Rescue instead of Destroying MSMEs

They cannot Survive after the Government-induced Third Shock

The Micro, Small and Medium Enterprises (MSME) form an important sector of the economy. These enterprises contribute about 30% of the country's gross domestic product, 40%–45% of exports, and employ about 114 million people who comprise about 30% of the labour force. About 63 million unincorporated MSMEs are engaged in the non-agricultural sector, the majority of which are microenterprises in the informal sector. The MSMEs are facing problems of unfair competition from big bourgeoisie, delays in payment by the big industries and unsold goods as well as insufficient bank credit.

The MSMEs have little resources to withstand any upheavals in the economy. The BJP government at the centre had already landed them twice into the crisis. One: the sudden announcement of demonetization had thrown many of them out business. Two: the imposition of GST created unbearable hardships. How many of them closed their shutter is not exactly known because the previous MSME census was conducted way back in 2006–07. The lockdown imposed on the plea to contain the spread of Covid-19 pandemic has undoubtedly devastated the economies of MSMEs. Take the case of Tamil Nadu:

"The Tamil Nadu Small Industries Development Corporation's (SIDCO) industrial estate in Ambattur houses about 2,400 units and most of them are MSMEs. And in and around the estate, there are around 20,000 micro and small outfits which depends on business from the industrial estate. Almost 95 per cent of the units in Ambattur are devoted to auto and allied industries and more than 90 per cent of its revenue comes from this sector. And almost 75 per cent of the industrial estate's manpower has traditionally come from other states.

"I have 40 machines that used to run in three shifts, of which, only eight are now running on one shift," says Ashokan, whose company had a turn-over of 45 crore last year. "My fixed expenses (rentals and wages) were around 60 lakh even during the lockdown period. Plus, I have to pay an EMI of 13 lakh per month for my loans," he says, adding orders from the passenger car industry had been down by almost 50 per cent for nearly six months. The lockdown has only compounded his woes.(Business Standard, 27-5-2020)

The situation is clear from the above example. The MSMEs, who have been already effected by the intransigent crisis in the economy, have now facing the problems of shortage of manpower, lack of orders and disruption of supply chains due to lockdown. And their future is bleak.

The Reserve Bank of India (RBI) decided to infuse liquidity by easing working capital financing. The Small Industries Development Bank of India (SIDBI) announced a concessional interest rate of 5% for MSME loans. Several public sector banks also introduced emergency credit facilities for MSMEs. Despite the announcement of these measures, a survey of 5,000 MSMEs by the All India Manufacturers Organisation (AIMO) revealed that 71% of the enterprises could not pay salaries to their workers for March 2020 due to the lockdown. Thus, a substantial relief package is necessary for businesses to stay afloat.

"The Covid-19 pandemic will trigger a second wave of consolidation in India, resulting in big firms across sectors gaining further market share from smaller and unorganized players, says BofA Securities. The first round of consolidation was triggered by demonetization and implementation of the goods and services tax (GST) in 2016 and 2017, respectively.

"BofA Securities analysed 1,125 listed companies across sectors such as consumer, financials, real estate, communication services and energy. Broadly, the top five players in each sector accounted for less than 60 per cent market share before 2016. Currently, the share of the top five players has increased to 62 per cent, and is expected to rise further as Covid-19 triggers a fresh round of disruption. (Business Standard, 27-5-2020)

The introduction of new definition for the MSMEs by the Finance Minister moves in the same direction. The new composite criterion expands the micro category to an investment size of '1 crore (from the erstwhile '25 lakh) and a turnover of '5 crore. This essentially means that a number of units, which are much larger will now be clubbed together under the micro category itself. The

possibility of a focused attention to this sector will be further diluted, both in terms of understanding the sector's requirements, as well as the data collected. This enlargement of the universe of the MSMEs is being implemented at a time when the global economy is at a standstill due to a pandemic that has left the Indian economy, and particularly the MSMEs, with an extremely uncertain future. While the government has claimed that the definitional changes -respond to the fear of the MSMEs outgrowing the investment thresholds and thus losing benefits, the increased limits at this juncture only allow the bigger units to come under the MSMEs ambit to avail benefits.

To pull the MSMEs out of the crisis, both monetary as well as fiscal measures are required. What is immediately required is the total write off of loans and interest,(as the levels of non-performing assets (NPAs) of MSME borrowers are far smaller than those of large corporate borrowers) providing adequate, timely, and cheaper credit, and a wage protection package. The government has not responded as expected by this sector.

Nirmala Sitharaman's grand package on the first day was the promise of Rs.3 lakh crore as loans to MSMEs by banks, which would be backed by a government guarantee. Companies with outstanding loans of up to Rs.25 crore and with an annual turnover of Rs100 crore would be eligible. This raised many hopes, but soon they were dampened after the Central Cabinet meeting.

The Cabinet meeting of May 20, which approved the package, announced that the MSMEs that had taken loans 60 days prior to February 29, 2020 are eligible for relief. This effectively rules out all the MSMEs that are in dire straits due to the lockdown, from getting relief from the package. Thus, companies that may have had to continue paying wages, maintain inventories, suffer delayed payments and incur overheads during the lockdown are left high and dry. Moreover, the loans will not be directly guaranteed by the government but by a scheme run by the National Credit Guarantee Trustee Company Limited (NCGTC).

A small number of firms can actually reap the benefits from these schemes. The only firms eligible for collateral free loans at concessional rates are those that already have an outstanding loan. These 45 lakh firms, that is, only around 7% of the total estimated MSMEs, could borrow 20% of their outstanding credit as on February 2020 (*LiveMint* 2020).

Stock exchange listing for SMEs (such as the SME platform Emerge of the Nati-onal Stock Exchange and Bombay Stock Ex-change SME) are only available for the largest of the SMEs with only 190 and 299 listed companies on these platforms, respectively, as of 24 May 2019. While allocated funds for equity could be a measure to help medium-sized enterprises in normal times, in an emergency such as the present, these do not make much sense. Also, as mentioned before, the enlargement of the definition of MSMEs further marginalises the smaller enterprises and allows larger firms to come into the ambit of medium enterprises.

The entire amount of Rs.3 lakh crore was not meant for MSMEs alone and would also include non-banking finance companies (NBFCs), including the microfinance companies. Given the attitude of bankers of playing safe, they tend to lend more to NBFCs rather than MSMEs. The principal amount will enjoy a moratorium of one year while the loans will have a four-year tenure. The plan will be implemented more in breach, rather than extending helping hand to MSMEs.

The large companies, including those of big bourgeoisie and PSUs, delay payments to their suppliers of components and to ancillary units is a chronic problem, for which the small industries cannot demand as they depend on usually single buyer. It is estimated to be to the tune of Rs.5 lakh crore and most of it was held back by the private sector. The Finance Minister said that all public sector units (PSUs) and Central government departments had been asked to clear their dues to companies. However, small industry associations have pointed out that private companies, especially large ones, account for multiples of what PSUs and government departments owe to the small companies. The Finance Minister, it seems, is not courageous enough to ask the large private companies to abide by the law and ensure timely payment.

From the days of Gandhi's call to buy Indian made cloth to the Nehruvian period of reservation to small scale units, to Indira's bank nationalization and to BJP's swadeshi jagaran manch and Narendra Modi's 'Make in India', the Indian ruling class parties always betrayed the small capitalist class, even though it formed the backbone of the economy, and served and continue to serve the interests of monopoly capitalists from imperialist countries, to true their comprador class nature.

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