

Policy support for MSMEs



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Significance of MSMEs

- There are 55.8 million enterprises in various industries, employing close to 124 million people . Of these, nearly 14% are women-led enterprises, and close to 59.5% are based in rural areas.
- Estimates indicate that the manufacturing sector accounts for an estimated 21 percent of all enterprises in the sector, while the services sector at 79 percent .
- In all, the MSME sector accounts for 31% of India's GDP and 45% of exports.

Earlier and Revised Definition of MSMEs

Earlier MSME Classification



Criteria: Investment in Plant & Machinery or Equipment

Classification	Micro	Small	Medium
Manufacturing Enterprises	Investment < ₹ 25 lac	Investment < ₹ 5 cr.	Investment < ₹ 10 cr.
Services Enterprise	Investment < ₹ 10 lac	Investment < ₹ 2 cr.	Investment < ₹ 5 cr.

Revised MSME Classification

Composite Criteria: Investment and Annual Turnover

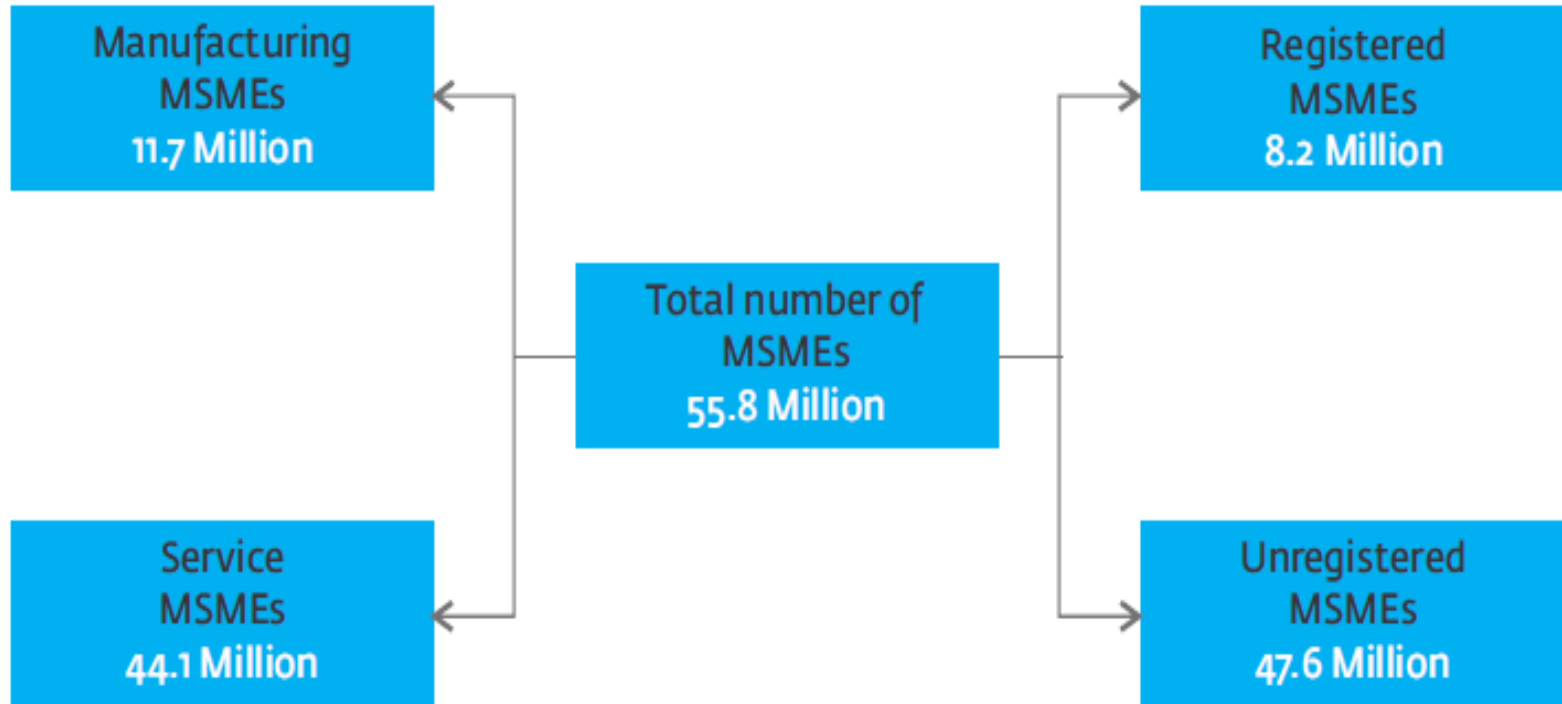
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < ₹ 1 cr. & Turnover < ₹ 5 cr	Investment < ₹ 10 cr. & Turnover < ₹ 50 cr.	Investment < ₹ 20 cr. & Turnover < ₹ 100 cr.



