

MSME Sector on Growth Trajectory

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The current year budget, 2023-24 has made many significant provisions to put MSME sector on a sustained higher growth trajectory. It has also taken due care to address not only the structural constraints that MSME sector continues to grapple with but also the emerging and newer challenges thrown by pandemic-led prolonged and intense lockdown.

India's manufacturing sector is largely dominated by micro and small enterprises which plays a critical role in achieving the objectives of faster and more inclusive growth in India due to its vast employment potential and its contribution to total industrial output and exports. The recent Economic Survey 2022-23 presented a detailed picture on the performance and contribution of Micro, Small and Medium Enterprise (MSME) sector to the national economy during last 2-3 years. The contribution of the MSME sector to overall Gross Value Added (GVA) increased from 29.3 per cent in 2018-19 to 30.5 per cent in 2019-20. But, due to the economic impact of the pandemic caused the sector's share to fall to 26.8 per cent in 2020-21. As per latest available statistics, the MSME sector accounts for over 90 per cent of industrial units, 40 per cent of the total manufacturing output and nearly 35 per cent of India's exports. However, the MSME sector continues to grapple with various infirmities such as low level of technology-in-use, limited access to inputs and credits, unfavourable market environment and falling outside the ambit formal business and labour regulations. Moreover, a significantly large proportion of MSME sector operate in rural areas and after agriculture, this sector is the biggest employment provider in rural areas and hence crucial for socio-economic wellbeing of rural populace. But, the rural located enterprises witness many locational disadvantages as compared to their urban counterpart.

MSME during Pandemic Era and Beyond

The MSME sector – with a total of just over 63 million enterprises, contributing to over 110 million jobs and almost a third of India's GDP and about half of India's manufacturing output and exports – has been severely impacted by the COVID-19 and pandemic led lockdown. These units witnessed varying degrees of disruptions in supply chain, decrease in product demand, decrease in labour supply, loss of revenue, inadequate access to credit and in worst case scenario, closure of unit. Laying off the workers on temporary or permanent basis, delayed or irregular wage payments and lack of access to any social safety nets are another set of challenges faced by MSME sector. Few of the highly labour-intensive sectors like gems and jewellery sector, leather sector, man-made yarn and fibres sector along with lodging, tourism, airlines, retail sector, steel, apparel, automotive sectors have borne the maximum impact of COVID-19, resulting in significant job losses (Chattopadhyay and Sahu, 2022). A series of schemes and programmes were also announced during the pandemic times both by state and central Governments focussing on MSME.

Through the Aatma Nirbhar Bharat package, the government has taken multiple steps to moderate the economic impacts of the pandemic on MSMEs. Some of the measures undertaken include the modification of the definition of MSMEs; the provision of ₹ 20,000 crore subordinate debt for stressed MSMEs, ₹ 50,000 crore equity infusion

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through Self Reliant India fund; the waiving of the global tender requirement for procurement of up to ₹ 200 crore; launching of the Udyam portal for MSME registration, a paperless, zero-cost registration portal that is based on self-declaration and only requires Aadhaar. Registrations on the Udyam portal crossed the one crore mark in August 2022, surpassing the total registration done in the past 14 years under the old regime in just 2.5 years. As of 7th January 2022, the portal has a total registration count of 1.32 crore, of which 1.27 crore have been classified as micro-enterprises. Enterprises registered on the portal employ 9.6 crore people, of which 2.3 crore are women. There are 1.5 lakh exporting units, which have contributed a cumulative Rs. 9.7 lakh crore worth of exports (See Economic Survey, 2022-23 for more details).

A series of efforts were initiated by the Central Government, to help micro, small and medium enterprises to transcend to formal institutional network and gain from the services, schemes and programmes more smoothly and systematically. The creation of digital identities such as Aadhaar, registration of unorganised workers on the e-shram portal, street vendors on SVANidhi, taxpaying firms on GSTN, and MSMEs on the Udayam portal, has played a significant role in the inclusion of these groups under the formal economic net. For instance, we can now track that out of the 1.27 crore enterprises registered on the Udyam Portal, more than 93,000 micro-enterprises have grown to become small enterprises, and 10,000 small enterprises have become medium enterprises over the last two years. Creating an identity has also simplified and enabled access to formal credit for many of these groups. More than 32.7 lakh street vendors have availed of a first loan of Rs. 10,000 under the PM SVANidhi Scheme, and of these, more than 6.9 lakh have availed a second loan of Rs. 20,000.

