

REPORT NO.

**308**



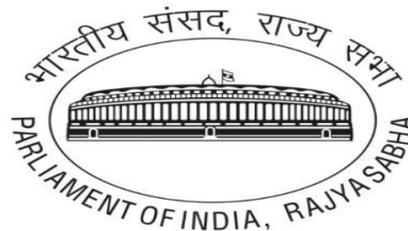
**PARLIAMENT OF INDIA**  
**RAJYA SABHA**

DEPARTMENT-RELATED PARLIAMENTARY STANDING COMMITTEE  
ON INDUSTRY

**THREE HUNDRED AND EIGHTH REPORT**  
ON  
IMPACT OF COVID-19 PANDEMIC ON MSME SECTOR AND  
MITIGATION STRATEGY ADOPTED TO COUNTER IT  
PERTAINING TO  
THE MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES

*(Presented to the Rajya Sabha on 27<sup>th</sup> July, 2021)*

*(Laid on the Table of Lok Sabha on 27<sup>th</sup> July, 2021)*



**Rajya Sabha Secretariat, New Delhi**  
**July, 2021/ Shravana, 1943 (Saka)**

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सत्यमेव जयते

**Rajya Sabha Secretariat, New Delhi**  
**July, 2021/ Shravana, 1943 (Saka)**

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\*To be appended later

## **COMPOSITION OF THE COMMITTEE**

(Constituted w.e.f. 13<sup>th</sup> September, 2020)

1. **Dr. K. Keshava Rao**

-

*Chairman*

### **RAJYA SABHA**

2. Shri Birendra Prasad Baishya
3. Shri Subhasish Chakraborty
4. Shri Shwait Malik
5. Shrimati Ranee Narah
6. Shri Subhas Chandra Bose Pilli
7. Shri K.C. Ramamurthy
8. Shri Sanjay Seth
9. Dr. Ameer Yajnik
10. Vacant\*

### **LOK SABHA**

11. Shri Hanuman Beniwal
12. Ms. Mimi Chakraborty
13. Shri Bharatsinhji Shankarji Dabhi
14. Shri Hemant Tukaram Godse
15. Dr. S. T. Hasan
16. Ms. S. Jothimani
17. Shri Mohanbhai Kalyanjibhai Kundariya
18. Shri Ravindra Kushawaha
19. Shrimati Poonamben Hematbhai Maadam
20. Shri Bidyut Baran Mahato
21. Shri Rampreet Mandal
22. Shri Vincent H. Pala
23. Shri Chirag Paswan
24. Shri T. R. V. S. Ramesh
25. Shri Y. S. Avinash Reddy
26. Shrimati Gomati Sai
27. Shri Ravindra Shyamnarayan Shukla *alias* Ravi Kishan
28. Shri Sunil Soren
29. Shri Sunil Dattatray Tatkare
30. Shri Su Thirunavukkarasar
31. Vacant<sup>@</sup>

### **SECRETARIAT**

1. Shri Jagdish Kumar, Additional Secretary
2. Shri Arun Sharma, Joint Secretary
3. Smt. M. Sasilekha Nair, Director
4. Shri Narendra Kumar, Additional Director
5. Smt. Sreeja. V, Deputy Secretary
6. Shri. Ajin J R, Under Secretary
7. Shri Anuj Verma, Assistant Research Officer

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\*Vacancy caused due to the resignation by Shri Jose K. Mani, M.P. on 11<sup>th</sup> January, 2021.

<sup>@</sup>Vacancy caused due to appointment of Smt. Annapurna Devi as Minister w.e.f 7<sup>th</sup> July,2021.

## INTRODUCTION

I, the Chairman of the Department-related Parliamentary Standing Committee on Industry, having been authorized by the Committee, hereby present this Three Hundred and Eighth Report on Impact of COVID-19 Pandemic on MSME Sector and Mitigation Strategy Adopted to Counter It, pertaining to the Ministry of Micro, Small and Medium Enterprises.

2. The Committee took up the subject for detailed examination. As part of examination of the subject, the Committee deliberated in detail in its meeting held on 18<sup>th</sup> & 19<sup>th</sup> January and 8<sup>th</sup> April, 2021 wherein it heard the views of Ministry of Micro, Small & Medium Enterprises; views/suggestions of MSME Industry Associations like FICCI, FISME, ASSOCHAM, PHDCCI etc.; views of Department of Financial Services; and views of CMDs of leading Banks respectively. The Committee also obtained information through its Questionnaires on the subject from the M/o MSME, MSME Associations, Department of Financial Services and Banks.

3. This Report is based on the submissions made by the AS&DC, M/o MSME, MSME Associations; AS, Department of Financial Services; CMDs of Banks; and other materials such as the Background Notes, Presentations and replies to the questionnaire furnished to the Department-related Parliamentary Standing Committee on Industry in connection with the examination of the subject.

4. The Committee expresses its sincere gratitude to the M/o MSME, Department of Financial Services, CMDs of Banks and MSME Associations for placing their valuable suggestions in connection with the examination of the subject before the Department-related Parliamentary Standing Committee on Industry.

5. The Committee considered and adopted the Draft report at its meeting held on 23<sup>rd</sup> July, 2021.

**Dr. K. Keshava Rao**

*Chairman*

*Department -related Parliamentary  
Standing Committee on Industry*

New Delhi

23 July, 2021/

Shravana 1, 1943 (Saka)

## ABBREVIATIONS

ASSOCHAM	Associated Chambers of Commerce and Industry of India
BG	Bank Guarantee
CGSSD	Credit Guarantee Scheme for Subordinate Debt
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CFITL	Covid Funded Interest Term Loans
CHAMPIONS	Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength
CMD	Chairman and Managing Director
CPs	Commercial Papers
CPSEs	Central Public Sector Enterprises
DFS	Department of Financial Services
DISCOM	Distribution Company
ECLGS	Emergency Credit Line Guarantee Scheme
EMIs	Equated Monthly Instalments
FI	Financial Institutions
FICCI	Federation of Indian Chambers of Commerce & Industry
FISME	Federation of Indian Micro and Small & Medium Enterprises
FITL	Funded Interest Term Loan
FoF	Fund of Funds
FY	Financial Year
GDP	Gross Domestic Product
GECL	Guaranteed Emergency Credit Line
GFR	General Financial Rules
GST	Goods and Services Tax
HFCs	Housing Finance Companies

IBC	Insolvency and Bankruptcy Code
KVI	Khadi and Village Industries
KVIC	Khadi and Village Industries Commission
LLP	Limited Liability Partnership
LWCA	Liberalized Working Capital Assessment
MCLR	Marginal Cost of Funds based Lending Rate
MFE	Micro Food Enterprises
MFI	Micro Finance Institutions
MLI	Member Lending Institution
MoHUA	Ministry of Housing & Urban Affairs
MSMEs	Micro, Small and Medium Enterprises
MSEs	Micro and Small Enterprises
MGIRI	Mahatma Gandhi Institute of Rural Industrialization
MUDRA	Micro Units Development and Refinance Agency
NBFCs	Non-Banking Financial Companies
NCGTC	National Credit Guarantee Trustee Company
NPAs	Non Performing Assets
NSIC	National Small Industries Corporation
OTR	One time restructuring
PAN	Permanent Account Number
PCGS	Partial Credit Guarantee Scheme
PHDCCI	PHD Chamber of Commerce and Industry
PMEGP	Prime Minister's Employment Generation Programme
PM SVANidhi	Pradhan Mantri Street Vendor's Atmanirbhar Nidhi
PPoB	Principal Place of Business
PSBs	Public Sector Banks
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
R&D	Research & Development

RLLR	Repo Linked Lending Rate
RMA	Raw Material Assistance
SCBs	Scheduled Commercial Banks
SEZ	Special Economic Zone
SFURTI	Scheme of Fund for Regeneration of Traditional Industries
SIDBI	Small Industries Development Bank of India
SMA	Special Mention Account
SME	Small and Medium Enterprises
TAT	Turnaround Time
TCs	Technology Centres
TCS	Tax Collection at Source
TDS	Tax Deduction at Source
TReDS	Trade Receivables Discounting System
UAM	Udyog Aadhaar Memorandum
WCDL	Working Capital Demand Loan
WCTL	Working Capital Term Loan
WHO	World Health Organization

# Report

The Micro, Small and Medium Enterprises (MSME) Sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large-scale employment opportunities at comparatively lower capital cost, next only to agriculture. It not only generates employment opportunities but also works hand-in-hand towards the development of the backward and rural areas reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are now widening their domain across various sectors of the economy from Defence to Space, producing diverse range of products and services to meet demands of domestic as well as global markets and also proving to be a boon for aspiring entrepreneurs in India.

## **COVID-19 (SARS-CoV2) Pandemic in India:**

2. The Corona Virus (SARS-CoV2) is reported to have originated in the Wet Market in Wuhan city of China in December, 2019. By the end of March 2020, the virus spread to more than 180 countries and considering the severity of the disease, the World Health Organization (WHO) declared the Covid-19 outbreak a global Pandemic on the 11<sup>th</sup> March, 2020. The first case of Covid-19 in India was detected on the 30<sup>th</sup> January, 2020 in the State of Kerala in a student who had returned from Wuhan, China. Thereon, owing to wide-spread of the virus to many states of the Country, the Government of India declared Covid-19 Pandemic as National Disaster on the 14<sup>th</sup> March, 2020.

3. The effective measure found to contain the rapid spread of the highly infectious virus was to break the cycle of transmission through social distancing. The nationwide lockdown was therefore, inevitable to restrict the movement of people, which would have otherwise spread the disease very rapidly among large population resulting in high fatalities. The lockdown was also necessary to ramp up the health infrastructure across states and setting up of dedicated Hospitals with sufficient beds, ICU facility with ventilators, training of doctors and paramedics, production of Medical disposables like PPE Kits, Ventilators, Oxygen concentrators, hand sanitizers, masks *etc.* to combat the pandemic. The first phase of the nationwide Lockdown was imposed for a period of 21 days *w.e.f.* 25<sup>th</sup> March, 2020 to 14<sup>th</sup> April, 2020 with certain exceptions as detailed below:

- Closure of all services and shops except pharmacies, hospitals, banks, grocery shops and other essential services
- Closures of commercial and private establishments
- Suspension of all education, training, research institutions
- Closure of all places of worship
- Suspension of all non-essential public and private transport
- Prohibition of all social, political, sport, entertainment, academic, cultural, religious activities

4. The lockdown had to be extended thrice in phases easing the restrictions, initially for 19 days from 15<sup>th</sup> April to 3<sup>rd</sup> May, 2020; for 14 days from 4<sup>th</sup> to 17<sup>th</sup> May, 2020 and again for another 14 days from 18<sup>th</sup> to 31<sup>st</sup> May, 2020 respectively. As situation improved, the lockdown was unlocked in a calibrated manner to install normalcy through a gradual process.

### **Impact of Covid-19 Pandemic on MSME Sector**

5. The Covid-19 Pandemic in India had a disastrous impact on almost all the sectors of the economy but the MSME Sector despite being the steering force of Indian economy, was one of the worst hit sectors. With the prolonged nationwide lockdown and social distancing norms, most of the business activities of majority of the MSMEs came to a stand-still. Lack of funds, business losses, low or no orders, non-availability of workforce due to mobility restrictions, non-availability of raw materials and transport infrastructure made conditions worse for MSMEs.

