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INDUSTRY OUTLOOK

MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES): CHANGING LANDSCAPE

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"to those people in the huts and villages of half the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required-- not because ..., but because it is right. *If a free society cannot help the many who are poor, it cannot save the few who are rich*". President John F. Kennedy, Inaugural Address-January 20, 1961 (italics ours)

Introduction

Over the years, the Micro, Small, and Medium Enterprises (MSMEs) have become the backbone of the Indian industry. The enterprises within the MSME employ a labour-intensive mode of production and hence have a huge potential of generating employment opportunities in the country as well as producing a diverse range of products and services to meet the demands of domestic as well as global markets. There are over 6 crore MSME units in India employing more than 11 crores of people. [1] But the MSMEs in India, as indeed globally, is characterized by heterogeneity in terms of size of the enterprises and variety of products and services, and the level of technology employed.



The MSME sector contributes 40 per cent to the national GDP and 28 per cent to the total exports by the country. There are many women-led enterprises in rural, urban, and semi-urban areas that contribute over 20 per cent of the total MSMEs with the scope for acting as a catalyst for economic growth across the geographic, social, and cultural strata of the country.[2]

The distribution of establishments by location and type of establishments at the all-India level has been well captured by the Sixth Economic Census 2013. [3]

Table 1: Distribution of establishments by location and type of establishments - All India

category	Type of establishments	Rural Establishments		Urban Establishments		Rural + urban Establishments	
		Nos in millions	% of total establishments	Nos in millions	% of total establishments	Nos in millions	% of total establishments
Total	Agricultural	21	16%	2	1%	23	17%
	Non agricultural	47	36%	62	47%	108	83%
	Total	68	52%	63	48%	131	100%
Own account establishments	Agricultural	18	13%	1	1%	19	14%
	Non agricultural	22	16%	18	13%	39	30%
	Total	39	30%	19	14%	58	44%
Establishments with at least one hired worker	Agricultural	3	3%	1	0%	4	3%
	Non agricultural	25	19%	44	33%	69	53%
	Total	29	22%	45	34%	73	56%
Establishments with special characteristics	Perennial	61	47%	62	47%	123	94%
	Under Private proprietary	54	41%	49	37%	103	78%
Note :	All % are % of the total number of enterprises viz 131 million						

Source: Sixth Economic Census 2013

A global tour d' horizon brings out that the small scale industries (SSIs)/ MSMEs have been variously defined because of various meanings and different connotations implicit in the term. This is why this definition has been revised from time to time. The definition of MSME was further amended on 1st June 2020 [4] post the announcement of Atmanirbhar package; the turnover limit for medium enterprises has been revised upward to ₹250 crore from ₹100 crore as announced earlier. The New definition was brought into force after MSME Development Act 2006 and came into effect from 1st July 2020 . [5] The turnover limit has increased to ₹250 crore and investment limit raised to ₹50 crore. (See, Table 5). The intention behind revising the definition is to adopt a more realistic approach in establishing an objective system of classification and, to create an ecosystem of ease of doing business in the country.

The Cabinet has approved modalities and a road map for implementing two packages for MSMEs – ₹20,000 crore package for distressed MSMEs and ₹50,000 crore equity infusion through fund of funds, which would also enable them to get listed on the stock exchange.

1.1 MSME- Definitional and Conceptual Issues

Despite significant differences in resource endowments, historical factors, level of development, technological advancements, etc., the parameters used by different countries for classifying small industries basically relate to employment. Other criteria include investment in plant and machinery, the value of output, location, energy used, assets or sales, or a combination of these factors. The term 'small industry' has wide connotations across the world as may be seen from the position of small-scale industry in several OECD and non-OECD countries [6].

Table 2: Official definition of an SSI/SME in Select Countries

A: OECD Countries

Country	Definition	Criteria
Australia	Manufacturing: Small enterprises = < 100 employees. Services: Medium enterprises = <20 employees	Employment
Belgium	Annual staff average of 50 employees. Annual turnover (VAT excluded) ECU - 4.2 million. Balance sheet total of ECU 2.1 million.	Employment. Assets.
Canada	Independent firms having <200 employees	Employment
Denmark	<500 employees manufacturing only; production units with more than 5 employees	Employment
Finland	No fixed definition (statistics are about production units); statistics include also small companies owned by large companies.	No fixed definition
France	10-499 employees.	Employment
Germany	<500 employees (enterprises employing fewer than 20 persons are not included in industry statistics).	Employment
Greece	Small enterprises: 0-49 employees Medium enterprises: 15-500 employees	Employment
Ireland	<500 employees	Employment

B: Non-OECD Countries

Republic of China	Handicraft industries: <20 employees. Heavy industries: <100 employees	Employment
Korea	Manufacturing: <300 employees. Services: <20 employees.	Employment
Chinese Taipei	Manufacturing: <NT\$ 40 paid-up capital <Total assets of NT\$ 120 million Business, transport and other services: sales of <NT\$ 40 million.	Paid-up capital, assets and sales
Indonesia	<100 employees	Employment
Thailand	Labour intensive sectors: <200 employees. Capital-intensive sectors: <100 employees.	Employment Capital
Malaysia	< RM 2.5 million and <75 employees	Shareholder funds Employment
Singapore	Manufacturing: <\$S\$ 12 million fixed assets. Services: <100 employees.	Fixed assets employment.
Vietnam	<200 employees	Employment
Philippines	<200 employees, revenue <P 40 million.	Assets Employment
Mexico	Small: 15-99 employees and gross Income/Sales <\$1,75, 000 Medium: 100-249 employees and gross Income/Sales <\$3,50,000	Employment Gross Income/Sales

