



Enabling MSMEs for Exports

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Enabling MSMEs for Exports : Proposed Approach



- India currently has over **6.3 Cr MSMEs** of which ~1.2Cr are now registered on Udyam portal
- MSMEs account for **~32% of GVA** and **~24% of employment** in the country
- MSMEs account for **~45% of India's exports** – however, this is based on old classification of MSMEs and hence is likely overestimated
- While there are a number of policies and initiatives to support the MSME sector between Central and State governments, there is a fair degree of overlap and lac of coherence
-additionally, MSMEs receive very little support targeted at driving exports which is a substantial untapped opportunity
- The objective of this assignment is to study the MSME ecosystem in India and identify opportunities for making enhance their competitiveness in the exports market through simplified and implementable policies and other ecosystem initiatives

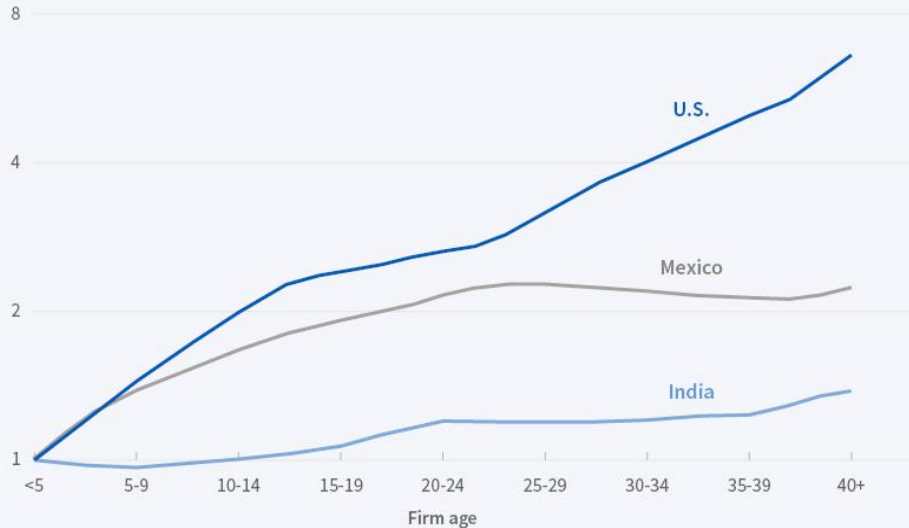
One of the key challenge for SMEs in India is their failure to scale even after decades of existence



FIRM AGE AND NUMBER OF EMPLOYEES

U.S. firms grow faster than firms in Mexico and India

Employment, indexed to 1 when firm age = <5



Source: C. Hsieh and P. Klenow, NBER Working Paper No. 18133

Comments

- Average employment of a 40 year old firm in the US is almost 7 times than when it started
- Average employment of a 40 year old firm in India is only 40% higher than starting point
- Even in Mexico, the average employment is more than 2.2 times starting point after 40 years

Compliance burden, skewed incentives and access to finance, global markets and mentorship are key hurdles to be addressed



Hurdles to Exports Competitiveness of MSMEs in India

1



Firms prefer to remain informal due to compliance burden

2



Policies which incentivises remaining small-even after formalising

3



Access to finance at competitive rates

4



Access to global markets

5



Access to advice and mentorship

MSMEs prefer to remain informal due to onerous compliance burden on formalization, particularly related to labour laws