6. In this regard, the Department-related Parliamentary Standing Committee on Industry held meetings with the Officers of the Ministry of Micro, Small and Medium Enterprises, Department of Financial Services, KVIC, Heads of Nationalized Banks *viz.* State Bank of India, Punjab National Bank, Bank of Baroda and Canara Bank and the representatives of MSME Industry Associations like FICCI, ASSOCHAM, PHDCCI, FISME *etc.* to assess the impact of the nationwide lockdown induced by Covid Pandemic and relief measures adopted by them to tide over the crisis.

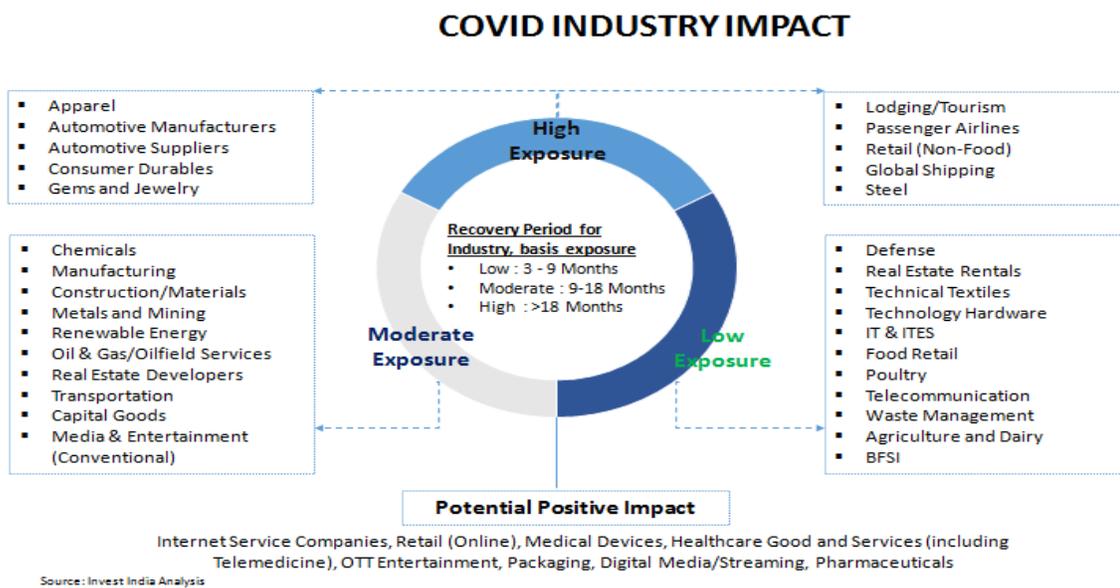
### **Views of Ministry of MSME**

7. The Ministry of MSME informed the Committee that Covid-19 Pandemic battered the economy as a whole but the MSME sector has been the most adversely

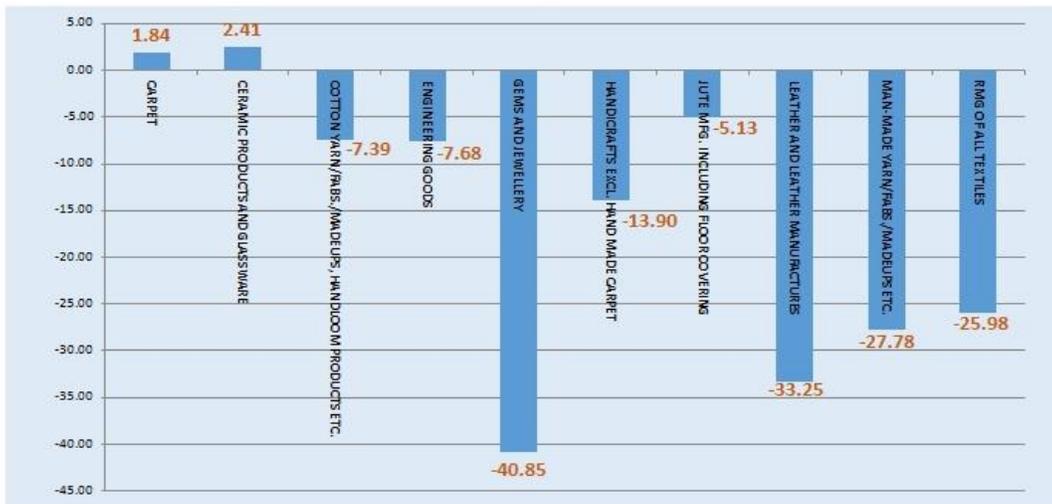
impacted. The major issues highlighted were related to the non-availability of credit facilities and working capital, delayed payments, labour problems, non-availability of raw materials/increased raw material prices *etc.* and other issues arising due to Covid-related restrictions imposed by the Government. The major financial stability concerns arising out of Covid-19 are :-

- Supply chain disruptions
- Decreasing consumer confidence/spending
- Global recession
- Financial impact on operations and/or liquidity and capital
- Workforce reduction/employee stress
- Impact on tax and trade issues
- Lower productivity
- Lack of information for decision making

8. Further, the Ministry of MSME informed the Committee that with regard to exports, except carpet and ceramic products, all other sectors performed badly in comparison to the performance of the previous year. The maximum impact of Pandemic was felt on gem and jewellery sector, leather sector, man-made yarn and fibres sector. As these are highly labour-intensive sectors, as a consequence their employment prospects were also badly affected by Covid Pandemic. Besides, the maximum impact of pandemic was felt on lodging, tourism, airlines, retail sector, steel, apparel, automotive sector *etc.* The following diagram shows the impact of Covid-19 Pandemic on various segments of the Industry :-

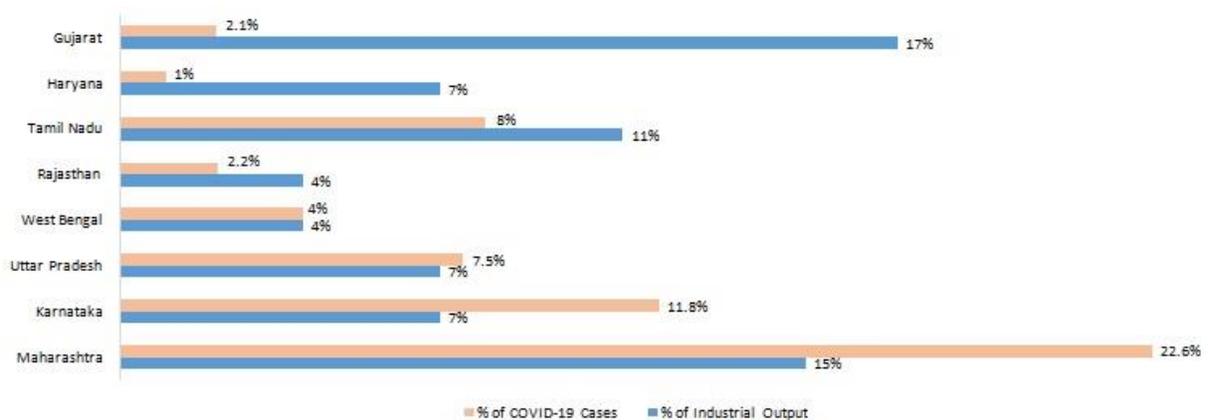


9. Further, the negative growth in a few commodities in MSME Sector and their export trends from April to November, 2020 is displayed in the graph below:-



Data Source: DGCIS

10. The graph depicting the geographical patterns of Covid-19 incidents and its impact on Industry across states are as under :-



**Key Insights:**

- 72% of India's total industrial output coincides with 59% of incidents of COVID-19 – by state
- Gujarat has the highest ratio of total industrial output to COVID-19 incidents

Source: PwC Analysis, Invest India Analysis

11. **Khadi and Village Industries Commission (KVIC):** KVIC is a statutory body under the Ministry of MSME charged with the planning, promotion, organisation and implementation of programs for the development of Khadi and other Village Industries in the rural areas in coordination with other agencies engaged in rural development. Khadi Sector provides employment to artisans and workers at large scale and contributes significantly in employment generation at lower capital, especially in rural areas. However, Khadi and Village Industry

(KVI) units are the most vulnerable ones because of their size, scale of operation and limited financial resources.

12. The Committee was informed by the Ministry of MSME that most of the KVI units remained closed during the nationwide lockdown except those involved in manufacturing of essential items like masks, sanitizers, food processing units *etc.*, thereby causing losses to sales and employment. However, the units that remained open faced problems like non-availability of raw materials, transportation of semi-finished/finished products *etc.* and lack of demand for the finished products. Consequently, the KVI units were not able to cope with the difficulties that were forced on them by the unprecedented Pandemic and their activities suddenly came to a grinding halt and remained suspended for more than three months during the nationwide lockdown announced on 25<sup>th</sup> March, 2020.

13. The Committee was also informed that under Scheme of Fund for Re-generation of Tradition Industries (SFURTI), work orders received in the clusters could not be executed due to shortage of labour, raw materials *etc.* and as a result, no new orders were received by the clusters during the lockdown periods thus leading to reduction in production. In addition, finished products could not be sold in the market due to non-availability of transportation and lesser demand in the market. Due to lack of capital, there was grave difficulty in making payment of wages and salaries, utilities, purchase of raw material *etc.*

14. **COIR INDUSTRY:** Coir Board promotes the overall development of coir industry including export promotion of Coir and Coir products and improvement of the living conditions of the workers engaged in this traditional industry in India. The Coir Sector in India is very diverse and involves households, co-operatives, NGOs, manufacturers and exporters who produce beautiful artifacts, handicrafts and utility products from coconut husks, which is otherwise a waste product. It employs about 7.37 lakh persons of whom majority are from rural areas belonging to the economically weaker sections of the society. Nearly 80 per cent of the coir workers in the fibre extraction and spinning sectors comprise of women.

15. During the nationwide lockdown, the coir industry was also severely impacted and production, movement of raw material, finished products, marketing *etc.* were badly affected as a consequence. When the lockdown measures were relaxed in phases, corresponding increase was felt in the activities of Coir Sector. An estimated loss of 80,000 MTs of coir fiber production due to the lockdown had

been reported. It has been estimated that there was a loss of coir export worth Rs. 80 crores during the 1<sup>st</sup> and 2<sup>nd</sup> phases of the lockdown itself.

16. The Committee was apprised that the performance of Mahatma Gandhi Institute for Rural Industrialization (MGIRI) which is engaged in accelerating rural industrialization for sustainable village economy was badly affected due to the Covid Pandemic. Consequently, technology development activities such as equipment and machinery/product/process development activities got delayed. In addition, skill/entrepreneurship training programs were withheld, external activities like conference/seminar/exhibition/awareness programs could not be conducted and procurement of equipment, laboratory items and infrastructure development work *etc.* were put on hold.