Cross-country experiences clearly reveal that the informal sector is marked by diverse employment, organisation of production and linkages with the formal sector. Since SSIs/MSMEs lack a formal and hierarchical structure, we need to situate changes in industrial structure and their implications on small enterprises and employment in a multi-disciplinary framework. The role of MSMEs in extricating less developed countries from the 'low-level equilibrium trap' and smashing the 'vicious circle of poverty congruent' both with the economic theory and historical experience of several countries. The basic characteristics of MSMEs could be explored in terms of qualitative criteria (Table 3) since standard quantitative yardsticks have not yet been decisively established [7].

Table 3: A Systematic of Qualitative Criteria of SSIs/MSMEs

Serial Number	Criterion	Characteristics
1	Mode of Production	Low degree of division of labour, craft-type production
2	Market Position	Low degree of division of labour, craft-type production
3	Management Style	No professional management, no division between productive and management functions.
4	Workers	High share of family members, low education requirements.
5	Product Type	Low technology intensity, low production runs.
6	Organisational Structure	Relations to employees, customers and suppliers.
7	Legal Position	No formal registration
8	Output Markets	Locally limited
9	Input Markets	Utilisation of locally available resources.

A close and careful examination of the various definitions reveals that consensus on MSMEs may be difficult because of the several models of development, various approaches, and a large number of assertions and averments. The centrality of MSMEs, however, lies in the following dimensions

- Sub-sectoral - coverage of various types of activities.
- Spatial - location in the rural-urban continuum.
- Scale – the size of enterprises.

The composite criteria for the classification of MSMEs consider investment and turnover for both manufacturing and services sectors. With this move, the distinction between the manufacturing and services sector has been eliminated.

Table 4: Old criteria: Based on investment in plant and machinery

SI No.	Classification	Micro	Small	Medium
1	Manufacturing enterprise	Investment < ₹25 lakh	Investment < ₹5 crore	Investment < ₹10 crore
2	Service Enterprise	Investment < ₹10 lakh	Investment < ₹2 crore	Investment < ₹5 crore

Source: Press Information Bureau (PIB) (3 June 2020); <https://pib.gov.in/PressReleasePage.aspx?PRID=1628925>

Table 5: New criteria: Based on investment in plant and machinery and turnover

Manufacturing and Services	Micro	Small	Medium (Changes on 1 June 2020)
Now, Manufacturing & Service are not differentiated	Investment < ₹1 crore and Turnover < ₹5 crore	Investment < ₹10 crore and Turnover < ₹50 crore	GoI Decision on 1 June 2020: Investment < ₹50 crore and Turnover < ₹250 crore (Now in force)

Source: Press Information Bureau (PIB) (3 June 2020); <https://pib.gov.in/PressReleasePage.aspx?PRID=1628925>

The Government of India on 1st June 2020 announced a further upward revision of the MSME Definition. For Medium Enterprises the Government raised it to ₹50 Crore of investment and ₹250 Crore of turnover (See Table 5). [8]

Box 1: MSME Dashboard (As on 24 February 2022)

<ul style="list-style-type: none"> • Udyam Registration: 73,42,646 • No. of Projects (PMEGP): 42,660 • Proposals Approved (CGTMSE): 5,97,569 • Khadi Institutions (KVIC): 2,790 • MSE CDP (CFC/ID Projects): 486 • Export Target (Coir Board): 3500

Source: <https://dashboard.msme.gov.in/dashboard.aspx>

2. Financing Issues and Bad Assets of MSME

In the last five years, the deployment of bank credit towards Micro and Small category enterprises increased reasonably except from March 2016 to March 2017. Towards the medium category enterprises, the figure shows a moderate increase in deployment of Bank credits. However, it is quite interesting to see the figures of December 2021 as compared to the figures of Financial Year (March 2021), the credit disbursement increased substantially in Micro and Small as well as in Medium category of enterprises except in the case of large enterprises (See Table 6). But a careful observation revealed that bank credit reached an upper limit by March 2020 for Micro and Small categories. Consequently, there was a declining trend after this period.

Table 6: Deployment of Gross Bank Credit to MSMEs (in Rs. crore) [2016-22]

Sector	Outstanding as on:								
	Mar, 2016	Mar, 2017	Mar, 2018	Mar, 2019	3 Jan, 2020	27 Mar, 2020	1 Jan, 2021	26 Mar, 2021	31 Dec, 2021
Micro & Small*	371467	369731	372999	375505	366641	375843	371463	387220	447566
Medium	114821	104806	103680	106395	102640	101472	120242	136108	224255
Large	2244389	2205296	2222589	2403878	2293944	2406676	2282844	2376203	2313458

*Micro & Small includes credit to micro & small industries in the manufacturing sector.

