

## AtmaNirbhar Bharat speech

Good afternoon everyone from Prasad Dahapute, a board member of IIM Visakhapatnam. My special thanks to Dr Krishnakanth ji and Prof Chandrasekhar ji for having me at ROB for this discussion.

As we all know, the ministry of finance in consultation with other ministries released the AtmaNirbhar package for all the sectors in 5 tranches, they were as follows:

1. Part 1: Businesses including MSMEs
2. Part 2: Poor including Migrants and farmers
3. Part 3: Agriculture
4. Part 4: New Horizons of Growth
5. Part 5: Government Reforms and Enablers

Since everyone here knows about the package and it is displayed on the Government website, I won't be talking much about the package. I will focus on the impact of the AtmaNirbhar Bharat package on the MSMEs. I have broken my speech into 4 segments and they are:

1. What has been done for AtmaNirbhar Bharat.
2. What could be achieved by MSMEs through e Government initiatives?
3. What is AtmaNirbhar Bharat for us (MSMEs) INR5,00tn (Mahapadma) economy by 2025?
4. How we build this AtmaNirbhar Bharat from INR204tn economy now?

### **So let us talk about, "What has been done?"**

Three major points of focus:

INR3tn package for collateral free debt is unprecedented and a part of this has been already disbursed to the needy MSMEs. Expansion of the definition of the MSMEs has been a great delivery because medium enterprises have been included upto Rs.2.5bn in sales so that even automobile dealers could be included.

INR100bn fund of fund for the MSMEs, this will be done through the daughter funds. If daughter funds are able to raise addition INR400bn from other investors, the total corpus for deployment of equity support to MSMEs could be as much as INR500bn or INR0.5tn. This kind of funding and help for MSMEs in definitely a positive step towards AtmaNirbhar Bharat because MSMEs produce goods and deliver services to 1.39bn people as well as contribute one third of the exports.

Over and above this, there is a distress fund of INR200bn to help MSMEs come out of bank related troubles. This is positive for 200,000 MSMEs that have been classified as NPAs.

### **Now, let's talk about the possible impact on MSMEs of these initiatives.**

I fully agree with you that the impact of the Government of India initiatives depends on the delivery mechanism. This time, the collateral free debt has been played safely through the banks that can expand

additional 20% debt to their existing MSME clients. Thus the money could be flowing to MSMEs on the tap basis.

The distress fund mechanism is not so straight forward, so let me explain that. The promoters will be lent by the banks upto RS.200bn as banks will be fully covered under CGTMSE (Trust). The promoters of the stressed MSMEs will borrow from the banks in personal capacity as sub-ordinate debt and infuse the same amount in their MSMEs as equity. The facilitation of equity infusion will not only restructure the debt of MSMEs, but 200,000 MSMEs could start their operations despite being in stress or NPA.

The equity funding of INR100bn directly as pure equity to MSMEs may play a larger and long term role through capital markets. Indian MSMEs never had access to affordable equity, this fund of INR100bn could change it completely. MSMEs could be attracting talent to expand. They may also deploy more technology for digitalising their businesses. This may help MSMEs in expanding and taking on technology giants because of digitalisation with personal touch can be delivered by MSMEs only. FAGMA or Digital Giants don't have roots on the ground, hence it could be a level playing field. Direct access to consumers will help MSMEs in winning the Indian consumers from the Chinese and ASEAN manufacturers. The tariff protection along with equity support helps Indian MSMEs in winning the game.

### **What AtmaNirbhar Bharat means to the MSMEs?**

Having a strong and robust economy is the most important factor, hence we need to be INR500tn economy by 2025 compared to INR204tn in FY2020. To achieve this INR500tn target, we need 19.3% of nominal growth which we have not achieved in recent past. Large companies don't support the economy much, hence Government of India has done it first time to support the MSMEs in a big way. MSMEs build the economy step by step. Pumping INR200bn through sub-ordinate debt to 200,000 MSMEs as an equity contribution from promoters with additional support of INR500bn from MSME equity funds (daughter funds) could bring in equity pumping of INR700tn while INR3tn comes through collateral free debt. Such enormous amount of liquidity flowing through banking and capital markets to MSMEs must bring in the velocity money of 6-8x. If this money flows quickly in next 3 months, the GVA added through INR3.7tn pump priming could be INR21-28tn in Q3 and Q4 of FY2021.