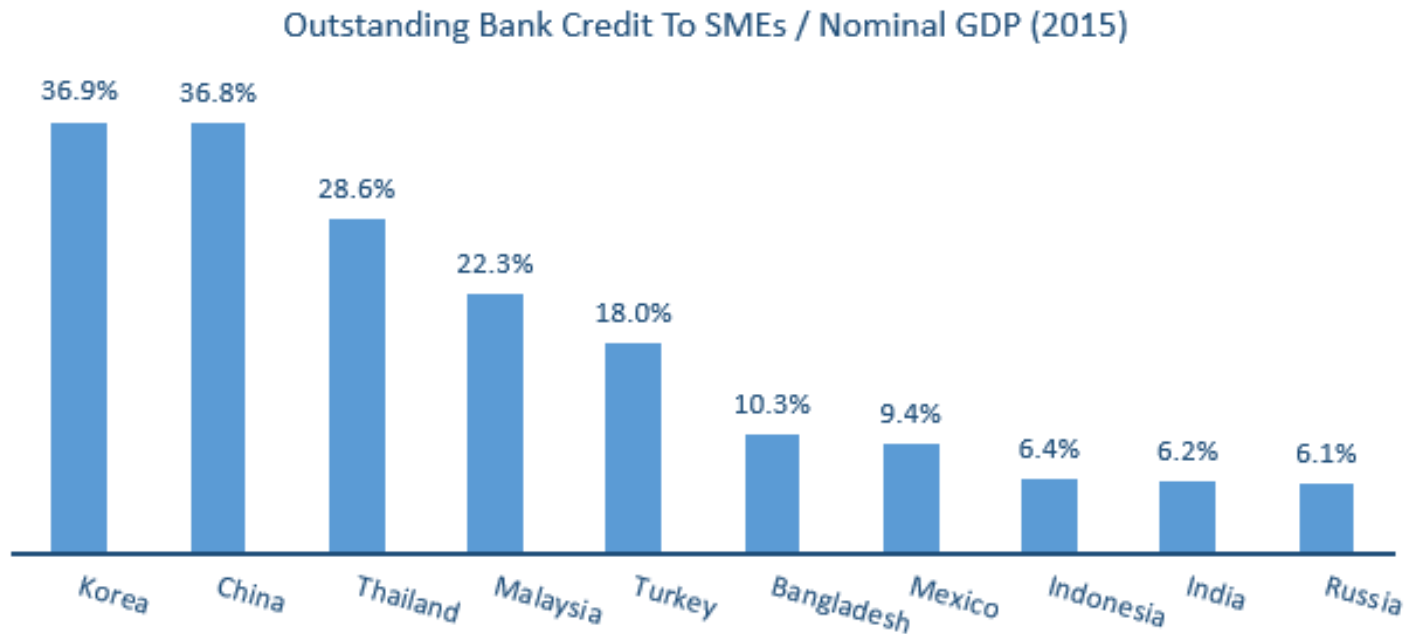


Labour Acts	Applicability to Establishment
Industrial Disputes Act, 1947 Chapter V relating to strikes, lockouts, retrenchment	Employing 100 or more workers
Trade Union Act, 2001 Registration of trade unions	Membership of 10 per cent or 100 workmen whichever is less
Industrial Employment (Standing Orders) Act, 1946	100 or more workmen
Factories Act, 1948	10 or more workers with power and 20 or more workers without power
Contract Labour (Regulation & Abolition) Act, 1970	20 or more workers engaged as contract labour
Employees' State Insurance Act, 1948 – ESI Scheme	10 or more workers and employees monthly wage does not exceed ₹21000
Employees' Provident Fund & Miscellaneous Provisions Act, 1952	20 or more workers

Attractive schemes which are available in perpetuity incentivise MSMEs to remain small forever



Scheme	Objective
Priority Sector Lending	Direct and indirect finance at subsidized interest rates shall include all loans given to micro and small enterprises, irrespective of their age.
Credit Guarantee Fund Scheme	This scheme makes available collateral-free credit to the micro and small enterprises, irrespective of their age.
Purchase Preference Policy	A group of items (Group IV) are reserved for exclusive purchase from small scale units, irrespective of their age. Group V items are to be purchased from MSMEs, up to 75% of requirement
Price Preference Policy	For selected items that are produced by both small scale and large scale units, price preference is provided to small firms, irrespective of their age. This price preference amounts to a 15 per cent premium over the lowest quotation
Raw Material Assistance Scheme	This scheme aims to help MSMEs, irrespective of their age, with financing the purchase of raw material (both indigenous and imported).
Marketing Assistance Scheme	Provides assistance to MSMEs, irrespective of their age, for organization of exhibitions abroad, cosponsoring of exhibitions organized by other organizations, organizing buyer-seller meets, intensive campaigns and marketing promotion activities.
GST Composition Scheme	Scheme allows MSME firms, irrespective of their age, to pay GST at a flat rate. The turnover limit for businesses availing of the GST composition scheme is set at `1.5 crore.



Source: IMF Financial Access Survey 2015

MSMEs need to overcome cost, brand, network and scale barriers to sell globally – new age tech platforms can help solve these



Cost: Setting up offices and hiring



Brand: Ability to gain trust



Challenges for MSMEs in Accessing Global Markets



Network: Ability to find and connect with buyers



Scale : Ability to spread cost over large volume



How Can we create enabling policies for emergence of shared platforms for global market access

Support and mentorship in areas like tax, certification, technology, organization and sales can supercharge MSME exports growth



Mentorship of MSMEs

Tax and Compliance



Technology



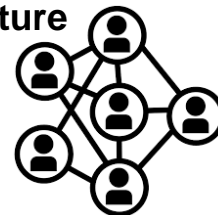
Quality/Certifications (e.g. ISO/FDA)



Sales/Marketing



Organization/People/ Culture



How can we create policies and structures to enable MSMEs to access high quality mentorship

A focused effort over 4 months will identify policies as well initiatives needed to support MSME exports competitiveness



Key Workstreams

Deep Dive into SME Landscape and Performance

Consultation with Industry Bodies (FICCI, CII, AIMA, SME Chambers)

Study of MSME Policies at Central and State Levels

Consultation with Select SMEs

Consultation with Ecosystem Players (Tech marketplaces, Financial Institutions)

Output

Recommendations for Policy Modifications at Central and State Level, with focus on exports

Recommendations for New Policies/Incentives to Support MSME Exports

Specific ideas for Industry Bodies/Philanthropic Orgs and Other Ecosystem Players to Support MSME Exports

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