

Fight against the COVID-19 pandemic

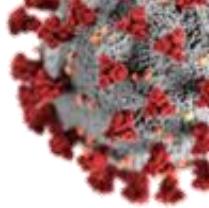
Inputs from the MSME Segment

April 2020



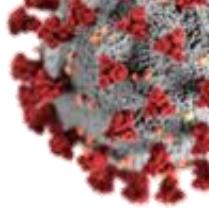
Knowledge Partner

Inputs from MSMEs



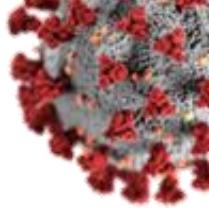
- **Lifting of the lockdown** must be gradual and in a prioritized manner to ensure sustainability of the gains of the complete shutdown
- MSMEs should be allowed to **commence operations on priority** in the hierarchy of essential requirements
 - Companies related to **essential services** like water, electricity, medical equipment, pharmaceuticals, and their ancillaries
 - The commencement may be gradual, allowing different essential segments to **operate on alternate days** till the COVID-19 curve has been flattened
 - A guideline for prevention and care which includes sanitization, mandatory wearing of masks and social distancing may also be implemented and monitored for units being granted permissions to commence operations
- All non-essential services and products may be granted permission at a later stage in a staggered manner
- MSMEs should be given **bailout packages** like other segments of the economy. This is an unprecedented challenge and hence MSMEs need support to help with reimbursement of salaries to be paid during the lockdown period. The relief for reimbursement requested for is as follows:
 - Workers: Minimum wages
 - Staff:
 - Salary up to 20,000 Rs per month/ 70 percent to be reimbursed
 - Salary between 20,000 to 50,000 a month/50 percent to be reimbursed
 - Salary above 50,000 and salary of directors should not be reimbursed
- Automatic **extension of all "letter of credits"** falling due in the month of April, May and June
- **Suitable subsidy in working capital interest** for the period of the lockdown

Inputs from MSMEs (Contd.)



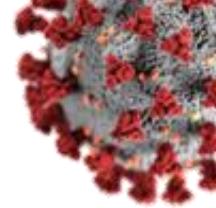
- To ensure **revival of MSMEs** from the impact of the pandemic and to tackle the challenges during and post the lockdown, banks must be instructed **not to reduce working capital limits**, or increase margin requirement for fund and non-fund based limits for MSME during renewal for FY 20-21 compared to the preceding year, Viz: FY 19-20
 - If banks curtail working capital limits, or increase margin requirements, the probability of revival for MSME companies shall be drastically diminished
- Enhance **Credit Guarantee Scheme** to provide counter guarantees to banks, mitigating credit risk or need for collateral so MSMEs have access.
 - The Government could expand the credit guarantee scheme for the credit facility up to INR5 crore from existing INR2 crore
- **Expand debt financing** through new loan products such as loan disbursals on the basis of turnover and impact of pandemic, and collateral free operating cost loans to sufficient working capital
- **Enhance equity capital access** through relaxation of track record requirements and post listing disclosures to expand MSMEs on the stock market
- **Waiving off the Annual Guarantee Fee** (AGF) for the loans disbursed to various sectors
- **One-time restructuring** (similar to the one-time rollover after the Global Financial Crisis of 2008) available to all corporate – large and MSMEs to manage the ongoing crisis
 - Banks should be able to redo / restructure all loans with everyone starting afresh assuming a principal repayment start date moving upwards from March 2021
- RBI should declare an **EMI waiver on all loans to extend for 6 months** (with RBI repo rate reduction) there should be no impact on EMI or tenure.

Inputs from MSMEs (Contd.)



- **Domestic market needs to be protected from imports:** Government should temporarily reduce or to maintain a minimum level of unwarranted onslaught of Chinese imports into India, by imposing import duty measures
 - 10% to 15% of addition import duties / special custom duty on all Chinese imports of industrial products whether originating in China or routed through ASEAN countries (excluding those which are absolutely necessary to import) can be implemented for at least 6 months
- Many businesses are approaching the expiry of various licenses / approvals / NoCs / clearances, requiring renewals. The government should allow the firms to **operate with the previously granted approvals for a period of next 6 months**
- **Extension of due dates of bills:** The due date of all the bills should be extended till the lockdown period is over. There should not be any penalty of late payment and interest levied on bills of cold storage units
- **Decrease operational expenses** through relief measures such as limited period rent waivers, property tax payment extensions, and easing collections
- Driving consumption through **increased disbursal of buyer's credit** and increased export tax rebates
- **Collateral free lending up to INR2 crore** may be implemented in true spirit for MSME. The collateral requirement may be capped at 35-40% for lending beyond INR2 crore
- The government should **extend concessional working capital loan (at 5%) to MSME**, equivalent to one to three months (based upon the extent of disruption) average turnover of last year. The interest payment for such financing can be adjusted over the next three years as part of GST
- **Waiver of fixed charges on utility bills:** waiver of fixed charges on electricity, water and telephone bills for registered MSMEs for the lockdown period

Inputs from MSMEs (Contd.)

