



# TAX LAW EDUCARE SOCIETY

*...spearheading information dissemination*

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April 30, 2020

Dear Member,

Thanks for giving us hope in these troubled times. Being heard and acknowledged is a very important attribute of hope.

MSMEs are the backbone of Indian economy. They face a scenario of losing what they have spent a lifetime in building. Huge business losses, closures and bankruptcies. There is a rescue package in the making without doubt. Given the history of the sector and many carried forward problems from before COVID, there are apprehensions that such a package may fall short in terms of quantum, targeting and implementation.

SKOCH Group along with Tax Law Educare Society, Federation of Indian Micro, Small and Medium Enterprises, Bhartiya Vitta Salahakar Samiti have been holding national level consultations with MSMEs even during the lockdown and listening to their concerns.

The result is a survey report that encapsulates their felt needs, anxieties and aspirations. We urge you to look at this survey report as though it has a human face. The face of an MSME, her employees sharing their genuine problems with you.

MSMEs would be much relieved if policy action can take cognisance of these felt needs. Looking forward to hearing from you, understanding your perspective and being able to navigate this crisis together.

Thanking you,

Yours Sincerely,  
CA Arun Ahuja  
General Secretary  
Tax Law Educare Society

# National Multi-Institutional Survey on MSMEs in India



In collaboration with



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**Bhartiya Vitta Salahkar Samiti**  
Contributing in Nation Building

SKOCH Group conducted a national level multi-institutional survey of MSMEs in India in collaboration with Federation of Indian Micro, Small and Medium Enterprises (FISME); Bhartiya Vitta Salahkar Samiti (BVSS); and, Tax Law Educare Society (TALES).

The Survey was conducted in two parts: the first survey was conducted on 22 April 2020 and the second, on 25 April 2020.

Micro, Small and Medium Enterprises (MSMEs) have been badly hit due to the lock down and are in an urgent need of relief and stimulus support from the government. There are multiple institutions meant to regulate and facilitate small businesses in the country. An industry survey reveals that the multiplicity of institution are proving counter-productive and as a result hardly any support is reaching to the small businesses in this time of crisis.

*“The government must come out with a comprehensive rescue package for MSMEs. Majority of the small businesses need immediate financial support and may be forced to shut down permanently if no support comes from the government.”*

Majority of the MSMEs don't have money to pay salaries to their employees for April month and thereafter and they have not been able to avail the benefits of emergency funds through the banks, an industry survey has revealed.

In order to provide support to the businesses impacted due to the COVID-19 outbreak, the government has notified all state-owned lenders to offer emergency credit lines to corporate borrowers.

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## Recommendations

- Extend moratorium on all term loans by two years. First year should be free of interest, and only simple interest charged for the second year. Payment of interest should be only after the situation stabilises, and the businesses get back to normal.
- The most critical immediate challenge for MSMEs is working capital limit. It requires an increase of two times to help meet their working capital requirements.
- One unified electronic platform should provide all services and financial support to MSMEs. They should integrate the platform with GSTN and Income Tax databases.
- Increase in credit limits and other support may come through the respective banks and financial institutions. They can take the information from the central electronic platform.
- The definition of MSMEs needs to change to turnover based. Turnover based categorisation is transparent and in tune with the economic and technological changes.
- CGTMSE needs to be more autonomous. Its board should draw technical expertise from other financial institu-

*“Extend moratorium on all term loans by two years. First year should be free of interest, and only simple interest charged for the second year”*

*“The most critical immediate challenge for MSMEs is working capital limit.”*

*“One unified electronic platform should provide all services and financial support to MSMEs. They should integrate the platform with GSTN and Income Tax databases”*

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*“CGTMSE needs to be more autonomous. Its board should draw technical expertise from other financial institutions. There should be multiple credit guarantee institutions to spread the risks”*

*“The banks need to extend credit to the small businesses based on invoices. Genuineness of invoices can be ascertained through the GST Network.”*

*“Multiple agencies may offer financial support and stimulus to MSMEs while being linked to one common electronic platform.”*

tions. There should be multiple credit guarantee institutions to spread the risks.

