



**Entrepreneurship  
Development Institute of India**  
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## POLICY BRIEF

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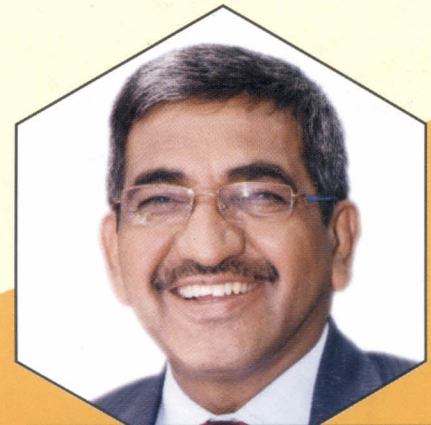
### Creating a roadmap for 'Atmanirbhar Bharat' by energizing MSMEs and other businesses: A look at opportunities amidst adversity



**Message  
Secretary, MSME, GoI**

“The pandemic COVID-19 has vastly affected not only the health of citizens but also that of all the business sectors irrespective of their scale and geography. In these difficult times, Govt. of India, under the strong leadership of Honourable Prime Minister, has taken a commendable and thoughtful step, towards providing an economic stimulus to native Micro, Small and Medium Enterprises and thereby paving the way for making India 'self-reliant' in true sense. This policy brief highlights the transformative measures given by the Govt. of India for Indian MSMEs as a part of the 'Atmanirbhar Bharat' package. Policy briefs are significant means of communication and discourse on existing and awaited policies before diverse policy audiences in the research, practice as well as decision making fraternity. This policy brief is a part of the 'Policy Brief Series' which is an attempt of the Entrepreneurship Development Institute of India (EDII) - Ahmedabad to showcase an entrepreneurial take on the existing and upcoming national public policies, and reach out to diverse audiences including, entrepreneurs, researchers, policy makes, etc. I am extremely delighted to read this policy brief and would like to convey my thanks and best wishes to EDII, a nationally acclaimed organisation in the field of Entrepreneurship since more than three and a half decade, for this insightful endeavour!”

**A K Sharma, IAS**  
Secretary  
Ministry of Micro, Small & Medium Enterprises  
Government of India



**EDII President's Message**

“As India strives for sustainable and inclusive growth, the Micro, Small and Medium Enterprises (MSME) sector is the main catalyst providing maximum opportunities for self-employment at low investment. A conducive and growth-oriented operating environment is imperative for building an enabling ecosystem for MSME. Towards this end, the Government has been undertaking a number of reforms measures and initiatives to make MSME sector a vibrant and dynamic sector of the Indian economy. The outbreak of the coronavirus pandemic (COVID-19) has made it imperative to initiate measures to revitalize and restart the MSME sector to protect the livelihood of millions of individuals dependent on this sector. To address the concerns and to support this sector, the Government announced a number of measures under its comprehensive economic package of 'Atmanirbhar Bharat Abhiyan'.

Institutions like the Entrepreneurship Development Institute of India (EDII) have been working diligently to make India an MSME hub by ensuring skill training, dynamic participation of policy makers in farming a conducive environment and by creating awareness about proactive policies of the Government. The Policy Brief series is a thoughtful initiative by EDII in the direction of bringing about awareness among entrepreneurs, policy makers and institutions about appropriate policy interventions.

This is an insightful initiative towards creating knowledge repository and, I am sure, such initiatives will contribute towards making MSME a dominant and vibrant sector of the Indian economy.

My compliments to the team behind this work.

Best wishes !!!”

