

# The maxim of the fish

Enhancing the investment and turnover limits for MSMEs was overdue, but the smaller units will have serious reservations



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The government has made significant changes in the way it defines the micro, small and medium enterprises (MSMEs) operating in the country. The new definition will essentially mean that almost 99 per cent of India's registered companies and almost 70 per cent of all listed entities in the country would be able to enjoy the many benefits that the government has announced for the MSME sector.

The sweep of the MSME sector after the revised definition will be huge. The

earlier definition had given the MSME units a share of 25 per cent in India's gross domestic product (GDP). These units had accounted for almost 45 per cent of India's total exports. The number of workers employed by the sector was also large at about 120 million. After the revised definition, these shares and numbers would increase even further. The enormity of the changes effected through the new definitions cannot be overestimated.

What kind of changes are these? At a conceptual level, the different yardsticks for service units and manufacturing units have been done away with. This is a major change. An even bigger conceptual change is that the yardstick for manufacturing and services units would now be both the turnover and the level of investment in plants and machinery.

Earlier, there was only one criterion of investment in plant and machinery for determining if a unit belonged to the MSME sector. The assumption was that the investment required in a services unit would be lower than that in a manufacturing enterprise. Hence, the

definitions for manufacturing and services units were different.

Taking that argument forward, the investment limit for micro units in the manufacturing and services sectors had been set at ₹25 lakh and ₹10 lakh respectively. Similarly, the investment limits for small enterprises were set at ₹5 crore for a manufacturing unit and ₹2 crore for a services unit. For medium enterprises, the investment limits were fixed at ₹10 crore for manufacturing units and ₹5 crore for services units.

The new composite criteria (including both investment and turnover) that Finance Minister Nirmala Sitharaman announced on May 13 increased the investment limit by 300 per cent for micro units, doubled them for small and medium enterprises and introduced an additional criterion of turnover. Thus, the new definitions were: ₹1 crore of investment and ₹5 crore of turnover for micro units in both the manufacturing and services sectors; ₹10 crore of investment and ₹50 crore of turnover for small units in the manufacturing and services sectors and;

₹20 crore of investment and ₹100 crore of turnover for medium units in both manufacturing and services sectors. By June 1, the composite criteria for medium units were further relaxed and the new yardsticks were ₹50 crore of investment and ₹250 crore of turnover.

Even after the huge increases, however, the size of India's MSMEs would be nowhere near the ones that prospered and contributed significantly to economies in developed countries like Germany or South Korea. The turnover limit for micro, small and medium units in Germany or the European Union ranges between ₹17 crore and ₹427 crore. In South Korea also, there are different slabs for such units, but all of the investment limits are much higher than the revised Indian definition. These limits range between ₹300 crore and ₹1,130 crore.

The lofty dream of Indian MSMEs teaming up with small and medium firms of Germany or Korea may still remain unrealised. The gap in size has been reduced, but it still remains quite large. But whatever increase in the investment and turnover limits has been permitted should help Indian MSMEs in exploiting the new opportunities and the benefits that the government is offering them, particularly in the wake of the package announced after the Covid-19 outbreak.

Remember that the government

has also created a protective shield for the MSMEs as far as government procurement orders are concerned. It has now been decided that all government procurement orders below ₹200 crore would not require the flotation of a global public tender. In other words, the Indian MSMEs can compete for such orders below ₹200 crore without any competition from foreign companies.

Such curbs will deny the government the benefits of global competition in ensuring improved quality at lower prices. But it would appear that the increase in the investment and turnover limit for medium enterprises to ₹50 crore and ₹250 crore, respectively, has not been an unmitigated blessing for the MSME sector in India. The smaller among the medium enterprises will now have to struggle harder to face tougher competition from new and larger companies that would now be classified as medium enterprises under the increased limits.

The arrival of a big fish in a pond cannot be good news for the small fish. In India's MSME sector, the age-old principle of *Matsya Nyaya* (big fish eating up small fish) will soon work against the smaller of the medium enterprises. Expect, therefore, some protests from these millions of micro and small units, who may demand more relief after being threatened by the larger units.

