



MSME Newsletter

September 2020

Knowledge Partner

Strength of the Indian economy: MSMEs

Micro, Small and Medium Enterprises (MSMEs) are the foundation of the Indian economy, that help provide employment to millions of Indians across the country. India's demographic dividend is highly dependent on the success of MSMEs to drive economic growth. Going forward, the MSME segment will drive India's economic growth, and help in realizing its goal of becoming Aatmanirbhar (self-reliant), reducing dependence on imports while increasing exports. Moreover, this segment is critical to driving long-term economic stability and inclusive growth.

The "Make in India" initiative of the Government, aims to support the growth of MSMEs, which contribute 45% of industrial output, 40% of exports, and employ 60 million people, creating 1.3 million jobs every year. India boasts of more than 30 million MSMEs, producing more than 8000 quality products for the Indian and international markets.

Despite the importance of MSME sector in the economic growth of the country, the segment has been facing various challenges that constrain MSMEs from operating at full capacity.

The lack of adequate and timely access to finance is one of the biggest challenges for MSMEs, restricting their growth. MSMEs still face difficulty in obtaining loans through formal channels due to Lack of transparency, small-ticket projects, inability for collateral requirement, etc., with many relying on personal savings and loans raised against their personal assets while others are funded by family, friends, relatives, money lenders or informal institutions, who do not maintain proper accounts and mostly deal in cash. Due to the unavailability of credit, the sector has been unable to invest to scale up its manufacturing, purchase raw materials on time, acquire land, upgrade machinery, or access new technologies to be able to compete with its global peers.

Embracing technology can help Indian MSMEs unlock their full potential. However, most of the MSMEs are reluctant to adopt technology due to their lack of understanding about the right

technology solution, the low impact on overall profitability, the lack of skilled manpower to operate technology, lack of trust in new technologies, and the high cost of equipment. The government must make efforts to create more awareness among MSME entrepreneurs about the benefits of technology adoption on improvement of efficiency. MSMEs need to foster innovation, manage their business digitally, encourage e-payments, and make use of digital tools to be able to compete globally.

India's reform journey has led to substantial progress in moving the country to the 63rd spot in the World Bank's Ease of Doing Business rankings. However, there are areas where India continues to struggle, such as starting a business, enforcing contracts and dealing with construction permits. Time taken to enforce a contract is longer now than it was 15 years ago.

Labour-related challenges also affect MSME units as India faces a shortage of skilled labour at affordable cost. The labour markets are also marred by the multiplicity of labor laws and complicated procedures associated with compliance of such laws.

The COVID-19 pandemic has exacerbated the challenges faced by MSMEs which include declining demand, labor shortage and supply disruptions. The lockdown imposed to curb the spread of the coronavirus and improve India's preparedness brought economic activity to a halt, and labor migration from cities led to further issues.

Given the importance of the MSME sector, the Indian Government has introduced various schemes including, but not limited to:

- The Digital MSME Scheme, which involves the usage of cloud computing, allowing MSMEs to leverage the internet, and common and tailor-made IT infrastructure for their benefit.
- Prime Minister Employment Generation Programme which is a credit-linked subsidy program under the Ministry of MSME.

Strength of the Indian economy: MSMEs

- The National Manufacturing Competitiveness Programme (NMCP) which helps to develop global competitiveness among Indian MSMEs by improving their processes, designs, technology and market access.

To strengthen the MSME sector, various interventions have also been undertaken to produce the optimum output:

- The Government and banks should design plans and measures to widen easy, and hassle-free access to credit.
 - To provide financial assistance to MSMEs, Ministry of MSME has implemented the Credit Guarantee Fund Scheme. The government must also encourage banks to enable timely disbursement of credit to MSMEs.
- The Government should renew its focus on strengthening infrastructure, as reduced logistics cost will help improve competitiveness and drive inclusive growth of the Indian economy. Through the new logistics policy, India aims to cut down logistics cost to 10% of GDP, in line with other developed economies from the current 13-14%. The reduced logistics cost would further help in the development of MSMEs.
- In the journey to becoming Aatmanirbhar, India would also need to focus on skill development and imparting employable training to the workforce. The Ministry of Skill Development and Entrepreneurship (MSDE) should consult various stakeholders and MSME associations in preparing skill development programmes that would enable MSMEs to increase their productivity.
- The next phase of growth will also require targeted public-private collaboration for research and development to boost innovation in production techniques and service rendering.

recovery back to pre-COVID levels. Future opportunities for Indian MSMEs include:

- Employment generation: There are immense opportunities in the field of manufacturing and service rendering of MSMEs. In the retail and manufacturing sector, MSMEs generate huge amounts of employment and will continue to do so as the economy fully opens.
- Focus on customer satisfaction: Primarily, MSMEs manufacturing goods should focus on testing the preferences of the consumer. The MSMEs should focus primarily on the satisfaction of consumers, along with their rising inclination of hygiene-related practices. So, MSMEs can be more customer satisfaction oriented.
- Minimization of regional imbalance: MSMEs should leverage rural manpower to ensure inclusive and equitable growth across the nation, helping to boost the rural economy.
- Export Development: Indian MSMEs should focus on creating high quality products, not only for the domestic audience but also for the international market. There has been a significant demand for Indian products like wooden items, other handmade articles that Indian MSMEs must make use of to improve India's exports.
- The Attraction of Foreign Investment: Indian MSMEs form the base by supplying products that support large industries' ecosystems. Hence a robust MSME base is essential to attract foreign investments across sectors in India.

India's large micro, small and medium enterprise (MSME) sector is gradually looking at business

Latest Developments

Funds under ECLGS is MSME's right

Finance Minister Nirmala Sitharaman on Friday, 31st July, at a closed-door event of industry chamber FICCI said that banks cannot refuse credit to MSMEs under the emergency credit facility and any refusal should be reported.

As of July 23, 2020, the total amount sanctioned under the 100 per cent Emergency Credit Line Guarantee Scheme by public sector banks and private banks stands at INR1,30,492 crore, of which INR82,065 crore has already been disbursed.

The government is looking to make urban co-operative banks eligible to lend under ECLGS.

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EmBark launched to digitalize the MSME sector

FSS (Financial Software and Systems) on Thursday launched EmBark, an 'Acquiring Platform as a Service' offering for Acquiring Banks and Payment Aggregators to facilitate digital inclusion of MSMEs, with cost-efficient payment acceptance tools to expand addressable market, engage with customers in new ways and thrive in the digital economy. With EmBark, acquiring banks gain access to an underpenetrated MSME market via strategic partnerships, without having "feet on the street", transforming the economics of MSME acquiring, the management of the company explained.

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Ministry of MSME launches RestartIndia

www.restartindia.in is a mentoring platform primarily aimed at aiding the sector to restart businesses across the country. It will offer solutions to the problems faced by a large number of women entrepreneurs making a livelihood by setting up very small businesses, following the pandemic crisis. The website also provides details of various MSME-focused governmental/institutional support and resources on how to run or set up a sustainable business venture.

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Debt Restructuring provisions for MSMEs

RBI extended the provision of restructuring of loans up to INR25 crore on 6th August. MSME borrowers will be made eligible for restructuring their debt under the existing framework, provided their accounts with the lenders were classified as standard as on March 1, 2020.

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INR10,000 crore Fund of Funds for MSMEs to be operational soon

The objective of the INR10,000 crore Fund of Funds scheme is to help MSMEs with growth potential at a time when they are facing severe shortage of equity and low revenues. Moreover, the fund will be operated through a Mother Fund and a few daughter funds to enable MSMEs expand in size and capacity and would also encourage them to list on the main board of stock exchanges. The scheme proposes to buy up to 15 per cent growth capital in high credit MSMEs.

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Latest Developments

Plans apart from the INR20Lakh crores Fiscal Package

Government targets to scale up the INR88,000 crores village industry to INR5 lakh crore within the next 2 years. It is also looking at the possibility of providing salary support of up to INR1 lakh crore over the next three years to MSMEs which employ a certain minimum number of employees, as a way to boost demand in the economy.

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Amendments in classification criteria for MSMEs

A change in definition of MSME has turned India into a country of small businesses as nearly 99% of the entities now fall under the category based on the twin parameters of investment and turnover. The MSME Ministry has now decided to tap the income tax and GST database to get a better picture of enterprises claiming benefits.

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Udyam Registration Portal goes live

The new process for registration of MSMEs came into effect in the name of Udyam Registration form, on July 1. The portal will help guide the entrepreneur's step by step as to what they should know, what they should do. By getting registered under Udyam Registration Portal, the enterprises will get preference while issuing Government tenders, get benefits of financial assistance at lower interest rates, tax rebates and many other privileges as well as exemptions. It's important to note that the enterprises which are engaged only in trading i.e. buying, selling importing, exporting of Goods are not eligible for applying for Udyam Registration.

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UP MSME dept. to sign MOU with NIFT, SIDBI & IIP to promote ODOP

In a bid to promote One District-One Product (ODOP) on an international platform, the state Micro, Small and Medium Enterprises (MSME) department will sign an MOU with National Institute of Fashion Technology (NIFT), Indian Institute of Packaging (IIP) and Small Industries Development Bank of India (SIDBI).

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Pre-packaged insolvency resolution framework for MSMEs soon, say officials

A Pre-packaged insolvency resolution framework could make a debut in the micro, small and medium enterprises (MSME) segment before being expanded to other sectors. The government is drawing up a framework for resolution of MSMEs under the Insolvency and Bankruptcy Code (IBC), which could be rolled out soon, said a senior official.