**Rakesh Sharma**  
President EDII and  
MD & CEO, IDBI Bank Ltd.



## Message of Director General - EDII

“ The economic stimulus to the Indian MSMEs as a part of the 'Atmanirbhar Bharat Abhiyan' is a really a boon in the time of global crisis. The measures mentioned are apt to bring a fresh perspective of economic prosperity to the nation. This policy brief puts forward the major highlights of the Indian govt.'s measures from the 'Atmanirbhar Bharat Abhiyan' for strengthening the MSME sector. I congratulate the Department of Policy Advocacy, Knowledge and Research for their efforts. ”

**Dr. Sunil Shukla**  
Director General

# Creating a roadmap for 'Atmanirbhar Bharat' by energizing MSMEs and other businesses:

## A look at opportunities amidst adversity

### 1. Introduction

It is rightly said “Necessity is the mother of all inventions.” The true importance and benefits of 'self-reliance' are realized in the current adverse times of COVID-19 outbreak which has vastly affected businesses all over the globe drastically. This has inspired us to be more focused on strengthening our own manufacturing capabilities and supply chain. It necessitates us to become 'vocal or local' products so that they can contribute not only to the domestic but also international markets in the long run. Honorable Prime Minister (PM) - Shri Narendra Modiji, propounded the 'Atmanirbhar Bharat Abhiyan (ANBA)' or 'Self-reliant India Campaign'<sup>1</sup> based on a vision of strengthening five key pillars of development, namely- Economy, Infrastructure, System, Demography and Demand with a major focus on key areas viz. land, labour, liquidity and laws, and a long term vision of making India a 'self-reliant' nation. As a part of this campaign, the PM pronounced a humongous economic package of 20 lakh crore - comparable to 10% of India's annual GDP, to empower the home grown MSMEs, laborers, migrant workers, salaried classes as well as domestic manufacturers, etc. and broadly aimed to make India 'self-reliant' in these insistent global pandemic times. The long term vision behind this is to make and promote the Indian local manufactured products as per International standards and thus become an active part of global value chain.

### 2. The MSME sector in India

'MSME' stands for Micro, Small and Medium scale Enterprises. This sector is the growth engine of one of the largest developing economies - India. This sector not only contributes immensely to the financial status of the nation, but is also credited to be the second biggest employer and recruits close to 40 % of Indian workforce, second to the biggest employer i.e. the agriculture sector. According to the MSME Ministry's 2019 annual report, the Indian MSME sector comprises approximately 6.33 crore MSMEs from which 6.30 crore: 99.4 per cent are micro-enterprises, 0.52 per cent i.e. 3.31

Table 1 : Existing and new definition of MSMEs

MSME Classification				
Classification		Micro	Small	Medium
Existing (Criteria: Investment in Plant & Machinery/ Equipment)	Manufacturing Enterprises	Investment < Rs. 25 L	Investment < Rs. 5 crore	Investment < Rs. 10 crore
	Service Enterprises	Investment < Rs. 10 L	Investment < Rs. 2 crore	Investment < Rs. 5 crore
Revised* (Criteria: Investment and Annual Turnover)	Manufacturing Services	Investment < 1 crore & Turnover < Rs. 5 crore	Investment < 10 crore & Turnover < Rs. 50 crore	Investment < 20 crore & Turnover < Rs. 100 crore

(Source: Atmanirbhar Bharat, Businesses including MSMEs, PPT, 13.5.2020)<sup>1</sup>

(\*as per Atmanirbhar Bharat Abhiyan)

lakh are small and 0.007 per cent i.e. 5,000 are medium enterprises<sup>2</sup>. This sector contributes to 8% of India's total GDP. The chief parameters crucial for the growth and development of MSMEs include, economic stability, availability of skilled labour as well as achieving the market competitiveness for their goods so that they attain import substitution and export it far and wide. The economic package of the 'Atmanirbhar Bharat Abhiyan' is targeted to provide a major impetus to the Indian MSME sector and other sectors, wherein the former forms the basis of the Indian industrial arena.