## CHINESE WHISPERS

### Storm brewing

Officers of the Indian Police Service (IPS) and those of various Central Armed Police Forces (such as the Border Security Force and the Central Reserve Police Force), or CAPFs, have been carrying on a fight on social media for the past few months. The issue is IPS officers assuming key posts in the CAPFs and those who are directly recruited as assistant commandants in the CAPFs missing out. Both sides have been tweeting their arguments for and against maintaining the status quo. But while the IPS officers have been vocal, those on the other side have to hide behind anonymous accounts or attribute their claims and arguments to family and friends. The banter took a serious turn over the weekend when some IPS officers claimed that some "supposedly CAPF officers" have made objectionable remarks and even lodged complaints. If sources are to be believed, at least four FIRs have been registered against those handling such accounts in Delhi and Hyderabad. While the forces are known for discipline, this episode will likely snowball into a bigger showdown.

### With respect to migrants

The focus of the political storm in Bihar has shifted from the rising number of Covid-19 cases in the state to providing jobs to more than 1.7 million migrant labourers who have returned to the state since the trains to ferry them were started. Leader of the Opposition Tejashwi Yadav has emerged after many weeks to challenge the chief minister on the issue. He was seen over the weekend putting up posters saying "Nitish Kumar sharm karo. Shramiko ko samman nahin de sakte to apman kyo?" He was referring to a controversial letter purportedly written by a senior police official asking local authorities to prepare a plan to handle an expected spurt in crimes that the returning migrants might be tempted to commit in the absence of jobs or money. In pictures that went viral over the weekend, Yadav was seen atop a ladder putting up the posters that asked, among other things, "Unhoney majdoor bhaiyon ko loatera kyon kaha?"

### Big house, small salary

During a recent conference call with analysts, SBI Chairman Rajnish Kumar stumped everyone while answering an analyst who asked him whether the bank was considering salary cuts for its employees in the way private banks were doing. Kumar, who speaks chaste Hindi, said if salaries of SBI employees were cut, then "hamein road pe aake rehna padega; pehle hi itni kam milti hai (we have to live on the roads as our salaries are quite low already)". Kumar's lament went viral with almost all banking community WhatsApp groups talking about it. Just for the record, the SBI chairman is among the few fortunate people in Mumbai who live in a palatial bungalow.

# IL&FS exit a big boost for Gift City

The infrastructure is ready. Right regulations and tax regime are a must for its success as an international finance centre



BANKERS' TRUST

TAMAL BANDYOPADHYAY

In the last week of May, the National Company Law Tribunal approved the sale of once-upon-a-time infrastructure development catalyst Infrastructure Leasing & Financial Services' (IL&FS) stake in Gujarat International Finance Tec-City Company Ltd, popularly known as Gift City, to the Gujarat Urban Development Company Ltd, a state enterprise.

IL&FS, a so-called core investment company with its finger in every single pie of business spread over 347 companies in India and overseas, holds a 50 per cent stake in Gift City — India's first operational smart city and international financial services centre in Ahmedabad, Gujarat. In 2007, IL&FS had entered into an agreement with the Gujarat government to develop an international financial services city (IFSC). The agreement had an exit clause.

The transaction makes the Gift City free and clear from all encumbrances, liens, security interest and third-party claims (including all statutory and tax claims) related to IL&FS, giving a big relief to all its stakeholders.

A month before that, on April 27, the central government in its gazette notification declared that Gandhinagar (Gujarat) would be the headquarters for the IFSC authority. This gives the Mumbai IFSC project, in limbo since 2006, a not-so-decent burial. There will be only one IFSC in India — the Gift City. With IL&FS out of it, Gift City should take off in a big way making the most of the Covid-19 crisis.

How can it do this? Before that, let's take a close look at the project and its vital statistics.

