Recommendations on Stimulus Interventions for the MSME Segment

Governments and central banks around the world have unleashed unprecedented fiscal and monetary stimulus and other support for economies floored by the coronavirus pandemic. The G20 said on March 26 it would inject more than $5 trillion into the global economy to limit job and income losses and “do whatever it takes” to tackle the pandemic.

India needs to act swiftly and decisively to implement both remediation packages and stimulus packages to prevent against the immediate and mid-term collapse of its economy. India has the opportunity NOW to take the best of the programmes that have been deployed already by the US, UK, Singapore, Japan and others and fashion them to be impactful for Indians on a meaningful scale.

The table that follows below summarises the remediation programmes and stimulus programmes that have been introduced by the following governments specifically focused on the interventions they have taken to prop up their MSME segments.

- UK
- USA
- Singapore
- Japan
- China
- Norway
- Nigeria

Recommendations

India should embrace a micro-level approach to interventions rather than a macro level approach and develop specific interventions for sectors that are critical to the economy and sectors that are likely to be most badly hit by the virus.

The US has introduced a huge remediation package and a stimulus package but it has applied it agnostically to sector/location. This means that critical sectors, vulnerable populations and geographies will be disproportionately disadvantaged as the virus continues to wreak havoc.

India should embrace the Japanese approach and introduce tax, cash compensation schemes and loan guarantee schemes to prop up its services and manufacturing sectors which are the largest contributors to GDP and which through their MSME population, generate the most new employment in the country.

The country needs to maintain the benefits it has already reaped from the gains made through the Make in India and other programmes it has introduced and were yielding fruit before COVID.

India Should Launch "Keep India Going" and "Start Back Up" India Programmes

Keep India Going should focus on:

Keeping the foundation of the Manufacturing and Services Sector in tact through the period of the Corona Virus lock down by:

1. **Ensuring adequate financing is available quickly to registered MSMEs during the COVID lock down. The following interventions are suggested:**

    - Public Sector Banks to offer Interest free loans during the lock down period **(Ref. Japan).** Government guarantee up to 90% loans to MSMEs in manufacturing and services sectors to incentivise private sector banks to continue to lend. **(Ref. Singapore)**
    - Short term working capital facility for hospitality, tourism, manufacturing and broader services sector (offered for 6 months with no principle repayment during the period to allow companies to continue to pay mortgage, salaries, etc). **(Ref. US and UK)**
    - Interest free period on new loans issued to MSMEs to incentive flow of capital from banks to continue into this sector **(Ref. Norway)**
    - Emergency Loans to cover salaries of employees delivered in maximum 3 days **(Ref. USA)**
    - Deferred payment of principle on secured SME Loans **(Ref. Singapore)**
    - Allow banks to recognize as capital more of their regulatory loss allowance reserves to enhance capacity to lend. **(Ref. Singapore)**
    - Allow regulatory forbearance to banks to restructure terms of facilities in these critical sectors. **(Ref. Nigeria)**
    - Appointment of digital intermediaries to work with lenders to speed up lending process and reduce the reliance on contact based lending. **(Ref Singapore)**
    - Relaxation of KYC norms for lending so that KYC can be completed digitally/by phone or video.
    - Removal of collateral requirements on small loans. **(Ref. UK)**
    - Automatic extension of business licences that expired just prior to the lock down and through the lock-down period to ensure businesses can continue to operate legally and comply with lenders KYC requirements.
    - Augmentation of priority sector quotas especially for foreign banks **(ref. China)**

2. **An Employment retention programmes for registered SMEs including:**

- Cash compensation **(Ref. Norway)/** Forgivable Loans **(Ref.USA)** to all MSMEs currently registered for GST, ITR and with MCA to allow them to continue paying employee salaries.

Start Back Up India should include:

1. **Financing to help these critical sectors get back up and running.**
   - Low interest rate loans for 12 months post lock-down. **(Ref. Japan)**
   - Export finance guarantees for manufacturing and services companies. **(Ref. Japan)**
   - Caps on Interest rate for MSME working capital loans post lock-down **(Ref. UK)** together with quotas on % volume of capital required to disbursed to manufacturing and services MSMEs.
   - Grants and tax benefits to MSMEs engaged in innovation to deliver transformative products into the economy and for export **(Ref. UK and Norway)**
2. **Tax incentives to MSMEs to bring more of their workforce online.**

Specific Interventions for the Textile Sector

In addition to the above, India has an opportunity currently to assist its textile sector to ramp up production for domestic consumption and export especially in the area of PPE and textiles used in storage and transport of basic necessities/health necessities (ie Jute, cotton and other synthetics used in pharmaceuticals or personal sanitation, etc)

- Machinery Finance loans on favourable terms should be offered to MSME manufacturing units to upgrade or extend their production of PPE and also textile used in storage and transport of basic necessities.
- A new category of loans should be offered to textile companies who which to secure international certification for PPE (such as CE certification for PPE) not only would this help stimulate an increase of high value add companies and categories within textile manufacturing in India but it would also help deliver quality of goods into society and stop the transmission of COVID.
- Free Business Stability Checks for Textile companies along with assistance in securing working capital loans quickly.