### 3. 'Atmanirbhar Bharat Abhiyan' - A ray of hope for Indian MSMEs

- The Finance Minister- Ms. Nirmala Sitaraman gave a glimpse of the measures to be implemented under the economic package in various sectors including MSMEs with the mission of promoting 'local' goods and services. These measures are envisaged to transform the entire business sector over the years of their implementation and thereafter.
- One of the most significant steps of this campaign, is the revision of definition of 'MSME' (Table 1), after 14 years of the formation of MSME Development Act in 2006. This revision, where the 'annual turnover' was also added as a criterion, is necessary for enterprises, in order to procure loans for their business expansion purposes. Moreover, the distinction related to investment and turnover, between manufacturing and service sectors has been removed, making both the sectors at par with each other.
- Yet another important step was the decision to provide Rs 3 lakh crores worth collateral-free automatic loans for businesses, including MSMEs to cover operational responsibilities, purchase resources and restart businesses, as a way to compensate for the loss owing to the COVID-19 outbreak.
- The campaign has also shown a bold step of providing emergency credit to businesses including MSMEs from Banks as well as Non-Banking Financial Institutions (NBFCs) upto 20% of the total outstanding credit as on 29th February 2020. Also, 100% credit guarantee cover is provided to Banks and NBFCs on principal and interest. The highlights of this decision include: borrowers having upto Rs. 25 crores and Rs. 100 crores, outstanding and turnover respectively are eligible to avail the benefits of this scheme. It is estimated that approximately 45 lakh units would benefit from this scheme.
- Yet, another bold measure includes, a provision of sub-ordinate debt of Rs. 20,000 crores in the form of equity support to stressed/ NPA but functioning MSMEs. In this context, the govt. has decided to financially support with a sum of Rs. 4,000 Crores to the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) which eventually, will provide credit guarantee support to the banks. Moreover, the promoters of MSME will have a provision of debt by banks, which will then be imparted in the form of equity by promoter in the MSME Unit.
- In order to encourage MSMEs to find place on the main board of stock exchanges, support their expansion in the form of size and capacity as well as provide handholding support to fight severe shortage of equity, the govt. has announced Rs. 50,000 crore equity infusion via 'Fund of Funds (FoF)' which will be operational through a mother fund and several daughter funds. For this, a Rs. 10,000 crore corpus for Funds of Funds will be set up.
- Another bold step towards promoting 'homeland / local' goods as well as limiting global competition for Indian companies, is that for Govt. procurement, global tenders would be disallowed upto the value of 200 crores. In this context, government and Central Public Sector Enterprises (CPSEs) will settle pending payments and receivables owed to MSMEs within 45 days. In this context, the necessary amendments of General Financial Rules shall be introduced accordingly.
- Two notable interventions for solving marketing and liquidity issues of MSMEs in the advent of COVID-19 outbreak, include, (i) promoting e-market linkage as a measure for marketing in place of trade fairs and exhibitions, as well as (ii) Fintech to be used to improve transaction based lending where it will use the data generated by e-marketplace.
- Also, govt. has announced Rs. 2500 crore EPF (Employee Provident Fund) Support for business and workers for 3 more months: June- August 2020 which will provide a liquidity relief to 3.67 lakh establishments as well as 72.22 lakh employees. The statutory contribution of PF for both employer and employee covered under EPFO, will be reduced to 10% each from current 12% each for next 3 months except that for the CPSEs and state (Public Sector Undertakings) PSUs, also, this scheme being applicable for workers who are ineligible for receiving the 24% EPF support under Pradhan Mantri Garib Kalyan Package and its extension. This will give a liquidity of Rs. 6750 crores to the employers as well as employees till a period of three months.