Conceived in 2007 by Narendra Modi, then Gujarat chief minister, Gift City has had a chequered history. Around the same time, a report on "Making Mumbai an International Financial Centre", prepared by a high-powered expert committee appointed by the then Congress government, made a strong pitch for making Mumbai an IFSC. Modi lost no time in announcing his intention to create a global financial centre on the banks of Sabarmati in Gandhinagar, Gujarat's capital, by setting up the Gift City, a joint venture between Gujarat Urban Development Co and IL&FS. Consulting firm McKinsey &

Co did the feasibility study for the project.

The 2008 global financial crisis almost killed it but it was revived in 2011 when the state government gave it 673 acres of land spread across four villages Ratanpur, Firozpur, Valad and Lavarpur for ₹1. The work started in October 2011.

The plan is to develop and sell 62 million sq.ft commercial, residential and social space in three phases for a multi-service special economic zone (SEZ) and a finance centre (which will now take the shape of lone IFSC in India). In the first phase, it sold development rights for 12.5 million sq.ft of land; the second phase will close soon. The third and last phase might end by 2024.

Initially, Gift City was just another real estate project but all that changed with Modi moving to New Delhi. It got the tag of India's first smart city.

Logistically, many smart features are in place. There is an underground utility tunnel, a so-called C4 command centre equipped with information and communication technology infrastructure, an automated waste collection system and a centralised cooling system used for air-conditioning in an energy-efficient way.

Roughly 15 per cent of the space has been allotted to a string of real estate developers as well as banks and financial institutions, including the State Bank of India and Life Insurance

Corporation of India. At least 200 companies are operational at the moment, employing 10,000 people. Overall, ₹11,000 crore worth of investments have been committed to the project.

The IFSC within the Gift City hosts 12 Indian banks, one foreign bank, two international exchanges, 17 insurance firms and close to 100 brokers. The IFSC banking units have conducted transactions of at least \$26 billion even as the insurance companies have done \$30 billion business. The average daily trading volumes at the international exchanges are to the tune of \$4 billion and have been growing ever since their commencement in 2017.

Recently, BSE Ltd's first international exchange, the India International Exchange (India INX) and NSE IFSC Ltd (NSE International Exchange), a wholly-owned subsidiary of National Stock Exchange of India Ltd, at Gift City, have launched rupee-dollar futures and options contracts.

Banks, insurance companies and capital market entities have set up their operations after the Ministry of Commerce and Industry operationalised India's first finance SEZ here and the banking, insurance and market regulators framed the operating guidelines. That's only the beginning. It can become an important prop in India's mission to become self-reliant by creating jobs and new businesses. The latest additions are aircraft leasing and financing and an international bullion exchange.

India imports around \$3.5 billion worth of financial services every year; the IFSC can help pare it, promoting

export of such services.

The IFSC provides a platform to raise funds through global depository receipts at its exchanges. This provides an opportunity to mid- and small-sized companies to raise equity overseas. The platform can also come in handy for debt issuances. The exchanges at IFSC have already listed \$51 billion worth of masala bonds, issued by Asian Development Bank, EXIM Bank, Power Finance Corporation Ltd and NTPC Ltd, among others. To make it attractive, withholding tax on such bonds has already been reduced. Masala bonds are raised overseas but denominated in local currency.

London, New York and Singapore are three prominent global financial centres even as Shanghai, Dubai, Paris, Frankfurt and Tokyo have been aspiring for the position, connecting their financial systems to the world. It will not be easy for the IFSC in the Gift City to grab the cross-border markets for international financial services. One of the key reasons is that the local currency is not convertible as yet on current account. But there are opportunities in the post-pandemic world that it can seize and move ahead. The exit of IL&FS can give it a boost. The infrastructure is ready. The right kind of regulations and tax regime must supplement it.

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## INSIGHT

# Breaching the Covid 19 Maginot Line?



ALOK SHEEL

A comparative analysis of global Covid-19 data done in this paper in April indicated that although the pandemic was at various stages in different countries, and the public policy response was differentiated, a pattern was nevertheless discernible.