Source: Sectoral Deployment of Bank Credit – December 2021 (up to 31 Jan 2022)
https://rbi.org.in/Scripts/Data_Sectoral_Deployment.aspx

As per the International Finance Corporation (IFC) estimates, the MSME segment in India facing a huge addressable credit gap which is ₹25.8 trillion growing 37 per cent Compound Annual Growth Rate (CAGR). While at the same time, the total addressable market demand by the MSME sector is approximately ₹37 trillion, of which banks, other institutions, and NBFCs supply are about ₹10.9 trillion. [9] Hence, it has been found that promoters of more than 22 million MSMEs in India must depend on their own funds or loans from friends and families for the capital requirement. Such sources remain often inadequate or expensive. [10] The Government is taking several measures to minimize the credit gap in MSMEs operating in the informal and unorganized sector the ambit of formal lending through registration under 'Udyam Portal'. The enterprises registering through this portal can avail the benefits of schemes of the Ministry of MSMEs and Priority Sector Lending (PSL) from banks.

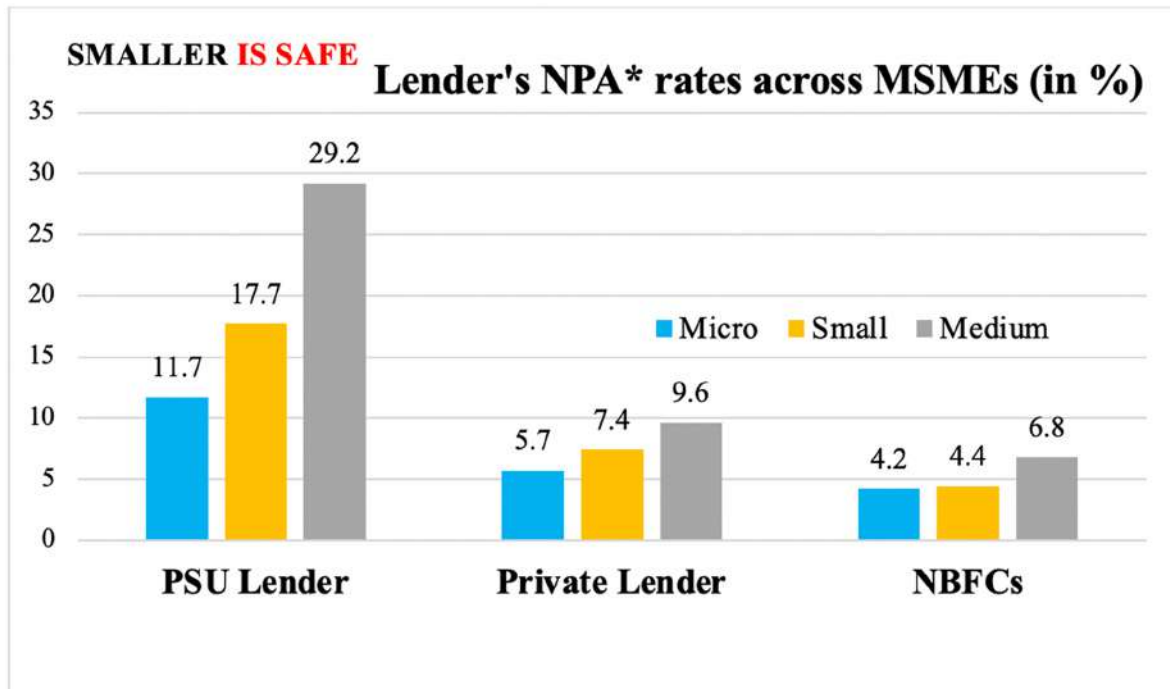
Given the severe resource and financial constraints afflicting the sector, enterprises in the MSME segment need institutional debt and equity. But debt from Banks/NBFCs requires collateral, which sometimes becomes difficult for early-stage MSMEs and entrepreneurs. Hence, the aspect of risk capital/equity becomes crucial for many small-scale operators' working capital. [11] Another fact that need attention from the policymakers is that existing brick-and-mortar banks cover hardly 15 per cent of the total MSMEs in India and a large section of this segment remains out of the purview of banking network in the country.

In this regard, the Government of India has initiated additional support of ₹1500 million in the existing kitty (₹3000 million) of credit guarantee funds (28 June 2021), access to non-bank credit, and expansion of eligible sectors (retail and wholesale trade with 2.5 crores enterprises) to MSMEs.

It is widely believed that loans to MSMEs are inherently risky. Contrary to this popular perception, there is no element of unduly high risk in the MSME segment. This thesis can be substantiated by the fact that of the total lending of ₹64.45 lakh crore (as of January 2020) to businesses in India, of which MSMEs accounted for ₹17.75-lakh-crore credit exposure.

The large corporates segment's credit exposure stood at ₹46.7 lakh crore with a year-on-year growth of 6.3 per cent. In January 2020, the NPA rate for large corporates at 19.7 per cent far outstripped the NPA rate in the MSME segment at 12.5 per cent.