- Multiple exchanges should invoice finance as in TReDS model. The financing system should be based on cash flow. This is important under the current environment when there is a lot of uncertainty regarding the payments. The banks need to extend credit to the small businesses based on invoices. Genuineness of invoices can be ascertained through the GST Network.
- Multiple agencies may offer financial support and stimulus to MSMEs while being linked to one common electronic platform.
- The government does not have any existing system to identify all the deserving MSMEs. We should develop a technology-based system to enable identification of all MSMEs transparently.
- Development of an app based credit network is the best option. We may link it with the GSTN system, Income Tax system or any other available database. It should link the system details of sellers and buyers. This app based system can enable real-time assessment and disbursement of credit to MSMEs.

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## SURVEY FINDINGS

Do you have funds for paying April 2020 salaries?

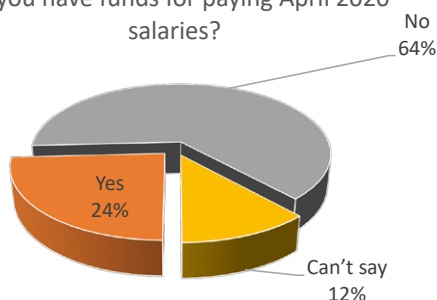


Fig 1

How much salary do you need to cut in April-June 2020?

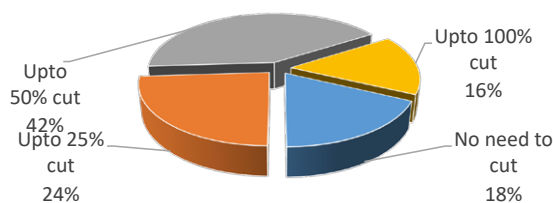


Fig 2

How many employees you need to reduce in the current situation?

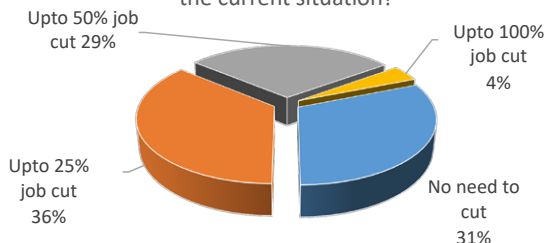


Fig 3

According to SKOCH Survey, the MSMEs overwhelmingly support creation of one integrated electronic platform to identify, implement and monitor financial support. This comes against the backdrop of ineffectiveness of the existing institutions meant to provide support.

Such institutions include Small Industries Development Bank of India (SIDBI), National Small Industries Corporation (NSIC), Industrial Finance Corporation of India (IFCI), State Finance Corporations, State Small Industries Development Corporations and District Industries Centres, among others.

A majority 64 percent of the MSMEs who took part in the survey said they don't have funds for paying salaries to their employees for the month of April 2020. Only 24.2 percent MSMEs said they have funds for paying April month salary, while 11.8 percent opted for can't say (Fig: 1).

Questions are being raised how come the businesses don't have funds to pay even salaries just because of one month of lock down. However, such arguments ignore the facts that small businesses were under pressure even before the Covid-19 outbreak. Lock down has further complicated the problem. Furthermore, on the question of if salaries are becoming an issue, how many employees the MSMEs will reduce given the current situation, 29 percent replied saying they would reduce strength to 50 percent (Fig: 2); 36 percent indicated job losses of up to 25 percent; 31 percent did not favour job losses at all, while 4 percent talked about 100 percent lay-offs (Fig: 3).

The irony is despite the existence of so many

*“Only 22 percent of the respondents said that the SIDBI is the best institution to help MSMEs”*

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*“80 percent of the MSMEs who took part in the poll said they have received no financial benefit from any government scheme in the past three years”*

Have you availed any benefit from SIDBI in the last three years?

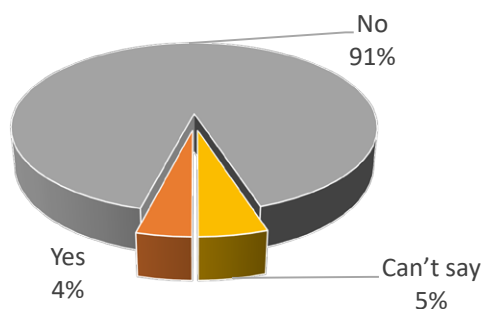


Fig 4

Do you think SIDBI is the best institution to help MSMEs?

