

GOVERNMENT OF INDIA
MINISTRY OF FINANCE

LOK SABHA
STARRED QUESTION NO. *185
ANSWERED ON 02.08.2021

Measures announced for MSME Sector

***185 SHRI ANNASAHEB SHANKAR JOLLE
SHRI B.Y RAGHAVENDRA**

Will the Minister of FINANCE be pleased to state:

- (a) whether the measures announced so far to boost diverse sectors of economy also benefit Micro, Small and Medium Enterprises (MSMEs) sector which has been hit hard by the COVID-19 Pandemic;
- (b) if so, the details thereof;
- (c) the exact measures taken for MSMEs rejuvenation including the exports;
- (d) whether integrating MSMEs into larger industries' logistical chains has been envisaged for efficiency gains; and
- (e) if so, the details thereof and if not, the reasons therefor?

**ANSWER
THE FINANCE MINISTER
(SMT. NIRMALA SITHARAMAN)**

(a) to (e): A statement is laid on the Table of the House

Statement as referred to in reply to Lok Sabha Starred Question No. *185 for answer on 02.08.2021 regarding "Measures announced for MSME Sector" by SHRI ANNASAHEB SHANKAR JOLLE and SHRI B.Y RAGHAVENDRA

(a) to (c):

I. Yes sir, the measures announced so far include various long-term schemes/ programmes/ policies, which aim to benefit Micro, Small and Medium Enterprises (MSMEs) also which are affected by COVID-19. Outcomes of these measures will be visible over a period of time. Details of key schemes recently announced so far related to MSME under Atmanirbhar Bharat, Budget for 2021-22 and recent financial package announced by Government in June 2021 are provided at **Annex-1**.

II. Multiple measures have been taken to support MSMEs, including their exports. MUDRA provides refinance support to Banks / MFIs / NBFCs for lending to micro units having loan requirement upto 10 lakh under the Scheme of Pradhan Mantri MUDRA Yojana. Government has launched schemes such as Credit Guarantee Scheme for providing access to credit to Micro and Small Enterprises, SFURTI scheme to organize the traditional industries and artisans into clusters to make them competitive, Cluster Development Programme for providing infrastructure support and enhance the competitiveness of Micro and Small Enterprises, providing skilled manpower to the industry, design and manufacturing of quality tools through Tool Rooms/Technology Centres etc. In addition to this, Ministry of MSME is implementing International Cooperation scheme to facilitate the MSMEs business delegations to visit / participate in international exhibitions/ trade fairs etc., of other countries for exploring new areas of technology infusion/ up-gradation, facilitating of joint ventures, improving market for MSMEs products, foreign collaborations amongst others. Government is also implementing the Niryat Bandhu Scheme for mentoring new and potential exporter on the intricacies of foreign trade through counselling, training and outreach programmes. 'MSME clusters' have been identified, based on the export potential of the product and the density of industries in the cluster, for focused interventions to boost exports.

III. Interest Equalization Scheme (IES) provides exporters a cheaper source of rupee credit for pre-shipment and post-shipment activities. Presently IES covers 416 ITC-HS tariff lines at 4 digits at 3% subvention rates for merchants and manufacturer exporters, and all tariff lines with 5% rates for MSMEs. The Scheme has been extended till September 30, 2021.

IV. RBI has taken several monetary and liquidity measures to keep the flow of credit uninterrupted to the productive sectors of the economy, including MSMEs. Some of these measures are listed in **Annexe-1 (D)**. Overall, the RBI has since February 2020 announced liquidity enhancing measures worth ₹17.2 lakh crore (8.7 per cent of nominal GDP of 2020-21).

(d) to (e):

MSMEs in general and especially in the manufacturing sector are linked to the logistical supply chain of larger industries as most of such units function as ancillary suppliers or vendors. This is also evident from the fact that the concentration of MSME is generally higher in the areas with higher industries base. Government of India is also working in this direction of integrating MSMEs with logistical supply chain of larger industries, by organizing Vendor Development Programmes in large organization/PSUs, helping MSMEs in the procurement of raw material, implementation of Public Procurement Policy, etc. In this regard, the *Public Procurement Policy for Micro and Small Enterprises (MSE) Order 2012* had mandated every Central Ministry/Department/PSU to set an annual goal for procurement of minimum 25% from the MSE sector. Total number of 149 CPSEs have uploaded details for 2020- 2021. The share of purchases from all MSEs amounts to Rs. 40442.86 crore (174701 MSEs benefited) which work out to be 28.12% of the total procurement. In addition, the *Public Preference (Make in India) Order 2017* has mandated manufacturing, production of goods and services in India, in which preference for local manufacturers and service providers and local content requirement is supporting public procurement from local suppliers, especially by MSMEs.

