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Session Title	Financial Inclusion for MSME Business Continuity: Deliberations on the Government's Stimulus Package
Day & Date	Friday, 15 th May 2020
Time	5 pm to 6 pm (IST)
Format	Fireside Chat
Panelists	Mekin Maheshwari (Co-Founder, Global Alliance for Mass Entrepreneurship) Mukesh Gulati (Senior Advisor, Foundation of MSME Clusters)
Moderator	Vrunda Bansode (Head, India Data Insights, Sattva Consulting)

Context:

The far-reaching impact of COVID-19 continues to evolve. Today, small businesses are grappling for stability given the halt in production and major slump in demand. As a crucial part of the Indian economy, MSMEs contribute to 30 percent of India's GDP, about half of India's exports and provide employment to over 120 million individuals. It has been estimated that close to 40% MSMEs are likely to discontinue business operations, and the revival of the sector is categorically urgent.

The Government of India's announcement, of an INR 20 lakh crore stimulus package, came in at a critical time. The package creates massive opportunity for providing the much needed fiscal support that India's small businesses urgently require. The Government has pledged Rs 3 lakh crore worth of collateral free loans for MSMEs. The government will also facilitate provision of Rs 20,000 crore as subordinate debt, which will benefit 2 lakh MSMEs and will provide support of Rs 4,000 crore to Credit Guarantee Fund Trust for Micro and Small Enterprises.

And while those numbers are certainly very promising, many questions remain unanswered. Will the package reach the small businesses that need it the most? How will delivery related challenges be solved, in an economy as vast and complex as India's? What outcomes should we really hope to see?

Key discussion points:

Microbusinesses will have to consider product and / or business process realignment:

This will include identifying products or services that will continue to have high demand in the post-COVID economy. This will also include identifying markets wherein customers are willing to pay, identifying avenues for cost-cutting (for instance, eliminating dead assets) and setting up backward linkages in the supply chain that allow for better repayment policies and thereby, strengthening overall cash flow management.

Microbusinesses can benefit from leveraging a cluster approach: Groups of enterprises can benefit from mass procurement of raw materials, reduced logistics costs, shared IT and shared assets. This will require learning new ways of operating the business and there is potential for nonprofits to enable this.

The push for collateral-free bank loans is largely relevant for enterprises that have borrowed loans previously: The INR 3 lakh crore worth of collateral free loans are directed towards enterprises that are not first-time borrowers. This means that a large segment of informal microenterprises will continue to remain excluded. Additionally, while the Government has extended this support to banks and NBFCs, the institutions will still face business dilemmas in disbursing these loans given the fear of NPAs.

Delivery of the stimulus package can be enabled through better awareness amongst MSMEs and increased measures to drive accountability: Bankers should be reaching out to small businesses but this is not happening. Therefore, there is a need for campaigns that will enable entrepreneurs to become aware of their entitlements. Besides that, we need easy-access platforms that MSMEs can log into and get access to relevant policies. Additionally, a dashboard that highlights the status of delivery will help bring in greater accountability.

Simultaneously, consumer preferences are changing and this needs urgent attention: COVID-19 has changed the nature of consumer demand. Consumers have become increasingly conscious of quality, safety, hygiene and it is imperative that the realignment of businesses be done in a way that addresses these changing market demands.

However, the current measures are largely supply-oriented, leaving much room for market-oriented approaches: The infusion of debt capital will only be relevant to a certain degree if challenges related to outputs and outcomes are not fixed. This will include measures for building customer trust and loyalty towards MSMEs, especially after COVID-19, and ensuring that MSMEs are able to realign their businesses to the changing nature of consumer and market demand. This will require local support towards business restructuring/realignment and helping businesses chart out new pathways for continuity in the post-COVID era, through efforts by both local governments and nonprofits. Additionally, for microbusinesses, easing the registration process and bringing in greater checks and balances as they grow, will significantly strengthen the ease of doing business and will make more microbusinesses eligible for the kind of stimulus packages we have seen.