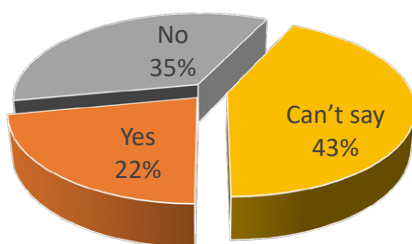


Fig 5

*“The present definition of MSMEs based on investments made in plant and machineries is not effective. We must change the definition of MSMEs. We should base it on turnover”*

institutions none of them seem to be able to provide the support in a transparent and effective manner. SIDBI is supposed to be the leading institution in providing support to the small businesses. When asked whether they have availed any benefit from SIDBI in the last three years, 91 percent of the respondents replied in negative. Only 4 percent said that they have availed benefits from SIDBI, while 5 percent opted for can't say (Fig: 4).

Only 22 percent of the respondents said that SIDBI is the best institution to help MSMEs, while 35 percent said no and 43 percent opted for can't say (Fig: 5). Not just during this crisis, SIDBI's record has been wanting on other occasions.

Low performance of its Trade Receivable Discounting System (TReDS) is a manifestation of it. In 2017, the Reserve Bank of India (RBI) issued licences for TReDS to three players - Receivables Exchange of India Ltd (RXIL), Invoicemart and M1Xchange. RXIL is a joint venture between SIDBI and National Stock Exchange (NSE). Invoicemart is promoted by A Treds Ltd (a joint venture of Axis Bank and Mjunction Services). M1Xchange is promoted by Mynd Solutions Private Limited.

Receivables Exchange of India Ltd (RXIL) started operations in January 2017 and has discounted just over 81,000 invoices, with the total transacted value of Rs 3,331 crore. It has 445 corporates (including PSUs), 1,521 MSMEs, and 35 banks and NBFCs on board.

The two other platforms have done comparatively better. Axis Bank-promoted Invoicemart has become the first one to cross \$1 billion in business volume. It crossed this mark on 4 March 2020. It has over 4,522 MSME sellers, 603 buyers and 37 financiers. Invoicemart has processed discounting of 4.80 lakh MSME invoices. M1xchange claimed in December

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Have you taken any financial benefit from any government scheme for MSMEs in the past three years?

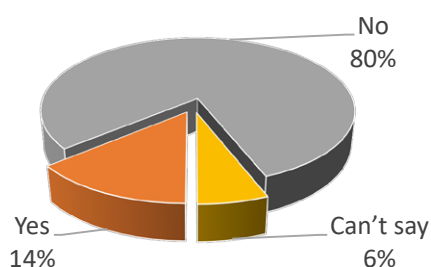


Fig 6

What do you think is the best way to identify MSMEs to provide help?

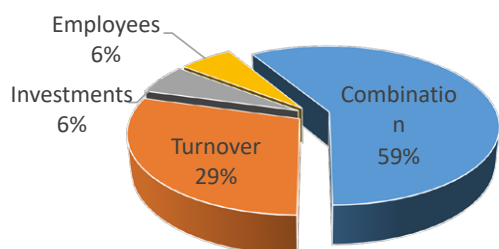


Fig 7

Do you think your business will survive without government financial help?

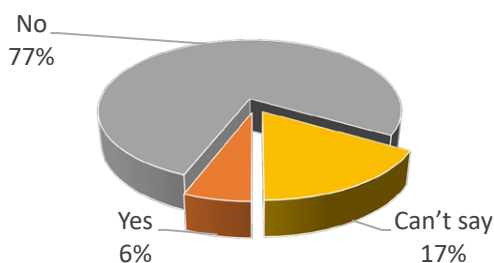


Fig 8

*“65 percent respondents demanded EMI holiday for two years”*

2019 that its business crossed Rs 5,000 crore. The overall performance of overall Trade Receivable Discounting System (TReDS) has been sub-optimal compared to the market potential and need for credit. Despite strong institutional backing, The Receivables Exchange of India Ltd has been a laggard.

Even before the Covid-19 outbreak and the resultant lock down the situation of MSMEs in the country was precarious. There had been demands and promises of financial and other support for the small businesses. However, it seems such demands and promises just remained on paper or talks. 80 percent of the MSMEs who took part in the poll said they have received no financial benefit from any government scheme in the past three years. Only 14 percent said they have received financial support from the government, while 6 percent opted for can't say (Fig: 6).

For the success of such a scheme it is imperative that the government create an integrated electronic platform. The integrated platform should work on the lines of DBT. Integrating Jan-Dhan, mobile and Aadhaar have ensured that the benefits reach to the target without leakages.

The integrated platform meant for the MSMEs should integrate GSTN and Income Tax data. This would help eliminate leakages and provide the relief in a timely and efficient manner.