Specific Interventions for Women

No western government has yet introduced financial remediation or stimulus packages designed for women. Yet women prior to COVID were already in a disadvantaged position in terms of exposure to domestic abuse, sexual harassment, on overage 33% less pay globally for the same work as men and substantially reduced access to affordable capital from formal financial institutions.

India could be even more progressive in taking the lead on helping to protect its female citizens through the following interventions:

- A government salary redressal fund for women workers in the textile sector who have been furloughed.
- A special innovation fund for women entrepreneurs.
- Relaxation of collateral requirements for women borrowers in the MSME sector and reduced interest rates with government backed guarantees.

	Interventions Announced for:						
Country	**SMEs**	**Self Employed Persons/Sole Proprietorships**	**Banks to assist SMEs**	**Banks to Assist Self Employed**	**Women**	**Strengths**	**Flaws**
UNITED KINGDOM (£65.5billion full stimulus pack + £330 billion loan scheme)	• Job Retention Scheme to support salaries • Deferred VAT/Tax payments (3 mos). • HMRC Time To Pay Scheme - deferral of tax payments until Jan 2021 • Statutory Sick Pay relief package. • 12-month business rates holiday & £10,00 grant for select businesses • Grant funding of £25k for select businesses	Self-employment Income Support Scheme (supporting self-employed who have lost income taxable grant worth 80% of trading profits up to a maximum of £2500 per month for the next three months).	New lending facility from the Bank of England to help support liquidity among larger firms to bridge disruption. Coronavirus Business Interruption Loan CBILS) offering loans of up to £5 million for SMEs through the British Business Bank (inc. a government guarantee of 80% of the loan to incentivise lenders to lend).	NO	NO	Fast/comprehensive action; coordination between fiscal and monetary policy. Quick reaction CBILS issues to introduce: • Banks banned from asking owners for a personal guarantee when borrowing up to £250,000 no longer require personal guarantees • Applications no longer limited to businesses refused a loan on commercial terms, meaning more people can avail the support	Initial gaps in support for self-employed workers. Challenges with CBILS initial plan: • Small firms struggled with eligibility criteria • Banks struggled with high demand & ability to assess borrowers' eligibility • No cap to interest rates • Banks did not waive collateral requirement Limited capital support for tech start-ups (Runway Fund being investigated now) Loan buy-back scheme for businesses £45+ annual turnover, but not for SMEs.
UNITED STATES ($2.2 trillion stimulus relief package)	• EIDL (Economic Injury Disaster Loan) - businesses (max.500 employees) can apply for loans up to $10k as relief • SBA Debt Relief – 6 mo. relief on principal, int. & fees on eligible loans • SBA Express Bridge Loan – existing clients – quick access to $25k • Employee Retention Credit – employers that face closure or suffer 50% credit on up to $10k in wages 13 March – 31 Dec 2020. • Payroll tax deferral • Tax credits - paid sick and fam. leave.	Direct payments of up to $1,200 to individuals whose income is less than $99,000 (with $500 per child) UI expanded to include some self-employed. UI bens extended for 13 weeks + top up. Payroll tax deferral for self-employed	PPP (Paycheck Protection Program) – scheme w/ third party lenders – help businesses keep their workforce employed (eligible companies can borrow based on payroll records – covers up to 8 weeks payroll including benefits). 1% IR for a two-year term. Loan fully forgiven if funds used for payroll/eligible costs.	NO	NO	Largest economic rescue package in recent American history. EIDL & PPP programme allows for quick release of funds to support businesses in staying open/maintaining employees now. Additional support for sectors badly hit.	SBA-PPP - lending institution had unique application processes which resulted in challenges for the borrower. Practically the PPP loan forgiveness restrictions can be difficult for businesses to achieve –%age loan forgiveness decreased if FTE headcount reduced. Extensive and comprehensive, but may not be sufficient to cover extended downturn.