Chart 1: Lender's NPA* rates across MSMEs



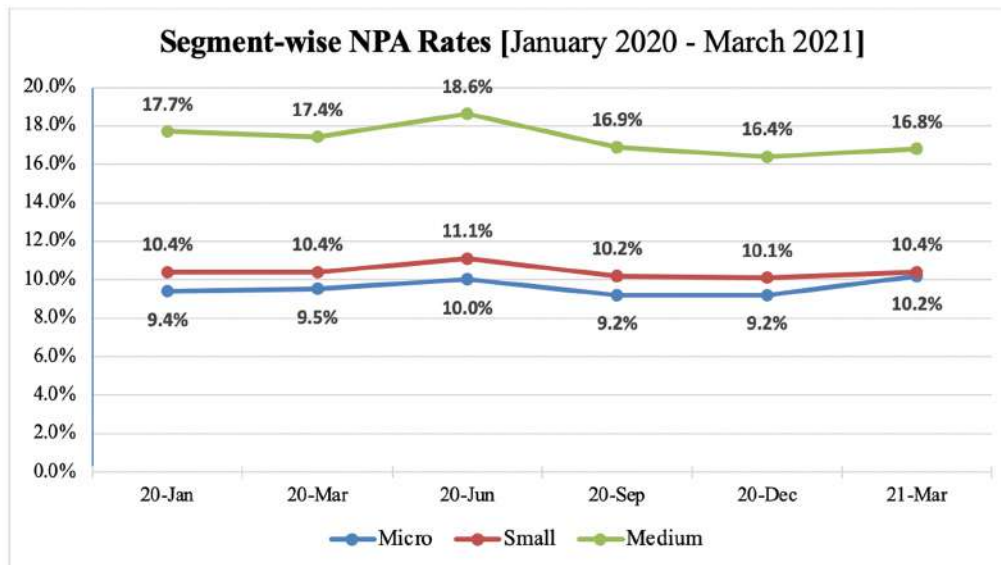
*None Performing Asset
Sources: TU CIBIL, Financial Express

The NPA rate for the micro-segment at 9 per cent was lower than the small and medium segments, which was at 11 per cent. NPA rates were highest for medium-sized MSMEs at 18 per cent across all lenders.

Transunion CIBIL and Small Industries Development Bank of India (SIDBI) reported that the overall NPA rate in MSME lending stayed steady till June 2020 while it reduced across all sub-segments in September 2020. Further, in Small and Medium category enterprises, it remained steady till March 2021. However, the NPA rates are higher for big-ticket size enterprises within the MSME segments. In the Micro segment, the NPA rate increased substantially from 9.2 per cent in December 2020 to 10.4 per cent in March 2021 (See Chart 2).

It has been concluded that reduction in overall NPA rates is driven by high credit supply since the introduction of the Emergency Credit Line Guarantee Scheme (ECLGS). Further, the rates may change if the regulatory or legal guidelines are issued by the concerned authorities.

Chart 2: Segment-wise NPA Rates



Source: MSME Pulse, SIDBI, June 2021,
<https://www.transunioncibil.com/resources/tucibil/doc/insights/reports/report-msme-june-2021.pdf>

3. Institutional Measures:

As a part of the institutional measures, the Ministry of MSME runs numerous schemes targeted at:

- Providing credit and financial assistance
- Skill development training
- Infrastructure development
- Marketing assistance
- Technological and quality up-gradation and,
- Other services for the MSMEs across the country

The Union Budget 2022-23 provided a long-term vision for the MSME sector to flourish in the future. The digitization process in the sector is gaining momentum and now the sector needs to deliver and sell its products swiftly and efficiently. In the Budget, Prime Minister's GatiShakti National Master Plan has been announced which aims at creating a world-class modern infrastructure to facilitate "seamless multimodal connectivity and logistics efficiency". The plan is also more promising for the MSME sector as it shall help in expanding the market for the sector as well as it will reduce logistical costs and time.

The announcement of another helpful provision that the ECLGS which has provided much-needed additional credit to more than 130 lakh MSMEs, now has been extended up to March 2023 and its guaranteed cover is extended by ₹50,000 crore to a total cover of ₹5 lakh crore, with the additional amount being earmarked exclusively for the hospitality and related enterprises.

Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) scheme will be refurbished with a required infusion of funds, which will facilitate additional credit of ₹2 lakh crore for Micro and Small Enterprises and expand employment opportunities. In addition to this, the Raising and Accelerating MSME Performance (RAMP) program with an outlay of ₹6,000 crore over 5 years will be rolled out.

The Government of India announced the Special Credit Linked Capital Subsidy for Scheme for MSMEs in November 2021 with a provision of 25 per cent capital subsidy for procurement of service equipment through institutional credit to the SMEs for their technological progress.

