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Cabinet enhances ECLGS scheme for travel, hospitality sector

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What's in News?

Union Cabinet has approved Emergency Credit Line Guarantee Scheme (ECLGS) worth Rs 50,000 crore for hospitality, travel and tourism sectors.

Background:

The ongoing pandemic has adversely impacted contact-intensive sectors, especially the hospitality and related sectors more severely

While other sectors were back faster on the path of recovery, demand continued to be subdued for these sectors for longer period, suggesting the need for suitable interventions for their sustenance and recovery

Further, given their high employment intensity and their direct and indirect linkages with other sectors, their revival is also necessary for supporting overall economic recovery

Recognising this, in Union Budget 2022-23, it was announced to extend validity of ECLGS upto March, 2023

Emergency Credit Line Guarantee Scheme (ECLGS):

ECLGS is a **continuing scheme**

The ECLGS aims to provide **100 percent guaranteed coverage to the banks, non-banking financial institutions (NBFCs) and other lending institutions** in order to enable them to extend emergency credit to business entities that have suffered due to the Covid-19 pandemic and are struggling to meet their working capital requirements.

ECLGS 1.0:

The ECLGS was launched as part of the Rs 20 lakh crore Covid-19 relief package called the Aatmanirbhar Bharat Abhiyan.

The scheme aimed to provide Rs 3 lakh crore worth of collateral-free, government-guaranteed loans to micro, small and medium enterprises (MSMEs) across India to mitigate the distress caused by the coronavirus-induced lockdown

ECLGS 1.0 had a 1-year moratorium period and a 4-year repayment period.

ECLGS 2.0:

In November 2020, ECLGS 2.0 was launched by extending the Rs 3 lakh crore scheme to support 26 stressed sectors identified by the Kamath Committee and the healthcare sector.

Kamaraj IAS Academy

Plot A P.127, AF block, 6 th street, 11th Main Rd, Shanthy Colony, Anna Nagar, Chennai, Tamil Nadu 600040

Phone: **044 4353 9988 / 98403 94477 / Whatsapp : 09710729833**

The scheme was valid till March 31, 2021.

These sectors included power, construction, iron and steel manufacturing, roads, real estate, textiles, chemicals, consumer durables, non-ferrous metals, pharma manufacturing, logistics, gems and jewellery, cement, auto components, hotels-restaurants-tourism, mining, plastic product manufacturing, automobile manufacturing, auto dealerships, aviation, sugar, ports and port services, shipping, building materials, and corporate retail outlets.

The tenor of the credit under ECLGS 2.0 was five years, including a one-year moratorium.

ECLGS 3.0:

Under ECLGS 3.0, business enterprises in the hospitality, travel and tourism, leisure and sporting sectors would be able to avail credit under the scheme.

The tenor of loans granted under ECLGS 3.0 is six years, including a moratorium period of two years.

News Highlights:

The overall ECLGS allotment has been hiked from Rs 4.5 lakh crore to Rs 5 lakh crore.

The additional amount has been earmarked exclusively for hospitality and allied sectors till March 31, 2023.

ECLGS allocation towards the sector has been increased to counter severe disruptions triggered by the coronavirus pandemic.

Besides this, the additional allocation is also aimed at incentivising lending institutions to provide additional credit of upto Rs 50,000 crore at low cost so that the sector can meet its operational liabilities.

The tourism sector was one of the worst hit, as people postponed/cancelled their business and leisure travel plans.

Way Forward:

Even as the sector saw a spurt in demand as people planned trips, this demand could not be sustained due to various Covid waves in India as well as across the globe.

The ECLGS credit facility is likely to help the industry fund its expansion, as demand for travel continues to surge.

With high immunisation levels, progressive roll-back of restrictions and overall economic recovery, conditions are in place for sustained growth in demand for these sectors as well.

This additional guarantee cover is expected to support the recovery of these sectors as well.