Annex – I

Measures taken so far to support MSMEs

A. Atmanirbhar Bharat

- 1. ₹ 3 lakh crores Collateral-free Automatic Loans for Businesses, including MSMEs:** The Emergency Credit Line Guarantee Scheme (ECLGS) has been formulated as a relief measure to MSMEs by providing them additional funding of up to ₹ 3 lakh crore in the form of a fully guaranteed emergency credit line. Borrowers with up to ₹ 25 crore outstanding and ₹ 100 crore turnover are eligible. This scheme provides 100 per cent credit guarantee cover to Banks and NBFCs on principal and interest. No guarantee fee, no fresh collateral is required.
- 2. ₹ 20,000 crore Subordinate Debt for Stressed MSMEs:** Provision made for ₹ 20,000 crore subordinate debt for MSMEs which are NPAs or are stressed. Government to support them with ₹ 4,000 crore to Credit Guarantee Trust for Micro and Small enterprises (CGTMSE). Banks are expected to provide the subordinate-debt to promoters of such MSMEs equal to 15 per cent of the existing stake in the unit subject to a maximum of ₹ 75 lakhs.
- 3. ₹ 50,000 crores equity infusion through MSME Fund of Funds:** Government to set up a Fund of Funds with a corpus of ₹ 10,000 crore that will provide equity funding support for MSMEs. The Fund of Funds shall be operated through a mother and a few daughter funds. It will provide equity funding for viable MSMEs. This scheme will help MSMEs to expand its size and capacity and will also encourages them to get listed on stock exchanges.
- 4. New definition of MSME:** Low threshold in MSME definition have created a fear among MSMEs of graduating out of the benefits. Hence, government has revised definition of MSME by raising the Investment limit. An additional criteria of turnover has been introduced and distinction between manufacturing and service sector stands removed.
- 5. Global tenders to be disallowed upto ₹ 200 crores:** General Financial Rules (GFR) of the Government amended to disallow global tender enquiries in government procurement of goods and services of value of less than ₹ 200 crores. This is a step in support of the Make in India initiative and will promote MSMEs to grow.
- 6. Other Measures for MSMEs:** e-market linkage for MSMEs to act as a replacement for trade fairs and exhibitions. MSME receivables from Government and CPSEs are to be released in 45 days. Since May 2020 and upto 26.07.2021, pending payments of Rs 55863.30 crore have been made to MSMEs. This would help MSMEs to solve the problems of marketing and liquidity.
- 7. Income Tax Refund:** Income tax refunds to nearly 8.2 lakh small businesses worth ₹ 5,204 crore has been issued with the objective to help MSMEs to carry on their business activities without pay cuts and layoffs in these challenging times.

8. **Relief of ₹ 1500 crores to MUDRA- Shishu loans:** GoI to provide Interest subvention of 2 per cent to prompt payees for a period of 12 months. Small business under MUDRA to be benefited.

9. **Ease of doing business for business including MSMEs:** Government announced further enhancement of Ease of Doing business through Insolvency and Bankruptcy Code (IBC) related measures which include (a). raising of the minimum threshold to initiate insolvency proceedings to Rs. 1 crore from Rs. 1 lakh (which largely insulates MSMEs), (b) special insolvency resolution framework for MSMEs under Section 240A of the Code, (c) suspension of fresh initiation of insolvency proceedings up to one year depending upon the pandemic situation and (d) empowering Central Government to exclude COVID 19 related debt from the definition of “default” under the Code for the purpose of triggering insolvency proceedings.

10. **Credit Guarantee Scheme for Micro Finance Institutions:** Guarantee to be provided to Scheduled Commercial Banks for loans to new or existing NBFC-MFIs or MFIs for on lending upto Rs 1.25 lakh to approximately 25 lakh small borrowers. Loans from banks to be capped at Marginal Cost of Funds based Lending Rate (MCLR) plus 2%. Maximum loan tenure will be 3 years, and 80% of assistance to be used by MFI for incremental lending. Interest rates will be at least 2% below maximum rate prescribed by RBI. Guarantee cover will be available for funding provided by MLIs to MFIs/NBFC-MFIs till March 31, 2022 or till guarantees for an amount of Rs. 7,500 crore are issued, whichever is earlier.

11. **Udyam Registration Portal-** The Udyam registration Portal has facility through which an entrepreneur can opt for linking itself with Government e-market (GeM) place. With this facility, MSEs can link themselves with the Government’s procurement system and can participate in Government’s mandatory procurement program from MSEs. In addition to it, the portal has linkages with IT, GST and TReDs portals.

12. Government of India on 02.07.2021 decided to include Retail and Wholesale Trade as MSMEs. However, benefits to the MSMEs engaged in Retail and Wholesale Trade would be restricted to availing credit under Priority Sector Lending only. This measure will benefit a large number of trading entities.

13. Amendments to the Factoring Regulation Act 2011 have been approved by Parliament which will enhance supply of credit to MSMEs from NBFCs.

14. Government, on 23.10.2020, approved the Scheme for grant of ex-gratia payment of difference between compound interest and simple interest for six months, to borrowers in specified loan accounts.