3.1 Key Safety Nets to Cushion Distressed MSMEs sector - Policy Engagements

The government has announced key safety nets for vulnerable sectors of the economy which were largely affected by the COVID-19 pandemic disruptions. As a part of the safety nets, Government guarantees to provide access to financial support to the economy as well as to the MSMEs (See Table 7) in the country. To avoid payment logjams which may cause cascading defaults, Government has successfully put their efforts with a moratorium on insolvency proceedings. Much of the support extended in 2021-22 was needed, but RBI and the Government have allowed some liquidity support to roll off and the insolvency process to resume as the economy has recovered. It is important to do this as excess liquidity and a stalled insolvency process bring longer-term risks . [12]

Table 7: Key Safety Net Measures to Prevent Distressed MSMEs Sector during COVID-19

Announcements	Provisions
6-month moratorium and deferment of interest for March 1, 2020, to August 31, 2020, for all term loans by RBI	<ul style="list-style-type: none"> • Availed by 77.2 per cent of MSME borrowers and 43.7 per cent of individual borrowers of SCBs, as of August 31, 2020.
Restructuring of MSME default loans – August 2020 and May 2021 Schemes of RBI	<ul style="list-style-type: none"> • Aggregate restructured portfolio of ₹78,591 crore as of November 12, 2021, by SCBs Resolution/restructuring by PSBs in 9.8 lakh MSME accounts amounting to Rs. 58,524 crore
Emergency Credit Line Guarantee Scheme – 100 per cent guarantee for additional funding of up to ₹4.5 lakh crore to businesses (esp. MSMEs) for COVID affected sectors	<ul style="list-style-type: none"> • ₹2.28 lakh crore disbursed to 95.2 lakh borrowers, impacting 5.45 crore employees as of November 19, 2021. • A total of 66 per cent of guarantee amount disbursed to MSMEs Extended till March 31, 2022
Credit Guarantee Scheme (CGS) for MSMEs	<p><u>Credit / Margin Money provided:</u></p> <ul style="list-style-type: none"> • In 2020-21: ₹36,899 crore • In 2021-22: ₹22,959 crore (as on 30.11.2021)

Source: Economic Survey 2021-22 and Various PIB releases and Parliament questions

3.2 Disbursal of Loans during Pandemic

MSMEs were severely hit by the consequences of the COVID-19 pandemic. The Government together with the RBI took several initiatives to reduce the financial stress created during the pandemic for the MSME sector. The extended deferment period provided additional flexibility to small business owners impacted by the pandemic, especially those in hard-hit sectors managing disruption with recent variants, as well as supply chain and inflation challenges. This extended principal and interest deferment provided financial relief to millions of small business owners – particularly those hardest hit by the pandemic and related marketplace challenges – so they could continue to adapt to the harsh reality of the ‘new normal’ and grow in line with widespread expectations.

The quantum of financial assistance provided to MSMEs by the Government through various ongoing schemes run by the Ministry of MSME (See Table 8).

Table 8: Financial assistance provided to MSME sector during the pandemic.

Name of the Scheme		FY 2020-21	FY 2021-22
Emergency Credit Line Guarantee Scheme (ECLGS):			
	(i) No. of guarantee issued, including MSMEs	95,36,825	20,62,038
	(ii) Amount of guarantee issued (in Rs. Crore)	2,33,980.22	3,14,12.07
Credit Guarantee Scheme for Subordinate Debt (CGSSD):			
	(i) No. of guarantee issued	473	282
	(ii) Approved guarantee amount (In Rs. Crore)	55.33	26.25
Prime Minister’s Employment Generation Programme (PMEGP):			
	(i) Micro unit assisted	74,415	36,277
	(ii) Margin Money Disbursed (In Rs. Crore)	2,188.80	1,143.74
Credit Guarantee Scheme (CGS):			
	(i) No. of guarantee issued	8,35,592	4,23,526
	(ii) Amount of Guarantee (In Rs. Crore)	36,899.39	27,864.00

Note: Data for FY 2021-22: ECLGS as of 19th Dec 2021, CGSSD as of 31st Oct 2021, PMEGP as of 31 Oct 2021, and CGS as of 27th Oct.10.2021

Source: The Rajya Sabha Starred Question No.* 153 for the answer on 13.12.2021, <https://pqars.nic.in/annex/255/AS153.pdf>