17. The Committee was also informed that the National Small Industries Corporation Ltd. (NSIC), a certified Government of India Enterprise under the Ministry of MSME, which is working to promote, aid and foster the growth of Micro, Small and Medium Enterprises in the country by providing integrated support services encompassing marketing, finance, technology and other services faced various challenges during the lockdown such as :-

- All the physical movements of officials were stopped and no logistics were available for business.
- All MSMEs were closed down and there were no supply of raw materials. Payment-related issues and liquidity crunch were also great challenges for the MSMEs during the lockdown.
- NSIC Technical Centres were closed to follow the social distancing norms.
- Customers could not reach NSIC for business as per the Government guidelines.

#### **Views of the Department of Financial Services:**

18. The Department of Financial Services (DFS), Ministry of Finance, in their written submission stated that India's GDP contraction in April to June (Q1 FY2020-21) quarter reflects the unparalleled effect of the Covid-19 Pandemic and the containment measures that had been taken to control the Pandemic. With the economy brought to a standstill for two complete months, the inevitable effect was a 23.9 per cent contraction in GDP as compared to quarter of previous year. MSMEs were no exception and indeed it was feared that the impact on them would be even more severe as they lack deep pockets to withstand loan disruption.

19. Further, DFS apprised the Committee that prior to the Pandemic, on a yearly basis, overall outstanding advances to MSMEs from Scheduled Commercial Banks (SCBs) and Non-Banking Financial Companies (NBFCs), was exhibiting a steady rising trend up to March, 2020 as given in table below :-

### **Outstanding Advances to MSME Sector**

*( Rs. in crores)*

	<b>31-03-2017</b>	<b>31-03-2018</b>	<b>31-03-2019</b>	<b>31-03-2020</b>	<b>30.09.2020</b>
	Outstanding Advances				
Micro Enterprises	5,29,519.42	5,66,137.92	6,75,200.50	7,46,043.67	7,36,948.09
Small Enterprises	5,40,610.05	5,83,215.90	6,38,030.79	6,67,734.90	6,54,810.04
Medium Enterprises	2,26,269.34	1,74,885.52	1,97,419.22	1,99,803.60	2,50,246.08
Total MSME	12,96,398.81	13,24,239.34	15,10,650.52	16,13,582.17	16,42,004.21

### **Views of MSME Associations:**

20. The Committee also heard the views of MSME Industry Associations viz. ASSOCHAM, FICCI, PHDCCI, FISME who appeared before the Committee on 19<sup>th</sup> January, 2021 to have a first-hand information on the magnitude of damage inflicted by the Pandemic and subsequent lockdowns. The views expressed by the MSME Associations on the impact of Covid Pandemic on MSME Sector are as under :-

- MSMEs run their businesses on very thin margin and limited resources. The Pandemic has severely disrupted their cash inflows and their payments got delayed. MSMEs did not get their dues timely from large corporates including CPSEs, which caused severe impact on availability of their working capital.
- Due to a sharp fall in business, most of the MSMEs faced an acute cash crunch and needed immediate liquidity to cope with the unprecedented circumstance. It is estimated that almost 25 per cent of MSME loans could slip into default as several MSMEs are finding it tough to draw working capital from banks.
- Lack of working capital and non-payment of loan EMIs led many of the

MSMEs to be on the verge of closing the operations.

- Government had issued advisory to companies including MSMEs to pay salaries to their workforce. MSMEs were already in financial stress due to Pandemic and the burden of salary bills forced them into existential crisis. The immediate challenge regarding paying salary bills, fixed charges, statutory dues and pressing creditors *etc.* remained a huge problem for MSMEs.
- MSMEs due to decrease in sales and revenue, faced cash crunch. Hence, MSME loans taken from NBFCs could lead to a considerable increment in default payment levels.
- Vast majority of MSMEs are either sole proprietorship or partnerships. The problems of the MSMEs were further compounded by the high taxes imposed by the Government and numerous compliance measures.
- MSME Sector faced challenges related to financial liquidity, debt repayments, meeting fixed expenses like electricity, rent, wages/salaries and statutory dues *etc.* Disruptions caused by the Pandemic adversely impacted MSMEs' earnings by 20-50 per cent. Enterprises working in essential commodities business were better off in terms of demand of their products but, faced other challenges in organizing their manufacturing and supply chain operations due to restrictions on movement of material and people.
- MSMEs faced operational challenges with low or zero manpower because migrant workers shifted to their hometown due to Covid induced lockdown. Even, truck drivers shifted to their native states which resulted in workforce shortage for MSMEs in their units. According to an analysis conducted by McKinsey, nearly 40 million jobs were put at risk during the period April-September 2020, with significant job losses in construction and manufacturing sectors, which are mostly prevailed by MSMEs.
- MSMEs with perishable raw material incurred huge losses due to non-operations in lockdown period.

### **Strategy for revival of MSME Sector:**

21. The Committee was informed that as part of the Special Economic Package - Atmanirbhar Bharat Abhiyaan – the Government has planned to revive the economy from the fall-out of the Covid-19 Pandemic. A special economic package of Rs. 20 lakh crore (equivalent to 10 per cent of GDP) was announced to make

India independent against the tough global Supply Chain competition and help to empower the labourers, poor & migrants badly affected by the Pandemic.

22. Further the Committee was informed about the highlights of the stimulus package announced in tranches under the Atmanirbhar Bharat Abhiyaan, which are as under :-

- Rs. 3 lakh crores collateral free automatic loan under the Emergency Credit Line Guarantee Scheme (ECLGS) for businesses including MSMEs – a move likely to benefit 45 lakh Units.
- Rs. 20,000 crores Subordinate Debt for Stressed MSMEs – Beneficiaries are 2 lakh MSMEs.
- Rs. 50,000 crores Equity infusion for MSMEs through Fund of Funds. A Fund of Funds with corpus of Rs. 10,000 crores to help Units to expand capacity.
- New Definition of MSMEs (Manufacturing/Services) based on Annual Turnover and Investment criteria.
- Global tender to be disallowed up to Rs. 200 crores in Government procurement.
- E-Market linkage for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions.
- Liquidity relief of Rs. 2,500 crores EPF for Businesses and Workers for 3 more months – likely to benefit 72 lakh employees.
- Rs. 6,750 crores liquidity support through reduction in EPF contribution for business and workers for 3 months (statutory PF contribution of both employer and employee reduced to 10 per cent each from existing 12 per cent each for all establishments covered by EPFO for next 3 months).
- Rs. 30,000 crore Special Liquidity Scheme for NBFCs/HFCs/MFIs.
- Rs. 45,000 crore Partial Credit Guarantee Scheme 2.0 for NBFCs.
- Extension of up to 6 months for contractors (without costs to contractor) to be provided by all Central Agencies.
- Extension of Registration and completion date of Real Estate Projects under RERA.
- Rs. 50,000 crore liquidity through TDS/TCS reductions.
- Rs. 90,000 crore Liquidity Injection for DISCOMs.
- Rs. 1,500 crore interest Subvention for MUDRA Shishu Loans. Interest subvention of 2 per cent for prompt payees for a period of 12 months.

- Rs. 10,000 crores scheme for Formalization of Micro Food Enterprises (MFE) – like to benefit 2 lakh MFEs.
- Enhancement of Ease of Doing Business through IBC related measures.
- Decriminalization of Companies Act Violations involving minor technical and procedure defaults.

**23. The Committee observes that the stimulus package announced by the Government for the economic revival from the Pandemic hit economy has been found to be inadequate as the measures adopted were more of loan offering and long-term measures instead of improving the cash flow to generate demand as immediate relief. In the process of economic recovery post-first wave of the Pandemic, the second wave even more vigorously ripped the economy particularly the MSME Sector. The Committee, therefore, recommends that the Government should immediately come out with a larger economic package aimed at bolstering demand, investment, exports and employment generation to help the economy, including MSMEs to recover from the Pandemic fall-out.**

**24. The Committee expresses concern over the grim situation of the Small Enterprises due to Covid-19 Pandemic. Unlike Large and Medium enterprises, Small enterprises depend on regular cash flows to stay afloat. The Committee, therefore, recommends that to ensure the survival of the Small enterprises, it is imperative for the government to provide them with much-needed liquidity support to keep their businesses running and generate job opportunities for the workforce.**

**25. The Committee notes from the written replies furnished by the Ministry that no intensive study has been conducted by the Ministry of MSME to ascertain the actual losses suffered by the MSME Sector as a whole due to nationwide lockdown imposed by the Government. More so, the second wave of the Pandemic exposed the vulnerabilities of MSMEs like never before and highlighted the problems faced by them such as delayed payments, high informality, low financial resilience, scarcity in raw material availability *etc.* The Committee, therefore, is of the opinion that a detailed study needs to be conducted to make an assessment of the actual losses suffered by the MSME Sector so as to chalk out an effective plan for revival of the MSME Sector, which has the potential to contribute significantly in achieving the much coveted target of making India a \$5 trillion economy.**

26. MSME Sector employs a sizeable portion of the Indian workforce, more than 30 per cent of the production comes from MSMEs and about 45 per cent of exports also come from the MSME sector. Therefore, any sharp decline in the performance of this sector is bound to have a ripple effect on the national economy, employment generation, export, entrepreneurship *etc.*

**27. The Committee observes that a large number of jobs were lost due to Covid-19 Pandemic and economic conditions of the households suffered a jolt and their regular income declined significantly during lockdown periods. The Committee recommends that Government should focus on employment generation and ensure that new means of livelihood are generated especially for the youth of the country. A new National Employment Policy may be considered along with exploring the feasibility of establishing a National Electronic Employment Exchange and building a skill-based database to provide employment to skilled manpower in their area of expertise. Besides, the Ministry should facilitate the MSMEs to scale up their capacity building and technical knowhow through extensive training and up-skilling programs.**

#### **New Definition of MSMEs**

28. The Ministry of MSME informed the Committee that to strengthen the growth of MSMEs, the Government of India had notified a composite criteria of classification based on investment in plant and machinery and annual turnover as an initiative towards achieving the goal of Atmanirbhar Bharat. Also, the revised definition removes the distinction between manufacturing and service enterprises. A notification in this regard has been issued by the Ministry of MSME and the revised definition is applicable from 1<sup>st</sup> July, 2020 which is as under :-

*(Figures in Rs. in crore)*

<b>Category</b>	<b>Investment</b>	<b>Turnover</b>
<b>Micro</b>	1	5
<b>Small</b>	10	50
<b>Medium</b>	50	250

29. The Committee was also informed that the new criteria is said to be a growth inducing criteria, which entails a non-discretionary, transparent and objective classification system for MSMEs. This change in criteria for classification is expected to bring about many benefits that will aid MSMEs to grow in size and expand their business. As a measure to encourage exporters to export more, the

turnover with respect to exports are not to be counted in the limits of turnover for any category of MSME units, whether Micro, Small or Medium. With this change in criteria of classification of MSMEs, the difference between manufacturing and services has been removed, which is yet another step towards ease of doing business, as this is likely to attract more investments and will lead to creation of more jobs in the MSME Sector.

