

**STATUS MONITOR: TRACKING THE PROGRESS OF THE GOVERNMENT’S ATMANIRBHAR BHARAT ABHIYAN ANNOUNCEMENTS**

COVID-19 has spread into more than 200 countries including India with the number of confirmed cases nearing the 40 million mark in the aggregate and the virus having claimed over 1 million lives. Globally, several countries announced total/partial lockdowns from mid-March onwards in order to control the spread of the virus. While few countries have experienced a certain degree of success in arresting the outbreak, several countries continue to deal with increasing number of confirmed cases on a daily basis. India, which is home to 1.4 billion people, reported 902,425 confirmed cases as of October 8, 2020, with 105,526 fatalities and 58,27,704 recoveries, resulting in a total tally of 68,35,655 cases. As on the said date, India also ranked as the second largest COVID-19 hotspot globally, trailing behind United States (77,77,014 cases) and ahead of Brazil (50,02,357 cases).

The Government of India announced a series of measures during the COVID-19 imposed lock-down to alleviate the impact of the pandemic and provide relief to the vulnerable sections of the society, the most significant of them being the INR 20 trillion relief package titled **Atmanirbhar Bharat Abhiyan** (“Mission Self Reliant India”), a series of front and back-ended financial support programs, which were announced over a period of five days (May 14-19, 2020), with each day centring around a certain set of target sectors. You can read our daily coverage of the Atmanirbhar package and their impact on Northern Arc’s focus sectors on earlier pages of this blog [here](#), [here](#), [here](#), [here](#) and [here](#).

We thought it would be an informative exercise to continue the series and monitor progress made on the announcements on a periodic basis. Accordingly, below is a status check of promise-versus-performance of the Atmanirbhar package against each of our target sectors. This is our inaugural piece on the subject and reports on the status it stood on September 30, 2020, do visit again for future updates.

**A) ANNOUNCEMENTS RELATED TO THE MSME SECTOR**

**1. INR 3 LAKH<sup>i</sup> CRORE<sup>ii</sup> COLLATERAL-FREE AUTOMATIC LOANS FOR BUSINESSES, INCLUDING MSMEs**

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>• Banks and NBFCs to provide an emergency credit line for businesses/MSMEs up to 20% of their entire outstanding credit as on February 29, 2020</li> <li>• 100% credit guarantee cover to Banks and NBFCs on principal and interest</li> <li>• Interest rates capped at 14% for NBFCs and 9% for banks</li> <li>• Loans to have 4-year tenor with moratorium of 12 months on Principal repayment</li> <li>• Funding to meet operational liabilities built up, buy raw material and restart business</li> <li>• Borrowers with up to INR 25 crore outstanding and INR 100 crore turnover eligible</li> <li>• Scheme can be availed until October 31, 2020</li> </ul>	<ul style="list-style-type: none"> <li>• As of September 21, 2020, total credit sanctioned under the Emergency Credit Line Guarantee Scheme (ECLGS) by public and private banks stood at INR 186,469 crore of which INR 1,32,246 crore has been disbursed to 27,09,027 borrowers.</li> </ul>

## 2. INR 20,000 CRORE SUBORDINATE DEBT FOR STRESSED MSMEs

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>Functional MSMEs that are classified as NPAs or stressed assets to be eligible for the scheme</li> <li>Government to facilitate provision of INR 20,000 crore as subordinate debt</li> <li>Government will provide a support of INR 4,000 Crore to CGTMSE, which will provide partial credit guarantee support to banks</li> <li>Promoters of MSME units will be given debt by banks, which will then be infused by the promoters as equity in their MSME units</li> </ul>	<ul style="list-style-type: none"> <li>The Government released details of the Credit Guarantee Scheme for Subordinate Debt on August 19, 2020.</li> <li>As part of the scheme, promoters of MSMEs classified as NPAs or as SMA-2 by banks will be given credit of INR 75 lakh or 15% of their stake (whichever is lower), in exchange for equity.</li> <li>This credit will be infused by promoters into the units as equity and will have a moratorium of seven years.</li> </ul>