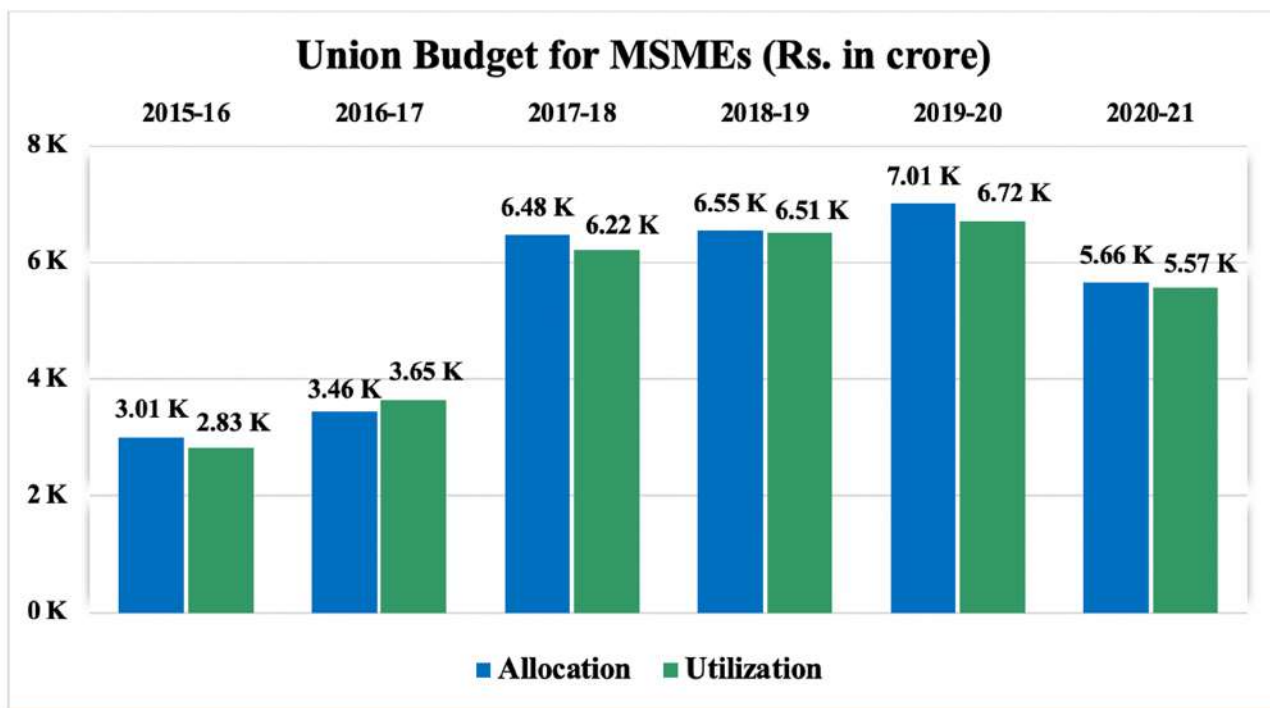
3.3 Budgetary Allocations for MSMEs

The slogan “leave the land but not the countryside; enter the factory but not the city” may have been coined in the context of China but it is no less relevant in contemporary India. In view of this strategic significance of MSMEs in both urban and rural areas, the budgetary allocation for MSMEs rose from ₹15,699.65 crore in FY 2021-22 to ₹21,422 in FY 2022-23 which is up by 26.71 per cent (See Chart 3).

In the last year's Union Budget, the total outlay for all the projects and schemes related to the Development of Khadi, Village, and Coir Industries was ₹905.04 crore which was revised to ₹1,232.32 crore in 2021-22. But unfortunately, there is a slight reduction in the revised figures in this year's budget.

The total outlay in Technology Upgradation and Quality Certification has also been slashed in the budget. However, the MSME Champions Scheme that had no allocation last year's budget received ₹60.72 crore now. Also, there was speculation that MSMEs having a labor-intensive strategy of production will get more allocation from the Government, but this did not occur in the budget.

Chart 3: Union Budget allocation for MSMEs over the years



Source: MSME Dashboard; <https://dashboard.msme.gov.in/dashboard.aspx>

On 12th May 2020, Prime Minister conveyed a message to the nation for a self-reliant India movement, comprising five pillars of 'Atmanirbhar Bharat'- economy, infrastructure, system, vibrant demography, and demand with an announcement of a special economic package of ₹20 lakh crore (equivalent to 10 per cent of India's GDP) (See Table 9). After this announcement, on 13th May 2020, India's Finance Minister has announced a package of measures for NBFCs, MSMEs, MFIs, HFCs along with other measures. Some major changes in the realm of MSMEs are as follows:

Table 9: Measures taken for MSMEs under “Atma-Nirbhar Bharat”

Sl No.	Collateral Free Loans	Debt for Stressed MSMEs	Equity Infusion for MSMEs
1	₹3-lakh crore collateral-free automatic loans	₹20,000 crore sub-ordinate debt for stressed MSMEs	₹50,000 crore equity infusion for MSMEs through Fund of Funds (FoF)
2	Borrowers with up to ₹25 crore outstanding and ₹100 crore turnover eligible.	GoI will facilitate ₹20,000 crore as sub-ordinated debt.	FoF with a corpus of ₹10,000 crore will be set up.
3	Loans to have four-year tenure with moratorium of 12 months on Principal repayment.	Functioning MSMEs that are stressed are eligible.	Will provide equity funding for MSMEs with growth potential.
4	Interest to be capped	Government will provide support of ₹4,000 crore to CGTMSE.	FoF will be operated through a mother fund and a few daughter funds.
5	100 per cent credit guarantee cover to Banks and NBFCs on principal and interest.	CGTMSE will provide partial credit guarantee support to banks.	Fund structure will help leverage ₹50,000 crore funds at daughter funds level.
6	Scheme can be availed till 31 st October 2020.	Promoters of the MSME will be given debt by banks, which will then be infused by promoters as equity in the unit.	Will help to expand MSME size and capacity: encourage MSME to get listed on main Board of Stock Exchange.
7	No guarantee fee, no fresh collateral.	—	—

Source: MSME Newsletter (August 2020) Ministry of MSME, GoI;
https://msme.gov.in/sites/default/files/AUGUST_newsletter.pdf

As a part of the Atmanirbhar package Government had announced its plans for ₹3 lakh Crore as additional credit to MSMEs and small businesses (See Table 9). Such enterprises were to be eligible to receive up to 20 per cent of their existing borrowing as additional loans at interest rates that were capped.