In order to digitally empower MSME sector, many IT-enabled portals and dashboards were created. To list a few, such as MSME 'Sampark', MSME 'Sambandh', MSME 'Samadhaan', MSME Idea Portal, Udyamimitra etc. provide multiple services including registration, easy access of financial and non-financial service needs, provisioning skilled workers, grievances related to delayed payments and so on. The MSMEs have also benefitted from

access to digital platforms for their marketing needs and easy payments. With the Open Network for Digital Commerce creating opportunities for MSMEs to access e-commerce technology and

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diversify their target markets, this trend will likely strengthen further. Moreover, on boarding GSTN as a financial information provider Reforms to reduce the compliance burden on MSMEs, enhance their access to finance and working capital and equip them with skills, knowledge and attitude to grow their businesses responsibly. GeM has taken a host of steps to onboard products of Self-Help Groups (SHGs), tribal communities, artisans, weavers, and MSMEs. 57 per cent of the total business on GeM has come through the MSME units, and female entrepreneurs have contributed over 6 per cent (See Economic Survey, 2022-23 for more details). These initiatives will not only lead to better governance and accountability but also reduce the compliance burden on MSME.

Various initiatives have also been taken to provide an opportunity to small retailers, manufacturers, and Self-Help Groups (SHGs) for greater outreach. One District – One Product (ODOP) initiative has been facilitating the onboarding of sellers of identified products on e-Commerce platforms to provide greater visibility for small businesses from the rural sector. E-marketplace www.tribesindia.com portal through Tribal Cooperative Marketing Development Federation of India Limited (TRIFED) has been onboarding tribal artisans with their products for online sales, ensuring tribal products find a larger audience in the international market as well. The Economic Survey reported varying degrees of revival and recovery of MSME sector as reflected by their payments towards Goods and Services Tax (GST) and Emergency Credit Linked Guarantee Scheme (ECLGS) easing their debt servicing concerns during pandemic era and beyond.

Although, the pandemic-led lockdown has thrown many challenges for the MSME sector, it has also reiterated the importance of local economy and entrepreneurs. The micro entrepreneurs including the SHGs learnt to design and adopt a variety of coping strategies in response to pandemic. Household based and women led enterprises have provided the much-needed safety net to the families directly or indirectly related to the MSME sector. A variety of coping strategies including temporary (or permanent) lay-off, flexible working hours, selling at reduced margins, operating at below capacity utilisation, enhanced focus on marketing and online sales, diversified products and services, exploring new and alternative supply chains, readjusting working hours, rescheduling of bank loans, mortgage and so on may have been adopted by the individual entrepreneurs (Chattopadhyay and Sahu, 2022).

Key Provisions Under the Current Year Budget 2023-24:

Since pandemic, successive budgets have taken due care not only to address the structural constraints of MSME sector but also the emerging challenges due to various national and global changes, including COVID-19 pandemic, global slowdown, Russia-Ukraine war, rising petrol price and so on.

One of the key highlights of this budget is the revamping of MSME credit guarantee scheme. The budget made a provision of infusing Rs. 9,000 crore in the corpus of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), effective April 1, 2023, which will enable additional collateral-free credit of Rs. 2 lakh crore to MSMEs with a reduction of the cost of credit by 1 per cent. Second, a National Financial Information Registry will be set up to serve as the central repository of financial and ancillary information and enable an efficient flow of credit. Third, the limit for presumptive taxation increased for micro enterprises with a turnover of up to Rs. 2 crore to Rs. 3 crore and for certain professionals with a turnover of up to Rs. 50 lakh to Rs. 75 lakh. Fourth, the government and government undertakings will return 95 per cent of the forfeited amount related to bid or performance security in cases of failure of MSMEs to execute contract during the COVID-19 period in order to provide relief to MSMEs. All these measures will lead to a much-improved financial health of well-capitalised public sector banks to

ensure increased credit flow to MSME sector.

India being the third largest ecosystem for start-ups globally, and ranks second in innovation quality among middle-income countries, the current budget also announced several measures to promote start-ups. It was proposed to extend the date of incorporation for income tax benefits to start-ups from March 31, 2023 to March 31, 2024 and also to provide the benefit of carry forward of losses on change of shareholding of start-ups from seven years of incorporation to ten years.

The National Logistic Policy (NLP) aiming to bring down the logistic costs from 13-14 per cent to 8 per cent of GDP will encourage more MSMEs to use tech-powered logistics services. The five-year rollout of the Rs. 6,000 crore World Bank-assisted Raising and Accelerating MSME Performance (RAMP) programme was announced in the budget to help the MSME sector become more resilient, competitive and efficient. About 6.35 lakh MSMEs are likely to benefit from better access to market, finance and credit under the scheme. 25 states and one union territory have been onboarded to be part of the scheme.

