

Recommendations to the Government for the Revival of Micro and Small Craft Enterprises

Post COVID 19

This **White Paper puts forth specific recommendations** to aid the revival/recovery of craft enterprises post COVID 19, keeping in mind the longer term challenges that GOI will need to face to effectively counter the economic impacts of this pandemic.

Background: Micro Small and Medium Enterprises (MSMEs) in the crafts sector have been particularly hit by the COVID 19 crisis. In a qualitative survey report brought out by All India Artisans and Craftworkers Welfare Association (AIACA) detailing the impacts of COVID 19 in the craft sector, (<https://bit.ly/34dIWgQ>), some of the key challenges highlighted by craft enterprises pertain to cash flow crunches, wage losses, cancellation/withholding of orders, supply disruptions in the raw material value chain and uncertainties regarding shipment (both domestic and export) post lockdown. Broad recommendations emerging from the survey include expectations of a stimulus from the government for craft based enterprises, including measures like reduction/deferral in GST across categories, soft loans and interest free working capital loans to aid production and the easing of access to raw material supplies.

A well-calibrated support package will be critical in enabling enterprises to continue operations and remain competitive post the crisis. Globally, many countries have announced large bailout packages in the form of soft loans or government-backed collateral-free loans, tax holidays, a moratorium on liabilities to protect their small businesses. As per the World Bank Group, Map of SME-Support Measures in Response to COVID-19; data as of 7th April 2020, the most common instruments globally for supporting enterprises/firms have been debt financing (new lending under concessional terms, deferral, restructuring and rescheduling of payments and credit guarantees), employment support (wage subsidies, support to self-employed persons and subsidies for employee sick leave) and tax support (VAT/GST, payroll, social security, land taxes - rate reductions, credits, waivers, deferrals, Corporate taxes - rate cuts, credits, waivers and deferrals).

According to the 12th Five Year Plan, Handicrafts and Handlooms are a INR 24,300 crore industry contributing INR 10,000 crore to India's export earnings annually. According to a recent report by the IMARC Group, the global handicrafts market reached a value of US\$ 583.4 Billion in 2018. The market value is expected to grow exponentially and is projected to reach approximately US\$ 1091.2 Billion by 2024, expanding at a CAGR (Compound Annual Growth Rate) of more than 11% during 2019-2024. As estimated by the Indian Trade Portal, during April-November 2019, the value of handicraft exports from India stood at US\$ 2.45 billion; in 2017-18, the exports of Indian handloom products were valued at US\$ 353.9 million (making India the second largest exporter of such products in the world). The crafts sector thus has made a significant contribution to the national and state exchequer. As one of the largest employment generators after agriculture, the sector is also key means of livelihood for India's rural and urban population.

The Centre envisions a contribution of \$2 trillion from micro, small and medium enterprises (MSMEs) as India eyes becoming a \$5 trillion economy by 2024, along with a target of generating five crore additional jobs from the sector. The definition of Small and Micro enterprises have been changed (as per the Finance Minister's announcement on 13th May 2020), with a revision of upwards limits, a focus on annual turnover and a removal of the differences between service and manufacturing MSMEs - this would clearly have an implication for craft enterprises in India. The Sixth Economic Census has clearly indicated that the economic landscape of India has an overwhelming presence of small proprietary businesses that employ, on an average, less than 3 workers. Over 80% of these enterprises were found

to be self-financed and barely 2% borrowed from financial institutions. Craft businesses in India fall both outside of and within the spectrum of these micro and small enterprises; hence responses need to be cognizant of their ability to access financing and credit from formal financial sector; their compliance to and operation within the tax regime. As an emergency response to these craft enterprises post COVID, the following actions can be taken to support enterprises in the crafts sector to resume operations and growth post crisis:

RECOMMENDATIONS

- **Concessional rate loans to enterprises based on GST return and invoices from GST registered buyers:** For those micro and small enterprises that are GST compliant, it is recommended that soft loans be provided (through NABARD, SIDBI), upto 70-75% of the last return filed. These loans can be provided in successive tranches with favourable terms to all those units that have filed their GST returns. For those enterprises who are not yet GST compliant or have annual turnovers that do not require the filing of the same, it is recommended that such loans could be provided upon the linking of invoices to larger and GST compliant units.

