PHDCCI Suggestions

For

RBI Governor's Meeting with Trade Bodies and Depositors' Association

Wednesday, January 22nd, 2025, RBI Mumbai

Agenda

1. Constraints in availability of adequate credit from Banks and Financial Institutions.
2. Introducing uniformity and digitalization in documentation
3. Change In Classification Norms of MSMEs for NPAs
4. Interest Equalization Scheme on Pre and Post Shipment Export Credit
5. Priority Sector Classification for Credit to MSMEs through NBFCs
6. Additional Credit Limits to Companies/PSUs joining TReDS
7. Equity Infusion for MSMEs through Fund of Funds
8. Enhance ease of doing business
9. Reduce costs of doing business
10. Focus on fostering manufacturing-led development
11. Restructuring of supply chains
12. MSE Facilitation Councils should cover Medium Enterprises

Constraints in availability of adequate credit from Banks and FIs

• The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE) was launched by the Government of India to make available collateral-free credit up to Rs 5.0 crore to the micro and small enterprises.
• As per the feedback being received from MSMEs and new entrepreneurs, the Banks and other financing institutions do not provide credit merely on the strength of Credit Guarantee and insist for collateral securities in addition to the CGTMSE guarantee.
• This requires intervention from the RBI and Government for enforcing stricter implementation of the scheme.
• For this purpose, a Help Desk needs to be established either in RBI or in the Ministry of MSME, with a nodal officer who could be approached for help with specific cases of complaints.

Introducing uniformity and digitalization in documentation

• Presently, the banks and financial institutions are obtaining various security physical documents without any standardization besides the physical presence of all directors/partners and guarantors.
• This process involves huge paperwork and documentation formalities.
• In order to make the whole process of documentation simple, standardization and digitization of the entire process of documentation should be introduced instead of physical execution of the documents.

Change In Classification Norms of MSMEs for NPAs

- The working cycle of MSMEs in a large number of cases extends much beyond 90 days period as from the date of purchase of raw materials till the date of making sales itself spreads over a period of 90 days and thereafter, it takes another 30 to 90 days to realize the bills and receivables.

- Due to such delays, MSMEs find it extremely difficult to service their debt instalments or interest obligations in time, as a result of which, many of them default and their dues become irregular and overdue leading to their classification into NPAs.

- It is recommended that the 90 days limit fixed by RBI for classifying over dues of MSMEs should be increased to 180 days so that MSMEs are not constrained to divert their working capital towards servicing of their loan-instalments and clearing of their over dues at the cost of their normal business operations.

- This improvement in the RBI guidelines will save a large number of MSMEs from turning sick or getting closed resulting in loss of economic activity and loss of employment, and further preventing avoidable classification of bad debts and unwarranted litigation by banks thereby saving the banks from losses.

Interest Equalization Scheme on Pre and Post Shipment Export Credit

- **As per the notification number RBI/2021-22/180DOR.STR.REC.93/ 04.02.001/2021-22 dated March 8, 2022 issued by the Reserve Bank of India, the Government of India had approved extension of Interest Equalization Scheme for Pre and Post Shipment Rupee Export Credit up to 31st March 31, 2024 which has been extended from time to time until 31st August, 2024.**

- The revised interest equalization rates under the scheme were fixed as 3% for MSME manufacturer exporters exporting under any HS lines, and 2 per cent for manufacturer exporters and merchant exporters exporting under 410 HS lines (after excluding 6 HS lines pertaining to Telecom Sector.

- The above notification mentions the MSME manufacturer and merchant exporters only as eligible beneficiaries for interest subvention and Banks are not giving this benefit to the service exporters.

- It is well known that service exports in India account for nearly 40% of total exports and have been growing at a faster rate than the merchandize exports. Since the country has set a much higher target for service exports for the coming years, the Government should include service exports also in the eligibility for interest equalization as extended to other sectors.

Priority Sector Classification for Credit to MSMEs through NBFCs

- Since April 1, 2011, the Reserve Bank of India made all loans sanctioned to NBFCs (other than MFIs) for on-lending to Micro and Small enterprises ineligible for classification as direct or indirect finance to MSE sector thereby taking all such loans to NBFCs out of the priority sector classification.

- Due to this change in policy many NBFCs which were helping the MSEs in their day to day working capital requirement got financially strained due to stoppage of funds form banks.

- The Reserve Bank of India only partially restored this classification to the extent of Rs. 20 lac per borrower. Hence, NBFCs funding to MSEs is now restricted.

- Considering the above, it is desired that the credit given by banks to NBFCs for the purpose of on-lending to Micro, Small and Medium Enterprises should be treated as indirect finance to MSMEs eligible for classification under the Priority Sector lending of banks and the ceiling of Rs. 20 lac per borrower should be removed altogether or should be increased to at least Rs. 1 crore per borrower.

Additional Credit Limits to Companies/PSUs joining TReDS

- As per Government mandate all companies with sales turnover above Rs. 250 Crore are obliged to pay MSMEs through various TReDS platforms.

- Many companies have not joined the TReDS platforms due to their inability to provide sufficient comfort to the Bankers for discounting their vendors' bills.