SINGAPORE (S$59.9 bn/ US$41.7 bn - across 3 stimulus packages ~12% of GDP)	• Job Support Scheme: govt co-fund S$4.6k of monthly wages for 9 mos. • Enhanced Wage Credit Scheme (WCS) • SG United Traineeships- Co-fund wage costs for traineeships - up to 8k • Prop. Tax Rebate 2020 • Rental Waivers up to 3 months • Auto Defer income tax pmt for 3 mos • Deferment of corporate tax • No inc. in Govt Fees/Charges for 1 yr • C/F Tax Rebate '20 - 25% of tax, $15k cap • SMEs Go Digital enhanced • Up to 90% and 80% support under Enterprise Development Grant (EDG) and Productivity Solutions Grant (PSG	-One-off handout of S$600 for adults ~ Self-Employed Income Relief Scheme – quarterly pmt $9,000 over 9 mos - $48m Self Employed Training Support -Training allowance rate of $10 per hour - Sustained support for 200,000 eligible SEPs to train/ upskill Deferred Income Tax – from May to Aug 2020	Max loan quantum of EFS-SME Working Capital Loan of $1m, with 90% Govt risk-share -Loan Insurance Scheme 80% subsidy for ins. premium -Temporary Bridging Loan- All sectors: max loan of $5m, 90% govt risk-share -Defer Payment of Principal on Secured SME Loans • Eligible borrowers not in arrears can apply to defer repayment to 31 Dec '20. -MAS funding for new loans supported under above schemes	NO	NO	Fast and comprehensive action, with coordination between fiscal and monetary policy. Singapore was among the first governments in Asia-Pacific to unveil special stimulus to counter losses. Announced 3 stimulus packages in quick succession in rapid response to the economic fallout as a result of Covid-19 Government will draw an extra S$4 billion from its reserves, and will push up its budget deficit in the current fiscal year to 8.9% of GDP Additional support for sectors that have been badly hit, aviation, tourism, land transport and arts and culture industries.	Extensive and comprehensive, but may not be sufficient to cover extended downturn and recession. Fiscal support will help reduce job losses and the extent of unemployment, but it will not be able to boost GDP growth or corporate revenues which are expected to decline significantly.
JAPAN 108 trillion yen (US$990 billion) - equal to 20% of Japan's economic output	- Incentives worth 15.7 trillion yen (US$ 2.2 bn) - manufacturing back to Japan - 6T yen cash handouts to ind'l/SMEs -Tax & social security payment deferments for businesses worth 26 trillion yen. -Subsidies of up to 2 million yen to small business owners, including freelance workers, and medium-sized companies if their revenues drop significantly to help continue business/maintain employment. - SMEs suffering from sharp declines fully exempted from consumption/prop tax.	300,000 yen ($2,800) in cash payments per household that suffers a certain degree of income declines from the coronavirus pandemic. Subsidies of up to 2 million yen includes freelance workers.	-Govt-backed lenders will offer interest-free loans, -Handouts up to 2m yen available for SMEs whose revenues drop by >50%. -1.6T yen low-IR SME loans -Govt loans up to 300m yen at <1% annual IR to SMEs whose sales decline >=5% - SMEs and self-employed who see a 10- 20% decline and must borrow, govt. pays the interest	Freelancers/ non-reg workers interest-free loans up to 100k yen. If annual income declines by >=20%, govt. may waive debt	NO	Campaigns to boost tourism, transport and the restaurant sectors after virus contained. Largest package globally announced so far as a % of economic output, shows Japan's commitment to recover from the virus through stimulus. Also indicative of the degree of economic impact policy makers are preparing for. Significant steps de-risk supply chain from reliance on China.	Plans to sell a record amount of additional bonds worth more than 18 trillion yen to fund the package, adding to its huge debt which is twice the size of its economy. About 80% of companies in Japan do not have the ability to let their employees work remotely, however no plan was announced to help address this issue should the lockdown get extended unlike Singapore government's go digital plan for business continuity.