- Among other supportive measures, a Rs 30,000 crore special liquidity scheme will be initiated where the investments will be made in Non Banking Financial companies (NBFCs)/ housing finance companies (HFCs)/ microfinance institutions (MFIs); here the securities would be backed by Reserve Bank of India (RBI). Also, the existing Partial Credit Guarantee Scheme 2.0 for NBFCs would be extended to a sum of Rs. 45000 crores, in order to lend to MSMEs and individuals. Similarly, the financial health of power distribution companies (DISCOMS), would be recovered by the govt. decision of infusing Rs 90,000 crore through Power Finance Corporation (PFC) and Rural Electrification Corporation (REC). The contractors engaged by the govt. will be given an extension of up to 6 months and the govt. agencies will partially release bank guarantees, to the degree to which the contracts are partially completed, in order to ease cash flows. Also, in case of the real estate sector, it has been advised to consider COVID-19 as an event of 'Force Majeure' under RERA, and therefore the regulatory authorities will be requested an extension of registration and completion dates for all registered projects expiring on or after March 25, suo-moto by 6 months, without individual applications.
- Moreover, other noteworthy measure is that the rates of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS) will be reduced by 25% as well as the refunds to charitable trusts and non-corporate businesses & professions including proprietorship, partnership, LLP and co-operatives which are pending shall be issued at an immediate priority, which is also seen to comfort the liquidity issue of MSMEs. The extension of various income tax related deadlines is a welcoming step, towards bringing more focus on the productivity of MSMEs for few coming months after a long standstill owing to the COVID-19 outbreak.

#### **4. Understanding the plausible efficacy of economic stimulus to MSMEs in making India self-reliant: Some points to ponder**

The economic fuel given by the Govt. to MSMEs and other businesses in these pressing times are vital to revive these enterprises and take them towards self-reliance by promoting 'local goods and services'. However, it is highly important to pay attention to the details of high quality standards in order to be a long term player in the global value chain. Therefore, it is very important to take into account several important points which are central to becoming 'self-reliant' and a global market player:

- It sure is a very encouraging step of providing loans guaranteed by Govt. with a 4-year tenure and 12-month moratorium on principal payment, without the need of any collateral. However, guaranteed loans should be processed with utmost care and caution, especially those granted to non-performing enterprises, otherwise the consequences may result in an asset portfolio of sub-standard and low potential companies. Many public sector banks already tarnished by high NPAs, might be cynical to ease the credit or loans to firms and if pressured to let loose, there may be an upsurge of NPAs in the already struggling banks and NBFCs. Hence, the absence of any collateral if dealt without any credit implications and caution may give rise to series of defaulters, whose dues have to be borne by govt.

#### **Key Points**

- 20 lakh Crore economic stimulus- equivalent to 10% of India's GDP
- Indian MSME sector made up of 6.33 Crore enterprises
- Change in definition of MSMEs'; 'Turnover' added as a criterion for classification
- Collateral free automatic loans worth Rs 3 lakh Crores for Businesses including MSMEs
- Sub-ordinate debt of Rs. 20,000 Crores in the form of equity support to stressed/ NPA but functioning MSMEs.
- Rs. 4,000 Crores to the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)
- Rs. 50,000 Crore equity infusion via 'Fund of Funds (FoF)' which will be functioned through a mother fund and several daughter funds.
- Global tenders of upto 200 Crores would not be permitted
- Government and Central Public Sector Enterprises (CPSEs) will settle pending payments and receivables owed to MSMEs within 45 days

However, the govt. could optimize the process of lending by involvement of third party sponsors, viz. multilateral institutions, in order to share the credit risk in the scenario.

- In the wake of COVID-19 crisis, it is also recommended to have certain provisions for relief in times when the MSME enterprises are short of liquidity, in order to pay wages to employees when these enterprises face uncertainty.
- The dream of becoming 'self-reliant' through the upliftment of 'local' industries is only possible with the states taking the lead for responsible action towards fueling resources, capital and skilled labour for driving the envisaged economic change over the years to come. Several important actionable steps towards achieving these objectives may include increasing efficient domestic manufacturing capabilities, developing efficient clusters for manufacturing, production of local goods as per global standards- an ideology analogous to ZED manufacturing (Zero effect- Zero Defect) as visualized by 'Make in India'.
- The main point to ponder, however, is the efficient and timely implementation of this scheme. Moreover, there has to be a balanced mix of 'support and care' with 'caution' to fulfill the desired objectives and ruling out any possibility of making the existing 'bad' situation, 'worse' in future.