This pump priming must be supported by duties on household imports. The MSMEs can easily replace USD120bn of imports like toys, furniture, edible oils, electrical goods and textiles. Replacing these imports itself could improve the economic performance by 200bps every year for next 3 years. To achieve this, we need proper mechanism for textiles and edible oils. I will give two examples in details:

1. Oilseeds: India imports massive amount of palm oil from Malaysia and Indonesia. This not only destroys the income of Indian farmers involved in oilseeds production but kills Indian through cardiac arrests because of refined palm oil mixed with edible oil. If we help our farmers in setting up farmer producer companies producing cold pressed oils, their income will improve by 50-60% while Indians will consume good quality oils. This is just INR2tn of opportunity which is wasted by destroying fortunes of 5m farmers and 100,000 MSME oil mills.
2. Textiles: we were the global hub of textiles for centuries but today we import kids-wear from Bangladesh, China and Vietnam. We have so many SHGs across India. We can stitch our own garments with our Artisans Producer Companies with support from MSME ministry and tap this INR15tn domestic market first. Exports is not a big deal. Winning domestic consumers from Chinese, Bangladeshi and Vietnamese manufacturers is a big deal. Once we achieve our

competence in this sector, we not only add INR15tn to economy but create employment of 10-12m women in the country from black-soil cotton to garments.

### **How to achieve our AtmaNirbhar Bharat?**

**Our banking system:** It is designed like to banking utilities especially the private and public sector banks. Have we ever seen a bank manager who understands the particular segment of MSMEs. Our bankers have limited knowledge of MSME segments, I have not seen a single banker who meets the MSME and offers the right product to the MSMEs. They sell what gives them more incentives which destroys the fortune of the MSMEs and in turn bank fortunes also as loans turn bad. Banks milk MSMEs the most as MSMEs don't have any other avenue for funds. Banks earn Disproportionate Return on Equity (RoE) on MSME loans. The moment access to equity as well as affordable credit comes into play, the banks will miss these enhanced RoE on MSME loans.

So how to improve our banks: Bankers with experience in MSME sector would be required for the proper credit assessment of the MSME across the sectors. This specialisation and credit research quality will improve the MSME bank practices. If bank utilities don't improve, Fintech firms may steal these opportunities making today's banks defunct by tomorrow.

**Our bureaucracy:** Indian bureaucracy has all the power but no responsibility. Lifetime service without any deliverable (responsibility) is something that brings down the performance in public service by the government staff. Indian bureaucracy was designed for the exploitation of Indians by the British and it has not been changed in the past 75 years of independence. Look at the lockdowns announced by municipal commissioners without using brains and implemented ruthlessly by police commissioners destroying the businesses of MSMEs by months and not by days. They are using the act enacted by British when Savitribai Phule died of plague in 1887.

We need to remove lifetime appointments of the bureaucrats. Let them join the service by contract for 5 years and to be renewed on performance. We need to give them clear targets and fire them if they don't achieve the targets. This will change the way India does business. MSMEs are the most exploited by the bureaucracy than anyone else.

We have seen good changes in the attitude of the bureaucrats who join the state or central government on contract basis especially on multilateral agency projects. This must be practised across the departments along with specific targets.

**Our polity:** It has seen a significant improvement. I appreciate the hard work of our politicians in bringing the economy back to normal but they need to learn that bureaucracy is for them and they are not for the bureaucracy. Indian politicians need to bring in the structural reforms in Indian bureaucracy so that meaningful policies are made for the businesses and especially MSMEs.

With all these thoughts, I will end my speech today. Thanks for having me.

Jai Hind!