### **Udyam Registration Portal**

30. To facilitate the process of MSME registration in accordance with the revised MSME definition, the Ministry of MSME launched a new Portal, Udyam Registration Portal (<https://udyamregistration.gov.in/>), on 01.07.2020 and the registration process is said to be free of cost, simple, paperless and digital and it doesn't require any documents or proof for registration of MSME. The Portal has been so integrated that it will fetch the information from IT and GST databases for verification of investment and turnover & exports. It will also enable creation of an authentic and active MSME database due to its linkage with PAN and GST data. Further, with a view to facilitate MSME participation in Government procurement, seamless link has been provided on the Udyam Registration Portal with Government e-Marketplace (GeM) Portal. The Ministry of MSME informed that as on 11.01.2021, 17,66,651 new MSMEs have registered on Udyam Registration Portal and 2,82,627 MSMEs have migrated from Udyog Aadhar Memorandum (UAM) to Udyam.

31. As per the detailed analysis of the registration of classified enterprises till 31<sup>st</sup> December, 2020 (for 14,10,455 enterprises, Micro - 13,06,383; small - 88,882 and Medium - 15,232), the broad trend and picture can be seen from the facts as given below :-

- 5.4 lakh enterprises have registered under manufacturing category whereas 8.7 lakh enterprises under service sector.
- Share of Micro enterprises is 92.61 per cent whereas Small and Medium Enterprises are 6.30 per cent and 1.07 per cent respectively.
- 11.31 lakh enterprises are owned by Male whereas 2.4 lakh enterprises are owned by Female entrepreneurs.
- 20,463 enterprises are owned by *Divyangjan* entrepreneurs.
- Major Industrial Sectors of registrations are - Food products, Textile, Apparel, Fabricated Metal products and Machinery & equipments.
- 1, 47,40,589 persons have been given employment by these registered units.

- 5 leading states for Udyam registrations are Maharashtra, Tamil Nadu, Rajasthan, Uttar Pradesh and Gujarat.
- Registration without PAN & GST was permitted up to 31.03.2021 as a transitional arrangement.

32. From a scrutiny and analysis of the registration data of the classified enterprises, it is observed that enterprises owned by men far outnumber those owned by women. In fact the male owned enterprises is almost a whopping five times more than that owned by women entrepreneurs. Besides, Registrations have been constricted to a select few industrial sectors, whereas a majority of other important sectors seem to have not come onboard. Further, only a limited number of States have taken a lead in getting registered in the Udyam Portal.

**33. The Committee is of the view that the M/o MSME may make all-out efforts to instill confidence in more women entrepreneurs to on-board the Udyam Portal. Likewise, majority of industrial sectors, including the ancillary ones as well as more States may be encouraged to register in the Portal so that they can avail the benefits of Government packages. These can be done by creating awareness campaigns in the form of seminars/conferences in vernacular languages, advertisement in local dailies *etc.*, which can be easily assessed by the MSME entrepreneurs.**

**34. It has been observed that after reclassification of criteria of MSMEs and subsequent introduction of Udyam Registration Portal, less number of MSMEs have got registered on the new Udyam Portal since 1<sup>st</sup> July, 2020. It appears that MSMEs feel better off without registration as the compliance costs would be much greater than the benefits that would accrue post registration. Besides, without registration, they find it more convenient to escape the income tax net and compliance structure. Accordingly, the Committee recommends that the Government may provide incentives to attract more and more MSMEs to register themselves on the Udyam Portal.**

**35. The Committee notes that as per the new guidelines, it is mandatory to have PAN & GSTIN for every enterprise to get registered in the new Udyam Registration Portal. However, due to lack of publicity and awareness among the MSMEs regarding migration to the new Udyam Registration Portal, many have not been able to register within the mandatory timeline of 31.03.2021, set for registration. The Committee, therefore, is of the opinion that the mandatory timeline for registration with PAN & GSTIN may be extended to**

**facilitate the MSMEs. The Committee also desires that the Ministry of MSME should make concerted efforts to create awareness regarding the launch of a new Udyam Registration Portal so that maximum number of MSMEs get registered in the Portal and avail the relief packages and benefits offered by the Government.**

**Receivables of MSMEs:**

36. Under the Atmanirbhar Bharat Abhiyaan, the Government had announced that MSME dues should be cleared by the Government agencies and CPSEs within 45 days. In this direction, various instructions and communications have been issued by the Ministry of MSME to all Secretaries of Government of India, including State governments, and CMDs of all CPSEs to clear all pending dues pertaining to MSMEs as per the new stipulation.

37. The Ministry further informed that a special online reporting system has been developed for monitoring the issue of delayed payments with Central PSUs/Central Ministries. The details of payments made to MSMEs during the period from May to December, 2020 are as under:-

<b>Reported Month</b>	<b>Total Dues by close of month (Rs. in Crores)</b>	<b>Paid during the month (Rs. in Crores)</b>	<b>Pending at the end of month (Rs. in Crores)</b>
May 2020 (25 Ministries & 79 CPSEs)	2349.53	1787.89	561.64
June 2020 (25 Ministries & 86 CPSEs)	2553.94	1905.11	648.83
July 2020 (30 Ministries & 108 CPSEs)	4124.34	3155.16	969.19
August 2020 (26 Ministries & 104 CPSEs)	3811.13	2954.48	856.65
September 2020 (25 Ministries & 105 CPSEs Reported)	4858.18	3814.44	1043.74
October 2020 (26 Ministries & 108 CPSEs )	5124.13	4102.43	1021.70

<b>Reported Month</b>	<b>Total Dues by close of month (Rs. in Crores)</b>	<b>Paid during the month (Rs. in Crores)</b>	<b>Pending at the end of month (Rs. in Crores)</b>
November 2020 (26 Ministries & 110 CPSEs)	5184.92	4279.67	905.24
December 2020 (25 Ministries & 82 CPSEs) ( As on 11 <sup>th</sup> Jan., 2021)	5317.75	4364.57	953.18
<b>Grand Total (as on 11.01.2021)</b>	<b>33,323.92</b>	<b>26,363.75</b>	<b>6,960.17</b>

38. **The Committee observes that the directions issued by the Government of India to its agencies and CPSEs to release payments to MSMEs within 45 days has yielded some positive results and outstanding payments have been released by PSUs/CPSEs to MSMEs. However, it is observed that many PSUs/CPSEs have still not released payments. Though there is a provision for 1 per cent penalty on delayed payments, in practice, the penalty clause is seldom invoked, which encourages the defaulting entities to flout the prescribed timeline. The Committee recommends that strict provisions against delayed payments need to be put in place to ensure timely release of payments by CPSEs which will immensely help the MSMEs to meet their working capital/credit requirements.**

39. **The Committee also recommends that necessary guidelines should be issued for mandatory reporting of the delayed/pending payments (beyond 45 days) to MSMEs, by CPSEs/PSUs in their Annual Reports, in a separate section, as it would impress upon the CPSEs/PSUs to make payments to MSMEs in a time-bound manner.**

40. The working cycle of MSMEs in a large number of cases extends much beyond 90 days period as from the date of purchase of raw materials till the date of making sales which spreads over a period of 90 days and thereafter, it takes another 30 to 90 days to realize the bills and receivables. Hence, the working capital cycle of MSMEs keeps prolonging due to delays in realization of sales receivables. Due to such delays which have become a general business practice now, MSMEs find it extremely difficult to service their debt installments or interest obligations in time, as a result of which, many of them default and their dues become irregular and overdue, leading to their classification into NPAs. There

is a need to reconsider the provision of 90 days limit for classifying their over dues into NPAs.

**41. The Committee is of the view that the 90 days limit fixed by RBI for classifying overdues of MSMEs should be increased to 180 days so that MSMEs are not constrained to divert their working capital towards servicing of their loan-installments and clearing their dues at the cost of normal business operations. This proposed change in the RBI guidelines will save a large number of MSMEs from turning sick or getting closed resulting in loss of economic activity and employment. It will also prevent avoidable classification of bad debts and unwarranted litigation by banks, thereby saving the banks too, from losses.**

### **Subordinate Debt for Stressed MSMEs**

42. The Committee was informed that under the Subordinate debt for Stressed MSMEs of Rs. 20,000 crore, nearly 2 lakh MSMEs were likely to be benefitted. As per the proposal, the funding of Banks/Lending institutions to the Promoter(s) of the Stressed Units is proposed to be classified as ‘sub-debt’ (Subordinate Debt). The rationale of the scheme was that many MSMEs get financially stressed because of commercial and non-commercial reasons which are beyond their control. MSME entrepreneurs of such stressed units find it difficult to bring in additional equity and therefore, it becomes difficult for them to survive. Infusion of capital in such units in the form of equity or sub-debt would be of substantial help in sustaining and reviving those stressed MSMEs, which have either become NPA or are on the brink of becoming NPA. Under the scheme, lenders will grant sub-debt to the promoters of stressed MSMEs who will infuse back the same as equity only in the venture. The Scheme is showing signs of increased impact and as on 13.01.2021, 34 banks have got themselves registered with Credit Guarantee Fund Trust of Micro and Small Enterprises (CGTMSE) as Member Lending Institution (MLI) for Sub-debt Scheme and 13 banks have started availing the guarantees.

**43. The Committee notes that the subordinate debt scheme was supposed to benefit nearly two lakh MSMEs whose non-performing assets are stressed. However, it has been observed that only a few MSMEs have availed the Scheme. The Committee feels that the sub-debt scheme in the present form has not been utilized much for the benefit of stressed MSMEs. The Committee**

**therefore, recommends that the Government should re-visit the scheme for restructuring as to cover and benefit maximum number of stressed MSMEs.**

### **Equity infusion for MSMEs through Fund of Funds**

44. On 01.06.2020 CCEA approved the proposal of Fund of Funds (FoF) with a corpus of Rs.10,000 crore intended to provide equity funding for MSMEs with growth potential and viability. The Fund structure will help leverage of Rs.50,000 crore of funds. NSIC Venture Capital Fund Ltd., the subsidiary company of National Small Industries Corporation Ltd. (NSIC) has been identified for anchoring the Funds.

### **DIGITAL UPGRADATION INITIATIVES**

45. Due to the Covid-19 Pandemic, the Ministry of MSME took concerted efforts to alleviate the challenges faced by MSMEs by adopting new technologies at all levels to address the immediate and evolving needs of MSMEs. Some of the recent interventions are mentioned below:

46. **Portal for Redressal of Grievances:** An online Portal *CHAMPIONS* (Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength), a unified, empowered, robust, and a technology driven platform, was launched on 1<sup>st</sup> June, 2020 and has been designed for helping and promoting the MSMEs. It covers many aspect of *e*-governance including grievance redressal and handholding of MSMEs. It has been launched to achieve basic objectives of helping the MSMEs in this difficult situation in terms of finance, raw materials, labour, permissions, etc; helping the MSMEs capture new opportunities including manufacturing of medical items & accessories and; to identify the sparks, *i.e.* the bright MSMEs who can withstand at present and become national and international champions.

47. A Central Control Room in Delhi and 68 State Control Rooms in different States have been set-up for expeditious redressal of issues faced by MSMEs. As on 08.01.2021, 26,142 grievances were received on CHAMPIONS Portal, out of which 25,666 grievances have been replied. Out of these received grievances, 45 per cent grievances were related to Policy, MSME Definition and Registration; 35 per cent to Startup, Credit and Finance; 15 per cent to Technology and Quality; 3 per cent related to Marketing and Skilling and 2 per cent to infrastructure and logistics issues.