- **Soft loans for these micro and small enterprises should be considered for the meeting of necessary expenses (example salaries of workforce, wage payments):** To support salaries and wage payments, Banks should extend 3 months' salary in advance to MSMEs. This can be repaid over a period of 36 months with reduced interest rates of 1%, with the government covering an interest subvention as needed. Timeline for the sanction of such loans should be prompt so as to meet the emergent needs and ensure the continuity of business.

- Enterprises can be better supported by '**Pseudo-equity**' financing model by the government wherein the latter can make direct investments in businesses by taking a minority stake which could be recovered through higher taxes on profits and business income over a number of years. By making payments conditional on profitability rather than saddling firms with repayment debt, equity finance would be more sustainable over the long term. It is suggested that a government Special Purpose Vehicle be created for this financing measure, with the condition that the firms could buy back the pseudo equity from the government at a pre-determined price after a decided periodicity (for example, once the COVID crisis is over).

- **Issuance of a mandatory moratorium by the RBI with clear guidelines for financial institutions:** The stalling of business will inevitably lead to nonpayment of installments by MSMEs. Announcement of moratorium for term loans and the deferment of interest for three months (till June end 2020) by RBI is a welcome move. However, the implementation of the particulars (from payments, the accrual of interest arrears and the eligibility assessment) may differ across lenders, in the absence of a clear guideline from RBI to financial institutions.

- **Recommendation to also explore possibilities for re-purposing financing** from existing handloom and handicrafts schemes of the government for the next six-eight months into an **emergency support fund** for rebuilding competitiveness, where micro and small firms can apply for marketing support, developing online presence etc. In **Annexure A**, there is an analysis on outlay and expenditure of the important schemes and programs related to Handloom and Handicrafts, over the last 4 years, indicating clearly that resources can be redirected towards an Emergency Support Fund to support competitive and viable enterprises post COVID 19.

- **Launch of integrated portal by MSME** -- ideas.msme.gov.in -- for MSMEs to share their ideas, innovation, and research in respective sectors for public reviews for vetting before launching them

within the Champions portal. Moreover, it has also added the information and knowledge bank for MSMEs such as steps taken by the government for MSMEs to fight COVID, RBI's relief measures, delayed payments monitoring, all MSME schemes, list of government notifications, the support provided by SIDBI and more. There is a grievance redress mechanism as well, for prompt clearance and resolution of queries within 7 days. This is a welcome initiative for all MSME associations, units, employees, and aspiring entrepreneurs. It is further suggested that the scope of the portal also include the following:

- a. Offer direct technical assistance and support to local entrepreneurs by providing customized and flexible financing models needed to enable microenterprise projects to go forward.
- b. Facilitate the clustering of micro/small enterprises to enable their application and eligibility towards supplementary financing (example, grant and funds) to 'seed' the loan fund.
- c. Provide supervision and mentoring within the micro enterprise community for accompaniment and evaluation purposes; along with a fairly worked out system for incentivisation and penalties.
- d. Promote the MSME portal with a robust membership network which will help in meeting the national imperatives of financial inclusion and generation of significant levels of employment in both urban and rural areas across the country

- **Coordination through the Office of the DC Handicrafts / DC Handlooms** for outreach to industry bodies for communication on support measures and assistance to craft enterprises to access emergency support measures/programs.

On AIACA:

The All India Artisans and Craftworkers Welfare Association is an apex body that has been working since 2004 on a range of issues to promote market-led growth for the crafts sector; and increased incomes and improved living standards of crafts producers. Over the past decade, AIACA has conducted policy research and advocacy on a range of issues including access to credit for crafts producers and environmental and health and safety standards for the sector; developed a crafts-certification system called the Craftmark; assisted sales and outreach of member producer groups and enterprises through commercial trade catalogues, trade fairs and order fulfillment; and assisted in developing and strengthening back-end production systems through a range of product design and business development services. We work with 110,000 artisans across 23 states in India.

AIACA has also been working closely with the Ministry of Textiles, GOI, on policy issues related to craft enterprise promotion, certification and quality assurance, GI and others. We have worked on a Handicrafts Policy document for the Ministry and have also been giving our inputs in discussions related to the Handicraft Mark Scheme formulation, for which we are designated as a Knowledge Partner.

