

BUDGET 2023:
 An Opportunity to Make Our MSMEs Competitive and Self-Reliant

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Paper - III
 (Indian Economy)

Current Scenario

India overtook the UK as the world's fifth-largest economy in 2022 and is on track to achieving PM Narendra Modi's vision of a \$5 trillion economy by 2026-27. Despite concerns of a looming global recession, supply disruptions, and the Russia-Ukraine war, India has stood out as a bright spot, growing faster than most major emerging markets.

MSME sector in India

The 6.3 crore micro, small and medium enterprises — which account for 30 percent of GDP and employ nearly 11 crore people — have demonstrated this spirit of resilience. With sales in several industries across the MSME sector reaching 90 percent of pre-pandemic levels, India's small businesses are scripting a turnaround.

A lot of the credit for this bounceback goes to the government for its proactive interventions, such as extending the Emergency Credit Line Guarantee Scheme, overhauling the Credit Guarantee Trust for Micro and Small Enterprises, and rolling out the Pradhan Mantri Employment Generation Programme to boost self-employment. That said, the largely unorganised nature of our MSMEs, rising interest rates, and a deteriorating external environment make it imperative to address their pain points on an ongoing basis. The Union budget 2023 presents an opportunity for our visionary government to amp up its efforts towards making our MSMEs competitive and self-reliant.

Change in the definition of MSME

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment <Rs. 25 lac	Investment <Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment <Rs. 10 lac	Investment < Rs. 2 cr.	Investment <Rs. 5 cr.

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < Rs. 1 cr. and Turnover < Rs.5 cr.	Investment < Rs. 10 cr. and Turnover < Rs.50 cr.	Investment < Rs.50 cr. and Turnover < Rs. 250 Cr.

The Government needs to step up for E-commerce and small Online Businesses

Streamlining input tax credits for e-commerce suppliers is one such intervention. Currently, suppliers selling on e-commerce platforms need to procure input services like logistics, which are taxed at 18 percent. Assuming an online supplier deals in apparel, which attracts 5 percent or 12 percent GST, there is an accumulation of input tax credit. This leads to precious working capital getting blocked without any visibility of future realisation, potentially discouraging suppliers from adopting e-marketplaces. Between April and November 2022, as many as 2.9 lakh sellers on Meesho, dealing in products that attract less than 18 percent GST, saw an input tax credit accumulation of Rs 265 crore on account of this inverted duty structure.

From meeting fixed expenses such as electricity, rent, and employee wages to investing in future growth, adequate working capital is a must for small businesses. By lowering GST rates on input services availed by online sellers, the government will not only shore up their finances but also give a leg-up to their digitisation journey. Further, refunds of the accumulated input tax credits will improve their cash flow situation.

There is also a need to expedite GST relaxation for small online businesses. In a landmark move last year, the GST Council

About MSME

- The Micro, Small, and Medium Enterprises (MSME) sector is an important pillar of the Indian economy and contributes extensively to its development of the Indian economy. It is noteworthy that its vast network accounts for about 45% of the manufacturing output.
- In 1961, the Ministry of Small-Scale Industries and the Ministry of Agriculture and Rural Industries were merged; The Ministry of Micro, Small, and Medium Enterprises was formed.
- MSMEs produce and manufacture a wide range of products for domestic and international markets. MSMEs also help in the development of Khadi, Village, and Coir industries with the help of concerned Ministries, State Governments, and stakeholders.
- Under the Micro, Small, and Medium Enterprises Development Act, of 2006, the Government of India established the National Board for Micro, Small, and Medium Enterprises (NBMSME) to examine the factors affecting the growth of MSMEs. This board reviews the existing policies for the development of the MSME sector i.e. finds out what is lacking in the scheme and where improvements are needed and give suggestions to the government.
- According to experts, the growth of MSMEs is extremely important for India to meet its target of becoming a \$5 trillion economy by 2025. The Micro, Small, and Medium Enterprises or MSME sector in India mainly consist of services, manufacturing, processing, production, and preservation of goods.
- The United Nations (UN) designated 27 June as Micro, Small, and Medium-Sized Enterprises Day through a resolution passed at the United Nations General Assembly in April 2017.
- In May 2017, a program titled 'Enhancing National Capabilities to Unleash the Full Potential of MSMEs in Achieving the Sustainable Development Goals (SDGs) in Developing Countries' was launched.
- It is funded by the 2030 Agenda for Sustainable Development sub-fund of the United Nations Peace and Development Fund.
- According to the United Nations, formal and informal MSMEs account for 70% of total employment and 50% of gross domestic product (GDP).

announced a relaxation of rules for small businesses looking to go online. Among other measures, mandatory GST registration was waived for small online vendors with a turnover of less than Rs 40 lakh and Rs 20 lakh for goods and services, respectively. These changes, aimed at bringing parity between online and offline sellers, were expected to come into force from January 2023 but will now be implemented by October 2023.

With just 10 percent of our MSMEs currently online, expeditious implementation of these new norms is key to unlocking their full potential. Millions of small businesses are waiting in the wings, hoping to reap the benefits of digitisation such as a much bigger addressable market, increased efficiencies, and easier access to capital.

National Logistics Policy to make MSMEs competitive

The National Logistics Policy can also be leveraged to make our MSMEs competitive. The NLP aims to bring down logistics costs as a percentage of the GDP from 13-14 percent to 8 percent, on par with developed nations. While lower costs will encourage more MSMEs to use tech-powered logistics services, they will need support to tap rising e-commerce demand from smaller towns and semi-rural areas. To this end, the government could rope in India Post as a tech-enabled last-mile delivery partner that can facilitate cash-on-delivery transactions at competitive prices. Similarly, the unparalleled reach of Indian Railways can be synergised to ship wares to the remotest parts of the country quickly and cost-effectively.

Conclusion

With a visionary government charting out the nation's growth path, It is expected that the government's budget would deliver on the above challenges for MSMEs and take us closer to the dream of an Atmanirbhar Bharat

Role of MSME in the Indian Economy

- They are the growth accelerator of the Indian economy, contributing about 30% to the country's gross domestic product (GDP).
- In terms of exports, they are an integral part of the supply chain and contribute about 48% to the total exports.
- MSMEs also play an important role in employment generation as they employ around 110 million people across the country.
- Interestingly, MSMEs are also closely linked with the rural economy, as more than half of MSMEs operate in rural India.

Expected Question

Que. Which of the following can help in furthering the objectives of the government for inclusive growth?

1. Promoting Self-Help Groups.
2. Promoting Micro, Small and Medium Enterprises.
3. Implementing the Right to Education Act.

Select the correct answer using the codes given below:

- (a) 1 only
- (b) 1 and 2 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Answer : D

Mains Expected Question & Format

Que.: Why is the MSMEs sector called the engine of growth in the Indian economy? State the challenges related to the MSME sector in India and discuss its solutions.

Answer Format :

- ❖ Mention the contribution of MSMEs in the development of Indian economy.
- ❖ Mention the challenges and solutions related to MSMEs.
- ❖ Give a balanced conclusion.

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Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC mains examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.