Apart from the measures taken under “Atmanirbhar Bharat”; the Government of India initiated several other measures to revive the distressed MSME sector. Other measures taken in the budget 2022 are like automation and digitization of processes of business loans through the launch of web portal www.psbloansin59minutes.com, Interest Subvention Scheme for incremental credit to MSMEs, disbursement of record credit under Credit Guarantee Scheme for Micro & Small Enterprises.

As per the MSME Annual Report 2021-22, the 59-minute loan portal was launched to enable easy access to credit for MSMEs, and in-principle approval of loans up to ₹1 crore can be done through this portal. Until 31st December 2021, a total of 2,37,027 loans involving ₹79,527 crores have been sanctioned. Further, 2,20,664 numbers of loans, involving ₹64,776 crores have been disbursed so far . [13]

Credit Guarantee Scheme for Micro and Small Enterprises is mainly a demand-centric scheme. The performance for the last three years is given in Table 10 below:

Table 10: The Performance of the Credit Guarantee Scheme (2017-18 to 2019-20)

Year	Number of Proposals Approved	Approved Amount** (Rs. Crore)
2017-18	2,63,195	19,065.90
2018-19	4,35,520	30,168.57
2019-20	8,46,650	45,851.22
2020-21	8,36,000	36,954

** (CGSI+NBFC+CGSSD)

Source: CGTMSE; <https://www.cgtmse.in/> and LOK SABHA UNSTARRED QUESTION:“ DISBURSEMENT OF LOAN TO MSMEs” NO. 1983 TO BE ANSWERED ON: 22.09.2020.

During the Financial Year 2020-21, a total of 8.36 lakh guarantees with a cumulative amount (CGSI+NBFC+CGSSD) of ₹36,954 crore were approved. In addition to the above, a special scheme of the Ministry of Housing and Urban Affairs (MoHUA) is in place by CGTMSE in which a total of 14.38 lakh guarantees have been approved for an amount of ₹1,435 crore. Accordingly, the total approval during the year was ₹38,389 crore. Further, cumulatively, a total of over 51.4 lakh accounts have been accorded guarantee approval for ₹2.59 lakh crore (CGSI+NBFC+CGSSD) as of March 31, 2021. (Excluding PMSVANidhi approved guarantee of 14.38 lakh amounting to ₹1,435 crore).

The Ministry of MSME has implemented SAMADHAAN Portal for empowering micro and small entrepreneurs across the country to directly register their cases relating to delayed payments and SAMBANDH Portal for monitoring the implementation of Public Procurement Policy for Micro and Small Enterprises in the country.

The World Bank has committed \$2.75 billion to date to support India’s emergency COVID-19 response, including the new MSME project. The first \$1 billion emergency support was announced in April this year for immediate support to India’s health sector. Another \$1 billion project was approved in May 2020 to increase cash transfers and food benefits to the poor and vulnerable, including a more consolidated delivery platform – accessible to both rural and urban populations across state boundaries. The \$750 million loan from the International Bank for Reconstruction and Development (IBRD), has a maturity of 19 years including a 5-year grace period.

3.4 Measures by Monetary Policy Committee on financing issues of MSMEs

RBI in its Monetary Policy (MPC) Committee discussion has announced the measure of TReDS (Trade Receivables Discounting System) to facilitate the financing of trade receivables of distressed Micro, Small, and Medium Enterprises (MSMEs). The RBI increased the National Automated Clearing House (NACH) mandate to ₹3 crore for TReDS related settlements earlier which were at ₹1 crore for TReDS related settlements. In TReDS, transactions are settled through the NACH system.

This move will help MSMEs to get many takers in the industry now and it will also help in addressing the financing issues of MSMEs to some extent. The effort has been taken in view of the requests received from stakeholders regarding enhancing the ease of financing and growing liquidity requirements of MSMEs.[14]

4. Industry Risk

Being a crucial sector for generating employment opportunities and overall economic development of the country, MSMEs are facing manifold legacy issues regarding information asymmetry, unregistered firms, lack of timely and sufficient credit availability, delayed receivables, lack of exit policy, obsolete technology among others. Over the years, it has been established that most of the MSMEs in India depend on unsecured loans (from informal sources) for their working capital and term loans.

Only some MSMEs resort to long-term secured loans at a low rate of interest for their capital expenditure due to lack of collateral . [15] The issue further leads to building up with unfavourable credit appraisal of enterprises due to lack of credible financial statements of enterprises. Often the lenders endorse cost-inefficient practices by spending a huge amount of time and effort in making their assessments resulting in high transaction costs.

Sometimes, they also preferred to lend based on the mortgage of their own property, which might exclude high-potential MSMEs unable to offer such security. However, lenders in recent times are resorting towards more digital information as developments in digitization have resulted in the availability of new sources of information. Such developments have led to the emergence of digital financiers (often fintech start-ups) providing online loans based on digital information and artificial intelligence. Online marketplaces are emerging, though in the nascent stage; where MSME lenders and borrowers can transact. [16]

The growing bad assets especially with PSB loans to MSME bring out the compelling necessity for a framework so that lenders can make more informed decisions. A more nuanced framework of pooling database could collate finance performance, loan details, and default data across lenders to develop more robust credit models. [17] An illustration for this can be cited from Japan's "Credit Risk Database" (CRD) [18] via which member banks share MSME data related to financial performance and default rates/statistics. This database maintains privacy and is created for maintaining an updated database for enabling more informed decisions by lenders.