#### 5. Conclusion

The aim of becoming a 'self-reliant' nation and cutting down on import dependence is only possible by strengthening our domestic capabilities which requires a careful ground level execution, maintaining global quality standards, committed efforts from the state governments as well as most importantly, a 'sense of appreciation for local products' by the public at large.

#### References

1. Ministry of Finance, Government of India (2020) Atmanirbhar Bharat Abhiyan
2. Ministry of Micro, Small and Medium Enterprises, Government of India (2019) Annual Report 2018-19.

#### Key Points

- e-market linkage to be used as a measure for marketing in place of trade fairs and exhibitions
- Fintech will be used to augment transaction based lending
- Rs. 2500 Crore EPF Support for businesses and workers for 3 more months (June- Aug 2020); this will provide a liquidity relief to 3.67 lakh establishments for 72.22 lakh employees
- Statutory contribution of PF (employer & employee), reduced from existing 12% to 10% for next 3 months (June- Aug 2020)
- Rs 30,000 crore special liquidity scheme for NBFCs/ HFCs/ MFIs
- Partial Credit Guarantee Scheme 2.0 for NBFCs extended to a sum of Rs. 45000 crores
- Infusing Rs 90,000 crore through Power Finance Corporation (PFC) and Rural Electrification Corporation (REC)
- COVID-19 to be considered as an event of 'Force Majeure' under RERA
- Extension of registration and completion for all RERA registered projects by 6 months
- 25 % reduction in rates of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS)



#### About EDII:

Entrepreneurship Development Institute of India (EDII), an autonomous and not-for-profit institute, set up in 1983, is an acknowledged National Resource Institute for Entrepreneurship Education, Research, Training & Institution Building. It is promoted by IDBI Bank Ltd., IFCI Ltd., ICICI Bank Ltd. and the State Bank of India (SBI). The Government of Gujarat pledged twenty-three acres of land on which stands the sprawling EDII campus. To pursue its mission, EDII has helped set up twelve state-level exclusive entrepreneurship development centres and institutes. In view of EDII's expertise in Entrepreneurship, the University Grants Commission had also assigned to it the task of developing curriculum on Entrepreneurship, and the Gujarat Textbook Board had assigned to it the task of developing textbooks on Entrepreneurship for 11th & 12th standards. EDII is also working closely with regulatory bodies, like the Central Board of Secondary Education. In order to broaden the frontiers of Entrepreneurship Research, EDII has established Centre for Research in Entrepreneurship Education and Development (CREED), to investigate into a range of issues surrounding small and medium enterprise sector through its publication, 'The Journal of Entrepreneurship'. CREED also establishes a network of researchers and trainers by conducting Biennial Conference on Entrepreneurship Education and Research. EDII also leads the India Chapter of Global Entrepreneurship Monitor (GEM), the largest annual study of entrepreneurial dynamics in the world. In the international arena, efforts to develop entrepreneurship by way of sharing resources and organising training programmes, have helped EDII earn accolades and support from the World Bank, Commonwealth Secretariat, ILO, FNSt, British Council, Ford Foundation, European Union, ASEAN Secretariat and several other renowned agencies. EDII has also set up Entrepreneurship Development Centre at Cambodia, Lao PDR, Myanmar, Vietnam and Uzbekistan, and is in the process of setting up such centres in five African countries.

#### Department of Policy Advocacy, Knowledge, and Research:

The Department of Policy Advocacy, Knowledge and Research (DoPR) is a dedicated department for formulation and advocacy of 'Public Policies', creation of 'Knowledge Products', and publication of 'Research Studies'. The DoPR conducts various government-supported and inhouse sponsored research studies as well. The DoPR focuses on the creation of indigenous 'Knowledge Products' for institutions, entrepreneurs, students, and policymakers.



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