IMPACT OF DEMONETISATION ON MSME'S AND NECESSARY ACTIONS

Post demonetisation, the economy has presented certain glooming statistics. In the short to medium terms, this sector is widely expected to slow its pace of growth. . The SME sector is marred by a cash based economy with about 55% concentration of micro units in this sector. The micro units work on a very low margin, small order size, nil tax payment, non licensed establishments, employ a labor of not more than ten and resort to informal finance. The labor involved too is of semi skilled nature with a low level of education. This sector is responsible for highest job creation potential however with a low per capita income. This sector being dependent on 100% cash based economy has led to nearly wipe out. The cash available with the proprietors of these units essentially has no marked source of income hence termed as black money.

Also, since these units run on illegal basis and do not pay income tax which further brings them under the purview of being a defaulter. Most of the cash available in this sector was reserved either for raw material purchase or labor payouts however with demonetization the same has been wiped out with no c ash left for these purposes. This has led to labor exodus which depended on daily cash to make a living in the urban areas and non availability of work as raw material supply being cut down due to invalidity of available cash. This has subsequently led to ultimate break down of this infrastructure of microunits.

Majority of SMEs are heavily cash dependent organisations with nearly 40% cash based working schedule. Some of the credit needs to are sought from the informal sector. Post demonetisation, MSMEs are suffering from job losses, coupled with dip in revenue and are reeling under tremendous overall downward pressure.Further zero cash inflow, rules limiting cash withdrawals, staff absenteeism, weaker rupee, inability of banks to work on proposals, poor preparedness coupled with frequent changes in policies and most importantly choked fundraising options have severely impact on this sector. The real estate and auto ancillaries are worst hit and the revenue loss is projected to an extent of 40-45%, whereas job losses may swell to even 30-42% by March 2017. The micro and small industries engaged in services sector are also worst hit. The overall fall in demand following the contraction in money supply due to demonetisation has hit MSMEs and services sectormore than large industries.

While the enhancement in credit guarantee scheme from Rs 1 crore to Rs 2 crore including NBFCs will give much needed credit liquidity. It would help MSMEs to access more funds to fulfill their growth potential. However, we strongly feel that these measures are not enough to brace MSMEs and that Government must take additional measures to support them in terms of making additional funds available by realigning interest rates for fund raising.

The Government must ask banks to bring transparency in the Marginal Cost of Funds Based Lending Rate (MCLR) system used while providing loans to different sectors. Today, home loans are available at ~8.6%, from the level of ~10.5% two years back, wherein SME loans are still high hovering around 11-15%. This creates huge disparity. Reducing interest rate for real estate alone is not sufficient. Today, banks have received nearly Rs. 4 – 5 lakh crores of money into banking system, Government must make loans available to MSMEs at the similar rates as that of real estate sector. MSMEs are the backbone of inclusive economic growth and substantially contribute to job creation. The access to cheaper loans will help MSMEs to sustain their businesses. These are necessary to revive that sluggish demand and improve the consumption and thereby help accelerate the economy.

The Government must bring in additional liquidity for corporate sectors and particularly for MSME and infrastructure sector. A common practice for MSMEs is to take loan-against property (LAP). LAP has witnessed a compounded annual growth rate of 25% between 2012 and 2016. International rating agency Moody's has pointed that Growth in LAP loans has outpaced overall retail credit growth in recent years. However, following demonetization this would translate into higher asset quality risks. Disruptions in the borrowers' cash flows may further trigger delinquencies.

This may ultimately result in higher NPAs.Our study post interaction with several MSMEs indicate that nearly 52% of the cases filed for recovery under Rs. 1 cr lending is under SARFASAI Act, i.e. loans are availed under security. Government must therefore direct all banks to return the securities collected from SME sector for loans given under Rs. 2 crores.

The government's Make in India initiative remains ineffective if the same does not make adoption of global standards are imperative for the success of Indian manufacturing so as to improve in terms of productivity and efficiency to compete in a globalized market. MSMEs will play a big role in achieving this. Adoption of global standards will help businesses to reach a level playing field and get their share of economic success. Government should help businesses by adopting uniform laws and thereby creating an enabling environment to facilitate international trade and investment.

Businesses are looking forward to the ease of doing business by having minimum laws and better governance and doing away with multiplicity of taxes, number of permissions and redundant rules and regulations. These should be adequately addressed in the forthcoming Union Budget.Government should convene a special session to do away with redundant laws.In the manifesto and at various public forums, Government has stated its commitment to do away with tax terrorism. However it has not translated into visible actions. Industries continue to suffer due to several policy and taxation issues at various levels. These come in way of growth. Today, the policy paralysishas affected the investment from Indian as well as overseas investors and at times these investors are reluctant to invest due to multiple paralytic laws at state and central level and its implications. Therefore such investment unfriendly laws and regulations needs to be simplified and rationlised.