Need for change of definition

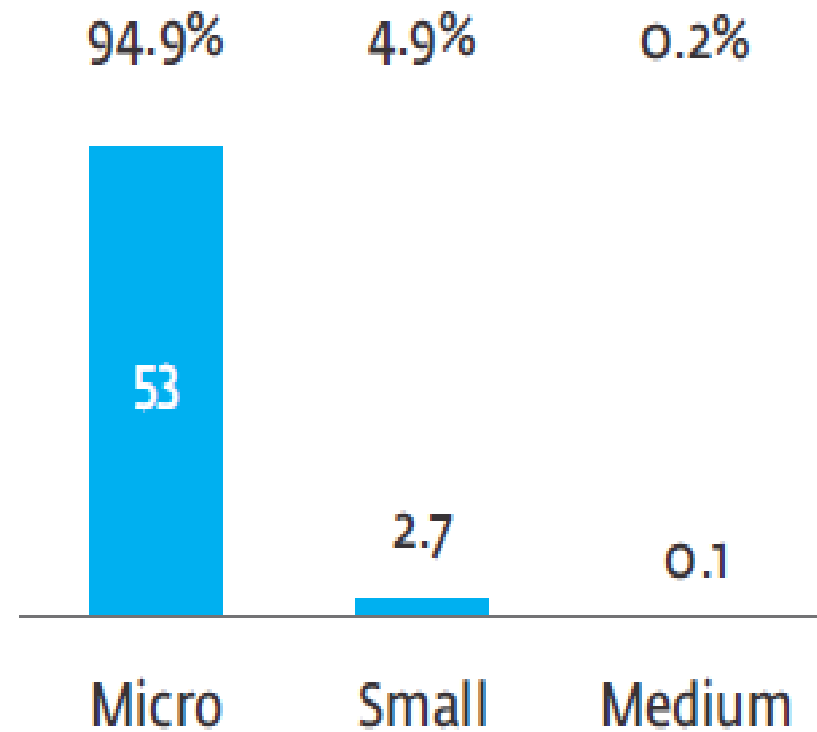
- Older enterprises with historical investment value would be termed as micro units, whereas a similar set-up today would be qualified as medium or large.
- Definition that is in alignment with the global benchmarks.
- Better understanding of the credit needs of the MSME units by the banks.
- 'investment in plant and machinery/ equipment' as the measure to be qualified as MSME required self-declaration of investment, which in turn was disposed to manipulation and underreporting of asset value.
- The earlier norms unintentionally hampered investment

Figure 1: Broad Classification of the MSMEs in India



Source: MSME Annual Report

Size of the MSME Sector in India (in million)



Source: MSME Annual Report (2017), WBG-Intellicap Analysis

Ownership Structure of Enterprises in the MSME Sector

Ownership Structure	Share of MSME Sector
Proprietorship	93.83%
Partnership	1.53%
Private Company	0.23%
Public Company	0.04%
Cooperative	0.13%
Other	4.24%

Source: MSME Annual Report (2017), WBG-Intellicap Analysis



Institutional arrangements

- On 9 May 2007, erstwhile Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises.
- However, the primary responsibility of promotion and development of MSMEs is of the State Governments.
- The Government of India, supplements the efforts of the State Governments through various initiatives.



