

## India needs a center-state coordinated approach to support MSME sector

India's MSME sector contributes more than 30% to our GDP and it is essential to strengthen the vibrancy of this sector to attain the USD 5 trillion vision before 2030. The central and state governments need to take coordinated action plan with a visionary approach to support competitiveness in this sector.

The draft National Policy for Micro, Small and Medium Enterprises (MSMEs) released for stakeholder consultation some months ago has identified eight focus areas to strengthen the vibrancy of the local MSME system. These focus areas are: technology upgradation, access to finance, role of central, state government and regulatory agencies, strict enforcement of delayed payment regulations for MSMEs, improving ease of doing business, skill development and establishing robust database on MSME units.

### Logistics Cost

High logistics cost is a major challenge faced by the MSME sector, which can be addressed from the National Logistics Policy 2022. This policy envisages integrated development of multi-modal logistics parks, dedicated freight corridors, inland waterways and other logistics nerve system for seamless transportation, storage and last mile delivery of goods. The policy has advanced technological features such as Unified Logistics Interface Platform (ULIP) which facilitates real time tracking of cargo in transit to empower all the stakeholders, viz. transporters, cargo owners and supply chain financing companies to take informed decisions. This policy is expected to reduce India's logistics cost from more than 13-14% currently to less than 10% in the course of time.

### Public procurement

The amount of goods procured by central public sector enterprises from micro and small enterprises (MSEs) has grown more than 59% between April-October 2022 from the year ago period and the share of MSEs in their total procurement has also risen from 30% to 32% during this period. The number of MSE units benefitting from this public procurement has risen to 75,120 units in the current financial year from 67,224 units last year. Still there is huge scope to expand the number of beneficiaries as there are more than 1.1 crore MSME units registered so far under the Udyam Portal.

Specifically, MSMEs from the schedule caste and schedule tribe category can avail of the 4% quota in central government departments' annual public procurement under the Public

Procurement Policy Order 2012. The central government established National SC-ST Hub to provide professional support to small scale entrepreneurs in SC and ST category to participate in the public procurement tenders.

Also, the central government is reportedly revising the list of goods reserved for procurement exclusively from MSMEs. Currently, this list has 358 items and it is said to be expanded to 469 items. Reports also suggest that the government may include services also in the list of public procurement items reserved for MSEs.

While it is important to provide market linkage support through such mandatory public procurement policy, it is also equally important to handhold our MSMEs to adopt eco-friendly production and supply chain practices. According to a report by the Centre for Study of Science, Technology & Policy (CSTEP), MSMEs contribute around 110 million tonne of CO<sub>2</sub> equivalent greenhouse gas emissions. Training should also be given to MSMEs to inculcate eco-friendly business practices in their tier I and tier II suppliers as different vendors in the supply chain add to cumulative greenhouse gas emissions of the final product producing unit.

### **Access to Finance**

Access to finance is a major challenge faced by MSMEs and state governments can play an effective role in improving flow of bank credit to MSMEs. Banks are generally reluctant to lend to micro and small enterprises due to high risk perception. Even though Government of India offers credit guarantee under the Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) scheme, such guarantee covers only upto 75% of the loan amount. Recently, Government of Meghalaya agreed to top up the central government's coverage upto 95% so that banks are safeguarded from the default risk and they are incentivized to lend more to this sector. Other state governments can also follow this model and expand the credit guarantee coverage under this scheme to improve flow of funding to MSMEs.

Also, there is a need to create awareness about how MSMEs can avail funding under the Self Reliant India Fund (SRIF) launched last year by the central government to provide equity financing to MSME units through venture capital funds. Various venture capital funds such as Aavishkaar India Fund, Gaja Capital India Fund and Maharashtra Defence and Aerospace Venture Fund have registered as daughter fund to channelize capital through this scheme.

### **Role of States**

In the last few months, state governments such as Rajasthan and Uttar Pradesh introduced policy for MSMEs. These policies provide various subsidies and incentives for existing and aspiring entrepreneurs.

Uttar Pradesh, which has one of the largest base of MSME units in the country, plans to introduce more sectoral policies to support small and large industries. Already, the state introduced more than 25 policies offering incentives across various sectors. The state also introduced an online single window platform, Nivesh Mitra Portal to deliver most services online.

State governments can also come out dedicated policy for women owned enterprise, as some states have already introduced, by offering subsidies on stamp duty, capital investment and interest cost on working capital.

State governments can also bear the credit guarantee fee charged by banks to MSME borrowers to ease the cost of accessing credit from the formal sector. Also, states can incentivize MSME units to raise capital from capital market through listing on stock exchanges by bearing a part of the listing charges of stock exchanges.

Finally, there is also a need for more efficient delivery of government schemes and benefits such as subsidies and financial assistance, especially to the MSME units in service sector. According to experts from sectors such a hospitality and tourism services, majority of the MSME units, especially in unorganized sectors, are unable to benefit from the central and state schemes such as subsidy, financial assistance, capacity building and skill development due to lack of awareness. The state governments, especially the district administration and the local industry bodies should come together for targeted delivery of government schemes to the intended MSME units.

## Notifications

### PIB

India aims USD 23 billion global market share in Ayush sector

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1875479>

India, ASEAN elevate ties to Comprehensive Strategic Partnership

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1875478>

PM Gati Shakti to reduce logistics cost

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1875300>

India, Belarus to promote cooperation among states in India and regions in Belarus

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1875050>

Government prepares strategy to promote millet exports

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1874937>

Export proceeds in rupees eligible for incentives under Foreign Trade Policy

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1874753>

Minister holds review meeting with Export Promotion Councils

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1874299>

## DGFT

Government amends policy condition for import of coal

<https://content.dgft.gov.in/Website/dgftprod/519b2149-2419-4c01-8a5b-a1086e556dd4/Noti%2041%20-%20Eng.pdf>

Government amends Handbook of Procedures

<https://content.dgft.gov.in/Website/dgftprod/87789704-368a-4b07-b2ff-1299551bfd3/PN%2035%20dt%2009-11-22%20Eng.pdf>

Amendment in Foreign Trade Policy

<https://content.dgft.gov.in/Website/dgftprod/1165f33e-4a7a-485f-a386-9a047daaba12/Notification%2043%20dt%2009-11-22%20Eng.pdf>