package on 2nd July 2020 for India's medium and small enterprises, in line with its fight against Covid-19. The MSME Emergency Response Program, launched on 2nd July 2020, will address liquidity and credit needs of some 1.5 million enterprises to help them withstand the current shock [23]. The World Bank Group, including its private sector arm – the International Finance Corporation (IFC), will support the government's initiatives to protect the MSME sector by:

- **Unlocking Liquidity:** This program will support government's efforts to channel that liquidity to the MSME sector by de-risking lending from banks and Non-Banking Financial Companies (NBFCs) to MSMEs through a range of instruments, including credit guarantees.
- **Strengthening NBFCs and Small Finance Banks (SFBs):** Improving the funding capacity of key market-oriented channels of credit, such as the NBFCs and Small Finance Bank (SFBs), will help them respond to the urgent and varied needs of the MSMEs. This will include supporting government's refinance facility for NBFCs. In parallel, the IFC is also providing direct support to SFBs through loans and equity.
- **Enabling financial innovations:** Only about eight percent of the MSMEs are served by formal credit channels. The program will incentivize and mainstream the use of fintech and digital financial services in MSME lending and payments. Digital platforms will play an important role by enabling lenders, suppliers, and buyers to reach firms faster and at a lower cost, especially small enterprises who currently may not have access to the formal channels.

Industry Risk

While India was still grappling with the adverse impact of the Covid-19 pandemic, the second wave caused untold devastation to lives and livelihoods. There have, however, been some cases of States weathering the storm reasonably well. For example, Maharashtra, which contributes substantially to GDP (around 15 per cent), addressed the second wave of Covid-19 reasonably well, and allowed many MSMEs to operate except for overcrowding [25]. But despite a clear agreement across the board on the significance of MSMEs, it remains vulnerable to diverse macro-economic and business shocks. Labour issues also remain a challenge, and given the last year's unpleasant experience many migrant workers also considered returning to their villages fearing a possible nationwide lockdown.

The economic lockdown imposed in the country on 23rd March 2020 amid the Covid-19 pandemic outbreak devastated the entire economy. This was starkly reflected in a 23.9% GDP decline in the First Quarter (April-June) Q1 2020. The economy remained shuttered even after the lockdown was partially relaxed on 4th May 2020. The MSMEs and the workers employed therein were among the worst hits of the economic lockdown. Many workers lost their jobs. The myriad ills of the sector were exacerbated by a nationwide lockdown. Lack of cheap capital (especially for non-investment grade firms), and labour shortages pose further challenges. Post lockdown, many dealers failed to mobilize raw materials, as well as faced cash flow problems. The scenario did not significantly improve for the sector amidst the second wave of COVID. The assets look stressed and so is the business. In view of such debilitating hit to the sector, why several deadlines of relief packages were extended this year.

Most MSMEs are saddled with idle capacity because of deficient demand for their products. In the event of persistence of this situation, firms will be constrained to lay off workers, laid-off workers will lose their salaries, which will further dampen demand. Orders for new investments and raw materials will be delayed or cancelled. While some MSMEs are beset with several challenges, other major challenges relate to fund crunch, most MSMEs being below investment grade and unable to access Centre's relief packages.

As Economic Times (24th Sep'2020) reported, only half of the targeted MSME benefitted from the government's Emergency Credit Line Guarantee Scheme (ECLGS) [26]. Of the 4.5 million MSMEs eligible for relief under the scheme launched after the Covid-19 pandemic only 2.4 million (53 per cent) secured loans [27]. According to CreditWatch, a data intelligence firm, the number of companies qualified to avail benefit under ECLGS are those companies having access to institutional credit which is very less, around 5-10 per cent of the SMEs [28].

MSMEs are facing difficulties in repayment of loans taken under the Emergency Credit Line Guarantee Scheme (ECLGS), a scheme the Govt unveiled in May 2020 to help MSMEs in combating the hardships posed by the Covid-19 pandemic. Many MSMEs are reluctant in approaching for new loans, fearing their inability to repay previous loans, and instead they are asking for further extension of moratorium period or restructuring of existing loans.

Challenges also arise in MSME lending due to the difficulties in carrying out credit appraisals of firms in the sector due to lack of credit history and reliable financial statements. Sometimes, lenders need to spend huge time and effort in making their assessments resulting in high transaction costs as well as occasionally lenders prefer to lend on the basis of the mortgage of entrepreneur's personal property, which might exclude high-potential MSMEs unable to offer such security. However, lenders in recent times have resorted to digital information as developments in digitization have resulted in the availability of new sources of information.

