

# CARRYING

The Centre has approved Rs 6,062.45 crore for a new World Bank-assisted scheme to improve access to market and credit, emphasising the big push, and the consequent expectations, from MSMEs

**By Abhishek Sharma**

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**S INDIA IS CELEBRATING** Azadi Ka Amrit Mahotsav to commemorate 75 years of independence, the micro, small and medium enterprises (MSME) sector is seen as a major contributor to Prime Minister Narendra Modi's dream of a \$5-trillion economy.

For the last two-three years, India's small businesses were reeling under the impact of uncertainty and shattered supply chains. However, experts believe that critical policy measures and handholding will help strengthen the sector against future shocks.

About 50 per cent of MSMEs operate in rural areas, providing 45 per cent of the total employment in India. A whopping 97 per cent of this, interestingly, comes from the micro segment.

## **Imbalance of Uncertainties**

The MSME sector contributes approximately 30 per cent to India's gross domestic product (GDP). However, the pandemic and subsequent uncertainties hit this sector the hardest, disproportionately impacting its growth rate. Nationwide lockdowns in 2020 had led to a 46 per cent decrease in MSMEs' business volume.

Although government data shows that the sector wit-



# THE WEIGHT



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nessed a sharp rise in the number of people employed under Udyam-registered MSMEs during Covid-19, several reports reveal there was a higher number of job losses than expected.

In a written reply to a question in the Rajya Sabha, Minister of State (MoS) for MSME Bhanu Pratap Singh Verma had said that a total of 43,37,444 people were employed in MSMEs during FY2020. While lower than FY18, where the figure was 51,98,478 employed, this number is higher than the 38,55,539 people that were employed by MSMEs in FY19.



*“Digitally-enabled MSMEs have twice as much growth potential as their offline counterparts. There is a dire need to educate and encourage MSMEs to sell online and spread awareness of the growth opportunities available through ecommerce platforms. Efforts must be made to simplify GST, rationalise rates, and harmonise GST thresholds between offline and online sellers”*

**ANIL BHARDWAJ**, Secretary General, Federation of Indian Micro Small and Medium Enterprises (FISME)

## The Big Employer

“With around 60 million-plus MSMEs across the country, the sector contributes significantly to the country’s GDP. It has been able to provide employment to around 120 million people and contributes around 45 per cent of the overall exports from the country,” states Meghna Suryakumar, Founder and CEO, Credidwatch.

A survey conducted by the Small Industries Development Bank of India (SIDBI) late last year showed that about 67 per cent of MSMEs were temporarily closed for a three-month period during FY20-21.

Citing the survey, Union Minister of MSME Narayan Rane, pointed out that more than 50 per cent MSMEs witnessed a decline of over 25 per cent in their revenues during FY21. Approximately 66 per cent of units had witnessed a decrease in profitability on account of stable fixed costs and a reduction in revenue as well.

“The major hindrance to MSMEs’ growth is the lack of capital that can help achieve economies of scale. With access to cheaper credit, MSMEs

can reach their full potential and become the major driver of the country’s growth,” says Suryakumar.

## Road To Revival

As per an Assocham-Crisil study, the MSME sector is expected to rebound with 15-17 per cent growth in revenues for FY21-22 as it moves forward on the path of economic recovery due to rise in demand. In the last few months, the recovery was registered in sectors such as construction, exports, commodities and consumption services as Covid-19 restrictions were lifted by state governments.

The growth in FY22 followed the negative development of the area by an estimated 10 per cent in FY21 and 6 per

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**SANJEEV KUMAR**,  
Co-founder and CEO,  
Spice Money



cent in FY20. Yet another study, 'MSMEs Back to the Grind', indicated that for the ongoing FY, the sector's growth will be 11-13 per cent.

MSME credit is estimated to grow 7-9 per cent in FY22 to Rs 18 lakh crore from Rs 17 lakh crore in FY21. The book growth of banks is likely to be at 8-10 per cent as compared to 5-7 per cent growth for non-banking financial companies (NBFC) within the lending area. However, amidst the lending hike, asset quality concerns increased in the first quarter of 2022. The collections in April and May 2021 decreased and non-performing assets (NPA) rose from 16.8 per cent in March 2021 to 18.5 per cent in September 2021.

While these figures are a cause for concern, the Union cabinet has approved Rs 6,062.45 crore for a new World Bank-assisted scheme, 'Raising and Accelerating MSME Performance' (RAMP), to improve access to market and credit.

The total outlay for the scheme is Rs 6,062.45 crore, out of which Rs 3,750 crore would be a loan from the World Bank and the remaining Rs 2,312.45 crore would be funded by the government. The government stated at the time that the RAMP programme will address the generic and Covid-19 related challenges in the MSME sector by way of impact enhancement of existing MSME schemes, especially, on the competitiveness front.

## The Digital Economy Boost

In India, only 10 per cent of small businesses sell online due to the low digital penetration and the complex goods and services tax (GST) compliance necessary for the transition from offline to online selling platforms.

"Adoption of technology by MSMEs can contribute to PM Modi's \$5 trillion vision. It has become imperative to encourage research and innovation in the sector and collaborate with global entities to bring in the latest technology and best practices and promote marketing. MSMEs need to create their digital presence to help drive growth," says Nikhil Aroora, Vice President and Managing Director, GoDaddy India.

According to the regulations, online businesses must reg-



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ister under GST regardless of turnover. However, for offline sellers, it only applies to businesses with a turnover of Rs 40 lakh and above.