About 90 per cent of the global mortality was in the northerly latitudes, above roughly 30 degrees north. Mortality data was used for the analysis as a proxy for the spread of Covid-19, and not the infection data directly, because of the vast differences in testing across countries. We really do not know how many Covid cases are out there. Mortality data also suffers from reporting infirmities but is easier to compare across countries.

Two sets of countries were selected, each accounting for about a third of the global population. Practically all the advanced economies in North America and Europe fell in the northern zone. Since these countries have the best public health systems and state capacity, it appeared that the villain of the piece was the coronavirus itself that flourished in colder regions on the one hand, and that for some unknown reasons the effect of the virus was relatively benign in warmer climes on the other. India had one of the lowest mortalities per million amongst the bigger countries. Hypotheses such as sunshine that generated more Vitamin D in the tropics, the use of the BCG vaccine and anti-malarial drugs on

account of tuberculosis and malarial fevers endemic in such areas etcetera, which provide better immunity against respiratory illnesses were advanced. It was argued that even seasonal flu had a higher mortality in the temperate zone compared to the tropics.

Six weeks later, while the overall distribution pattern of Covid deaths north and south of this imaginary Maginot Line has not substantively changed, some disquieting trends are in evidence that indicate that this Maginot Line is being breached.

The Northern countries share in global Covid mortality was 92 per cent on April 7, 89 per cent on April 20, and 75 per cent on June 6. The comparative figures for the Southern countries are 2, 3 and 15 per cent respectively. Southerners appear to be catching up after the initial lag through increased mortality rates.

Between April 7 and April 20, mortality per million increased by 115 per cent in the Northern countries and 326 per cent in the Southern. However, between April 20 and June 6, mortality per million increased by just 102 per cent in the northern countries, while it rose by 1,188 per cent in the southern ones.

The worst performers globally amongst the major countries during the last six weeks (April 20 to June 6), measured in terms of increase in deaths per million of the population, are Mexico (1,820 per cent), followed by the South Africa, Russia, Brazil, and India in that order. India (1,090 per cent) has performed worse than its neighbours, Pakistan (1,052 per cent) and Bangladesh (830 per cent), pointing to serious deficiencies in the management of the epidemic.

Epidemiologists and public health experts are better placed to give deeper insights and explain the reasons behind this lagged response and shifting trends than data analysts. One hypothesis nevertheless comes to mind. Recent research, especially that in the University of California, Santa Barbara, indicates

that in cold and humid conditions droplets carrying Covid-19 can travel up to 20 feet, making the current physical distancing norm of six feet insufficient to contain its spread.

An explanation using the Occam's razor rule of thumb suggests that the initial lower mortality per million in the South was because the chances of catching the infection were lower than in the North, especially under the same physical distancing norms. Community spread in the Southern countries was therefore slower, resulting in a lagged mortality impact compared to the Northern countries. However, following the lagged community response, the accelerated mortality trend relative to the North indicates that once contracted, Covid-19 may be as deadly south of the Maginot Line as north of it. The lessons from the Spanish Flu pandemic a century ago would suggest that although the common influenza virus may be more benign in tropical countries, coronaviruses might not be.

Despite the accelerating pace in the South, mortality measured in deaths per million of the population on average remains significantly lower (25) than in the Northern countries (110) that have a better public health infrastructure. Will the mortality figures be comparable by the time the pandemic runs its course?

There are however critical demographic, genetic and social differences between the two sets of countries that have a bearing on Covid mortality. First, the Southern countries are on the whole a lot younger, while Covid mortality has an old-age bias. Second, old people in the Southern countries live more at home, with their children. In the Northern countries, they tend to live more in old people's homes or communities, a number of which have been devastated by Covid-19. It is therefore entirely possible that the normalised death count from Covid-19 might remain significantly lower in the Southern countries.

