

Need for targeted intervention to support MSME sector

Government can prevent a structural collapse of the Indian economy by ensuring the revival of the vast and rapidly growing MSME sector, concludes a study released by India's leading public finance think tank National Institute of Public Finance and Policy (NIPFP) in June 2020. The study was conducted jointly with Council on Energy, Environment and Water (CEEW), one of Asia's leading not-for-profit policy research institutions. The report titled 'Jobs, Growth and Sustainability: A New Social Contract for India's Recovery' emphasizes that revival of MSMEs can only set India back on its economic growth trajectory.

The study explains the criticality of MSME sector by highlighting that it contributes 117 million jobs, second largest after agriculture, 48% (or USD 148 billion) to merchandise exports, 45% to industrial value addition and 90% to the country's industrial units.

The study suggests that government should use its scarce resources to support those MSME sectors that have high economic importance and which are highly vulnerable. The three most vulnerable sectors from the COVID 19 crisis are textile, chemicals and metals. Vulnerability of MSMEs is assessed based on two financial parameters, viz. the liquidity position of MSMEs and cash conversion cycle. Liquidity position is assessed by the amount of cash in hand and in bank available to meet working capital. Cash conversion cycle is measured by the amount of time it takes to convert receivables into cash.

Government's policy support should also be targeted at those MSME sectors that have high economic importance, which is determined based on value addition and contribution to employment. The study found that MSMEs that are export-oriented or have high employment elasticity, such as rubber, plastic, electrical and optical equipments, transport equipments and textile, need special attention. Textile products, which accounted for 12.2% to India's overall exports, in 2018-19, was predominantly manufactured by MSMEs.

The report also offers other suggestions to support MSME sector. In order to enable targeting of government support, the study recommends building an accurate, scalable, real time information system to identify and serve genuine beneficiaries of government schemes and aid. The study points out that MSMEs should not be seen as a homogenous group with identical risk profile. Government should identify those MSMEs that are highly vulnerable, based on their financial health, market demand condition, availability of workforce and exposure to export market. Policy support should be directed to those enterprises that demonstrate willingness and propensity to survive this crisis.

The report acknowledges the government's move to introduce Rs. 3 lakh crore collateral and guarantee-free loan to MSMEs. But it suggests that banks should track the fund utilisation and financial health of the borrowers on a monthly basis, and intervene at the first signs of distress.

Such as tracking mechanism will provide visibility into gradual NPA build-up and allow the lenders and the government to take timely corrective action, the report notes. The report can be accessed from;

<https://www.nipfp.org.in/media/medialibrary/2020/06/CEEW-NIPFP-JobsGrowth-and-Sustainability-study-11Jun20.pdf>

Notifications

Press Information Bureau, Government of India

Three-month extension for re-import of cut and polished diamonds

<https://pib.gov.in/PressReleasePage.aspx?PRID=1638218>

Daily Bulletin on COVID 19

<https://pib.gov.in/PressReleasePage.aspx?PRID=1638182>

Bamboo to be a key sector in Post-COVID economy

<https://pib.gov.in/PressReleasePage.aspx?PRID=1637786>

White paper on focused intervention for Make in India

<https://pib.gov.in/PressReleasePage.aspx?PRID=1637806>

Launch of AI-based platform to bridge demand-supply gap of skilled workforce

<https://pib.gov.in/PressReleasePage.aspx?PRID=1637755>

Government preparing dashboard to monitor 29 Global Indices

<https://pib.gov.in/PressReleasePage.aspx?PRID=1637834>

DGFT

Amendment or additions in MEIS schedule

<https://dgft.gov.in/sites/default/files/PN-12%20dt-10-07-2020%28E%29.pdf>

CBIC

Extension of last date of re-import

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2020/cs-tarr2020/cs30-2020.pdf>

Anti-dumping duty imposed on Phenol

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2020/cs-add2020/csadd18-2020.pdf>