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## Simplify And Include

Experts point out that after the pandemic, smaller players have been trying to sell their goods online but are finding themselves stumped by GST compliances. It is, therefore, necessary to include them in the online ecosystem so they can become part of and benefit from the digital economy.

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awareness of the growth opportunities available through ecommerce platforms. Efforts must be made to simplify GST, rationalise rates and harmonise GST thresholds between offline and online sellers," advises Anil Bhardwaj, Secretary General, Federation of Indian Micro Small and Medium Enterprises (FISME).

Bhardwaj explains that MSMEs' revival can be supported by ecommerce adoption and educating smaller businesses about the benefits of selling online.

Voicing another school of thought on the subject, Suryakumar argues, "GST has simplified compliance. Increasing participation of the MSMEs in digital marketplaces is a clear indication of the ease at which MSMEs can sell online. Quite recently the Government e-Marketplace (GeM) achieved an order value of Rs 1 lakh crore in FY21-22. The canvas is only getting larger with the government introducing plans such as the open network for digital commerce (ONDC)."

The naysayers are not too convinced though. Amit Garg, Partner, Protium maintains, "Combined with a fairly com-

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plex registration process for GST, it is a hindrance more than a help if the goal is to have more MSMEs selling online. There is a dire need to simplify the GST system to have parity between online and offline businesses while also ensuring ease of doing business for this sector.”

### Government Handholding

In April, Union Minister Narayan Rane launched the Zero Defect Zero Effect (ZED) certification scheme to develop a focused approach to prepare the ecosystem for the future. This scheme is to enable and facilitate MSMEs to adopt ZED practices and motivate and incentivise them for the certification while also encouraging them to become champions.

Under the scheme, MSMEs will get a subsidy on the cost of ZED certification. Micro enterprises are about 80 per cent, small enterprises are about 60 per cent and medium enterprises are about 50 per cent, according to the ministry. “It has the potential to become a national movement as it aims to provide a roadmap to global competitiveness for the MSMEs of India,” the minister said.

He added that the scheme will not only attempt to improve productivity and performance but also change manufacturers’ mindsets, making them more environmentally conscious. Additionally, there will be a subsidy of 10 per cent for the MSMEs owned by women, SC and ST entrepreneurs or MSMEs in NER, Himalayan, LWE, island territories and aspirational districts and more.

“With an innovative scheme like ZED, the infrastructure and production quality is going to see a boost. It will help MSMEs in laying a successful roadmap ahead in the globally competitive world and will facilitate them to get their manpower’s voice to reach out to the masses with communications being an essential component of the scheme,” says



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GoDaddy's Arora.

Meanwhile, the numbers of MSME sellers on the B2B ecommerce portal GeM have enabled the procurement of Rs 1 lakh crore in 2021-22 which is 160 per cent higher compared to last fiscal. GeM is a marketplace where common user goods and services can be procured. It aims to transform how the government ministries and departments, public sector undertakings and others procure goods and services.

“Leveraging online marketplaces have become a necessity for MSMEs to ensure that their products reach customers living in remote areas of the country. The increased penetration of mobile and internet connections in rural and semi-urban areas has enabled customers to buy products online simply with a click on their smartphones,” observes Spice Money’s Sanjeev Kumar.

The growth of online marketplace models will help MSMEs to hike exports of the products manufactured by them across the world.

Despite the existing benefits, only a few of them are selling and exporting their products online due to lack of basic digital skills, transparency in dispute resolution and knowledge on taxes such as GST.

## The Big Dream

The central government should provide tax incentives to promote exports further along with mobilising development finance institutions (DFIs) such as SIDBI to provide much-needed growth capital to MSMEs either through equity or grants to help them revive and start their capital expenditure cycle.

“MSMEs need to be scaled at a rapid pace to truly unlock their potential for economic growth. Infusion of capital at cheaper terms with support from the government would provide the much-needed push,” says Suryakumar, adding that the sector has been embracing digital to some extent but more penetration in terms of digital adoption is needed.

“Led by the government, it is the MSME ecosystem partners’ collective responsibility to educate MSMEs to get online. This will have a far-reaching impact on financial inclusion, curb long-existing information asymmetry of MSMEs, enable fintech and banks to establish a robust lending chain and provide the segment with the much-

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**NIKHIL ARORA, Vice President and Managing Director, GoDaddy India**



needed transaction history,” adds Kumar.

The SpiceMoney CEO says this will impact over 64 million MSMEs by including them in the official count through UD-YAM, GST, bank account, payment history, and a strong and healthy supply chain in the country.

“There are numerous areas in which MSMEs can use assistance, and these range from digitalisation, so such businesses can generate revenue from other mediums as well as offline,

along with marketing know-how, which these businesses don’t have the skills or the revenue for. Should they receive all the nuanced assistance, there’s no reason why MSMEs can’t increase revenues, generate employment and be the catalyst in growing the economy,” adds Amit Garg, Partner, Protium.

## A Brighter Tomorrow

All numbers and signs indicate that the sector is slowly but surely coming out of the pandemic’s shadows and its growth potential is far higher than what India has witnessed so far.

“The more investment MSMEs get, the more they give you in return and, yet, access to capital is still one of the biggest challenges for them. Some of this is based on the fact that there are still many MSMEs that are not registered with the government and hence do not benefit from the many concessions the government guarantees to these businesses. Securing more capital is vital to see growth in the sector, and this is something that both government and private enterprises can tackle,” Garg says.

The MSME sector is reviving and ready to play a path-breaking role in India’s growth story that will lead to economic strength and prowess. However, continuous investment and sharpened government policies are now needed to push towards the \$5-trillion goal post. 

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