



STIMULUS MEASURES FOR COVID-19 IMPACTED MSMEs

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Micro, Small and Medium Enterprises (MSMEs) are classified and governed by the Micro, Small and Medium Enterprises Development Act, 2006 (No. 27 of 2006). The existing criteria (up to 30.06.2020) for classification of MSMEs based on investment in plant and machinery U/S 7(1) of the Act are as stated herein below:

- (a) In the case of the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 (65 of 1951), as a:
- micro-enterprise, where the investment in plant and machinery does not exceed twentyfive lakh rupees;
 - small-enterprise, where the investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees; or
 - medium-enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;
- (b) In the case of the enterprises engaged in providing or rendering of services, as a-
- micro-enterprise, where the investment in equipment does not exceed ten lakh rupees;
 - small-enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or
 - medium-enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

Vide S.O. 1702(E) dated 1st June, 2020, the Central Government, has notified the following revised criteria for classification of micro, small and medium enterprises, namely:-

- micro-enterprise, where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- small-enterprise, where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees;
- medium-enterprise, where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

This notification shall come into effect from 01.07.2020 subject to amendment to MSME Act, 2006.

The revised criteria are composite criteria of investment and turnover applicable both for manufacturing and service enterprises.

Contribution of MSMEs in 2018-19 GDP of India is 29%. As per the National Sample Survey (NSS) 73rd round conducted during 2015-16 (ref. Annual Report 2018-19 of the Ministry of Micro, Small and Medium Enterprises, GOI), estimated total number of MSME units are 633.88 lakhs comprising of 31% in Manufacturing, 36% in Trading and 33% in Other Services spread over 48.75% in Urban and 51.25% in Rural areas. Composition of Micro, Small and Medium enterprises are 99.47%, 0.52% and 0.01% respectively. Estimated jobs created by MSMEs are 11.10 crore, 32% in Manufacturing, 35% in Trade and 33% in Other Services; around 97% in Micro, 2.88% in Small and 0.16% in medium enterprises; in Rural areas 45% and in Urban areas 55%.

MSMEs are under the administrative control of the Ministry of Micro, Small and Medium Enterprises, Govt. of India. There are a number of schemes existing (more than 250 broad schemes) under 34 Ministries of the

Govt. of India for development of MSMEs, assisting various aspects of business including infrastructure, finance, marketing etc.

COVID-19 has got devastating impact on entire economy, severely destroying the back bone of the MSMEs. Govt. of India and Reserve Bank of India has announced over Rs. 20 lakhs crore worth of short/medium/long term measures for revival of the economy. This article deals with the special stimulus packages announced for revival of the MSMEs impacted by COVID-19 and consequent nation-wide lockdown for more than three months since 25th March, 2020. Such measures announced by Govt. of India on 13th May, 2020 are stated in brief as under:

1. Rs 3 lakh crore Collateral-free Automatic Loans for Businesses, including MSMEs.

- Businesses/MSME units of upto Rs.100 crore turnover affected by COVID-19 and consequent lockdown with outstanding loan up to Rs. 25 crore shall be eligible for Emergency Credit Line from Banks/Financial Institutions (FI) and NBFCs up to 20% of entire outstanding credit of up to Rs. 25 crores on 29.02.2020 that is maximum up to Rs. 5 crore of additional funding of term loan for working capital requirement to meet operational liabilities built up, buy raw material and restart business.

Non-default borrowers hit by COVID-19 with standard accounts of SMA-0 (overdue up to 30 days) and SMA-1(overdue up to 60 days) only shall be eligible for this loan.

- Tenure of loans shall be 4 years with a moratorium of 12 months on Principal repayment only and rate of interest shall be up to 9.25% p.a. for Banks/FI and 14% p.a. for NBFCs.
- This incremental lending shall be 100% guaranteed by Govt. of India to Banks/FI and NBFCs on principal and interest.
- Scheme can be availed till 31.10. 2020
- There shall be no guarantee fee, no fresh collateral for this loan.
- As per Govt. estimates 45 lakh units shall be benefited.

2. Rs. 20,000 crore Sub-ordinate Debt for Stressed MSMEs

- Sub-ordinate debt is an unsecured loan or bond which ranks below other securities or senior loans with respect to the claims on assets or earnings in case of liquidation or default of borrowers. These loans usually have higher yield and lower credit rating.
- Under this scheme Banks will provide the sub-ordinate debt facility to promoter(s) of stressed MSMEs equal to 15% of his existing stake in the unit subject to a maximum of Rs. 75 lakhs. This will then be infused by the promoter(s) as equity in the units there by enhancing liquidity and maintaining debt- equity ratio.
- MSMEs which are stressed or are non-performing assets will be eligible for this scheme. Govt. of India will facilitate provision of Rs. 20,000 crore as sub-ordinate debt.
- Govt. will provide a support of Rs. 4,000 Crore to Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE) which in turn will provide partial Credit Guarantee support of 85% of loans up to Rs. 5 lakhs and 75% of loans beyond Rs. 5 lakhs to Banks/Financial Institutions as per existing guidelines.
- As per Govt. estimates two lakh MSMEs are likely to be benefited.

3. Rs. 50,000 crore Equity infusion for MSMEs through Fund of Funds.

- Based on the recommendations of UK Sinha Committee, the Fund of Funds was first announced in the Union Budget of 2020-21 with a proposed investment of Rs. 10,000 crore.
- This scheme will provide equity funding for start-up MSMEs with growth potential and commercial viability but unable to mobilise funds through venture capitalists and professional corporations for expansion of size as well as capacity growth.
- Fund of Funds will be operated through a Mother Fund set up by Govt. with a corpus of Rs. 10,000 crore to invest in a few private (VC/PE) Daughter Funds which in turn shall buy up to 15 percent equity in MSMEs with high credit rating.
- Fund of Funds is expected to mobilise Rs. 50,000 crore of funds at a leverage of 1:4 at Daughter Funds level for equity infusion in MSMEs. Fund of funds is expected to attract a wide range of investors such as banks, financial institutions, corporate investors, HNWI individual investors etc.

- This scheme of private funding shall support in growth of potential commercially viable MSMEs and encourage to get listed on main board of Stock Exchanges.
- 4. Global tenders to be disallowed up to Rs. 200 crore.**
- Rule 161(iv) of General Finance Rule for Global Tender Enquiry (GTE) has been amended by Central Govt. on 15th May 2020 to the effect that no GTE shall be invited for tenders up to Rs. 200 crore of Govt. procurement.
 - This will help MSMEs to increase their business.
- 5. Other interventions for MSMEs.**
- E-market linkage for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions.
 - Fintech will be used to enhance transaction based lending using the data generated by the e-marketplace.
 - MSME receivables from Govt. and CPSEs to be released in 45 days.