

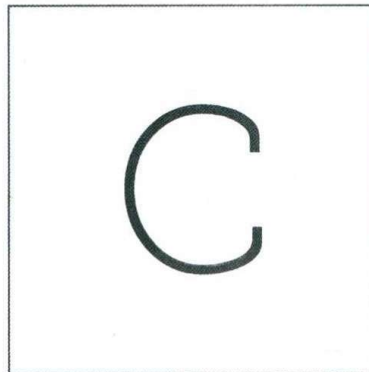
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By ARVIND MEDIRATTA

An Enabling Environment For MSMEs

As a pivotal pillar of India's resilient economy, small businesses and MSMEs require prioritisation for their ability to foster demand, generate employment opportunities and promote innovation to support inclusive growth



Covid-19 has nudged thousands of MSMEs (micro, small and medium enterprises) to the edge of closure. Grappling with lockdowns, restrictions, liquidity crunch, and business continuity due to tepid demand, the sector has been severely stressed. As uncertainty looms with the emergence of more transmissible variants like Omicron, small businesses can only keep their hopes afloat for the situation to stay well under control. With narrowing revenue streams, it shall be a long road for recovery for the financially stressed sector.

Nurturing the MSME ecosystem is crucial to achieve India's mission of a \$5 trillion economy by 2025

According to MSME ministry data released in May 2021, there are around 63 million MSMEs in India that contribute approximately 29 percent of the country's GDP. This unorganised segment consists of over 13 million HoReCa (hotels, restaurants and catering) businesses and around 12 million kirana stores. Such is the contribution of the sector that provides a solution to regional imbalance, income inequality and offers huge employment opportunities to over 110 million people. (As per the data published by the Centre for Monitoring Indian Economy, the unemployment rate was at 7 percent in November '21.) The MSME sector is one of the largest avenues for economic development; nurturing this massive entrepreneurial ecosystem is crucial for the country to achieve its mission of becoming a \$5 trillion economy by 2025.

Reeling under mini lockdowns and allied restrictions during the second resurgence of the pandemic, many small businesses across India have been decimated. Several small retailers, especially in the non-food (non-essential) segment selling apparel, footwear, utensils, hardware, etc. were reporting zero sales, and have been forced to shut shop. Apart from this, the sector has long been grappling with regulatory and compliance requirements,

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PORTRAIT: SAMEER PAWAR

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The government can look at increasing the threshold of loan under Credit Guarantee Fund Trust for micro and small enterprises to provide liquidity lines to small retailers

licencing mechanisms, complexities of taxation and issues of working capital to ensure adequate liquidity.

The government has periodically been announcing supportive measures for ease of doing business and to provide MSMEs with a liquidity lifeline. One such measure has been the collateral-free automatic loan of ₹3 lakh crore under ECLGS (Emergency Credit Line Guarantee Scheme) announced last year that came as a tremendous relief for beleaguered businesses. However, these businesses need way more financial cushioning and direct tax relief. To provide more liquidity lines to small retailers and MSMEs, the government can

look at increasing the threshold of the loan under Credit Guarantee Fund Trust for Micro and Small enterprises from ₹2 crore to ₹5 crore.

While the central government has allowed GST exemption for enterprises with an annual turnover of up to ₹40 lakh, it is imperative to relook and reduce the tax slabs under the current GST regime to ease their financial burden. Currently, the GST composition mechanism permits taxpayers with less than ₹1.5 crore turnover to pay a fixed GST rate on their turnover. Considering the impetus on indigenously-manufactured goods, the true worth of these MSMEs is all the more apparent.

From a long-term perspective, the government must initiate policy regulations that eliminate regulatory hurdles and introduce bolder and well-directed structural reforms to mitigate the economic hardships of

The Centre must initiate policies that eliminate regulatory hurdles and introduce bolder reforms

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The government should look at incentivising digital adoption within the MSME sector, with policy reforms specifically focusing on it

the sector. Reforms apart, MSMEs will benefit tremendously from technology and digitally-driven services that advance the creation of a relatively level-playing field. For most businesses, big or small, digitalisation is crucial. Small enterprises are more receptive to technology and going digital since Covid-19 has triggered a paradigm shift in consumer preferences and behaviour. The government should look at incentivising digital adoption within the sector, and policy reforms should specifically focus on facilitating the process of MSMEs' digitalisation.

But digitalisation requires significant investment; lack of working capital remains one of the main barriers to the sector's growth. According to a 2019 International Finance Corporation-Intellicap report, the MSME segment's credit gap is estimated at ₹16.66 lakh crore since the sector mainly depends on banks and NBFCs (non-banking finance companies) for its debt financing. The

bigger task is bringing micro units under the ambit of formal credit.

In this context, like Government of India's microcredit scheme PM SVANidhi (PM Street Vendor's Atmanirbhar Nidhi) for providing credit to small entrepreneurs such as hawkers and street vendors, GoI should also look at providing hassle-free, easy access to MUDRA (Micro Units Development and Refinance Agency) loans by making the application and approval processes more seamless.

As the pivotal pillar of India's resilient economy, small businesses and MSMEs require prioritisation for their ability to foster demand, generate employment opportunities and promote innovation to support inclusive growth. Bottomline: The role of MSMEs is instrumental in making the 'Atmanirbhar Bharat' mission a success. 📌

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