Enabling Environment

- The three main pillars of the enabling environment are:
 - (a) legal and regulatory framework
 - (b) government support
 - (c) financial infrastructure support.

Enabling Environment

Legal & Regulatory Framework

- MSME (Amendment) Bill 2015
- SARFAESI Act, 2002
- Priority Sector Lending
- Regulation of Factor (Assignment of Receivables) Bill, 2011
- Companies Act 2013
- Insolvency and Bankruptcy Code 2016
- The Constitution (122nd Amendment) Bill 2014, (GST) / The Constitution (101st Amendment) Act 2017

Direct Government Support

- Subsidy based support
- Public Procurement Policy
- Credit Guarantee Scheme

Infrastructure Support

- Credit Information Companies
- Collateral Registry
- Asset Reconstruction Company for SME
- Trade Receivables Discounting System (TReDS)



MSMED Act 2006

- The Act provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions. It has also established specific funds for the promotion, development and enhancing competitiveness of these enterprises,



Focus of schemes

- i) adequate flow of credit from financial institutions/banks;
- ii) support for technology upgradation and modernization;
- iii) integrated infrastructural facilities;
- iv) modern testing facilities and quality certification;
- v) access to modern management practices;
- vi) entrepreneurship development and skill upgradation through appropriate training facilities;
- vii) support for product development, design intervention and packaging;
- viii) welfare of artisans and workers;
- ix) assistance for better access to domestic and export markets and
- x) cluster-wise measures to promote capacity-building and empowerment of the units and their collectives.



Challenge before MSMEs

- Lack of adequate and timely access to finance.
- Limited exposure of Financial institutions
 - because of small ticket size of loans,
 - higher cost of servicing the segment, and
 - limited ability of MSMEs to provide immovable collateral.
- The overall demand for both debt and equity finance by MSMEs is estimated to be USD 1.4 trillion
- Of the overall debt demand of USD 1.1 trillion, a major part – 84 percent or USD 898 billion – is financed from informal sources.
 - Formal sources cater to only 16 percent or USD 168 billion of the total MSME debt financing.



Prabhat Kumar Committee 2017

- A transparent database that can be gainfully used by the stakeholders at national, state and local levels,
- Establishment of National MSME Authority,
- Broad based registration to include all enterprises seeking assistance from government schemes,
- Provide social security cover for micro entrepreneurs,
- Facilitation counters at DICs should be increased,
- Small Rural Business Zones (RBZ) be created,
- Industrial and Artisan Clusters be identified and appropriate infrastructure be planned for them,
- Udyami Udyog Bandhus may provide handholding of micro entrepreneurs in getting MUDRA financing.



Trade Receivables Discounting System (TReDS)

- Established in 2015
 - Unified platform for Sellers, Buyers and Financiers
 - Eliminates Paper
 - Easy Access to Funds
 - Transact Online
 - Competitive Discount Rates
 - Seamless Data Flow
 - Standardised Practices



U.K. Sinha Committee, 2019

- MSMEs continue to face challenges of formalization, access to knowledge services, access to timely and adequate finance, improving competitiveness, availability of skilled man-power, access to latest technology and marketing.
- Majority of the States have only one MSE Facilitation Council (MSEFC) which is not adequate to cater to delayed payment cases arising in the entire State.
- E-financing Portal for financing of MSME Supply Bills & Receivables should be established.
- Presently, MSMEs must do multiple registrations with various entities such as Udyog Aadhaar portal, GSTN, NSIC, etc. It is cumbersome.