B. Union Budget for 2021-22

1. To ensure faster resolution of cases, NCLT framework to be strengthened, e-Courts system shall be implemented and alternate methods of debt resolution and **special framework for MSMEs shall be introduced.**

2. **Budgetary allocation for MSMEs** of Rs. 15,700 crores provided in 2021-22, which is more than double of BE for 2020-21.

3. **Customs duty have been reduced uniformly** to 7.5% on semis, flat, and long products of non-alloy, alloy, and stainless steels to provide relief to metal re-cyclers, mostly MSMEs, Duty on steel scrap has been exempted for a period up to 31st March, 2022.

4. **Basic Customs Duty rates have been uniformly reduced** on caprolactam, nylon chips and nylon fiber & yarn to 5%. This will help the textile industry, MSMEs, and exports, too.

5. **Certain customs duty changes** to benefit MSMEs have been made. Duty increased from 10% to 15% on steel screws and plastic builder wares. On prawn feed it is increased from 5% to 15%. Exemption on import of duty-free items is rationalised as an incentive to exporters of 36 garments, leather, and handicraft items. Almost all these items are made domestically by MSMEs. Exemption are withdrawn on imports of certain kind of leathers as they are domestically produced in good quantity and quality, mostly by MSMEs. Customs duty on finished synthetic gem stones is increased to encourage their domestic processing.

C. Announcements related to MSMEs in Relief Package announced on 28 June 2021

1. **1.1 Lakh Cr Loan Guarantee Scheme for COVID Affected Sectors** which includes Rs. 50,000 crore for health sector to scale up medical infrastructure targeting under-served areas and Rs. 60,000 crore for other sectors. Interest rate capped at 8.25% p.a. for other sectors and further decisions to be taken at later stage based on evolving needs.

2. **Additional 1.5 lakh Cr for Emergency Credit Line Guarantee Scheme (ECLGS)** Launched as part of Atma Nirbhar Bharat Package in May, 2020. Limit of admissible guarantee and loan amount increased above existing level of 20% of outstanding on each loan. Overall cap of admissible guarantee raised from Rs. 3 lakh crore to Rs. 4.5 lakh crore.

3. **Extension of Atmanirbhar Bharat Rozgar Yojana** Launched on 1st Oct, 2020. Scheme extended from 30.6.2021 to 31.03.2022. Incentivizes employers for creation of new employment, restoration of loss of employment through EPFO. Approved outlay Rs. 22,810 crore for 58.50 lakh estimated beneficiaries. Last date for registration is 30.06.2021. Subsidy provided for two years from registration for new employees drawing monthly wages less than Rs. 15000 for:

(I) Both Employer's and Employee's share of contribution (total 24% of wages) for establishment strength upto 1000 employees.

(ii) Only Employee's share (12% of wages) in case of establishment strength of more than 1000.

4. **Rs. 88,000 crore Boost to Export Insurance Cover** Export Credit Guarantee Corporation (ECGC) promotes exports by providing credit insurance services. Proposed to infuse equity in ECGC over 5 years to boost export insurance cover by Rs. 88,000 crore.

D. Measures taken by Reserve Bank of India

1. As credit facilities to MSME borrowers, extended under the emergency credit line guarantee scheme of GoI guaranteed by national credit guarantee trustee company (NCGTC), are backed by an unconditional and irrevocable guarantee provided by the GoI, member lending institutions, viz., SCBs (including scheduled RRBs), NBFCs (including HFCs as eligible under the scheme) and AIFIs, permitted to assign **zero per cent risk weight on the credit facilities extended under the ECLGS scheme** to the extent of guarantee coverage.

2. In view of the need to support viable MSME entities on account of the fallout of COVID-19, the scheme of **one-time restructuring of loans to MSMEs** without an asset classification downgrade, was extended where the borrower's account was a 'standard asset' as on March 1, 2020 and the aggregate exposure of banks and NBFCs was not more than Rs.25 crore. The restructuring had to be implemented by March 31, 2021, subject to certain conditions.

3. **Scheduled Commercial Banks allowed to deduct credit disbursed to new MSME borrowers from their net demand and time liabilities (NDTL)** for calculation of the cash reserve ratio. To further incentivize the inclusion of the MSMEs into the banking system, this exemption, available for exposures up to Rs 25 lakh and credit disbursed up to October 1, is being allowed until December 31, 2021.

4. **Special liquidity facility of Rs 16,000 crore** to Small Industries Development Bank of India (SIDBI) for on-lending/refinancing through novel models and structures available at the prevailing policy repo rate for a period of up to one year.

5. **Restructuring of MSME Accounts under Resolution Framework 2.0:** Individual borrowers, small businesses and MSMEs having aggregate exposure of up to Rs 25 crore and classified as 'Standard' as of March 31, 2021, are eligible for the latest framework. They, however, shouldn't have availed restructuring under any of the earlier frameworks (including the August 2020 resolution). Restructuring under the latest framework needs to be invoked up to September 30, 2021 and shall have to be implemented within 90 days after invocation.