48. KVIC is providing support under various schemes viz., PMEGP, SFURTI, Honey Mission, Kumhar Sashaktikaran Programme for generation of sustainable employment opportunities for the unemployed youth. In this regard, the Committee was informed that considering the need to fight against Covid-19 Pandemic, KVIC has taken initiatives to manufacture Khadi mask, made from cotton Khadi and silk Khadi. With this initiative, on one side rural artisans get the opportunity of getting more employment during Covid period and on the other side, people get the opportunity to wear reusable and washable Khadi mask at low price to fight the Pandemic. To make the mask widely available across the length and breadth of the country, the same is available through GeM Portal and online sale for end-users.

49. In response to a query of the Committee regarding conduct of any study by the Ministry of MSME to ascertain the impact/losses suffered by MSME Sector due to COVID-19 Pandemic and lockdowns, the Ministry of MSME in their written submission informed that KVIC had been assigned the task of conducting a National level evaluation of the PMEGP Scheme to *Deloitte Touche Tohmatsu India LLP*. Further, the agency had been instructed to assess the impact of COVID-19 on the PMEGP Units in addition to the current scope of the assignment by the Ministry of MSME and KVIC. While Deloitte was conducting the field surveys, the second wave of COVID-19 Pandemic grappled the country.

50. Also the Committee was informed about the key observations of the study which was that the small businesses were worst hit by the economic fallout of Covid-19 Pandemic. Unprecedented lockdown and other containment measures have resulted in supply chain disruptions and massive demand drop especially for Micro units and significant economic losses in general to MSMEs. Further as per the survey data, 88 per cent of the beneficiaries of PMEGP units reported that they were negatively affected due to Covid-19 Pandemic and the remaining 12 per cent stated that they were not affected. In terms of beneficiaries (88 per cent) who were negatively affected, around 57 per cent stated that their units were shut down during this period, 30 per cent reported that there was drop in production and revenue, 28 per cent stated issues pertaining to raw material availability or supply chain issues. In terms of beneficiaries (12 per cent) who were positively affected, around 65 per cent stated that there is an increase in business activity as they had units in retail and health sector, 53 per cent stated an increase in telephonic supply/delivery and around 25 per cent stated that their units were dealing with essential commodities or services. **The Committee recommends that the Ministry should take immediate suitable action to rescue the small business**

**units from collapsing, by providing additional financial support, relaxation or waiver of interest, marketing support etc.**

51. The Committee notes that there is abundant scope for job creation in domestic *Agarbatti* making industry as huge gap presently exists between the demand and supply of *Agarbatti* due to certain policy measures taken by the Government such as import restriction on raw *Agarbatti* and increase in import duty on bamboo sticks, etc. The Committee appreciates the initiatives taken by the Ministry of MSME to implement the pilot project, *Khadi Agarbatti Atmanirbhar Mission*, through KVIC, paving the way for large scale employment opportunities in *Agarbatti* making industry in different parts of the country, by enhancing domestic production substantially, with low investment. **The Committee is of the view that this new initiative would be a boon to the artisans in rural areas who have lost their jobs due to Covid-19 Pandemic as it would not only restore livelihood to them but also generate large scale employment opportunities to the unemployed youth.**

52. The Committee was also informed that the MSME Technology Centres develop innovative products to fight Covid like Box to sanitize office files and other articles using UV lights, plasma based sanitizers, accurate IR thermometer, non-contact dispensers and also manufacture indigenous components for Corona Testing Equipments, hot tape sealing (critical operation for PPE coveralls), masks coveralls, WHO quality alcohol based sanitizer, sanitizer pumps, face shields etc.

53. **The Committee notes that the production of Covid related medical and auxiliary items are very much required in large quantities during the present times to fight the Pandemic and production of such items by the MSMEs will help them to stabilize their livelihood. The Committee is of the opinion that the Ministry should extend all possible assistance to those MSMEs engaged in the manufacture of medical and auxiliary items, to meet the domestic requirement to overcome the Pandemic.**

54. The Ministry of MSME in their written submission also informed that various remedial steps were taken by the National Small Industries Commission (NSIC) viz. conducting countrywide online survey to assess the pulse of MSMEs; constituting a COVID Cell to assimilate suggestions/queries on its schemes and to respond to them in time; handling go-downs of essential commodities like Polymers to carry out operations through service providers; validating Single Point Registration Scheme, enlistment certificates of MSMEs expiring on or after

01.03.2020 and during lockdown period along with discount (50 per cent) offer on Annual membership in *MSME mart* was extended up to 30.06.2020; first Moratorium was provided to all MSME units availing credit facility w.e.f. 01.03.2020 to 31.05.2020 for repayment of outstanding dues. Moratorium was further extended for three months up to 31.08.2020 as per RBI guidelines for MSMEs whose accounts were standard on 29.02.2020; time relaxations were provided to units to deposit the outstanding amount in order to facilitate the units to attain sustainability and; rate of interest under RMA against BG and Bill Discounting Scheme were reduced by 1.50 per cent per annum on 01.06.2020 and again by 0.50 per cent per annum on 01.10.2020 to provide cheaper financial assistance to MSME units.

55. In order to overcome the Pandemic situation, NSIC Technical Services Centers started online classes on Digital marketing, software development, web designing, accounting (tally), Beauty & wellness, Internet of things (IOTs) and diet assistant etc. As these cases are purely job/entrepreneurship courses, the candidates would be skilled to start their own enterprise.

**56. The Ministry of MSME informed the Committee that during Covid Pandemic, MSME Technology Centres (TCs) developed/manufactured various medical and auxiliary products such as Sanitizers, Thermometers, Masks, Parts of PPE Kit and Corona Testing Kit etc. and supplied them to various Central/State Governments, Banks, PSUs and shared these with MSMEs for domestic/indigenous production and marketing. The Committee notes that these Technology Centres contributed significantly by manufacturing various Covid-related products indigenously thus fulfilling the domestic demands. The Committee recommends that Ministry of MSME should focus on setting up of more such Technology Centres across the country to make India *Atmanirbhar* in manufacturing in situations like Covid Pandemic.**

**57. At present, the biggest concern for MSME is non-availability of raw materials on time and at reasonable price. Traders are hoarding the raw materials and rigging the market with their whims and fancy pricing. The Committee recommends that NSIC should make suitable arrangements so that raw materials are made easily available at reasonable price for Micro enterprises, on credit basis.**

**58. MSMEs are finding it difficult to procure raw material to run their businesses normally due to non availability of raw materials. Moreover, a steep hike in the prices of raw material like steel etc. has adversely affected the business environment. The Committee recommends that the Public Sector Enterprises should not impose penalty or black list the MSMEs in the event of cancellation of orders by them since increase in prices of raw materials is a Force Majeure event, beyond the control of the MSMEs. Besides, the Government should also allow import of all steel materials based on cost and quality requirements at zero import duty (no anti dumping) and also ban export of iron ore and steel products for the time being. Better GDP growth can be realized only if value-added products are exported rather than raw materials. Further, GST-based funding is needed for MSMEs at marginal rates, which will encourage them to purchase raw materials easily.**

### **Relief Measures by Reserve Bank of India**

59. As a relief to the economy reeling under the financial stress due to Covid-19 Pandemic, the RBI took several remedial measures from time to time as mentioned below:-

- RBI permitted a term-loan moratorium and working capital interest deferment *w.e.f.* 1.3.2020 to 31.8.2020 along with an asset classification standstill for this period and other measures to enhance liquidity.
- RBI advised banks to link all floating rate loans to Medium Enterprises from 1.4.2020 to an external benchmark rate.
- On 17<sup>th</sup> April, 2020, RBI announced Rs. 15,000 crore Special Refinancing Facility for Small Industries Development Bank of India (SIDBI) as a specific response to Covid Pandemic for on-lending/refinancing purposes. SIDBI has also announced schemes for Special liquidity to provide support to NBFCs, Micro Finance Institutions (MFIs) and banks through term loans of up to one year for on lending to MSMEs across all sectors.
- On 6.8.2020, RBI extended the one-time restructuring scheme for MSMEs till 31.3.2021 for entities that were in default but ‘standard’ as on 1.3.2020, with a condition that the accounts that have slipped between 2.3.2020 and date of implementation could be upgraded on restructuring as per the scheme guidelines. As on 04.12.2020, a total of 80,209 accounts amounting to Rs.4321.92 crore have been restructured in terms of RBI circular dated 06.08.2020.
- RBI has issued guidelines on Priority Sector Lending dated 4<sup>th</sup> September,

2020 and credit flow to MSMEs has been categorized under priority sector. Total Priority Sector target is 40 per cent of Adjusted Net Bank Credit (ANBC) for all domestic commercial banks. A sub-target of 7.5 per cent of ANBC is fixed for Micro enterprises set under priority sector lending. The targets are going to be increased to 45 per cent, 50 per cent, 60 per cent and 75 per cent in the subsequent FY 2021, 2022, 2023, 2024 respectively.

### **Trade Receivable e-Discounting System (TReDS)**

60. The Committee was informed by the Ministry that TReDS is an electronic platform for facilitating the discounting of trade receivables of MSMEs through multiple financiers. As on 31.12.2020, out of 4599 companies having turnover of more than Rs.500 crores, as identified by the Ministry of Corporate Affairs, 1461 companies have registered themselves on TReDS platform. 170 CPSEs and 3903 MSMEs registered with these CPSEs have also been on-boarded on the platform. Totally, 11690 MSMEs have on-boarded. However, MSMEs have been exempted from paying on-boarding charges on TReDS platform till 31<sup>st</sup> March, 2021.

**61. The TReDS initiative by the Government is a useful tool for MSMEs to access the immediate fund at a cheaper cost with an option to select the offer from various banks without recourse to borrowing. Currently, it is mandatory for all CPSEs and companies having annual turnover of more than Rs. 500 crore to register on TReDS platform. The Committee recommends that the registration should be made mandatory for all CPSEs having a turnover of more than Rs.250 crores as it would enlarge the ambit of TReDS. Despite the mandate of the Government that all CPSEs sign up on the TReDS Platforms to improve the cash flows of MSMEs, many have yet to comply with the mandate. Necessary steps should be taken by the Ministry to onboard more and more CPSEs on the TReDS platform.**

**62. It has also been observed that MSMEs do not publish their invoices on TReDS platform despite having the registration due to unsaid pressure from corporate (buyers). Further it is seen that corporate (buyers) do not approve the published invoices of MSMEs on TReDS platform, which defies the sole purpose of the platform, as Banks cannot fund such invoices. The Committee is of the view that every tax invoice raised by GST registered MSMEs should reflect automatically on the respective TReDS platforms. After the delivery of Services or Goods, within a certain number of days, the corporate must accept or reject the automatically published invoice of MSMEs. After the stipulated**

**period, the published invoice should be deemed accepted and should be available for banks to provide fund to MSMEs. If the CPSEs rejects any invoice, a mandatory clarification must be sought which should be visible to Banks and respective MSMEs. Consequently, MSMEs would be encouraged to get themselves registered on GST and TReDS Platforms as their invoices would automatically get published on TReDS which would open the doors for them to have access to easy and cheaper funds. It would also provide significant business potential for banks due to rise in number of invoices available on TReDS. The Committee feels that it would also make CPSEs responsible and cautious while rejecting any invoice raised by MSMEs and help them financially in this critical juncture. The proposal if implemented, would thereby, become a win-win situation to MSMEs, CPSEs and Banks as each one of them are likely to benefit.**

### **Emergency Credit Line Guarantee Scheme (ECLGS)**

63. As part of the *Atmanirbhar Bharat Abhiyaan* and as a specific response to the Covid-19 Pandemic, the Government of India on 23.05.2020 launched Emergency Credit Line Guarantee Scheme (ECLGS) to support eligible MSMEs and business enterprises in meeting their operational liabilities and restarting their business disruption caused by the Covid-19 Pandemic.