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## SOUTH NUMBERS GOING NORTHWARDS

Country	Pop (Mn)	Deaths (till)			Deaths/million			% Increase	
		April 7	April 20	June 6	April 20	June 6	Apr7-Apr20	Apr20-June 6	
<b>Timeline 2020</b>									
Canada	37.74	323	1,587	7,703	8.6	42.0	204.1	391.0	385.0
France	65.27	8,911	19,718	29,111	136.5	302.1	446.0	121.0	48.0
Germany	83.78	1,607	4,642	8,763	19.2	55.4	104.6	189.0	89.0
Italy	60.46	16,525	23,660	33,774	273.3	391.3	558.6	43.0	43.0
The Netherlands	17.13	1,867	3,684	6,005	109.0	215.0	350.5	97.0	63.0
Spain	46.75	13,055	20,453	27,134	279.2	437.5	580.3	57.0	33.0
Portugal	10.20	311	714	1,465	30.5	70.0	143.7	130.0	105.0
Sweden	10.10	477	1,540	4,639	47.2	152.5	459.3	223.0	201.0
Denmark	5.79	187	355	586	32.3	61.3	101.2	90.0	65.0
Norway	5.42	59	165	238	10.9	30.4	43.9	180.0	44.0
Switzerland	8.65	584	1,393	1,921	67.5	161.0	222.0	139.0	38.0
Turkey	83.99	649	2,017	4,648	7.7	24.0	55.3	211.0	130.0
Iran	83.99	3,739	5,118	8,209	44.5	60.9	97.7	37.0	60.0
UK	67.89	5,373	16,060	40,261	79.1	236.6	593.1	199.0	151.0
US	331.00	10,989	40,555	111,398	33.2	122.5	336.5	269.0	175.0
S.Korea	51.27	192	236	273	3.7	4.6	5.3	23.0	16.0
Russia	145.93	47	361	5,725	0.3	2.5	39.2	668.0	1,486.0
China	1,439.32	3,335	4,632	4,634	2.3	3.2	3.2	39.0	0
Japan	126.48	80	236	907	0.6	1.9	7.2	195.0	284.0
Australia	25.50	42	71	102	1.6	2.8	4.0	69.0	44.0
<b>Total North</b>	<b>2,706.69</b>	<b>68,352</b>	<b>147,197</b>	<b>297,496</b>	<b>25.3</b>	<b>54.4</b>	<b>109.9</b>	<b>115.0</b>	<b>102.0</b>
<b>% Global</b>	<b>35.0</b>	<b>92.0</b>	<b>89.0</b>	<b>75.0</b>					
<b>India</b>	<b>1,380.00</b>	<b>114</b>	<b>559</b>	<b>6,650</b>	<b>0.1</b>	<b>0.4</b>	<b>4.8</b>	<b>390.0</b>	<b>1,090.0</b>
Bangladesh	164.69	12	91	846	0.1	0.6	5.1	658.0	830.0
Pakistan	220.89	54	168	1,935	0.2	0.8	8.8	211.0	1,052.0
Argentina	45.20	53	134	632	1.2	3.0	14.0	153.0	372.0
Mexico	128.93	125	686	13,170	1.0	5.3	102.1	449.0	1,820.0
Brazil	212.56	533	2,462	35,047	2.5	11.6	164.9	362.0	1,324.0
Indonesia	273.52	209	582	1,801	0.8	2.1	6.6	178.0	209.0
South Africa	59.31	12	54	908	0.2	0.9	15.3	350.0	1,581.0
<b>Total South</b>	<b>2,485.11</b>	<b>1,112</b>	<b>4,736</b>	<b>60,989</b>	<b>0.4</b>	<b>1.9</b>	<b>24.5</b>	<b>326.0</b>	<b>1,188.0</b>
<b>% Global</b>	<b>32.0</b>	<b>2.0</b>	<b>3.0</b>	<b>15.0</b>					
<b>World</b>	<b>7,718.15</b>	<b>74,066</b>	<b>165,058</b>	<b>398,689</b>	<b>9.6</b>	<b>21.4</b>	<b>51.7</b>	<b>123.0</b>	<b>142.0</b>

Source: <https://ourworldindata.org/coronavirus-source-data>