How will the COVID-19 relief for MSMEs help?

Introduction

The ₹20-lakh crore economic relief package titled Atmanirbhar Bharat Abhiyan is being unveiled in tranches from May 13 by Finance Minister Nirmala Sitharaman. **The first tranche**, aimed at micro, small and medium enterprises (MSMEs), non-banking financial companies (NBFCs) and at some individuals was announced by her on Wednesday.

**What are the proposals aimed at offering relief to micro, small and medium enterprises (MSMEs)?**

- The government has proposed to offer **collateral-free loans** to MSMEs which will be fully guaranteed by the Centre. There will be a principal repayment moratorium for 12 months and the interest rate will be capped and there will be no guarantee fee.
- All MSMEs with a turnover of up to ₹100 crore and with outstanding credit of up to ₹25 crore will be eligible to borrow up to 20% of their total outstanding credit as on February 29, 2020.
- These loans will have a four-year tenure and the scheme will be open until October 31.
- A total of ₹3-lakh crore has been allocated for this.

**How will this benefit MSMEs?**

This will act as initial seed money for these small enterprises hit by zero cash flow due to the national lockdown.

This loan will help them buy raw materials, pay initial bills and daily wages to employees. In short, this will be like working capital for cranking up their businesses again.

Banks are now expected to be more comfortable in assisting this category of borrowers because the risk is zero (since the loans are guaranteed by the central government).

This is the single biggest proposal in the last three tranches of announcements under the Atmanirbhar Bharat Abhiyan and small businesses are expected to benefit from this in a big way. About 45 lakh MSMEs are expected to gain from this proposal.

**Are these the only proposals for MSMEs?**

No. A **partial credit guarantee scheme** has been extended to enable promoters of these units to increase their equity.

A total of ₹20,000 crore will be funnelled through the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) whereby banks will lend money to promoters which can be infused as equity in their businesses.

About two lakh stressed MSMEs with non-performing assets (NPAs) are projected to benefit from this. The **CGTMSE will offer a partial credit guarantee** to banks.

There is also a proposal to infuse equity into MSMEs through a Fund of funds system where
the government will provide ₹10,000 crore as initial corpus of the Fund.

This will be leveraged to raise ₹50,000 crore which will be used to support MSMEs in desperate need of equity through ‘daughter funds’ of the main Fund of funds.

The aim is to expand size and capacity of the MSMEs with equity and help them get listed on the stock exchanges.

**Was not a change in the definition of MSMEs also announced?**

MSMEs will be defined not based on their investment alone but also on their turnover.

The definition has been tweaked and the existing distinction between manufacturing and services units has been eliminated.

Henceforth, a unit with up to ₹1 crore investment and ₹5 crore turnover will qualify as a micro unit, investment up to ₹10 crore and turnover up to ₹50 crore will qualify as a small unit, and investment up to ₹20 crore and turnover up to ₹100 crore will qualify as a medium enterprise.

It has been a long-standing demand from industry to hike the investment limits, as with inflation, units often cross the threshold that will bring them benefits.

To prevent this, they either run their operations at a reduced level or incorporate multiple units so that turnover is distributed in a way that they remain within the threshold that will give them the benefits.

**What are the proposals for non-banking financial companies (NBFCs)?**

NBFCs, housing finance companies and micro finance institutions are finding it difficult to raise debt capital due to a confidence crisis in the debt markets.

The government has, therefore, announced a special liquidity scheme of ₹30,000 crore to pick up investment grade debt paper from both primary and secondary markets.

Such paper will be fully guaranteed by the government.

In addition, to help low rated finance companies to raise debt, the existing partial credit guarantee scheme has been extended to cover primary market debt paper wherein the first 20% loss will be borne by the government.

A total of ₹45,000 crore has been set aside for this Partial Credit Guarantee Scheme 2.0 that will offer liquidity to paper rated AA and below and even unrated paper.

**Do electricity distribution companies (discoms) also feature in the first tranche announced?**

Yes, discoms are in a huge liquidity crisis and unable to pay their dues to electricity generation companies.
Their cash flow and revenues have been hit due to low demand from industrial consumers for power during the lockdown.

The various State discoms together owe about ₹94,000 crore to their suppliers, the generation and transmission companies.

The government, through Power Finance Corporation-Rural Electrification Corporation, will infuse liquidity of ₹90,000 crore to discoms which will be securitised against their receivables from consumers.

The loans given for the purpose of discharging their dues to generation companies will be against a guarantee from the respective State related to the discom.

What are the measures for the common man?

In March, when the first relief package called the Pradhan Mantri Garib Kalyan Yojana was announced, the government offered to pay the 24% provident fund contribution (employer+employee) for those earning up to ₹15,000 a month as salary and working in units that employ less than 100 workers for three months.

This has now been extended for another three months up to August.

The statutory PF contribution for those employed in the private sector (and not in the category of establishments above) has been reduced to 10% (from 12% now) for the next three months in order to increase liquidity in their hands.

In addition to the above, the rate of tax deducted at source (TDS) and tax collected at source (TCS) has been reduced by 25% for a whole range of receipts.

Thus, in payments to contractors, professional fees, rent, interest, commission, brokerage, etc. the TDS will be 25% lower.

The TCS paid while buying a car of over ₹10 lakh in value and TCS collected in property transactions will also be lower.

The lower TDS is not applicable on monthly salaries that employees receive.

In the cases where TDS/TCS has been reduced, the tax liability is not reduced. It will be payable while filing return or while paying advance tax. The idea is only to offer immediate cash relief to people. The lower TDS/TCS kicks in right away and will stay until March 31, 2021.