64. **ECLGS 1.0** provides for a fully guaranteed and collateral free Guaranteed Emergency Credit Line (GECL) for eligible MSME units, business enterprises and individual loans for business purposes, having outstanding credit of up to Rs.50 crore as on 29.2.2020 and the borrower accounts were less than or equal to 60 days past due as on 29.2.2020. The GECL could be up to 20 per cent of their entire outstanding credit as on 29.2.2020 through the Member Lending Institutions (MLIs), consisting of Scheduled Commercial Banks (SCBs), Financial Institutions (FIs) and Non-Banking Financial Companies (NBFCs). 100 per cent credit guarantee for credit extended under the Scheme is being provided by the Government through National Credit Guarantee Trustee Company Ltd. (NCGTC). The loans provided under ECLGS 1.0 have 4-year tenure, with a 12-month moratorium on repayment of principal. Interest rates under the Scheme are capped at 9.25 per cent for banks & FIs and at 14 per cent for NBFCs. An ‘opt-out’ option has been provided to the eligible borrowers to enable them to choose whether they wish to avail of the GECL facility.

65. **ECLGS 2.0:** The Scheme has been extended through ECLGS 2.0 for the 26 sectors identified by the *Kamath Committee* and the health care sector. Entities from those sectors with outstanding credit above Rs. 50 crore and not exceeding Rs. 500 crore as on 29.2.2020, which were less than or equal to 30 days past due as on 29.2.2020 are eligible under ECLGS 2.0. The eligible entities/borrower accounts shall be eligible for additional funding up to 20 per cent (which could be fund based or non-fund based or both) of their entire outstanding credit (fund based only) as a collateral free GECL, which would be fully guaranteed by NCGTC. The loans provided under ECLGS 2.0 have 5-year tenure, with a 12-month moratorium on repayment of principal.

66. **ECLGS 3.0:** The scope has been further extended through introduction of ECLGS 3.0 to cover business enterprises in Hospitality, Travel & Tourism, Leisure & Sporting sectors which had, as on 29.02.2020, total credit outstanding not exceeding Rs. 500 crore and overdue, if any, were for 60 days or less, as on 29<sup>th</sup> February, 2020. ECLGS 3.0 would involve extension of credit of up to 40 per cent of total credit outstanding across all lending institutions as on 29.02.2020. The tenure of loans granted under ECLGS 3.0 shall be 6 years including a moratorium period of 2 years on repayment of principal.

67. The Committee was informed that as on 31.3.2021, 228 MLIs are registered with NCGTC. The scheme is valid till 30.06.2021 or till guarantees for an amount of Rs. 3,00,000 crore is sanctioned under the GECL (taking into account both ECLGS 1.0 , 2.0 and 3.0), whichever is earlier. As informed by the implementing agency of ECLGS i.e. NCGTC, as on 31.3.2021, the amount of loan sanctioned under the scheme is Rs. 2.49 lakh crore. NCGTC has informed that, as on 31.03.2021, guarantees for an amount of Rs. 2.36 lakh crores have been issued under ECLGS to 95.41 lakh borrowers. Moreover, Guarantees for an amount of Rs. 1.60 lakh crore have been issued to 90.44 lakh MSME borrowers. The details of Guarantees issued to MSMEs as on 31.3.2021 are as under:-

<b>Entity Type-wise Guarantee Issued as on 31.3.2021</b>	<b>Guarantee Nos.</b>	<b>% Guarantee Nos.</b>	<b>Guarantee Amount ( In Rs. Crore)</b>	<b>% Guarantee Amount</b>
Micro	8337286	87%	61144.84	25.81%
Small	450254	5%	61849.53	26.11%
Medium	257858	3%	37085.31	15.65%
Other Business Enterprises	496056	5%	76837.42	32.43%

68. The Committee notes that though the Emergency Credit Linked Guarantee Scheme recorded a high success rate, yet, around 50 per cent of total guarantee amount only has been issued to MSMEs. As a result, a large number of MSMEs hard hit by the Covid Pandemic remained deprived from the benefit of the scheme. More so, it is observed that the complete amount of sanction has not been disbursed to the borrowers' *vis-à-vis* sanctions, for fear of loan defaulting by MSMEs in the backdrop of the 2<sup>nd</sup> wave of the Pandemic. The Committee recommends that the Banks should be more liberal at this juncture in extending credit facilities to MSMEs and ensure that loans are disbursed without delay after sanction.

69. The Committee notes that the Traders, Retailers as well as Wholesalers have all now been reinstated in MSME category by the Government which is a welcome step. Hence nearly 2.5 crore Traders are likely to be eligible for obtaining credit facilities under the ECLGS. The Committee recommends benefits of the Scheme may be extended to small traders/dealers too as they have no access to institutional finances meant for MSMEs, as of now.

70. **PUBLIC SECTOR BANKS:** During the Covid-19 Pandemic, role of the Public Sector Banks have assumed much significance in the context of addressing concerns of businesses and support to livelihood as well as providing consumers with seamless banking services, offering credit relief to firms and consumers.

71. **State Bank of India (SBI):** The Committee was apprised by the Chairman, SBI, that under the GECL Scheme, all the eligible customers were identified and requested through SMS to avail the facility. As GECL is a pre-approved product, offer cum acceptance letters were also centrally generated and provided to branches to enable them to issue to the eligible MSMEs. The status of achievement under GECL as on 31.03.2021 is as under:-

	WCTL Sanctions		WCTL Disbursement	
	No. of accounts	Amount (in Rs.)	No. of Accounts	Amount (in Rs.)
<b>GECL-1</b>	5,52,797	26,461.34	2,99,523	23,349.37
<b>GECL-2</b>	362	3,650.83	240	2,251.89
<b>TOTAL</b>	5,53,159	30,112.17	2,99,763	25,601.26

72. Further, ex-gratia payment aggregating Rs.41.21 crores was made to 6,91,597 (for MSME borrowers outstanding up to Rs.2 crores). Payment for the remaining eligible borrowers is under process. They also organized more than 125 E-Town Hall meetings to MSME customers and explained the various relief measures available to them. Besides, SBI conducted webinars to educate its employees on products and relief measures available to MSMEs affected by Covid-19 Pandemic.

73. **Bank of Baroda:** Regarding the Scheme, the officers of BoB informed the Committee that the Credit Guarantee Scheme for Sub-ordinate Debt (CGSSD) was introduced on 24<sup>th</sup> July, 2020 and the status of loan sanction and disbursement is as under:-

<i>Eligible borrowers as per the scheme</i>	<i>Eligible loan amount</i>	<i>As on 26.03.2021</i>		<i>Cumulative Disbursement</i>	
No. of Accounts	Amount (Rs. in crores)	No. of Accounts	Amount (Rs. in crores)	No. of Accounts	Amount (Rs. in crores)
2207	24.00	799	12.00	187	3.00

74. **Punjab National Bank (PNB):** the Committee was apprised by the officers of PNB about the status of achievement under GECL as on 23.03.2021 is as under:-

<b>Particulars</b>	<b>Sanctioned Amount (Rs. in crores)</b>	<b>Disbursed Account</b>	<b>Disbursed Amount (Rs. in crores)</b>
<b>GECL 1.0</b>	11,272	178775	10,075
<b>GECL 2.0</b>	1,689	97	1,010
<b>TOTAL</b>	12,961	178872	11,085

75. Further, they informed the Committee that the Performance of Guarantee Scheme for Sub-ordinate Debt (CGSSD) as on 28.03.2021 is as under:-

<b>Proposals Sanctioned</b>		<b>Proposals Disbursed</b>	
Account	Amount (in crores of Rs.)	Account	Amount (in crores of Rs.)
238	15.29	171	13.86

76. **The Committee was informed by the Industry Associations that in many instances the Banks have not been forthcoming to accord credit facilities to the MSMEs or have not been showing considerate approach towards the**

**MSMEs interested for availing the loan facility. The Committee desires that separate counters should be opened at every MLI exclusively to deal with the MSMEs and handhold them to avail the eligible credit facility in a hassle-free manner and take benefit of all the Governmental Schemes meant for them.**

77. The second wave of the Covid Pandemic hit the Country in April 2021 at a most unexpected time when the economy started recovering gradually from the disaster impacted by the first wave almost a year ago. It is observed that the Characteristics of both the waves have been quite different and the Government's approach in dealing with the two waves have also been different. Since the second wave has been mostly localized, the Government felt that instead of imposing a National lockdown it was left for the States to decide whether or not to impose curfew/lockdowns depending on the local impact of the virus on the respective States. However, if both the waves are compared, the initial data on jobs, income, household income, consumer sentiments and demand show that the second wave too has had a devastating impact on India's economy, especially on poorer citizens and smaller business. Rising unemployment has emerged as the biggest economic concern during the second Covid-19 wave. Though no nationwide lockdown was imposed during the 2<sup>nd</sup> wave, the local complete lockdown imposed across many large states had a vast economic setback.

78. **ECLGS 4.0:** The Committee was briefed that to support Covid hit MSMEs further, the Government announced a three month extension of its Rs. 3 lakh crore Emergency Credit Line Guarantee Scheme to September 30, 2021 from June 30, 2021 or till guarantee for an amount of Rs. 3 lakh Crore are issued. The repayment tenure has been raised from 4 year to 5 years.

**79. The Committee notes that, after the emergence of second wave of the Covid-19 in April, 2021, the Government has recently announced ECLGS 4.0 with the Scheme period extended up to 30.9.2021. However, there has been no increase in the earmarked amount sanctioned under the Scheme. Keeping in view the efficacy of the Scheme, the Committee recommends that the Government should enhance the guarantee amount as nearly 2.5 crore traders have also become eligible for the Scheme as per the Government policy.**

#### **MSME SECTOR: THE ROAD AHEAD**

80. The Government of India has envisioned doubling the Indian economy to US\$ 5 trillion in five years. In order to achieve this goal, career opportunities for

the young population need to be generated. As the MSME Sector has the potential to serve as a key employment generator, the Government needs to nurture the MSME Sector in order to create new job opportunities.

**81. The Committee is of the view that in order to achieve the target of generating employment opportunities for the unemployed, investment should be made in providing more back-end services to improve performance of the MSME sector. In the absence of suitable technology-based production activities as well as low investment in R&D activities, the MSME Sector is not able to compete with its global counterparts and the condition has become more conspicuous during the pandemic era. Therefore, steps should be taken to bring in technical knowhow and the same could be made available to indigenous MSMEs at subsidized rates so that the MSMEs are enabled to compete with their global counterparts and achieve the export target. Besides, research and development (R&D) services of various Technical Institutions may be garnered for product innovation.**

82. At present, an MSME who wishes to sell online is mandated to obtain GST registrations (PPoB) for every state where it wants to conduct business. However, there has been a delay in availing GST registration which is stalling on-boarding of MSMEs on e-commerce platforms. Apart from application errors, major reasons for delay in availing GST registration are ‘physical visit-business not present’ and ‘trade license/professional tax certificate not present.