## 3. INR 50,000 CRORE EQUITY INFUSION FOR MSMEs THROUGH FUND OF FUNDS VEHICLE

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>Fund of Funds (FoF) with corpus of INR 10,000 crore to be set up to provide equity funding for MSMEs with growth potential and viability</li> <li>FoF will operate as a Mother-Daughter structure with an anchor Mother Fund and several Daughter funds beneath it</li> <li>Fund structure will help leverage INR 50,000 crore of funds at Daughter Funds level</li> </ul>	<ul style="list-style-type: none"> <li>The proposal received Government approval in June 2020 and on September 25, 2020, a RFP was issued inviting financial and technical bids from alternative investment fund managers to act as the fund manager for the Mother Fund</li> <li>The last date of submission of bids is October 19, 2020</li> <li>As per the scheme, the Mother Fund will have a corpus of INR 10,000 crore with the Government acting as the anchor investor, which will in turn invest in a number of Daughter Funds.</li> <li>The Daughter Funds will raise 20% capital from the Mother Fund, with the remaining corpus being raised externally</li> </ul>

## 4. NEW DEFINITION FOR MSMEs

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>MSME qualifying criteria revised to include investment as well as turnover based conditions</li> <li>Uniform set of conditions laid down for both Manufacturing and Service sectors</li> <li>This classification helps institutions to continue to access the incentives attached with lower classifications (fewer compliances on taxations and filings, tax benefits, subsidies, lower interest rates)</li> </ul>	<ul style="list-style-type: none"> <li>The Government revised the upper limit for investment in MSMEs and established a new criterion based on the firm's annual turnover in the Micro, Small and Medium Enterprises Development Act, 2006.</li> <li>MSMEs from service and manufacturing sectors will have the same investment limits, in contrast to the separate categorisation for the two sectors as per the 2006 Act.</li> </ul>

**5. INR 30,000 CRORE SPECIAL LIQUIDITY SCHEME FOR NBFCs/HFCs/MFIs**

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>Under this scheme, investments will be made in both primary and secondary market transactions in investment grade debt paper of NBFCs/HFCs/MFIs</li> <li>Will supplement RBI/Government measures to augment liquidity</li> <li>Securities will be fully guaranteed by the Government</li> <li>Will provide liquidity support for NBFCs/HFC/MFIs and mutual funds and create confidence in the market</li> </ul>	<ul style="list-style-type: none"> <li>The Scheme was launched through a Press Release dated July 1, 2020, and SBI Capital Markets has been assigned to set up a SPV to implement the Scheme.</li> <li>As on September 29, 2020, 39 proposals involving an amount of INR 11,120 crore have been approved. Out of the sanctioned amount INR 7,227 crore has been disbursed while INR 182 crore is yet to be availed. Remaining sanctions of INR 3,707 crore has lapsed</li> <li>The scheme has been closed on September 30, 2020</li> </ul>

**6. INR 45,000 CRORE PARTIAL CREDIT GUARANTEE SCHEME 2.0 FOR NBFCs**

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>NBFCs, HFCs and MFIs with low credit rating require liquidity to do fresh lending to MSMEs and individuals</li> <li>Existing PCGS scheme to be extended to cover borrowings such as primary issuance of Bonds/CPs (liability side of balance sheets) of such entities</li> <li>First 20% of loss will be borne by the guarantor, i.e., Government of India</li> <li>AA paper and below including unrated paper eligible for investment (especially relevant for many MFIs)</li> <li>This scheme will result in liquidity of INR 45,000 crore</li> </ul>	<ul style="list-style-type: none"> <li>As of September 25, 2020, banks had approved purchase of portfolio of INR 25,055.5 crore and were in the process of approval/negotiations for an additional amount of INR 3,171 crore.</li> </ul>

**7. OTHER INTERVENTIONS FOR MSMEs**

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>Global tenders to be disallowed up to INR 200 crore, a step towards Self-Reliant India</li> <li>e-market linkage for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions</li> <li>Fintech to be used to enhance transaction-based lending using the data generated by the e-marketplace</li> <li>MSME receivables from GOI and CPSEs to be released in 45 days</li> </ul>	<ul style="list-style-type: none"> <li>Refunds of over INR 1,18,324 crore have been issued to over 33.5 lakh taxpayers between April 1, 2020 to September 28, 2020</li> <li>As per the Government, all corporate tax refunds up to INR 50 crore have been issued in all cases, wherever due.</li> </ul>

**B) ANNOUNCEMENTS RELATED TO THE MICROFINANCE SECTOR**

The Microfinance industry caters to approximately 75% of the people from rural areas of which around 57% are engaged in agriculture and agriculture-allied activities. Most households own residential house property and are engaged in multiple income activities such as agriculture, animal husbandry, daily labour, trading & services. The loans are exclusively

given to women with bank accounts and in most of the cases the customers also have Jan Dhan accounts. Key measures announced by the Government impacting the Microfinance sector along with their current implementation status is provided below:

### 1. PRIME MINISTER'S GARIB KALYAN YOJANA

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>• INR 500 to be disbursed to 20.5 crore women holding Jan Dhan accounts during Apr-May-Jun'20</li> <li>• Upfronting of INR 2,000 instalment under PM-KISAN to 8.69 crore farmers for Q1FY21 to Apr'20</li> <li>• Distribution of free LPG gas cylinders to 8 crore BPL families in Apr-May-Jun-20</li> <li>• Increase in rural wages from INR 182 to INR 202 per day to benefit 5 crore daily workers</li> </ul>	<ul style="list-style-type: none"> <li>• INR 31,000 crore had been disbursed in 20 crore Jan Dhan accounts until June 2020. Around 60% of this is estimated to benefit the rural areas</li> <li>• INR 18,700 crore has been disbursed to ~9 crore farmers under PM-KISAN, announced on May 15, 2020</li> <li>• Delivery of 11.97 crore cylinders to 8 crore beneficiaries of PM Ujwala Yojana till June 2020. The scheme extended by another 3 months until September 2020</li> </ul>

### 2. EXPANSION OF KISAN CREDIT CARDS (KCC) COVERAGE

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>• Extend coverage of KCC loans to include 2.5 crore small and marginalized farmers (SMF)</li> <li>• The Government's proposal will enable SMF borrowers to avail formal credit in times when the system liquidity is tight and prevent them from availing loans from informal channels and subsequently falling into debt trap(s).</li> </ul>	<ul style="list-style-type: none"> <li>• NABARD has been pushing the KCC saturation drive.</li> <li>• As of August 2020, the Government has sanctioned 1.22 crore i.e. 50% of the targeted number, to small and marginal farmers under the scheme. The farmers were sanctioned a credit limit of INR 1.02 lakh crore</li> </ul>

### 3. FRONT LOADING OF REFINANCE BY NABARD

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>• The refinance facility extended to rural co-operatives and regional rural banks to be front loaded to facilitate crop loans</li> <li>• Since the rural economy is predominantly an agrarian economy, the working capital support will infuse liquidity into rural regions and spur rural consumption, which will help microfinance borrowers due to higher money flow in the economy</li> </ul>	<ul style="list-style-type: none"> <li>• NABARD has provided a special liquidity scheme (SLF) to RRBs, cooperative banks, and NBFC-MFIs which has ensured unhindered credit flow to farmers to carry out their agriculture operations. As a result, there has been noteworthy progress of sowing area coverage under Kharif crops.</li> </ul>

### 4. LAUNCH OF AN AGRI INFRASTRUCTURE FUND

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>• INR 1 lakh crore fund to promoter farm gate infrastructure</li> <li>• Funds allocated for empowering the sector would provide the much-needed risk capital required to start and expand micro-businesses in the rural sector.</li> </ul>	<ul style="list-style-type: none"> <li>• The Union Cabinet cleared the proposal to set up the Agri Infra Fund on July 8, 2020.</li> <li>• The new fund will have a duration of 10 years and is expected to provide INR 1 lakh crore of medium-to-long-term debt financing to enterprises engaged in agriculture.</li> </ul>

Summary Overview	Update as of September 30, 2020
	<ul style="list-style-type: none"> <li>NABARD has given in-principal sanction to INR 1,568 crore worth of proposals out of 3,055 proposals received from agri-societies across 22 states until Sep-20.</li> </ul>

#### 5. AMENDMENT OF ESSENTIAL COMMODITY ACT

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>Proposal to de-regulate agriculture commodity and APMC Act</li> <li>The proposal to provide legal framework in order to enter into a contract to sell the produce at an assured return will mitigate the price, quantity and quality risk and enable access to unsecured credit to farmers.</li> <li>Further, deregulation of Essential Commodities Act and removing the restriction on selling agricultural produce only to licensees of APMC will create access to post-harvest financing and open market for agricultural supply chain financing to formal financiers, which currently remains largely catered to by informal lenders.</li> </ul>	<ul style="list-style-type: none"> <li>The government introduced the agricultural reforms by passing the following ordinances in June 20: <ul style="list-style-type: none"> <li>The Essential Commodities (Amendment) Ordinance 2020;</li> <li>The Farming Produce Trade and Commerce (Promotion &amp; Facilitation) Ordinance 2020; and</li> <li>The Farmers (Empowerment &amp; Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020.</li> </ul> </li> <li>Subsequently passed in the Parliament in the 3rd week of September 2020.</li> </ul>