ANNEXURE 1

Budget Outlay for Major Schemes and Programmes 2017-18, 2018-2019, 2019-2020 and 2020-2021 (In INR Crores)				
Major Schemes/Programmes	2017-18	2018-19	2019-20	2020-21
Allocation under the National Handloom Development Programme	604.00	396.09	456.80	485.00
Allocation under the National Handicraft Development Programme	289.70	198.42	286.17	388.21
Allocation for the development of silk textiles	575.00	510.61	740.00	810.00
Allocation for the development of jute industries	97.52	28.14	34.55	136.53
Allocation under the Integrated Woollen Development Programme	32.00	11.45	29.00	20.00
Source: https://openbudgetsindia.org/dataset/82d7fc51-7566-43b9-b90f-f90bdbc3c6e4/resource/379b05b8-0257-4556-8349-a2280a97c25d/download/ministry-of-textiles.pdf https://openbudgetsindia.org/dataset/17b6ce00-ba71-4f40-ae22-4d54fd2223d1/resource/35f8e61f-5878-4bb4-b002-0d6c55d7093f/download/ministry-of-textiles.pdf				

Handloom

Central Schemes	Year (Amount in INR Crores)					
	2017-18		2018-19		2019-2020	
	Allocation	Expenditure (RE)	Allocation	Expenditure	Allocation	Expenditure (RE)
National Handloom Development Programme	146.00	138.00	137.37	118.71	135.00	139.50
Handloom Weaver Comprehensive Welfare Scheme	32.00	25.00	19.00	2.05	20.00	19.54
Trade Facilitation Centre and Crafts Museum	40.00	1.00	0.76	2.46	3.00	7.93

Handloom Cluster Development Programme- Handloom Mega Cluster	44.00	32.28	35.00	16.38	40.00	30.00
Weavers' Service Centre	47.00	40.00	34.20	44.58	42.00	49.60
Yarn Supply Scheme	242.00	200.00	150.00	126.84	195.00	172.17
Other Handloom Schemes	53.00	34.00	19.76	22.74	21.80	27.20
Total	604.00	470.28	396.09	333.76	456.80	445.94

Source: <https://www.indiabudget.gov.in/doc/eb/stat4b.pdf>
<https://openbudgetsindia.org/dataset/17b6ce00-ba71-4f40-ae22-4d54fd2223d1/resource/35f8e61f-5878-4bb4-b002-0d6c55d7093f/download/ministry-of-textiles.pdf>
<https://openbudgetsindia.org/dataset/82d7fc51-7566-43b9-b90f-f90bdbd3c6e4/resource/379b05b8-0257-4556-8349-a2280a97c25d/download/ministry-of-textiles.pdf>

Handicrafts

Central Schemes	Year (Amount in Rs. Crores)					
	2017-2018		2018-2019		2019-2020	
	Allocation	Expenditure (RE)	Allocation	Expenditure	Allocation	Expenditure (RE)
Training and Extension	40.00	25.00	19.00	18.24	18.50	20.60
Design and Technical Upgradation	60.00	55.00	41.80	56.20	70.00	74.99
Ambedkar Hastshilp Vikas Yojana	5.00	5.00	3.80	2.86	6.00	11.50
Marketing Support and Services	50.00	45.00	34.20	30.92	45.00	55.00
Handicrafts Artisans Comprehensive Welfare Scheme	20.00	18.00	13.68	14.51	26.00	24.44
Research and Development- Handicrafts	6.00	5.00	3.80	3.23	9.50	9.65

Human Resource Development- Handicrafts	13.00	15.00	11.40	17.00	26.15	26.15
Handicrafts Cluster Development Programme	43.70	15.22	30.00	8.30	30.00	34.98
Other Handicrafts Schemes	40.00	38.60	34.66	44.13	41.30	57.28
Hast Kala Academy	5.00	5.00	3.80	-	2.00	1.00
Development of other crafts in Jammu and Kashmir	2.00	-	-	-	0.01	0.01
Infrastructure and Technology Development Scheme	5.00	3.00	2.28	-	11.71	16.71
Total	289.70	229.82	198.42	195.39	286.17	332.31
Source: https://www.indiabudget.gov.in/budget2018-2019/ub2018-19/eb/stat4b.pdf https://openbudgetsindia.org/dataset/17b6ce00-ba71-4f40-ae22-4d54fd2223d1/resource/35f8e61f-5878-4bb4-b002-0d6c55d7093f/download/ministry-of-textiles.pdf https://openbudgetsindia.org/dataset/82d7fc51-7566-43b9-b90f-f90bdb3c6e4/resource/379b05b8-0257-4556-8349-a2280a97c25d/download/ministry-of-textiles.pdf						