**83. The Covid-19 Pandemic has emphasized the need and importance of accelerated digital adoption in business and MSMEs are no exception. Therefore, the MSMEs need to switch over to digital platform from core traditional selling platforms through newer technology adoption which can not only facilitate access to e-markets and customers, but also streamline payments, obtain finance for expansion of business etc. A large fraction of MSEs are located in rural areas and, mostly being in unorganized business without any access to modern technology. The Committee recommends that the Ministry should take initiatives to create awareness among the MSMEs about digital marketing and extend handholding for a smooth transition to digital e-commerce platforms which would help them in situations like COVID pandemic.**

84. Ecommerce is growing at a very fast pace and it is expected to grow to US\$200 billion by 2026. It plays a major role in streamlining business

processes right from receiving a product order, to managing deliveries, keeping track of stock and even analyzing consumer feedback and data. The future is the age of online marketing. The Committee is of the view that the Ministry may study the working of big ecommerce players to adopt efficient and successful practices for strengthening the entry and survival of MSMEs in ecommerce. Through ecommerce, MSMEs not only can sell in indigenous markets but also get into markets abroad, which will definitely be a booster for MSMEs.

### **Import Substitution Development through MSMEs**

85. Since independence, replacing foreign imports with domestic products have been the priority of policy makers. But on many occasions, it was reliant on large scale imports from other countries that were cheaply available in terms of cost. However, in the midst of Covid-19 Pandemic, world trade witnessed a sharp decline as economies around the world entered into a lockdown and consumer demand fell to a historic low. The business shut-down globally stalled imports from foreign countries which adversely impacted the manufacturing and economic activities of the country. To protect the domestic economy and maintain seamless supply chain, the Import substitution industrialization is the need of the hour.

86. The Committee notes that the Government is focusing on indigenous development strategy upon Import Substitution and Make in India which is a welcome effort. However, the Government should develop a framework to support enterprises which are capable to develop Import Substitution as more investment would be required in such areas. Availability of soft loans to MSMEs at minimal interest rate of 3-4 per cent with extended repayment tenure, Easy land acquisition, less parameters of compliances etc. could help in developing import substitution in the country. Besides, SEZ focusing upon import substitution could be developed across the country and special benefits should be given to MSMEs for establishing units in such SEZs. It is suggested that Government should aggregate large adjacent land parcels at suitable manufacturing and logistics locations, which are free from encumbrances and make it available for the MSMEs at a fair market value for developing such export zones.

87. Import Substitution strategy cannot be effective unless Indian enterprises are made well aware about the products which are being imported. Government should put out a list of such products along with their

production specifications so that enterprises could be able to venture into such production areas. The Committee recommends that online exhibitions of the samples of such products, along with their market potential, could be organized by the Ministry in coordination with MSMEs Associations for information of MSMEs.

**88. Promoting Start up Innovations:** MSME start-ups have ideas which sometimes look impractical to be operationalized but many such ideas have become unicorns (billion-dollar companies). Israel has a start-up system in which the Government allows minimum support by providing basic funding, office, infrastructure, broadband and other facilities to the start-up, free of cost. The Committee is of the view that in order to encourage and incentivize potential entrepreneurs and new Start Ups with their ideas for implementation, initiatives should be taken to facilitate them with basic infrastructure and financial support.

**89.** The Committee is deeply concerned about the possibility of impending third wave of the COVID-19 pandemic in the near future as predicted by experts. The Committee therefore, recommends that the Ministry should adopt a proactive approach and take pre-emptive measures to meet the unforeseen challenges arising out of the possible third wave to save the MSMEs, which are already reeling under the devastation of first and second wave of COVID pandemic.

**90.** Most of the policies formulated are aimed at benefit of Medium and Large enterprises in the country whereas the position should be contrary. Policies & Schemes needs to be designed for the benefit of Micro & Small enterprises which constitute the majority of Indian MSME sector. The Committee recommends that while formulating policies/schemes, the Ministry should consider the benefits of MSEs which are often deprived of the benefits of various policies/schemes announced by the Government. The stimulus package announced by Government last year could not percolate down properly to the lower levels of MSME sector. The Committee feels that extra efforts need to be taken on this front.

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## **RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE – AT A GLANCE**

**1. The Committee observes that the stimulus package announced by the Government for the economic revival from the Pandemic hit economy has been found to be inadequate as the measures adopted were more of loan offering and long-term measures instead of improving the cash flow to generate demand as immediate relief. In the process of economic recovery post-first wave of the Pandemic, the second wave even more vigorously ripped the economy particularly the MSME Sector. The Committee, therefore, recommends that the Government should immediately come out with a larger economic package aimed at bolstering demand, investment, exports and employment generation to help the economy, including MSMEs to recover from the Pandemic fall-out.**

**(Para 23)**

**2. The Committee expresses concern over the grim situation of the Small Enterprises due to Covid-19 Pandemic. Unlike Large and Medium enterprises, Small enterprises depend on regular cash flows to stay afloat. The Committee, therefore, recommends that to ensure the survival of the Small enterprises, it is imperative for the government to provide them with much-needed liquidity support to keep their businesses running and generate job opportunities for the workforce.**

**(Para 24)**

**3. The Committee notes from the written replies furnished by the Ministry that no intensive study has been conducted by the Ministry of MSME to ascertain the actual losses suffered by the MSME Sector as a whole due to nationwide lockdown imposed by the Government. More so, the second wave of the Pandemic exposed the vulnerabilities of MSMEs like never before and highlighted the problems faced by them such as delayed payments, high informality, low financial resilience, scarcity in raw material availability *etc.* The Committee, therefore, is of the opinion that a detailed study needs to be conducted to make an assessment of the actual losses suffered by the MSME Sector so as to chalk out an effective plan for revival of the MSME Sector,**

which has the potential to contribute significantly in achieving the much coveted target of making India a \$5 trillion economy.

(Para 25)

4. The Committee observes that a large number of jobs were lost due to Covid-19 Pandemic and economic conditions of the households suffered a jolt and their regular income declined significantly during lockdown periods. The Committee recommends that Government should focus on employment generation and ensure that new means of livelihood are generated especially for the youth of the country. A new National Employment Policy may be considered along with exploring the feasibility of establishing a National Electronic Employment Exchange and building a skill-based database to provide employment to skilled manpower in their area of expertise. Besides, the Ministry should facilitate the MSMEs to scale up their capacity building and technical knowhow through extensive training and up-skilling programs.

(Para 27)

5. The Committee is of the view that the M/o MSME may make all-out efforts to instill confidence in more women entrepreneurs to on-board the Udyam Portal. Likewise, majority of industrial sectors, including the ancillary ones as well as more States may be encouraged to register in the Portal so that they can avail the benefits of Government packages. These can be done by creating awareness campaigns in the form of seminars/conferences in vernacular languages, advertisement in local dailies *etc.*, which can be easily assessed by the MSME entrepreneurs.

(Para 33)

6. It has been observed that after reclassification of criteria of MSMEs and subsequent introduction of Udyam Registration Portal, less number of MSMEs have got registered on the new Udyam Portal since 1<sup>st</sup> July, 2020. It appears that MSMEs feel better off without registration as the compliance costs would be much greater than the benefits that would accrue post registration. Besides, without registration, they find it more convenient to escape the income tax net and compliance structure. Accordingly, the Committee recommends that the Government may provide incentives to attract more and more MSMEs to register themselves on the Udyam Portal.

**(Para 34)**

**7. The Committee notes that as per the new guidelines, it is mandatory to have PAN & GSTIN for every enterprise to get registered in the new Udyam Registration Portal. However, due to lack of publicity and awareness among the MSMEs regarding migration to the new Udyam Registration Portal, many have not been able to register within the mandatory timeline of 31.03.2021, set for registration. The Committee, therefore, is of the opinion that the mandatory timeline for registration with PAN & GSTIN may be extended to facilitate the MSMEs. The Committee also desires that the Ministry of MSME should make concerted efforts to create awareness regarding the launch of a new Udyam Registration Portal so that maximum number of MSMEs get registered in the Portal and avail the relief packages and benefits offered by the Government.**

**(Para 35)**

**8. The Committee observes that the directions issued by the Government of India to its agencies and CPSEs to release payments to MSMEs within 45 days has yielded some positive results and outstanding payments have been released by PSUs/CPSEs to MSMEs. However, it is observed that many PSUs/CPSEs have still not released payments. Though there is a provision for 1 per cent penalty on delayed payments, in practice, the penalty clause is seldom invoked, which encourages the defaulting entities to flout the prescribed timeline. The Committee recommends that strict provisions against delayed payments need to be put in place to ensure timely release of payments by CPSEs which will immensely help the MSMEs to meet their working capital/credit requirements.**

**(Para 38)**

**9. The Committee also recommends that necessary guidelines should be issued for mandatory reporting of the delayed/pending payments (beyond 45 days) to MSMEs, by CPSEs/PSUs in their Annual Reports, in a separate section, as it would impress upon the CPSEs/PSUs to make payments to MSMEs in a time-bound manner.**

**(Para 39)**

**10. The Committee is of the view that the 90 days limit fixed by RBI for classifying overdues of MSMEs should be increased to 180 days so that MSMEs are not constrained to divert their working capital towards servicing of their loan-installments and clearing their dues at the cost of normal business operations. This proposed change in the RBI guidelines will save a large number of MSMEs from turning sick or getting closed resulting in loss of economic activity and employment. It will also prevent avoidable classification of bad debts and unwarranted litigation by banks, thereby saving the banks too, from losses.**

**(Para 41)**

**11. The Committee notes that the subordinate debt scheme was supposed to benefit nearly two lakh MSMEs whose non-performing assets are stressed. However, it has been observed that only a few MSMEs have availed the Scheme. The Committee feels that the sub-debt scheme in the present form has not been utilized much for the benefit of stressed MSMEs. The Committee therefore, recommends that the Government should re-visit the scheme for restructuring as to cover and benefit maximum number of stressed MSMEs.**

**(Para 43)**

**12. Also the Committee was informed about the key observations of the study which was that the small businesses were worst hit by the economic fallout of Covid-19 Pandemic. Unprecedented lockdown and other containment measures have resulted in supply chain disruptions and massive demand drop especially for Micro units and significant economic losses in general to MSMEs. Further as per the survey data, 88 per cent of the beneficiaries of PMEGP units reported that they were negatively affected due to Covid-19 Pandemic and the remaining 12 per cent stated that they were not affected. In terms of beneficiaries (88 per cent) who were negatively affected, around 57 per cent stated that their units were shut down during this period, 30 per cent reported that there was drop in production and revenue, 28 per cent stated issues pertaining to raw material availability or supply chain issues. In terms of beneficiaries (12 per cent) who were positively affected, around 65 per cent stated that there is an increase in business activity as they had units in retail and health sector, 53 per cent stated an increase in telephonic supply/delivery and around 25 per cent stated that their units were dealing with essential commodities or services. The Committee recommends**

that the Ministry should take immediate suitable action to rescue the small business units from collapsing, by providing additional financial support, relaxation or waiver of interest, marketing support *etc.*

(Para 50)

13. The Committee notes that there is abundant scope for job creation in domestic *Agarbatti* making industry as huge gap presently exists between the demand and supply of *Agarbatti* due to certain policy measures taken by the Government such as import restriction on raw *Agarbatti* and increase in import duty on bamboo sticks, etc. The Committee appreciates the initiatives taken by the Ministry of MSME to implement the pilot project, *Khadi Agarbatti Atmanirbhar Mission*, through KVIC, paving the way for large scale employment opportunities in *Agarbatti* making industry in different parts of the country, by enhancing domestic production substantially, with low investment. The Committee is of the view that this new initiative would be a boon to the artisans in rural areas who have lost their jobs due to Covid-19 Pandemic as it would not only restore livelihood to them but also generate large scale employment opportunities to the unemployed youth.

