Indian MSMEs can benefit from shift in global supply chain

Government of India and state governments are taking various measures to attract multinational companies looking to diversify their supply chain from China. Mr. Anil Bhardwaj, Secretary General, Federation of Indian Micro and Small & Medium Enterprises (FISME) feels that Indian MSMEs can benefit from the expected shift in global supply chain in the post COVID world. In an interview to MVIRDC World Trade Center Mumbai, Mr. Bhardwaj, explains the reforms needed to improve ease of doing business and attract foreign investment into India. Specifically, Mr. Bhardwaj suggests the establishment of a Regulatory Impact Assessment (RIA) mechanism to review the existing and upcoming economic laws.

Excerpts of the interview:

1. There are more than 6.5 crore MSMEs contributing 30% to India's GDP, 45% to exports and support 110 million jobs. Can you provide us your estimate of losses suffered by MSMEs across sectors from the lockdown and also the estimated loss in jobs?

We were in lockdown for over two months during which the economic engine was frozen almost completely. Whole of first quarter of the year is more or less washed out. The process of re-starting is painfully slow: businesses reel under severe cash crunch, there is disruption in workforce joining either because of border restrictions or lack of public transport or workers having returned their hometown. The second quarter may therefore would be barely 50% productive. With MSMEs contributing almost 40% to industrial production and directly and indirectly close to 50% to exports from India, the impact is going to be substantial. While the contraction in MSMEs' contribution is certain the extent would depend on two factors: revival of economy in third and fourth quarter and traction of 'Atmanirbhar Bharat' package announced for MSMEs enabling them take advantage of the revival.

2. RBI and Government of India have taken various measures to provide immediate liquidity support and temporary respite from tax and other compliance procedures for MSMEs. Do you feel the policymakers can take more steps to support MSMEs?

The Rs. 3 lac crore loan guarantee scheme is timely which enables MSMEs' access to 20% additional loans for four years without collateral security all guaranteed by Government. Flipside of the scheme is only those running current loans can access this additional loan amount. Therefore, Government will have to think about those who till now didn't need loans but need in this period of crisis. Secondly, there are many a hurdles between the promise of fund for restructuring or start-ups for MSMEs to their actual delivery. Similarly, the changes in General Financial Rules (GFR) barring global tendering below Rs. 200 cr is unlikely to accrue more business for MSMEs as MNCs are seen resorting to getting prequalification criteria changed in their favour crowding out MSMEs. Therefore, we have to first ensure that what is announced is implemented in letter and spirit as quickly as possible. Secondly, we come out with support schemes that have not addressed the pains of vast majority of informal MSMEs.

3. Does the COVID crisis provide new business opportunities for MSMEs? If so, what are the sectors that have potential to grow from the COVID crisis?

There is no crisis without a silver lining. The transformation in global value chains may lend many opportunities on the shores of India provided both Government and industry are ready to work together. We need to identify key areas for economic reforms whether in financial sector or labour or administrative and carry them out. We can brand India as a responsible capable and competent supply base in a large number of areas- engineering & electrical, electronics, IT hardware, white goods etc. if we could attract technology and capital with right policies.

4. What are the long term reform measures central and state governments should take to enhance global competitiveness of Indian MSMEs?

There is no one silver bullet but we need to move forward in several areas. Reforms are overdue in banking and financial sector (75% of banking still controlled by government), agriculture markets (without which we cannot build world class agro food industry), access to affordable commercial and industrial space (without which setting up new business will become unviable), labour laws and most importantly in creating an effective grievance redressal mechanism.

The industry faces a whole lot of issues because of which acquisition of land has become hugely complex. On the one hand, there is artificial jacking up of prices due to unreasonable compensation laws; major chunk of urban or commercial land holdings by Development Authorities, Railways, Defence and other government agencies, very high stamp duties making transactions high cost and creation of black markets. These development authorities (that develop both commercial or industrial space) and State Industrial Development Corporations SIDCs (which develop most of the industrial space) have grabbed land for free but now price space on market rates after adding all kinds of imaginable costs and then auctioning them. Much of such commercial or industrial space is cornered by punters or speculators which further extract premium, making a lot of businesses unviable.

In the area of regulation, we need to put in place rigorous Regulatory Impact Assessment (RIA) mechanism to review the existing and upcoming economic laws to determine cost-benefit analysis and improve quality of laws. We have more laws but little justice. We need to decriminalize them and contain ‘power to harm’ vested in petty officials through them. It would have same impact as big tax reforms and will unleash entrepreneurship. Most economic laws have vested unbridled powers of closure, detention and imprisonment in the hands of ‘inspectors’. Labour laws alone have more than 30 provisions that could land an entrepreneur in jail. From protection to environment to payment of taxes to bouncing of cheque, all regulations have provisions for criminal proceedings. Failure of business is certain to lead one to jail as till now there is no mechanism for Insolvency and bankruptcy for proprietorship and partnerships firms (which constitute 97% of MSMEs). The IBC code is for Companies only and this too was promulgated in 2016.

The biggest trouble is that the officers are unaccountable for their acts of commissions and omissions. The impunity to harm or close a business in garb of public interest is complete. For example, as reported by the Business Standard some time ago that 80% of demand of tax when challenged at Appeal level is found unsustainable. Further, a similar percentage of cases dismissed in Courts. It means we coerce a vast majority of our businesses in paying Taxes when not due: a reckless tax demand can kill a business.

Notifications

Press Information Bureau, Government of India

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Enhanced import duty on bamboo sticks

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Daily Bulletin on COVID

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DGFT

Advisory on fake email ids/websites/persons

https://dgft.gov.in/sites/default/files/Trade%20notice%2014%2811.06.2020%29.pdf

Amendment in Appendix 3 to Schedule 2 of ITC HS Classification

https://dgft.gov.in/sites/default/files/Noti%2010%20dated%2011.06.2020%20-%20SCOMET%20update_0.pdf

CBIC

Extension of anti-dumping duty on nylon tyre cord fabric

https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2020/cs-add2020/csadd15-2020.pdf;jsessionid=5E73A516921D38EDA140BA250FC2DAD5