



Confederation of Indian Industry

R E S E A R C H

125 Years: 1895-2020

14 APRIL 2020

**SUPPORTING MSMEs THROUGH
THE COVID -19 CRISIS**

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Supporting MSMEs through the COVID -19 crisis

With limited resources, MSMEs do not have the capacity to withstand massive shocks like COVID-19. In addition, many MSMEs are an integral part of larger supply chains. The health of these MSMEs has a bearing on the entire supply chain, including the large corporates.

Therefore, special, immediate and substantive support measures are required to see the MSMEs through this crisis.

Following widespread discussions with its MSME members across the country, CII has identified specific measures to mitigate the impact on this vital sector. The same are as follows:

1. Support through Banks

CII believes that rather than Government of India giving direct subsidies to industry, as has been done in a few other countries, it is preferable to leverage (5 /6 times) through the banking system and support the industry, including MSMEs, through banks. Our estimates are that the economy would need a credit expansion of 14-15 per cent.

Therefore, we would request RBI to extend the following support to the MSMEs:

i. Extension of working capital limits

Allow banks to provide additional working capital limits. The recommended measures are appended as Annexure 1.

Limit enhancement should be accompanied by relaxing norms related to collaterals, based on the earlier track record of the MSMEs. The additional working capital to be repaid in 3 equal instalments from 1st January 2021 to 31st March 2021

ii. Wage support

Banks should provide additional working capital limits, equivalent to April - June wage bill of the borrowers, backed by a Government guarantee, at 4-5 per cent, with a refinance guarantee from RBI.

iii. Re-construction term loans to MSMEs

Banks should provide additional reconstruction term loans to MSMEs, which are otherwise sound, but impacted by the shutdown, with Government of India offering a guarantee upto 20 per cent of the default. *Details of the recommendation are being worked out and will be submitted separately.*

iv. **Moratorium period**

- ✓ Extend the three-month moratorium period allowed by RBI to 6 months, for MSMEs.
 - ✓ Moratorium on payment of Purchase Bills and L/Cs.
 - ✓ Moratorium of 90 days on repayment of Commercial Papers.
- v. The Central bank, along with the commercial banks, should look at increasing the assets of Mudra Bank and other MSME-focused banks.

2. **Wage support through ESIC**

Create a corpus for supporting MSMEs in terms of additional liquidity to meet their wage liabilities during the shutdown. Utilize the ESIC funds under Rajiv Gandhi Shramik Kalyan Yojana, Atal Beemit Vyakti Kalyan Yojana to pay workers for the lockdown period i.e. to consider the lockdown period as national emergency leading to temporary closure of workplace due to natural calamity.

3. **Expedite the Fund of Funds for MSMEs**

UK Sinha Committee on MSMEs had recommended setting up a INR 10,000 crore Fund of Funds to support VC/PE firms investing in the MSME sector. The Fund has been under the consideration of the Government and should be expedited.

4. **Clear all outstanding government dues to MSMEs**

- ✓ All outstanding on account of goods and services supplied by MSMEs to PSUs should be cleared immediately, both at the central and state levels.
- ✓ Payments for good and services supplied to PSUs, henceforth should be made within 15 days, instead of the current limit of 45 days.
- ✓ Monitor payment delays by CPSUs to MSMEs closely through a portal for complaints and ensure necessary funds are provided and utilized for this purpose.
- ✓ All pending GST refunds should be cleared immediately.
- ✓ All incentives due to MSMEs under various central and state schemes should be released immediately.

5. **Other Measures**

- ✓ Delays in discharging social security liabilities may be condoned without any penal action for next 6 months.

- ✓ Provide a moratorium for all PF, ESI and Gratuity payments by employer for six months if the employer does not retrench or remove more than 10% of its workforce.
- ✓ There will be inevitable delays in making deliveries against government orders due to disruptions. Government departments making purchases should not impose delay penalty.
- ✓ Completion dates of the government projects need to be reconsidered and extended without liquidated damages, till such time the fear of COVID-19 is over.
- ✓ While banks are included under essential services, NBFCs are not. Therefore, they are not able to service the MSMEs during lockdowns. NBFCs should be included in the definition of essential services.

Annexure 1

Recommendations on enhancing working capital availability to Industry

- Increase credit limits for all regular banking accounts by 25 per cent across the board. In the current context, one can expect delays in payments and disruptions to affect liquidity across sectors. Relax Aggregate Sanctioned Credit Limit (ASCL) norms for corporates/banks for FY20 till further notice or exclusion of up to 25% of incremental borrowing from banking sector in ASCL computation.
- Increase Drawing Power (DP) – by (i) asking banks to take weightage of 1.5X for current assets instead of 1.0X or (ii) asking banks to remove the margin of 25% for a period of 6 months to a year in the DP calculations.
- Direct banks to look at a limited window of next 6 months for GCP (General Corporate Purpose) loans limited to maximum of say 15 per cent of existing credit limits as an addendum to the current credit limits as of end December 2019.
- RBI to change definition of NPA recognition from 90 days to 180 days till September 30. Similarly, SMA (special mention Account) guidelines to be relaxed till September 30: SMA-1 from 60 to 90 days and SMA-2 from 90 to 180 days and beyond before considering a loan account as NPA.



Confederation of Indian Industry

Business and Beyond

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The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society through working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry.

Founded in 1895 and celebrating 125 years in 2020, India's premier business association has more than 9100 members, from the private as well as public sectors, and an indirect membership of over 300,000 enterprises from around 291 national and regional sectoral industry bodies.

With 68 offices, including 9 Centres of Excellence in India, and 11 overseas offices in Australia, China, Egypt, France, Germany, Indonesia, Singapore, South Africa, UAE, UK, and USA, as well as institutional partnerships with 394 counterpart organizations in 133 countries, CII serves as a reference point for Indian industry and the international business community.



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RESEARCH

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CII Research is an Industry think-tank providing thought leadership on strategic economic and industry issues critical to national growth and development. Drawing on a deep reservoir of industry leaders and industry associations spanning all sectors and present across the country, CII Research originates analytical reports in consultation with stakeholders. Based on strategic perceptions and data, these in-depth insights suggest specific policies and action plans that would enhance the role of Indian industry in nation-building.

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