



DELAYED PAYMENT CONSULTANTS

MSME STIMULUS – A TIP OR TRIP

INTRODUCTION

The much awaited stimulus package was finally announced by the Hon'ble Minister of Finance Mrs. N. Sitaraman Ji on 13th May 2020. The expected rescue from the knight in shining armor for the MSMEs seemed to bypass the MSMEs and the knight rode his horse away. The key takeaways of the Announcement were

- collateral free loans to the tune of 3 Lac Crores,
- creation of *Fund of funds* for equity of 50,000 Crores
- Liquidity injection of 90,000 Crores for ailing power discoms
- Change of definition of SMEs by including turnover criteria

This Note seeks to give light to the industry's perception on these announcement with suggestions that may be reviewed and acknowledged.

CORE ISSUES

Core issues that plague MSMEs are interest on working capital and term loan from Banks/ Financial institutions; Salary of workers; Electricity bill payment and rents of factory /office, not necessarily in same order.

SENSE OF THE STIMULUS

First installment of the Rs. 20 lakh Crores MSME Announcement by the Government of India, especially for the MSME sector, has been rather disappointing. To my mind, not much thought seems to have gone into formulating the package. Reading it in fine print reveals that the plea and pains and practical difficulties of MSMEs may have been completely overlooked while framing the '*stimulus*'.

The entire MSME Announcement refers only to the availability of more **loans** to MSMEs, at the cost of nationalized banks and hardly refers to any relief granted by the Government that would accrue to the sector. It is unfathomable as to how availability of more loans to MSMEs be construed a stimulus package.

Belated measures announced by the Government, if summarized from the MSMEs perspective reveals that collateral free loans will be given by Banks to the tune of Rs. 3 Lakh Crores. The MSME Announcement does not specify: **(a)** if the criteria for securing the loan has been eased; or **(b)** the manner in which the loan can be secured by MSMEs; or **(c)** if there is any subsidy on interest rates on loans to MSMEs. The MSME Announcement envisages that the already debt laden MSME further increases its debt burden which, sooner than later, will likely lead to the financial collapse of the MSME. The MSME Announcement further refers to Rs 20,000 Crores of subordinated debt benefit for stressed MSMEs and Rs. 50,000 Crores equity infusion for MSMEs



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through the *Fund of funds*. Liquidity injection of Rs. 90,000 crores for ailing power Discom's through the Power Finance Corporation (PFC) and the Rural Electrification Corporation (REC) is again on a loan mode, wherein funds will be secured from the market by PFC/REC and lent to DISCOM's against their most secured receivables. Here again there appears no strain on central coffers. All the measures refer to either increasing the debt burden of MSMEs or easing the ownership rights of MSME entrepreneurs.

NEED OF THE HOUR

In order to assist and ease MSME entrepreneurs, Government should have addressed the core issues to enable MSME to focus on reviving business in most prudent and subsisting manner.

Government should have ideally:

- Waive interest for initial period of 6 months and for the subsequent 6 months. Convert subsisting interest into term loan with subsidized interest, to be repaid in ensuing 5 years at the rate of 20% each year;
- Government to bear the cost of waiver of interest for 6 months;
- Ensured that the salary of employees for 3 months be funded by ESIC fund to insulate MSMEs from salary expenses. All MSMEs have been contributing sincerely to ESIC since inception and there seems no reason why said fund, contributed by MSMEs themselves, not stand by MSMEs in their hour of need.
- Waive off electricity charges, similar to the interest cost, for 6 months; and for balance 6 months, the electricity bill should be compounded, interest free, to be paid in ensuing 5 years at the rate of 20% each year.
- For the expenses on account of rent, banks should be directed to unconditionally help MSMEs.

With the dynamic track record of Hon'ble Prime Minister of India, MSME sector is confident of review of the said measures in the interest of the country and "Atma-Nirbharta".

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Delayed Payment Consultants (DPC) have been sincerely assisting MSME Sector pan India in the background of non percolation of statutory benefits conferred by Micro Small and Medium Enterprise Development Act, 2006 (MSMED Act, 2006).