To ease the access to government data on registration of MSMEs, unorganised workers, availability of skilled workforce, etc. four portals viz., Udyam, e-Shram (creating national database of unorganised workers), National Career Service (NCS – catering to employment-related services like job search, job matching, career counselling, etc), and Atmanirbhar Skilled Employee-Employer Mapping (ASEEM – matching supply of skilled workforce with the market demand) will be interlinked. Such organic databases will not only provide G2C, B2C and B2B services (on credit facilitation, skilling, and recruitment) but also formalise the economy and enhance entrepreneurial opportunities for all.

A special package for traditional artisans and craftsmen under the PM Vishwa Karma Kaushal Samman was announced to integrate them with the MSME value chain and enable them to improve quality, scale and reach of their products. The setting up of Entity DigiLocker for MSMEs will allow storing and sharing documents online securely, whenever needed, with various authorities, regulators, banks, and business entities. The DigiLocker storage and sharing services for MSMEs and other business

entities, including startups, will leverage more innovation in fintech services.

The GOBARdhan (Galvanising Organic Bio-Agro Resources Dhan) scheme will help— a) villages manage their cattle waste, agriculture waste, and, in the long run, all organic waste safely, b) communities turn their cattle and organic waste into wealth by utilising decentralised systems, c) convert organic waste, particularly cattle waste, into biogas and fertiliser for rural use and d) encourage rural entrepreneurship, employment, and income generation. SHGs based enterprises and farmers group will significantly be benefited from these interventions.

This budget duly recognised and endorsed the heterogeneity of the MSME sector. It has not only focussed on the typical MSME units but also made several budgetary provisions towards SHGs and cooperative institutions. For long run rural transformation, the Economic Survey has lauded the crucial role played by SHGs. A new scheme called 'Mahila Samman Saving Certificate' was announced in the current budget. Under this scheme, one-time new small saving with deposit facility for the women and girls will be for a period of two years, with rate of interest 7.5 per cent. The deposit can be made in the name of a woman or a girl child. The scheme will have a partial withdrawal facility as well. In this scheme, the maximum deposit amount is kept at Rs. 2 lakh.

Cooperative institutions, though had played a crucial role in the past for inclusive and sustainable rural development did not get due attention from policy makers. Subsequent to the establishment of a new ministry, several new measures were taken to create a strong cadre of cooperatives. The current budget has provided the much needed support to this sector, including setting up of massive decentralised storage capacity so that farmers can store their products and realise remunerative prices by selling at an appropriate time. In addition, to promote the growth of new cooperative manufacturing societies, the budget has announced a concessional income tax rate of 15 per cent for cooperatives that begin manufacturing before March 31, 2024. The budget has also increased to Rs. 2 Lakh per member the limit of cash deposits to and loans in cash by primary agricultural cooperative societies (PACs) and primary cooperative agricultural and rural development

banks. Cooperative societies have been given a higher limit of Rs. 3 Crore for tax deducted at source on cash withdrawal. Cooperative societies help micro and small entrepreneurs procure raw materials at discount rates and reduce production cost. These institutions provide a platform to sell their products directly to consumers by removing intermediaries and ensuring higher sales and profits for the producers. Attempts are also being made for cooperatives to register in GeM portal, enabling them to make purchases from more than 40 lakh sellers.

Way Forward

The larger question is what do MSMEs need and whether the hopes, aspirations and concerns of the huge and heterogeneous MSME sector get reflected in various budgets. Attempts should be made that the budgetary provisions are duly executed. But sadly, due to inadequate and poor extension machineries, especially in the rural areas, a preponderant majority micro, small and SHG-based entrepreneurs are not aware of various announcements and provisions made in the budget. A robust mechanism should be designed to aggressively sensitise these entrepreneurs across size class, about budgetary provisions which are meant for them and how they can access these provisions. The existing institutions such as MSE Facilitation Council (MSEFC), District Industries Centres (DICs), State Rural Livelihood Mission (SRLMs), RSETIs, Industry Associations and local institutions such as panchayat must work together in this direction. Special Gram Sabha, say Udyog Gram Sabha may be conducted at panchayat level to sensitise both existing and aspiring entrepreneurs about budgetary provisions and announcements. Needless to say that a strong and robust MSME sector is required for India to move to a 5 trillion USD economy and join the developed nations club! ■

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