#### 6. ADDITIONAL BUDGETARY ALLOCATION OF INR 40,000 CRORE TOWARDS MGNREGS ACT

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>The total allocation toward MGNREGS to be INR 1.01 lakh crore for the year by providing additional allocation of INR 40,000 crore under Atmanirbhar Bharat scheme.</li> <li>As per Government estimates, the additional budget will generate nearly 300 crore man days in total.</li> <li>The additional allocation will further add cushion to the cashflows and boost rural economy which is a positive for the microfinance sector.</li> </ul>	<ul style="list-style-type: none"> <li>MGNREGS man-days saw a jump of 52% Y-o-Y in May'20.</li> <li>The average monthly income per worker under the scheme doubled to INR 1,000 during April-June 2020 as compared with INR 509 in the same period in 2019, as per CRISIL.</li> <li>These four months witnessed 46 per cent growth in person-days and a 12% increase in average wage against 2019.</li> </ul>

The direct cash transfers into bank accounts of customers has been timely executed by the Government on the back of an efficient targeting mechanism in place using the Jan Dhan/Aadhar/Mobile (JAM) trinity. The public distribution system (PDS) has also been very effective in supplying rations when the local kirana shops or grocery stores ran out of the stock during the lockdown. We estimate that beneficiary households under DBT scheme & MGNREGS would have received almost one month's equivalent of average income of rural households (INR 7,500-8,500) during Q1FY20. We believe that the cash transfers have helped in sustaining the rural cash-flows which has translated to a significant pick-up in microfinance collections as the industry average collections crossed 50% in Jun-20.

Besides, the agriculture economy has seen healthy indicators with rising demand for fertilizers, tractors, etc. The credit flow to the rural area via KCC loans and NABARD refinancing the Cooperatives and Regional Rural Banks, has ensured higher Kharif sowing. The reforms in the agriculture sectors were also passed through an ordinance and have been well received by the agriculture experts. We estimate that these reforms would be instrumental in doubling the farmer

income by 2024 and consequently boost rural demand. This should gradually translate to a higher income for the small trading and service dependent borrower segment of microfinance.

## C) ANNOUNCEMENTS RELATED TO THE VEHICLE FINANCE SECTOR

### 1. END OF GOVERNMENT'S MONOPOLY IN THE COAL SECTOR

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>The Government ended its monopoly in the coal sector by allowing commercial mining to introduce competition, transparency, and private sector participation via a revenue-sharing mechanism.</li> <li>Fast track implementation of these reforms is expected to enhance capacity utilization and efficiency in coal/mineral mining and transportation activity in the coming quarters.</li> </ul>	<ul style="list-style-type: none"> <li>In June 2020, the Government launched the process for commercial bidding for the auction of 41 coal mines, whereby domestic as well as global companies will be allowed to bid for these mines</li> <li>The e-auction will start on October 19 and continue until November 9, with the final results being declared in November</li> <li>As operational aspects of the proposal were impacted by Covid19, the Government extended the deadline for various processes under the auction including requests for site visits, sale of tender documents, submission of technical bids, etc.</li> </ul>

### 2. CREATION OF TRANSPORTATION INFRASTRUCTURE

Summary Overview	Update as of September 30, 2020
<ul style="list-style-type: none"> <li>The Government proposed an investment of INR 50,000 crore for the creation of transportation infrastructure for evacuating one billion tonnes of coal from the mines of state-run Coal India Limited.</li> <li>This announcement is expected to revive job opportunities (both skilled and unskilled), wage rates and ease off livelihood pressure from the underlying borrowers from several of the segments catered to by Northern Arc such as Microfinance, Vehicle Finance, Small Business Loans and Affordable Housing Loans.</li> </ul>	<ul style="list-style-type: none"> <li>Official progress announcement in this regard is yet awaited from the Government</li> </ul>

We continue to track the Government's operational progress on the Atmanirbhar Bharat Abhiyan package and will be refreshing our notes on a periodic basis. Do watch this space for future updates.

*Disclaimer: This note has been compiled based on our review of periodic announcements released by the various ministries of the Government from time to time and is not intended to be deemed as legal, financial, or other advice, recommendation, or opinion. Copyright of this note will remain with Northern Arc Investment Managers Private Limited.*

<sup>i</sup> One Lakh = 100,000 ( $10^5$  or 0.1 million)

<sup>ii</sup> One Crore = 100 Lakh ( $10^7$  or 10 million); therefore, One Lakh Crore equals One Trillion ( $10^{12}$ )