Such developments have led to the emergence of digital financiers (often fintech startups) providing online loans based on digital information and artificial intelligence. Online marketplaces are emerging, though in nascent stage; where MSME lenders and borrowers can transact [29].

Engel Schmidl [30] has demonstrated that the businesses that performed well in the aftermath of the COVID 19 pandemic were the ones that were nimble, pro-active, dynamic and resilient. This study was conducted in the context of the United Kingdom and Australia but on the basis of our limited study, similar findings emerge in the case of India.

CPA Australia Asia-Pacific Small Business Survey 2020-21

What were the top 5 major actions that small businesses that did not grow or shrank in response to COVID-19 (all markets):

Major action	% of high-growth businesses that took action
Began or increased your focus on online sales	32.8%
Increased investment in technology	30.8%
Made substantial changes to the product/service you sell	28.9%
Made major changes to your business plan or restructured	27.2%
Asked your debtors to pay early	25.9%

What were the top 5 major actions that small businesses that did not grow or shrank in response to COVID-19 (all markets):

Major action	% of no-growth businesses that took action
Reduced capital expenditure	25.4%
Sought government support and subsidies	23.6%
Closed temporarily	19.8%
Reduced staff numbers/costs	19.2%
Began or increased your focus on online sales	18.2%

Enhancing Competitiveness of MSMEs

Enhancing competitiveness of MSMEs is a tall order and requires, inter-alia, thrust on the two pillars of enhancing financial access and ensuring adequate support. There has to be an accent on growth of infrastructure with private participation, strengthening of MSME clusters, setting up industrial parks and growth centers, liberal financing by banking sector on competitive terms and minimum regulatory interventions.

The sectors of focus are: Textiles / garments / hosiery, Bio-technology / drugs & pharmaceuticals, Food processing, Rice shelling, General engineering, Electrical & electronic components, Auto components / ancillaries, Sports goods, Leather, Handicrafts, Gems & jewellery and Information technology / ITES.

MSME-Bank Strategies

☒ Rising Banks MSME credit with growth rate of 10-12 % in the year 2021-22.

☒ Improved credit risk management system

☒ Cluster based approach

☒ Bill / invoice discounting

☒ E-banking

☒ Credit Rating

☒ Credit guarantee

There has to be a renewed thrust on follow up, monitoring & review.

☒ Objective of supervised credit-

i. Ensuring end use of funds

ii. Inspecting whether activity levels as per projections maintained

iii. Ensuring repayment of bank loans as per schedule fixed

☒ Systems and formats for these functions

☒ Documentation to safeguard bank's interest

☒ Disbursement in stages to ensure end-use

The Way Forward

With a whole range of relief packages and measures announced, the government must ensure now that the measures announced are fully implemented and ensure that those reach the needful. This ranges from simple documentation, easy access, cost effective measures to encompass the needful. As discussed above, many MSMEs are still outside the purview of the reforms announced or may simply get ruled out due to the complex and cumbersome procedure. Therefore, it becomes imperative for the government to streamline the process and make it hassle-free. The MSME sector needs a 'concentrated, right kind' of relief package that entails some sort of relief, direct benefit, working capital loan, etc. for people related to street vending, shopkeeping, small trading etc. [31]



There is also a need to explore measures, which would boost demand in the economy in the form of direct benefit transfers, resuming infrastructure projects, developing rigorous health infrastructure etc. With the third wave a distinct possibility, apart from massive vaccination campaign, specific issues/problems of the MSME sector need to be addressed with a sense of urgency. This is particularly important in view of the magnitude, GDP contribution, and the sheer number of livelihoods associated with it. Steady development of MSMEs requires (a) timely, adequate and low-cost credit, (b) technological upgradation, (c) vastly improved infrastructural facilities all along the line and (d) a systemic approach to market promotion through thrust on need-identification, optimum use of local resources upgrading of skills and capabilities, market research, inter-institutional synergy, committed NGOs and industry associations, good consultants and service providers.

As the Kapur Committee stressed, MSMEs need “to develop a global vision, respond to more demanding standards of customers, identify the patterns of shifting value and craft the key strategies that will leapfrog them ahead of competition”. This is a humungous task and necessitates synchronized action by all stake-holders in financing MSMEs - financiers, Central and State governments, regulators, corporates / PSUs, insurers, industry associations, and most importantly, MSMEs themselves to realize the avowed goals of development. Some examples of innovative out of box thinking include welcome initiatives Make in India, Digital India and ‘Skill India’ campaigns. But such initiatives need to be significantly upscaled and the success stories replicated on a wider national level.

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