One major hurdle in reaching out to the MSMEs is the way of identification. The present definition of MSMEs based on investments made in plant and machineries is not effective. We must change the definition of MSMEs. We should base it on turnover. The turnover data can be accessed almost on a real-time basis through GSTN and income tax platform.

When asked ‘what do you think is the best way to identify MSMEs to provide help, only 6 percent

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Do you think such moratorium should attract?

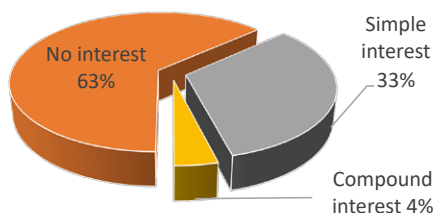


Fig 9

Do you think an 18-24 months moratorium on term loans is required?

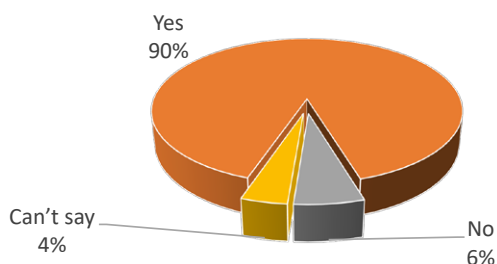


Fig 10

Do you need collateral-free credit on the basis of invoices raised?

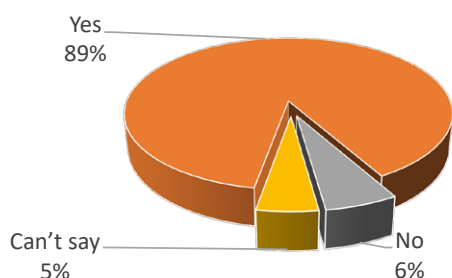


Fig 11

EMI Holiday for two years

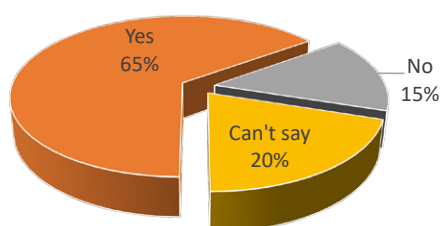


Fig 12

opted for investments. This clearly shows that the overwhelming majority want the definition to change. 29 percent said the identification of the MSMEs should be based on turnover and 6 percent said it should be based on the number of employees. A majority 59 percent said we should define the MSMEs based on a combination of factors (Fig: 7).

Majority of the respondents (77 percent) said they won't survive without the government financial help. Only 6 percent replied in affirmative when asked whether their business will survive without the government financial help. 17 percent opted for can't say (Fig: 8).

Several entrepreneurs demanded that the government should provide a full waiver of interest on working capital and term loans in line with the loan waiver support provided to farmers frequently across the country (Fig: 9). 90 percent favoured 24 month moratorium (Fig: 10).

89 percent asked for collateral-free credit on the basis of invoices raised (Fig: 11) and 65 percent respondents demanded EMI holiday for two years (Fig: 12). Instead of the scattered and piecemeal approach the MSMEs want, the government support should come in a consolidated form and get transferred directly to them. When asked "do you think there should be a consolidated financial help from one ministry directly transferred to MSMEs" 86 percent replied in affirmative. Only 7 percent replied in the negative, while the rest 7 percent opted for can't say (Fig: 13). Government payments have been one of the major reasons why MSMEs are suffering. 96 percent respondents wanted the payments from government and PSUs released instantly (Fig: 14). A majority of respondents – 79 percent – demanded twice as much enhancement in their credit limits. (Fig: 15)

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*“72.7 percent of the respondents said they have not availed government’s scheme for paying provident fund for employees”*

Do you think that there should be a consolidated financial help from one Ministry that should be directly transferred to MSMEs?