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Latest Developments

Retail credit up by INR40,853 cr in July over June, MSME loans up slightly

The micro and small enterprise segment saw a small growth in outstanding loans. So was also the case with medium-sized units. The outstanding loan to SMEs stood at INR3,54,728 crore in July, as against INR3,52,696 crore in June. In May 2020 amount was INR3,52,949 crore. The medium size segment also saw traction with rise of INR6,324 crore in July 2020.

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Relief fund sanctioned by World Bank

World Bank approved a US\$750 million fund to support Covid-hit MSMEs. This program will address the immediate liquidity and credit needs of 1.5 million viable MSMEs, helping them withstand the impact of the current shock and protect millions of jobs.

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SBI readies INR1,000 crore B2B e-market exclusively for MSMEs

SBI will invest about INR1,000 crore and leverage its YONO platform to set up a business-to-business (B2B) e-commerce marketplace for MSMEs. The plan entails getting MSMEs on to the platform and providing funds based on the transactions that take place. The bank is hoping that it will not only help assess risk better but will also give it greater control over receivables.

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Tie-ups coming to the rescue

No large player can execute a big project on its own strength. It requires the load-bearing capacity of several small and micro players who, in turn, depend on the financial prowess of the large company. Tie-ups of MSMEs with large players are helping both parties. The bigger party decided to diversify into other products and because of this, MSMEs are able to survive since their workplace continues to generate revenue. For example, Jyoti CNC Automation, a supplier of machine tools, decided to diversify into developing in-house ventilators and machine tools for defense sector. By doing so, it not only ensured its own survival, but also that of 90 MSMEs it works with.

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Study on the plight of MSMEs

As per a joint survey conducted by NBFC Magma Fincorp and Business school SPJIMR, nearly half of the MSMEs have witnessed a downfall of 20-50% in their earnings. Businesses in the Northern and Eastern parts reported greater negative outlook in comparison to their Southern and Western counterparts. Surprisingly, 51% stated that they didn't feel the need to borrow.

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Latest Developments



Delayed MSME payments: 75% dues pending by govt, CPSEs cleared in July, says MSME Secretary

MSME dues pending by the government and central public sector enterprises, have largely been cleared, according to MSME Ministry Secretary AK Sharma. Through the online reporting mechanism for the clearance of dues, in the month of July, almost 75 per cent of the total pending dues has already been cleared.

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Govt takes tech route to solve MSMEs' skilled manpower issue; looks to nearly double Technology Centres

In order to assist MSMEs in their technical upgradation, the government is setting up 15 new Technology Centres also known as Toom Rooms along with upgrading the existing 18 such centres. These Technology Centres offer precision tooling along with new technologies including CAD/CAM, CNC machining for tooling, vacuum heat treatment, rapid prototyping, etc. apart from providing skilled manpower.

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Sector in Focus: Leather

The leather industry has been a major foreign exchange earner for India. However, the COVID-19 pandemic has hurt this import-dependent sector significantly. With limited liquidity, the sector finds itself at the short end of the crisis, as payments have been stuck overseas, supply chain has been disrupted and demand is declining. The workforce migration has also impacted the sector, though slowly they are joining back. We

Despite the ample access to raw material, the Indian industry is significantly dependent on imports of raw material and components. At the same time, they also struggle with dumping of Chinese leather goods, which are cost-competitive, though often low quality as well. Chinese imports hurt the Indian footwear industry in two ways – supplying low-cost raw materials, such as leather and components, to manufacture footwear and exporting low-cost leather and non-leather footwear.

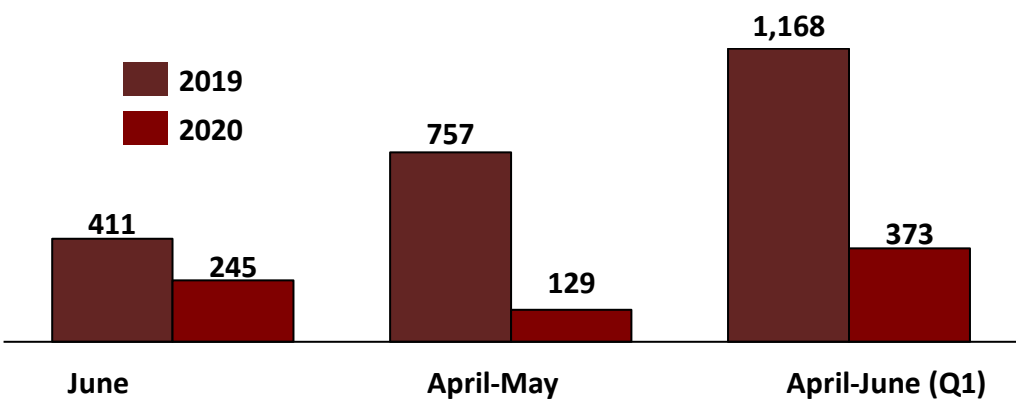
Even as exports of industrial leather gloves have picked up, other leather products such as handbags and wallets have witnessed a drop as retail sales in the US, UK, Germany, France and

Italy have not picked up. Global players are looking to renegotiate contracts, including those with Indian manufacturers, at 10-15% lower prices.

