

NEWSLETTER

IMMEDIATE IMPLEMENTATION OF BUDGET ANNOUNCEMENTS AND SPECIAL RELIEF PACKAGE NEEDED TO MITIGATE ADVERSE ECONOMIC IMPACT OF COVID-19 ON THE MSME SECTOR

While the 21-day lockdown announced by the government and its expected extension has helped India mitigate the spread of Coronavirus on a large scale, the economy is reeling under tremendous pressure of an imminent recession likely to be brought out by the COVID-19 crisis.

It is feared that the crisis will lead to huge job losses in the informal sector and may end up into shutdown of many small and large organizations. In order to mitigate the adverse impact of the crisis on the MSME sector, we here under make certain suggestions that the government may consider implementing to come out less-scathed of this precarious situation:

- **Reduce GST rates and increase interest rate subvention**

The Finance Minister, in her Budget Speech, had highlighted the government's significant achievements under GST and emphasised that over 60 lakh new taxpayers were added in the last two years, despite enhancement of the threshold and composition limits for the MSME sector.

In another development, the government has announced 2% interest rate subvention for all GST registered MSMEs on fresh or incremental loans, and has done away with the requirement of Udyog Aadhar Number (UAN) for units eligible for GST.

At a time when the economy is severely hit by the COVID-19 crisis, the government should target these MSMEs and handhold them through reduction in GST rates, which will also reduce the incidence of taxation on consumers, thereby increasing demand. Further, the government should increase interest rate subvention to 5% in order to support the viability of MSMEs once the lockdown period is over.

- **Enhance the corpus of CGTMSE and collateral-free lending limit**

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme allows collateral-free lending (term loan and/or working capital loan) to new and existing micro and small enterprises by eligible lending institutions up to Rs. 2 crore per borrowing unit. The lending is in turn guaranteed by the government.

The FM, in her Budget Speech, had further proposed to introduce a scheme to provide subordinate debt for MSME entrepreneurs and said that this subordinate debt, provided by banks, would count as quasi-equity and would be fully guaranteed through the CGTMSE scheme.

We suggest, in this time of distress, the government should enhance the corpus of the CGTMSE scheme to Rs. 50,000 crore and allow collateral-free lending to MSMEs to the tune of Rs. 5 crore per borrowing unit. This will enable MSMEs rebuild their business once the crisis is over, while banks and financial institutions should also collaborate with fintech companies to ascertain that the credit is only disbursed to eligible borrowers.

- **Expedite implementation of Budgetary announcements**

The government should further expedite implementation of budgetary announcements such as launching of an app-based invoice financing loans product aimed at obviating the problem of delayed

payments and consequential cash flow mismatches for MSMEs, and enabling NBFCs to extend invoice financing to MSMEs through the TReDS platform, thereby enhancing their economic and financial sustainability.

- **Incentivize investment in R&D and Technology Upgradation**

Considering that over-dependence on China for import of raw material and intermediate products has led to disruption in our supply chains, it is time we revisit the concept of import substitution and 'Make in India'. In this regard, the government should further incentivize investment in R&D and technology upgradation among MSMEs, as also address the problem of inverted duty structure observed in the sale of certain finished products.

- **Expedite implementation of export-promotion schemes**

At a time when countries are looking at diversifying their import baskets, export promotion schemes announced by the government such as Niryat Rin Vikas Yojana (NIRVIK) and Remission of Duties or Taxes on Export Product (RoDTEP) can enhance Indian MSMEs' participation in Global Value Chains.

While the NIRVIK scheme aims to provide higher export credit disbursement, enhanced insurance cover and reduced premium for small exporters, the RoDTEP scheme will reimburse VAT paid on fuel used in transportation, mandi tax, duty on electricity incurred by exporters in their production process etc. which are currently not being exempted or refunded under any other mechanism. These schemes should be implemented expeditiously so that MSME exporters get government handholding in these difficult times.

- **Provide wage subsidies and relief from statutory payments**

The government should also provide wage subsidies to MSMEs in order for them to retain their workers and waive statutory payments such as municipal taxes, power tariffs and PF contribution for the next six months.

NOTIFICATIONS

DGFT

- [Procedure for availing Transport and Marketing Assistance on Specified Agriculture Products](#)
- [Conditions on import of Refined Palm Oil](#)

Press Information Bureau, Government of India

- [Steps taken to facilitate the farmers and farming activities at field level during the lock down period](#)
- [Consumer Price Index Numbers for March 2020](#)
- [PIB'S DAILY BULLETIN ON COVID-19](#)
- [Office of the Principal Scientific Adviser issues guidelines for controlling spread of COVID-19](#)

MVIRDC World Trade Center Mumbai

Center 1, 31st Floor, Cuffe Parade, Mumbai - 400005, Maharashtra, India

Call : [+91-22-6638 7272](tel:+91-22-66387272)

E-Mail : marketing@wtcmumbai.com

Website : www.wtcmumbai.org