

Analysis of Special Measures for MSMEs amid Covid-19 outbreak



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The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over quite a few years. The sector has played a crucial role in providing large employment opportunities at comparatively lower capital cost. It has also helped in industrialization of rural & backward areas. This has reduced regional imbalances, assured more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units. MSMEs contribute enormously to India's socio-economic development.

Introduction to MSMED Act: The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. MSMED Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of 'enterprise' which comprises both manufacturing and service entities. It defines 'medium enterprises' for the first time and seeks to integrate the 3-tiers of these enterprises, namely, micro, small and medium. MSMED Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions.



Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the MSMED Act.

Classification & Definitions of 'Micro', 'Small' & 'Medium' Enterprises: Pursuant to the extant provision of MSMED Act, 2006, MSMEs are classified in 2 classes – manufacturing enterprises and service enterprises. Under the extant provisions, the MSMED Act provides for different thresholds for micro, small and medium enterprises for manufacturing and service sectors. Pursuant to FM announcements (discussed later), the said provisions have been revised.

PM Modi announcements on May 12, 2020: Prime Minister Narendra Modi addressed the nation and recalled those who have died battling the pandemic. He said that *"The crisis that has emerged due to COVID-19 is unprecedented, but in this battle, we not only need to protect ourselves*



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but also have to keep moving forward.” He announced a special economic package and gave a clarion call for **Atmanirbhar Bharat**. He noted that this package, taken together with earlier announcements by the government during COVID crisis and decisions taken by RBI, is to the tune of Rs 20 lakh crore, which is equivalent to almost 10% of India’s GDP. He said that the package will provide a much-needed boost towards achieving **Atmanirbhar Bharat**. He observed that the package will also focus on land, labour, liquidity and laws. It will cater to various sections including cottage industry, MSMEs, labourers, middle class, industries, among others. He informed that the details of the contours of the package will be provided by the Finance Minister from May 13, 2020.

Analysing special measures for MSMEs: Smt. Nirmala Sitharaman announced measures focused on **Getting back to work** i.e., enabling employees and employers, businesses, especially MSMEs, to get back to production and workers back to gainful employment. Some of the important announcements and the analysis is summarised as follows:

(i) **Rs. 3 lakh crore Emergency Working Capital Facility for Businesses, including MSMEs:** With an objective to provide relief to the business, additional working capital finance of 20% of the outstanding credit (as on February 29, 2020), in the form of a Term Loan at a concessional rate of interest will be provided. This will be available to units with up to Rs 25 crore outstanding and turnover of up to Rs 100 crore. The units will not have to provide any guarantee or collateral of their own. The amount will be 100% guaranteed by the Government of India. Such loans to have 4 years tenor with moratorium of 12 months on Principal repayment

and interest shall be capped. The Scheme can be availed till Oct 31, 2020. There is no guarantee fee on such loan. According to the estimates, there would be a total liquidity of Rs. 3.0 lakh crores to more than 45 lakh MSMEs. This is a significant step to infuse money in MSMEs through the banking channels. The banks will now revise their schemes for MSMEs and grant loans. Though there is no direct infusion, the overall terms and conditions of the infusion will make it more attractive for MSMEs.

(ii) **Rs 20,000 crore Subordinate Debt for Stressed MSMEs:** The Govt. observed that the stressed MSMEs need equity support. For this the Govt. has facilitated the provision of Rs. 20 000 crores as ‘subordinate debt’. The eligibility criteria is functioning MSMEs which are NPA or are stressed. The Government will provide a support of Rs 4,000 Crore to Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). The CGTMSE will provide partial Credit Guarantee support to Banks. Further the promoters of the MSME will be given debt by banks, which will then be infused by promoter as equity in the Unit. According to the estimates, 2,00,000 MSMEs are likely to benefit from the part of the Scheme. Here, the infusion is not direct infusion by the Govt. to MSMEs, however, the support is provided through Credit Guarantee Fund for MSMEs. The overall infusion, under this scheme, may take some time.

(iii) **Rs 50,000 crores equity infusion through MSME Fund of Funds (FoF):** Govt. will set up a FoF with a corpus of Rs. 10,000 crore that will provide equity funding support for MSMEs. The FoF shall be operated through a Mother and

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a few Daughter funds. It is expected that with leverage of 1:4 at the level of daughter funds, the FoF will be able to mobilise equity of about Rs 50,000 crores.

- (iv) **Global tenders to be disallowed up to Rs 200 crores:** It was noted that the Indian MSMEs and other companies have often faced unfair competition from foreign companies. In a step towards Self Reliant India, the FM directed that the global tenders will be disallowed in Government procurement tenders upto Rs 200 crores. The Govt. will amend the relevant Rules. This move may help

MSMEs to increase their business.

- (v) **Other Measures for MSME:** e-market linkage for MSMEs will be promoted to act as a replacement for trade fairs and exhibitions. MSME receivables from Government and CPSEs will be released in 45 days.
- (vi) **New definition of MSME:** Definition of MSME will be revised by raising the Investment limit, and an additional criterion of turnover also being introduced. The distinction between manufacturing and service sector will also be eliminated.

<i>Amended classification¹</i>			
<i>Composite Criteria: Investment and Annual Turnover</i>			
<i>Classification</i>	<i>Micro</i>	<i>Small</i>	<i>Medium</i>
Manufacturing and Service sector	Investment < Rs. 1 Crore and Turnover < Rs. 5 Crores	Investment < Rs. 10 Crores and Turnover < Rs. 50 Crores	Investment < Rs. 20 Crores and Turnover < Rs. 100 Crores

The announcement by the Finance Minister w.r.t. change in definition of MSMEs was pleasant surprise, as the proposal was pending with the Parliamentary Standing Committee since July 2018. Apart from raising the investment limits for classifying MSMEs, the Finance Minister as introduced annual turnover feature for defining MSMEs. As per extant provisions, the existing definition relies on self-declared investment on Plant & Machinery and has wide variations based on type of business (i.e. manufacturing and service). Since the investment limit for MSMEs has been revised upwards, the companies with more capital still avail the benefits under MSMED Act. With an objective to introduce the amendment, the Govt. will require the Parliament approval for amending MSMED Act, 2006. As the Parliament not in session, the Government may introduce an Ordinance for implementing the

announcement.

The FM has also announced action plan for the 3 months, as well, i.e. post-lockdown plan. From the perspective of long-term sustainability of MSMEs, the FM has also announced several measures which includes Smart Industrial Village Policy, Promoting Swadeshi Ideology via Policy & Strategy Drafting, Access to Information Technology Enabled Services at an affordable cost would bring the MSME sector on a level playing field with bigger players, to promote innovation and upscale MSMEs to withstand global competitions, etc.

All these initiatives will encourage the MSMEs to revive, recover and contribute towards the growth of the Indian economy. It is expected that the overall package (pre-Covid and post-Covid) will boost the MSMEs registration and participation.