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- Government should build networks of development service providers that can provide customized solutions to MSMEs in the area of technology, product development and marketing techniques.
- Ministry of MSME may consider setting up of a Non-Profit Special Purpose Vehicle (SPV) to support crowd sourcing of investments by various agencies particularly to pave the way for conducive business ecosystem for MSMEs.
- Government should take active efforts to provide insurance coverage to MSME employees.
- Banks should have access to data like GSTN, IT for speedier and robust credit underwriting standards.



MSME portals



MSME SAMADHAAN



MSME SAMBANDH



MSME SAMPARK



Entrepreneurship and Skill
Development Programs



Infrastructure Development
Programs



PMEGP e-Portal



My MSME



Udyam Registration (Online
Registration for MSME)



MSME Databank



Grievance Monitoring System



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- **MSME SAMADHAAN-** Delayed Payments to Micro and Small Enterprises
- **MSME Sambandh-** Public Procurement Policy monitoring portal
- **MSME-Sampark-** A digital platform, wherein, jobseekers (passed out trainees / students of 18 MSME Technology Centres) and recruiters can register themselves

CHAMPIONS

Creation and Harmonious Application of Modern Processes
for Increasing the Output and National Strength

- To help the MSMEs in terms of finance, raw materials, labour, permissions, etc.
- To help the MSMEs capture new opportunities in manufacturing and services sectors.
- To identify the sparks, i.e., the bright MSMEs who can withstand at present and become national and international champions.



Impact of COVID 19

- A survey conducted by Endurance International Group Many in June 2020 showed that MSMEs have temporarily shut their businesses.
- Nearly 60 per cent of MSMEs surveyed believed that it will take up to 6 months for business to return to normal.
- More than 50 per cent of MSMEs expected the government to offer tax discounts or exemptions, followed by 36 per cent of MSMEs asking for loans at zero interest or cheaper rates.
- More than 50 per cent of the MSMEs surveyed embraced video conferencing tools and WhatsApp to keep business running during these turbulent times.



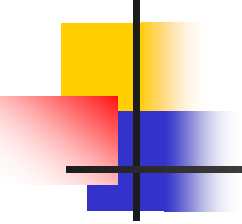
MSMEs expectations

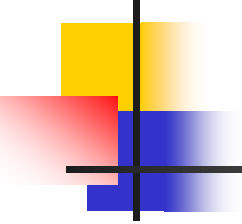
- SKOCH Group led multi-institutional survey recommended:
 - Extend moratorium on all term-loans for two years, interest-free for first year and simple interest during the second year.
 - Two-times increase in working capital limit.
 - Unified electronic platform to provide all services and financial support, integrated with GSTN.
 - Change in the definition of MSMEs based on turnover.
 - Multiple credit guarantee institutions to spread the risks.
 - Multiple exchanges for invoice financing as in TReDS model. The system should be based on cash flow.
 - Pending government payments to be released immediately.
 - Develop a technology-based system to identify well performing MSMEs.
 - Develop an app-based credit network linked with GSTN, Income Tax system or any other database; it should also link the system details of sellers and buyers



Government response

- Collateral-free loan of ₹3 lakh crores for MSMEs
- Subordinate debt provision of ₹20,000 crores
- Equity of ₹50,000 crore through Mother fund-Daughter fund for MSMEs that are viable but need aid. A fund of funds with a corpus of ₹10,000 crore to help such MSMEs increase capacity and be listed on markets if they choose.
- E-market linkages in the absence of non-participation in trade fairs due to COVID-19.
- The government of India and PSUs will clear all receivables in the next 45 days.
- The statutory EPF contribution brought down to 10 percent from the earlier 12 percent.
- Global tenders will be disallowed in government procurement tenders up to ₹200 crore.

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- While the government has taken several initiatives to provide support to MSMEs, we are still in the grip of the virus.
 - The impact of the measures would be visible only after a while, but this is too important a sector for the economy that can not be neglected.



Thank you