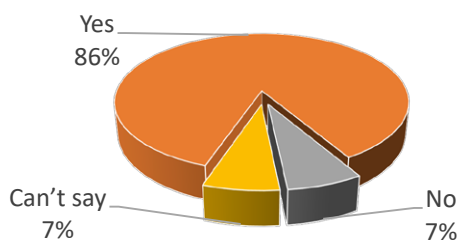


Fig 13

Release Government Payments instantly

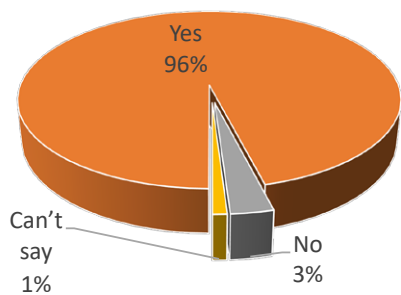


Fig 14

Enhance credit limit two-times

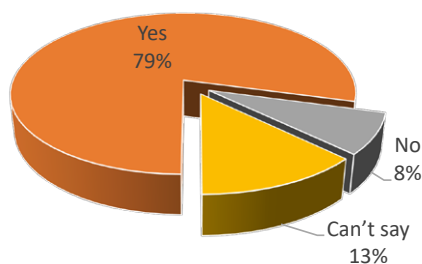


Fig 15

According to the SKOCH survey, 90.7 percent MSMEs have not availed COVID Emergency Fund through banks. Only 7.5 percent of the respondents said they have availed COVID Emergency Fund and 1.9 percent opted for can't say option implying they might not have heard about it.

The survey revealed that the benefits of the scheme have not reached most of the small businesses. Of the total respondents, 68.6 percent said there is need to create emergency funds to help the small businesses. Only 13.2 percent said there is no need to create emergency funds, while 18.2 percent opted for can't say (Fig: 16).

The country is under unprecedented lock down because of COVID-19 outbreak. As a result, majority of the businesses are shut. Small businesses are the worst hit because of the lock down.

While the small businesses are facing an unprecedented crisis and many of them are staring at collapse, there is hardly any government support. 72.7 percent of the respondents said they have not availed government’s scheme for paying provident fund for employees. Only 6.8 percent said that they have availed government’s scheme for paying provident fund for employees while 20.5 percent said it is not applicable (Fig: 17).

Finance Minister Nirmala Sitharaman announced on 26 March 2020 that the government would contribute 24 percent of salary of employees whose salary is not over 15,000 per month. The government’s contribution include 12 percent of employer share and 12 percent of employee share. This scheme for the firms whose employees strength is not over 100.

“Wage-earners below Rs 15,000 per month in businesses having less than 100 workers are at risk of losing their employment. Under this package, government proposes to pay 24 percent of their

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Do you need emergency funds?

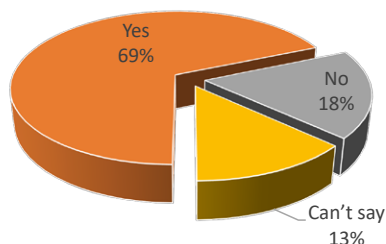


Fig 16

Have you availed Government's scheme for paying provident fund for employer and employees?

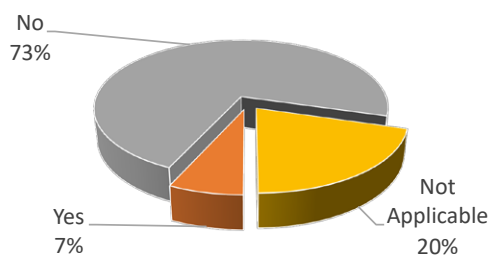


Fig 17

Have you been able to use EPFO portal for this facility?

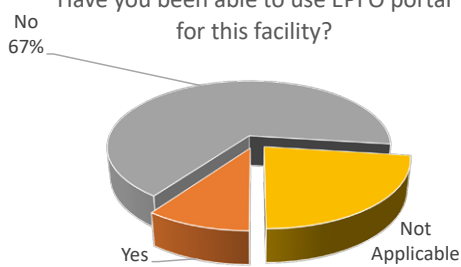


Fig 18

How much time does your buyer take to pay you these days?

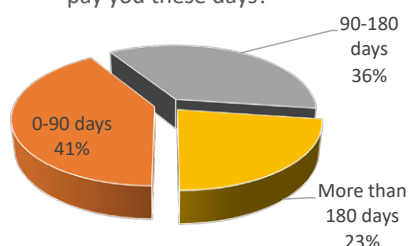


Fig 19

monthly wages into their PF accounts for next three months,” an official statement had said.

It does not benefit employees of most of the small businesses from this scheme. The reason being very few employees register for PF in the segment where the salary is less than 15,000.

When asked whether they have been able to use EPFO portal for availing the government’s scheme for paying provident fund, 67.1 percent replied in negative, while only 9.9 percent replied in affirmative. For 23 percent of the respondents it is not applicable (Fig: 18).

