

Standing Committee Report Summary

Impact of COVID-19 Pandemic on MSME Sector

- The Standing Committee on Industry (Chair: Dr. K Keshava Rao) submitted its report on the subject ‘Impact of COVID-19 Pandemic on MSME Sector and mitigation strategy adopted to counter it’ on July 27, 2021. Key observations and recommendations of the Committee include:
 - **Impact of Lockdown:** The Committee observed that a large number of jobs were lost and regular income of households declined significantly during the lockdown period. It also noted that no intensive study has been conducted by the Ministry of MSME to ascertain the actual losses incurred by the sector. It recommended the government to: (i) conduct a detailed study to assess the actual losses suffered, (ii) consider a new National Employment Policy, and explore the feasibility for a National Electronic Employment Exchange, and (iii) build a skill-based database of job seekers for job-matching. To boost employment generation in the MSME sector, the Committee recommended: (i) investing in back-end services such as research and development, and (ii) promoting digital marketing and e-commerce by MSMEs.
 - **Stimulus Package:** The Committee observed that the stimulus package announced by the government for MSMEs was inadequate. It was more of a loan offering and long term solution rather than providing immediate relief by improving cash flows. It recommended the government to introduce a larger economic package. It also observed that the stimulus package has not percolated down properly to the micro and small enterprises. The Committee observed that extra efforts need to be taken on this front.
 - **Emergency Credit Line Guarantee Scheme (ECLGS):** ECLGS was launched under the Atmanirbhar Bharat Abhiyaan in 2020 to support MSMEs in meeting their operational liabilities and restart their businesses. The Committee noted that only around 50% of the total guarantee amount of three lakh crore rupees has been issued to MSMEs. It recommended that: (i) banks should be more liberal in extending credit facilities and separate counters should be opened to exclusively deal with MSMEs, (ii) benefits of the scheme should be extended to small traders/dealers, and (iii) credit guarantee amount should be enhanced.
 - The Committee recommended the government to restructure and revisit the subordinate debt scheme for stressed MSMEs. The scheme is aimed at providing benefit to around two lakh MSMEs which are financially stressed. The Committee noted that only a few MSMEs have availed the scheme so far.
- **Raw Materials:** The Committee noted the concern for MSMEs regarding non-availability of raw materials at reasonable price. It recommended that: (i) suitable arrangements should be made by the national small industries corporation for easy availability of raw materials, on credit basis, (ii) Public Sector Enterprises (PSEs) should not penalise and blacklist MSMEs for cancellation of orders, and (iv) import of all steel materials should be allowed at zero import duty and export of iron ore and steel products should be banned for the time being.
- **Dues of MSMEs:** The Committee noted that many PSEs have not released payments to MSMEs within the prescribed timeline of 45 days. It recommended that the one percent penalty on delayed payments should be enforced, and necessary guidelines for mandatory reporting of delayed payments be issued.
- **Overdues of MSMEs:** The Committee recommended that Reserve Bank of India increase the time period for classifying overdues of MSMEs into non-performing assets (NPA), from 90 days to 180 days.
- **Import Substitution:** To encourage import substitution, the Committee recommended the government to: (i) provide soft loans at minimal interest rate of 3%-4% to MSMEs, (ii) develop special economic zones focused on import substitution, (iii) make information available on imported products, and (iv) promote startups. It recommended the government to provide assistance to the MSMEs engaged in manufacturing of medical and auxiliary items, and setting up MSME technology centres.
- **Udyam Portal:** In June 2020, the UDYAM portal was launched for registration of MSMEs. The Committee noted that many have not registered within the mandatory deadline by March 2021. It noted that MSMEs appear to feel better off without registration, as compliance costs exceed the post-registration benefits. It recommended the government to: (i) provide incentives and create awareness for registrations, and (ii) extend the timeline.
- **Trade Receivables Discounting System (TReDS):** The Committee recommended that: (i) registration limit of TReDS should be reduced from PSEs with annual turnover of 500 crores to 250 crores, and (ii) every tax invoice raised by GST registered MSMEs should reflect automatically on TReDS platform.

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