(Para 51)

14. The Committee notes that the production of Covid related medical and auxiliary items are very much required in large quantities during the present times to fight the Pandemic and production of such items by the MSMEs will help them to stabilize their livelihood. The Committee is of the opinion that the Ministry should extend all possible assistance to those MSMEs engaged in the manufacture of medical and auxiliary items, to meet the domestic requirement to overcome the Pandemic.

(Para 53)

15. The Ministry of MSME informed the Committee that during Covid Pandemic, MSME Technology Centres (TCs) developed/manufactured various medical and auxiliary products such as Sanitizers, Thermometers, Masks, Parts of PPE Kit and Corona Testing Kit *etc.* and supplied them to various Central/State Governments, Banks, PSUs and shared these with MSMEs for domestic/indigenous production and marketing. The Committee notes that these Technology Centres contributed significantly by manufacturing various Covid-related products indigenously thus fulfilling the

domestic demands. The Committee recommends that Ministry of MSME should focus on setting up of more such Technology Centres across the country to make India *Atmanirbhar* in manufacturing in situations like Covid Pandemic.

(Para 56)

16. At present, the biggest concern for MSME is non-availability of raw materials on time and at reasonable price. Traders are hoarding the raw materials and rigging the market with their whims and fancy pricing. The Committee recommends that NSIC should make suitable arrangements so that raw materials are made easily available at reasonable price for Micro enterprises, on credit basis.

(Para 57)

17. MSMEs are finding it difficult to procure raw material to run their businesses normally due to non availability of raw materials. Moreover, a steep hike in the prices of raw material like steel etc. has adversely affected the business environment. The Committee recommends that the Public Sector Enterprises should not impose penalty or black list the MSMEs in the event of cancellation of orders by them since increase in prices of raw materials is a Force Majeure event, beyond the control of the MSMEs. Besides, the Government should also allow import of all steel materials based on cost and quality requirements at zero import duty (no anti dumping) and also ban export of iron ore and steel products for the time being. Better GDP growth can be realized only if value-added products are exported rather than raw materials. Further, GST-based funding is needed for MSMEs at marginal rates, which will encourage them to purchase raw materials easily.

(Para 58)

18. The TReDS initiative by the Government is a useful tool for MSMEs to access the immediate fund at a cheaper cost with an option to select the offer from various banks without recourse to borrowing. Currently, it is mandatory for all CPSEs and companies having annual turnover of more than Rs. 500 crore to register on TReDS platform. The Committee recommends that the registration should be made mandatory for all CPSEs having a turnover of more than Rs.250 crores as it would enlarge the ambit of TReDS. Despite the mandate of the Government that all CPSEs sign up on the TReDS Platforms

to improve the cash flows of MSMEs, many have yet to comply with the mandate. Necessary steps should be taken by the Ministry to onboard more and more CPSEs on the TReDS platform.

(Para 61)

19. It has also been observed that MSMEs do not publish their invoices on TReDS platform despite having the registration due to unsaid pressure from corporate (buyers). Further it is seen that corporate (buyers) do not approve the published invoices of MSMEs on TReDS platform, which defies the sole purpose of the platform, as Banks cannot fund such invoices. The Committee is of the view that every tax invoice raised by GST registered MSMEs should reflect automatically on the respective TReDS platforms. After the delivery of Services or Goods, within a certain number of days, the corporate must accept or reject the automatically published invoice of MSMEs. After the stipulated period, the published invoice should be deemed accepted and should be available for banks to provide fund to MSMEs. If the CPSEs rejects any invoice, a mandatory clarification must be sought which should be visible to Banks and respective MSMEs. Consequently, MSMEs would be encouraged to get themselves registered on GST and TReDS Platforms as their invoices would automatically get published on TReDS which would open the doors for them to have access to easy and cheaper funds. It would also provide significant business potential for banks due to rise in number of invoices available on TReDS. The Committee feels that it would also make CPSEs responsible and cautious while rejecting any invoice raised by MSMEs and help them financially in this critical juncture. The proposal if implemented, would thereby, become a win-win situation to MSMEs, CPSEs and Banks as each one of them are likely to benefit.

(Para 62)

20. The Committee notes that though the Emergency Credit Linked Guarantee Scheme recorded a high success rate, yet, around 50 per cent of total guarantee amount only has been issued to MSMEs. As a result, a large number of MSMEs hard hit by the Covid Pandemic remained deprived from the benefit of the scheme. More so, it is observed that the complete amount of sanction has not been disbursed to the borrowers' *vis-à-vis* sanctions, for fear of loan defaulting by MSMEs in the backdrop of the 2<sup>nd</sup> wave of the Pandemic. The Committee recommends that the Banks should be more liberal

**at this juncture in extending credit facilities to MSMEs and ensure that loans are disbursed without delay after sanction.**

**(Para 68)**

**21. The Committee notes that the Traders, Retailers as well as Wholesalers have all now been reinstated in MSME category by the Government which is a welcome step. Hence nearly 2.5 crore Traders are likely to be eligible for obtaining credit facilities under the ECLGS. The Committee recommends benefits of the Scheme may be extended to small traders/dealers too as they have no access to institutional finances meant for MSMEs, as of now.**

**(Para 69)**

**22. The Committee was informed by the Industry Associations that in many instances the Banks have not been forthcoming to accord credit facilities to the MSMEs or have not been showing considerate approach towards the MSMEs interested for availing the loan facility. The Committee desires that separate counters should be opened at every MLI exclusively to deal with the MSMEs and handhold them to avail the eligible credit facility in a hassle-free manner and take benefit of all the Governmental Schemes meant for them.**

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**23. The Committee notes that, after the emergence of second wave of the Covid-19 in April, 2021, the Government has recently announced ECLGS 4.0 with the Scheme period extended up to 30.9.2021. However, there has been no increase in the earmarked amount sanctioned under the Scheme. Keeping in view the efficacy of the Scheme, the Committee recommends that the Government should enhance the guarantee amount as nearly 2.5 crore traders have also become eligible for the Scheme as per the Government policy.**

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**24. The Committee is of the view that in order to achieve the target of generating employment opportunities for the unemployed, investment should be made in providing more back-end services to improve performance of the MSME sector. In the absence of suitable technology-based production activities as well as low investment in R&D activities, the MSME Sector is not able to compete with its global counterparts and the condition has become more conspicuous during the pandemic era. Therefore, steps should be taken**

to bring in technical knowhow and the same could be made available to indigenous MSMEs at subsidized rates so that the MSMEs are enabled to compete with their global counterparts and achieve the export target. Besides, research and development (R&D) services of various Technical Institutions may be garnered for product innovation.

(Para 81)

25. The Covid-19 Pandemic has emphasized the need and importance of accelerated digital adoption in business and MSMEs are no exception. Therefore, the MSMEs need to switch over to digital platform from core traditional selling platforms through newer technology adoption which can not only facilitate access to e-markets and customers, but also streamline payments, obtain finance for expansion of business etc. A large fraction of MSEs are located in rural areas and, mostly being in unorganized business without any access to modern technology. The Committee recommends that the Ministry should take initiatives to create awareness among the MSMEs about digital marketing and extend handholding for a smooth transition to digital e-commerce platforms which would help them in situations like COVID pandemic.

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26. Ecommerce is growing at a very fast pace and it is expected to grow to US\$200 billion by 2026. It plays a major role in streamlining business processes right from receiving a product order, to managing deliveries, keeping track of stock and even analyzing consumer feedback and data. The future is the age of online marketing. The Committee is of the view that the Ministry may study the working of big ecommerce players to adopt efficient and successful practices for strengthening the entry and survival of MSMEs in ecommerce. Through ecommerce, MSMEs not only can sell in indigenous markets but also get into markets abroad, which will definitely be a booster for MSMEs.

(Para 84)

27. The Committee notes that the Government is focusing on indigenous development strategy upon Import Substitution and Make in India which is a welcome effort. However, the Government should develop a framework to support enterprises which are capable to develop Import Substitution as

more investment would be required in such areas. Availability of soft loans to MSMEs at minimal interest rate of 3-4 per cent with extended repayment tenure, Easy land acquisition, less parameters of compliances etc. could help in developing import substitution in the country. Besides, SEZ focusing upon import substitution could be developed across the country and special benefits should be given to MSMEs for establishing units in such SEZs. It is suggested that Government should aggregate large adjacent land parcels at suitable manufacturing and logistics locations, which are free from encumbrances and make it available for the MSMEs at a fair market value for developing such export zones.

(Para 86)

28. Import Substitution strategy cannot be effective unless Indian enterprises are made well aware about the products which are being imported. Government should put out a list of such products along with their production specifications so that enterprises could be able to venture into such production areas. The Committee recommends that online exhibitions of the samples of such products, along with their market potential, could be organized by the Ministry in coordination with MSMEs Associations for information of MSMEs.

(Para 87)

29. Promoting Start up Innovations: MSME start-ups have ideas which sometimes look impractical to be operationalized but many such ideas have become unicorns (billion-dollar companies). Israel has a start-up system in which the Government allows minimum support by providing basic funding, office, infrastructure, broadband and other facilities to the start-up, free of cost. The Committee is of the view that in order to encourage and incentivize potential entrepreneurs and new Start Ups with their ideas for implementation, initiatives should be taken to facilitate them with basic infrastructure and financial support.

(Para 88)

30. The Committee is deeply concerned about the possibility of impending third wave of the COVID-19 pandemic in the near future as predicted by experts. The Committee therefore, recommends that the Ministry should adopt a proactive approach and take pre-emptive measures to meet the

**unforeseen challenges arising out of the possible third wave to save the MSMEs, which are already reeling under the devastation of first and second wave of COVID pandemic.**

**(Para 89)**

**31. Most of the policies formulated are aimed at benefit of Medium and Large enterprises in the country whereas the position should be contrary. Policies & Schemes needs to be designed for the benefit of Micro & Small enterprises which constitute the majority of Indian MSME sector. The Committee recommends that while formulating policies/schemes, the Ministry should consider the benefits of MSEs which are often deprived of the benefits of various policies/schemes announced by the Government. The stimulus package announced by Government last year could not percolate down properly to the lower levels of MSME sector. The Committee feels that extra efforts need to be taken on this front.**

**(Para 90)**

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