Delayed payments from buyers remain a major challenge for the MSMEs. When asked ‘how much time does your buyer take to pay you these days’ 22.8 percent of the respondents said it is over 180 days, while 36.1 percent said they get the payment between 90 to 180 days. Only 40.1 percent get payments within 90 days (Fig: 19). This violates the Micro, Small and Medium Enterprises Development (MSMED), Act 2006. As per the law, buyers must make payments within 45 days. The rules say “the buyer is to make payment by the date agreed on between him and the supplier in writing or, in case of no agreement, before the appointed day. The agreement between seller and buyer shall not exceed over 45 days.”

The survey data show that majority of the buyers are flaunting the law and not making the payments to the small businesses in time. The biggest culprit in this is the government departments and organisations, including the PSUs. Corporations are also not far behind. In fact, the tendencies of corporates are often exploitative. They not only delay the payments to the small businesses but also put pressure on them by engaging with new suppliers. So the MSMEs suffer not only because of delayed payments but also end up losing the business.

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**SKOCH Group** is India's leading think tank dealing with socio-economic issues with a focus on inclusive growth since 1997. The Group companies include a consulting wing, a media wing and a charitable foundation. SKOCH Group brings an Indian felt-needs context to strategies and engages with Fortune-500 companies, State-Owned Enterprise, Government to SMEs and Community-Based Organisations with equal ease. The repertoire of services includes field interventions, consultancy, research reports, impact assessments, policy briefs, books, journals, workshops and conferences. SKOCH Group has instituted India's highest independent civilian honours in governance, finance, technology, economics and social sector.

**Federation of Indian Micro and Small & Medium Enterprises (FISME)** evolved into a large national Federation of geographical and sectoral associations of Micro, Small and Medium Enterprises (MSMEs) in 1995 following India's embarking upon liberalization in 1991 and India's accession to WTO in 1995. Till then it used to be known as National Alliance of Young Entrepreneurs which was established in 1967. It works for 'Survival and growth of MSMEs'. It focuses on creation of an eco-system which is enabling to entrepreneurship and competitive at the same time. The key thematic areas of work at FISME constitute: Securing market access for MSMEs in India and abroad and ensuring competitive functioning of factor-markets; Advocacy reforms; execution of MSME development projects funded by GoI, as well as by all major multilateral and bilateral agencies. With over 730 associations as its members, FISME network reaches out to over 2 million MSMEs. For detail please visit: <http://www.fisme.org.in>

**Bhartiya Vitta Salahkar Samiti (BVSS)** is a leading think tank of Indian finance professionals (having membership from CA, CS, CMA, Tax Advocates, Bankers, Educationists, Finance consultants, Brokers, CxO's & Board of Directors of large corporations as its members. BVSS has been making professional representations on important policy matters to Governments, and other Regulatory authorities from time to time. We have been able to influence them by providing a wholistic view to the decision makers. BVSS has also represented professional community in judicial and quasi-judicial forums, and helped improve the existing legal frameworks. Our representatives have been appointed on various expert committees formed by Government, The Institute of Chartered Accountants, The Institute of Company Secretaries, Department of Company Affairs, Customs and Excise Department, etc.

**Tax Law Educare Society (TALES)** has been established in year 2005 as a non-profit making voluntary organization, with the main objective to educate general public and professionals on Taxation, Law and Allied Matters. The Society caters to the needs of its members in particular and tax paying public in general, and ensures that its members keep pace with the changing times. It also provides courses for self-development for its members and professional course students. 'Tax Law Educare Society' functions through its Managing Committee, which has various sub-committees dealing with all subjects of professional interest. The Society be a catalyst for bringing out better and more effective Government policies & laws and for clean & efficient administration and governance. It promotes healthy interface between the tax consultants, business community and the government. The society also makes representations to various authorities on different laws which are in the offing. It also publishes its monthly journal, which is subscribed not only by its members but by corporate bodies. The Society is a principle-centered and learning-oriented organization to promote quality service and excellence in the tax, law and accounting profession and shall be proactive to change. The Society harness talent of and disseminate knowledge to professionals, build skills and networks amongst them and encourage them to adhere to highest ethical standards and professional integrity. The Society also provides citizens' education programs like budget talks, group discussions, citizen programs etc. It also provides to members an environment conducive to the pursuit of knowledge and encourage them to achieve their potential to become complete professional in their field.