CHINA $423 bn to SME support + $373 bn in liquidity + 16.4 bn in financial relief and stimulus	- Local governments have issued $150 billion in bonds so far this year to pay contractors for the construction of roads, bridges and other projects. - The government had also allocated at least 116.9 billion yuan ($16.4 billion) in financial relief and stimulus aimed at fighting the virus.	-Central government will double the temporary monthly allowance for low-income families for the March-June period to counter price increases caused by the crisis - move is estimated to benefit more than 67 million people.	- Announced more than 3 trillion yuan ($423 billion) in extra financial support for SMEs. - Offered easier funding for SMEs, increasing yuan re-lending and re-discount quotas by 500 billion yuan ($71 billion) -Increased policy banks' loan quota by 350 billion yuan to make loans targeting these businesses. - Central Bank to provide an additional 1 trillion yuan ($141 billion) to small and medium-sized banks, and cut the amount of cash they must hold as reserves. Previously $232 bn announced. - People's Bank of China lowered reverse repo rate to 2.20%, the largest cut in nearly five years.	NO	NO	Specific programs especially targeted towards SMEs. China has chosen to be more conservative this time around with stimulus more tilted versus the vast stimulus issued during the 2008 crisis. Announced targeted subsidies to help China's embattled domestic car industry, which has seen sales slump for two years, while continuing to push its industrial policy and environmental protection priorities.	Lack of any stimulus for spending to the general public through cash grants or vouchers that must be spent quickly. Effectiveness of the new local bond quotas will depend largely on whether there are enough worthwhile projects to finance. Most important thing now is to reduce corporate bankruptcies and job losses as much as possible.
NORWAY Fiscal: Openended but scheduled NOK 16.5bn (0.5% of GDP) Credit: NOK 100bn (3.3% of GDP)	- Corporate deficits can be written off against tax on surpluses from previous years - Postponement of wealth tax for owners of corporates now running deficits - Reduction of employee tax by 4ppt for two months - Other benefits (government pays for the first 20 days for temporary lay-offs) - Lower VAT for specific industries reduced from 12% to 6% from 1st April to 31st October 20 - Monetary aid for businesses affected with a drop of 20-30% monthly versus last year. The lower limit for compensation is NOK 5 000 and the maximum is MNOK 30 per month. Compensation shall be calculated on the basis of the following formula: [reduction in revenue] x [inevitable fixed costs] x [adjustment factor of 90 %] = [compensation]. - BNOK 2.1 for subsidies to development activities in small to medium size businesses that are presumed to have market potential	- The Government has suggested a temporary income safety scheme for freelancers and self-employed persons, which would provide about 80 % of the average income over the previous three years up to a maximum of NOK 600.000.	- Government loan guarantee specifically aimed at SMEs (NOK 50bn) and reintroduction of Government Bond Fund (NOK 50bn) - Allow SMEs to take loans up to NOK 50m with term up to three years. The state will guarantee for 90% of the loan value - MNOK 300 for granting exemptions from interest and repayment, for existing and new loans - BNOK 1,6 for loans to commercialize new solutions, strengthening working capital and for growth and internationalization, e.g. for projects that are difficult to finance through banks without risk-sharing - Central bank cuts its key policy IR to a record low 0.25% from 1.0%	NO	NO	Fast/comprehensive action; coordination between fiscal and monetary policy. Relief measures announced for specific sectors and all types of earners are addressed through the various stimulus measures including employees, freelancers and SMEs. Norway looks set to withdraw a record $13 billion from its giant sovereign wealth fund to help pay for the historic stimulus measures being unveiled.	Norwegian government is also facing slump in oil prices, which is its biggest export, and this could have additional impact on the economy for which specific stimulus wasn't announced. Norway's fund's 2019 cash flow from dividends, interest payments and rental income was about 240 billion kroner. If withdrawals exceed the fund's income, it would be forced to start selling securities to generate the cash needed. With Norway signaling it's ready to announce more stimulus measures, and many of the companies the fund invests in suspending dividends, it may get close to touching its principal for the first time.
NIGERIA Central Bank of Nigeria's N3.5tn	Proposed bill passed by the House of Representatives - Grant companies a rebate on Companies Income Tax to the value of 50% of Pay As You Earn (PAYE) deductions so long as such companies maintain their PAYE rolls as from 1 March 2020 to June 2020. - Suspension of import duties on the items listed on the bill would take effect between March and June 2020 (medical equipment, medicines, personal protection equipment and other medical necessities required for the treatment and management of Covid-19 disease in Nigeria) - Immediate activation of the N1.5 trillion InfraCo Project for building critical infrastructure; release of additional N100 billion intervention in healthcare loans to pharmaceutical companies, healthcare practitioners intending to expand/build capacity.	Bill would also defer mortgage obligations on residential mortgages obtained by individual contributors to the National Housing Fund for three months in the first instance.	- Central bank announced credit relief of $136.6M to businesses affected by the pandemic. N50 bn ($128.4m) targeted credit facility for affected households & SMEs as well as granting of regulatory forbearance to banks to restructure terms of facilities in some sectors. -Announced an additional one-year moratorium on its intervention facilities; interest rate reduction on intervention from 9% to 5% - Another N1 trillion in loans to boost local manufacturing and production across critical sectors. - Strengthening of the Loan-to-Deposit Ratio policy, to encourage significant extra lending from banks	NO	NO	Proactively requested the World Bank and IMF for funding of $2.5 and $3.4 bn respectively to help with the crisis. Households, small and medium-sized enterprises, airline service providers, hotels, health care merchants will benefit from the funds.	Africa's biggest crude producer this week warned of an imminent recession, requested $7bn in emergency funding and ditched a costly oil subsidy scheme. It is expected to see a fallout from lower crude prices globally. Nigerian banks also at risk due to their huge exposure to the oil sector. Lower stimulus package as a % of GDP, however may not have the capacity for larger stimulus.