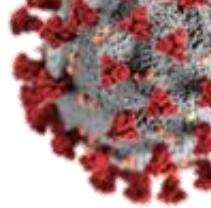


- The **Levy undermines the ability of Small and Medium sized-businesses (SMBs), and Startups to “Make in India”**: Most of India's startups and SMBs, leverage the opportunities offered by the internet and use non-Indian digital suppliers including software providers, app stores, software-as-a-service (SAAS) providers in the cloud services, infrastructure, social networking sectors to access the best of the world technology at lower costs
 - Levying an additional charge on services only serves to increase costs for such startups and SMBs, who rely heavily on such goods and services and this Levy would ultimately only serve to stymie their growth
 - Further, the Levy will restrict customer choice and limit the growth of MSMEs that rely on global goods and services to access a variety of tools including cyber security, artificial intelligence, machine learning, translation, storage, etc.
 - The Levy will restrict the ability of a large number of service providers to efficiently deliver services and goods to Indian customers including MSMEs, students, social media users, etc. at lower cost.
 - E-commerce businesses may pass on the burden of Levy to their Indian users including Indian businesses, which may ultimately hurt consumer interests
- **Implementation/enforcement related concerns:** The provisions relating to the Levy are effective as on April 1, 2020. As a result, stakeholders effectively have a little over 3 days to make complicated changes to their internal systems and begin accruing taxes on April 1, 2020, which will mean that compliance with the Levy is arduous and unfeasible
 - Further, in contrast to existing equalization levy, which requires compliance by Indian companies paying foreign advertising businesses for digital advertising services, the Levy requires non-Indian resident digital companies to make quarterly payments to the Indian Government and undertake periodic reporting compliances (which are yet to be prescribed)
 - Since the Levy will be liable to be paid starting in July, 2020, there is not only very little clarity on scope of the Levy and its implementation process, there is also very little time for such companies to set in place the processes required to pay the Levy correctly
- **Waiver of Bank Interest on Term Loans & OD/CC Limits:** Waiver of interest amount for MSMEs on the closing balance outstanding before lockdown till the time lockdown is lifted as no sales are taking place

Inputs from MSMEs (Contd.)

- The **PF exemption** should be extended to more factories, than just the units only having 100 people
- MEIS should be extended from 30th September 2020 to 31st March 2021, to support the export-oriented units
- **Financial institutions** payment facilitators / aggregators, issuers and acquirers, network operators, NBFCs are critical during this time of economic uncertainty as they are key to ensure that this infrastructure remains operational and also further expands
 - **NBFCs be given license to issue credit cards to SMEs**, which provide a ready source of revolving credit, which can be effectively used by SMEs as their means for substituting working capital requirements and access to interest free period of credit
 - **Trade Receivable Discounting System** (TReDS) can provide much needed relief by solving erratic cash flow problems of MSMEs caused due to slow payment of invoices. It should be made mandatory for all suppliers to come on board on TReDS. This will help in seamless presentation of bills, their validation, discounting and approval of funds on a single platform
 - Collectively, the payments industry (comprising of networks operators, issuing banks, acquiring banks, payment aggregators, payment gateways, fintechs, etc.) may **offer customised 'COVID-19' health insurance policy** to small and medium businesses who offer digital payment options. This will show solidarity of the payments industry towards small and medium businesses that are at the forefront of this difficult situation. For this purpose, payments industry under the umbrella of an industry association can collaborate with one of the General Insurance Company
 - MSMEs should be made not merely preferred creditors under IBC and NCLT but should also get at least **75% of the awaiting settlement, be** cleared within 30-60 days of accepting the case on merits
 - The **moratorium period** for the new MSMEs and restructuring in manufacturing should be extended by six months to ward off project and cost overruns
 - Provide COVID-19 **cash loans up to 7% of total sanctioned limits** wherein with each month, 1% of cash limit should be reduced and the account should come back at par in 7 months. MUDRA loans can be offered with a relaxed tenure for repayment

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ASSOCHAM initiated its endeavour of value creation for Indian industry in 1920. Having in its fold more than 250 Chambers and Trade Associations, and serving more than 4,50,000 members from all over India. It has witnessed upswings as well as upheavals of Indian Economy, and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country.

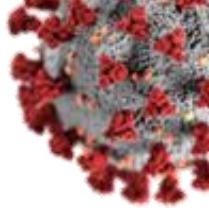
Our legacy has helped build a strong foundation for future endeavors wherein we serve as the Knowledge Chamber for the industry and become the conduit between them and the Government to foster development of a New India. Seen as a proactive and forward looking institution, ASSOCHAM is fully equipped to meet the aspirations of Corporate India in the new world of business.

ASSOCHAM has emerged as the fountainhead of Knowledge for Indian industry, which is all set to redefine the dynamics of growth and development in the technology driven cyber age of 'Knowledge Based Economy'. We aim to empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the technology-driven global market and helps them upscale, align and emerge as formidable player in respective business segments.

Aligned with the vision of creating a New India, ASSOCHAM works as a conduit between the industry and the Government. ASSOCHAM is seen as a forceful, proactive, forward looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating a conducive environment of India business to compete globally.

As a representative of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development.

ASSOCHAM derives its strength from its Promoter Chambers and other Industry/Regional Chambers/Associations spread all over the country.



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