



None of the small and medium units surveyed received payments within the first 15 days

PHOTO: REUTERS

Delayed payments by large companies add to SME sickness

Around 85 per cent of the participants surveyed said it took 16 to 60 days to receive their dues

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Payment delays by corporations raise the transaction cost of small and medium enterprises (SMEs), which eventually brings these to the verge of sickness, according to a survey. A major concern for SMEs that has a bearing on their finances is the long time taken by corporations in making payments for procured items, especially from their ancillary units, which depend on large firms in a big way for payments.

The survey was undertaken by the PHD Chamber of SMEs, located in Uttar Pradesh, Haryana, Punjab, Rajasthan, Madhya Pradesh, Himachal Pradesh, Jammu & Kashmir, Uttarakhand, Punjab, Chandigarh and Delhi.

Around 85 per cent of the surveyed members maintained it took 16 to 60 days to receive their dues from large firms, according to the survey. None of the units surveyed received payments

within the first 15 days. And, the smaller units, due to their weak bargaining power, are in no position to seek redress.

Delayed payments further reduce the working capital available with a unit for productive use and, thus, hasten the move towards sickness.

Despite making well-publicised announcements promising preferential preference to products sold by micro, small and medium enterprises (MSMEs), the members said government departments did not give the benefit of purchase preference to enterprises registered with the National Small Industries Corporation (NSIC).

In fact, SME units set up specifically on written undertakings by government departments that their entire output would be purchased are also finding difficulty in procuring orders. Such a haphazard approach by these departments was also a major factor contributing to the sickness among such units, the survey found.

To mitigate problems arising out of delayed payments, the PHD Chamber has suggested large corporations report to the Reserve Bank of India (RBI) with details of payments not made to MSMEs within the stipulated 45 days. Companies which falter in settling dues to MSMEs should have their names put up on the RBI website.

If procurement agencies or large companies fail to pay MSMEs within 45 days, as mandated in the Micro, Small and Medium Enterprises Development Act, they should be made to pay interest at double the prevailing prime lending rate.

To overcome the problem of delayed payments from large companies, there is a need to explore the possibility of encouraging the bill discounting scheme whereby, bills drawn by small-scale units for supplies made by them and duly accepted by purchasers will be discounted by third parties, such as discount houses, NSIC and factoring agencies, within a stipulated time frame.

Such a scheme would facilitate early settlement of genuine trade transactions between sellers from SMEs and buyers from large companies, such as purchase of supplies made by small units to reputed public limited companies, state and Central government departments and undertakings.

Such a scheme already exists and is operationalised by NSIC and the Small Industries Development Bank of India. More companies should come forward to participate in this endeavour. The scheme should be restricted to payments by bills and not include any other stipulation such as product guarantees, replacement or any such clause valid for products transacted by the entities.

Alternatively, loans given by banks should be backed by a security by corporations by having an escrow account. This would help ease the financial position of small units and make available funds for fulfilling their working capital needs, the chamber said.