The Government of India recognizes the manufacturing potential of the sector to cater to the Indian market and become a leading export segment. Therefore, leather and footwear features in the Champion sectors identified by the Government of India to drive Atamnirbharta. To make the vision of self-reliance a reality, various measures have already been undertaken by the Government. Now, they are focusing on addressing sector specific issues, top enhance competitiveness and scale in the Indian leather and footwear ecosystem.

Export of leather and leather products and footwear declined by 40.5% to US\$244.89 million in June 2020 from US\$411.38 million in June 2019 due to COVID-19 pandemic. However, they have recovered from nearly 83% fall in April-May 2020. For combined April and May 2020, exports stood at US\$128.52 million when compared to US\$757.11 million the same period last year.

India's Leather Exports 2019 vs 2020



*"We must look into the community living concept post Covid to make them part of the eco system and ensure their well being and security for the future. This is the only way forward. Our future cluster must have such thoughts and development." **Vikash Gupta, Founder, ThreeSixty***

Sector in Focus: Leather

India boasts of 13% of global leather production and there is abundance of raw materials with 20% of the world's cattle and buffalo and 11% of the world's goat and sheep population, managing an annual production of about 3 billion sq. feet of leather. To ensure that this abundance is leveraged, and the potential of the sector is unlocked, the Government is undertaking concerted steps to address issues of infrastructure, skilling and tariff structure.

ASSOCHAM is tasked to lead the transformation

of this sector and in consultation with the industry, a few intervention areas have been identified to boost this labor-intensive sector. Taking cues from global markets and the experience of Indian players, the task force is attempting to create a competitive ecosystem for leather and footwear, which can support creating the Brand India in the leather and footwear segment.

“The leather sector being identified as a Champion sector can be a game changer for our leather industry if we can work along with the government to help build the make in India brand and work on sustainability and craftsmanship as our core strength. We will have to work with new energy and strategy. Government will have to support business which are able to scale and meet the new challenges... We will have to look across all the leather sectors from Footwear to furniture to develop the sectors and the demand. Government will have to look at the sector in totality and help transform.” **Vikash Gupta, Founder, ThreeSixty**

ASSOCHAM Events

ASSOCHAM, with the support of Ministry of MSME, Government of India & The National Small Industries Corporation (NSIC) has organized the Webinar on "Aatma Nirbhar Bharat Package for MSMEs: Challenges & Opportunities".

The objective of this session was to understand the MSMEs perspective on the Aatma Nirbhar Bharat Package and its implementation on the ground across the country.

Keynote speaker, **Shri P. Udayakumar, Director (P&M), NSIC**, stated that the growth package announced by the Government has made the MSME sector more competitive and laid down the road map for boosting setting up of manufacturing base in India. He urged the MSMEs to come forward and avail the benefits of NSIC schemes. He said crisis faced by the MSME sector now boils down to demand. Of the Rs 3 lakh crore meant for emergency credit line guarantee (ECLG) scheme loans, only Rs 1.23 lakh crore has been sanctioned, of which, only Rs 68,311 crore has been disbursed to MSMEs, he said.

Dr. René Van Berkel, UNIDO Representative, UNIDO Regional Office – India, stressed that crisis exacerbated underlying weaknesses of MSMEs with respect to productivity, performance, energy & informality. MSMEs need to build back better & prepare for more circular, digitized & resilient future.

Shri R. Ramamurthy, President, CODISSIA said only if there was demand in the market, MSMEs could hope to revive. If Rs 3 lakh crore announced as relief for the MSME sector enters into the economy, adequate demand would be created. If transportation cost comes down, MSMEs can cut costs by one-third and we can become competitive.



About ASSOCHAM

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.

About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'.

'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

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Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc), and with varied specialization (engineers, lawyers, tax professionals, management, etc).

Primus Partners brings experience of working in more than 30 countries with private and public sector, including working with Government of India, building and leading large consulting teams at the leadership level, and creating one of the largest public sector consulting practice in India. They also represent 200 person years of experience in leading global and Indian consulting firms and the public sector.

The founding team is supported by a distinguished advisory board that includes experts with leadership experience across government, large corporate and notable civil society organizations.

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