- We suggest that TReDS should be made more attractive and certain concessions to companies who join TReDS be considered, for example- they can be allowed additional funding by Banks to the extent of 50% of their annual purchases from MSMEs.

Equity Infusion for MSMEs through Fund of Funds

- The Fund of Funds Scheme is meant to provide equity funding support to MSMEs, which have growth potential and viability. This scheme is expected to facilitate equity financing of Rs. 50,000 crore in the MSME Sector.

- The main objective of this scheme should to encourage Start- ups and those MSMEs who want to grow and get listed on stock exchanges.

- It is suggested that separate allocations should be earmarked out of the corpus of Fund of Funds for providing seed capital assistance to registered Start- ups and for participating/subscribing a small percentage say 15-20% in the IPO issues of SMEs when they list their equity on the Stock Exchanges.

Enhance ease of doing business

- We appreciate the government's efforts to enhance the ease of doing business in the country.
- Government has removed over 42,000 compliance requirements and decriminalized more than 3,800 legal provisions.
- This pivotal reform not only simplifies the regulatory landscape but also reflects a strong focus on implementing changes at the state level.
- We suggest the strengthening of National Single Window System for further streamlining the processes, facilitating business operations and encouraging investment across the length and breadth of the nation.

Reduce costs of doing business

- While setting up an industry, business visualize several key factors such as the demand scenario for the selected product, the nature of the organization, profitability, cost of doing business, availability of funds, scope for expansion and location.

- We suggest that access and availability of these factors, among others, should be smoothened for higher industrial growth.

- We suggest further reduction of costs of doing business;

  - **Cost of Capital**: The banking sector should transmit the full effect of the status quo of repo rate and lending rates immediately to reduce the cost of capital for the businesses. This will rejuvenate domestic demand and enhance the competitiveness of producers in the domestic market and exporters in the international market.

  - **Cost of Power/ energy:** In India, costs associated with getting electricity have reduced significantly over the years. The Government has taken many steps to get electricity easier, faster and cheaper. However, the per unit charge of power is still high, which should be an area of focus.

Reduce costs of doing business-contd.

We suggest further reduction of costs of doing business;

- **Cost of Land and availability of land**: Obtaining land is one of the most important parameters of ease of doing business. The procedure to acquire land should be free from complex and costly procedural bottlenecks. Land reforms such as increase in the lease period and creation of land banks for the use of industry should be focused.

- **Cost of Logistics:** India has been struggling with high logistics costs, making exports uncompetitive when compared to those of other nations. Over the years, time involved in transportation of goods has reduced significantly. However, the cost of logistics still remains high thereby leading to an increase in the overall cost of doing business. Going ahead, the Government should further improve the logistics infrastructure; remove bottlenecks at ports to reduce costs and improve ease of doing business for industry further.

- **Cost of Labor:** The cost of labor is one of the most substantial operating costs for businesses. It is particularly important for sectors employing large numbers of workers such as construction, manufacturing and other industries having non- automated operations. At this juncture, the Government should focus more on expanding skilled and high productivity manpower base to increase the competitiveness of firms in the international and domestic market.

- **Cost of Compliances:** Further simplification of compliances would help in making the policy environment more industry friendly, allow firms to focus on their core business and keep compliance cost low. All regulatory bodies including SEBI and Ministry of Corporate Affairs, Government of India, among others must ease the regulatory procedures further and must have a lenient view on the policy environment during difficult periods.

Focus on fostering manufacturing-led development

- **As manufacturing enhances productivity, competitiveness and leads to greater integration with global value chains.**

- The focus should be on improving logistical infrastructure and connectivity, thereby lowering communication and transportation costs and facilitating more efficient production processes, to strengthen the sector.

Restructuring of supply chains

- **The government should actively take advantage of current industrial restructuring of supply chains, as India has friendly relations with major industrialized countries.**

- Moreover, India is a center of global workforce in contrast to rapidly ageing populations in most industrialized countries, which will boost the industrial sector.

MSE Facilitation Councils should cover Medium Enterprises

- Only Micro and Small Enterprises can refer their delayed payments to the MSE Facilitation Councils.

- It is necessary that the Medium Industry should be included under the Micro and Small Enterprises Facilitation Councils for settlement of delayed payments from the buyers with the provision of payments within maximum of 45 days, if there is no specified payment date in the purchase order.

Thank you!

Notes

PHDCCI has been working as a catalyst for the promotion of Indian industry, trade and entrepreneurship for the past 120 years. It is a forward looking, proactive and dynamic PAN-India apex organization. As a partner in progress with industry and government, PHDCCI works at the grass roots level with strong national and international linkages for propelling progress, harmony and integrated development of the Indian economy.

PHDCCI, acting as the "Voice of Industry & Trade" reaching out to more than 1,50,000 large, medium and small industries, has forged ahead leveraging its legacy with the industry knowledge across multiple sectors to take Indian Economy to the next level.

At the global level, we have been working with the Embassies and High Commissions in India and overseas to bring in the International Best Practices and Business Opportunities.

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