Globally, the MSMEs have functioned as a growth engine both for economic growth and equitable development. For India, it is simultaneously important for the policymakers to explore the policies of other countries in scaling up MSMEs in their respective countries. As reported by Mckinsey, many countries are launching scale-up programs to scale up and grow faster the medium-sized enterprises to large-size enterprises.

Since the large-sized enterprises employing 250 or more workers have a large potential to generate employment opportunities in the country, the scale-up program is also helping enterprises across countries to be competitive globally in terms of brands, business capabilities, and high economic potential to generate high value-added exports.

For instance, "TURQUALITY" is a state-sponsored program by Turkey to scale up policies to transform SMEs into global players. Another such effort by the Business Development Bank of Canada with the "Growth Driver Programme" provides a support system with respect to enterprise growth and support system to SMEs. Hence, there is an opportunity for India to explore and extract such success mantras from other countries and take appropriate implementation by removing structural anomalies could be the key to success in establishing a healthy environment for industries in India. For instance, though Credit Guarantee Fund Trust for MSME (CGTMSE) was influenced by the US Small Business Administration (SBA) framework, the majority of small MSMEs skip towards this due to separate guarantee fee, risk premium, and additional GST that fuel costs further and not affordable by many small SMEs.

The CGTMSE under SIDBI has introduced a product namely “Hybrid Security” that will provide a guarantee cover for a portion of credit facility not covered by collateral security. The Member Lending Institutions (MLIs) will have the authority to obtain collateral security for a part of the credit facility under the partial collateral security model and the remaining part of the credit facility up to ₹2 Crore can be covered under the “Hybrid Security” scheme of CGTMSE.

Further, the CGTMSE will have a *pari-passu* charge on the primary credit security as well as on the collateral security provided by the borrower for the credit facility. The main objective of the scheme is lenders should give more importance to project viability and secure credit facility to the MSEs on basis of primary security of the assets financed and the lender availing credit guarantee facility provide borrowers with composite credit facilities.

Under this scheme, any collateral/third party guarantee free credit facility of both kinds i.e., fund as well as non-fund can be extended by the eligible MLIs to new as well as existing MSEs including Service Enterprises can be covered with a maximum credit cap of Rs 2 Crore. At present such guarantee-cover made eligible to only select NBFCs and Small Finance Banks.

The extent of guarantee cover available under the scheme is 50 per cent, 75 per cent, 80 per cent and 85 per cent of the total sanctioned amount of the credit facility provided. For Micro enterprises, the extent ₹5 lakh while for MSE borrowers engaged in retail activity, the extent of credit guarantee cover is 50 per cent of the sanctioned amount of the credit from ₹10 lakh to ₹100 lakh per MSE. For MSEs operated or owned by women and the MSEs located in North Eastern Region, the extent of guarantee cover is 80 per cent of the total sanctioned amount for credit up ₹50 lakh. Details of the scheme are given in Table 11.

Table 11: Credit Guarantee Cover under “Hybrid Security” of CGTMSE

Category	Maximum extent of Guarantee where credit facility is		
	Up to 5 lakh	Above 5 lakh up to 50 lakh	Above 50 lakh up to 200 lakh
Micro Enterprises	85% of the amount in default subject to a maximum of ₹4.25 lakh	75% of the amount in default subject ₹37.50 lakh	75% of the amount in default subject to a maximum of ₹150 lakh
Women entrepreneurs/ Units located in North East Region (incl. Sikkim) (other than credit facility up to ₹5 lakh to micro-enterprises)	80% of the amount in default subject to a maximum of ₹40 lakh		
All other categories of borrowers	75% of the amount in ₹37.50 lakh		
Activity	From ₹10 lakh up to ₹100 lakh		
MSE Retail Trade	50% of the amount in default subject to a maximum of ₹50 lakh		

Source: About CGTMSE, <https://www.cgtmse.in/Home/VS/3>

The Road Ahead

Considering the dynamics of MSMEs in generating employment and contributing to the socio-economic development of the country, the Government of India is continuously taking measures to address the issues that have bedeviled the sector. MSMEs are the second-largest employer (next only to Indian agriculture), providing productive employment to over 120 million people in the country. Post-pandemic, the Government has announced several financing measures and relief packages for distressed MSMEs. At this juncture, the government must ensure the targets set for the industry in the coming years. As discussed above, large enterprises are the key driver of job creation that can provide solutions to the rising woes of the government in creating jobs in the country.

The government must focus on policies that can help Small and Medium enterprises in transforming into Large enterprises. Radhicka Kapoor in her opinion piece published in Financial Express (1 March 2022), argued that rather than focusing on policies designed to support MSMEs effective for employment generation, the government should emphasize identifying the transformative enterprises which have greater potential to grow fast and help them in scaling up in expanding in size. The policy of the government should not incentivize them to remain small. The '73rd Round of NSS Report on Unincorporated Non-Agricultural Enterprises' conducted by the Ministry of Statistics and Program Implementation, has revealed that a large share of employment is concentrated in Micro Enterprises with 1 to 10 workers followed by Large Enterprises with 250 workers and more.

Another aspect that the Government should focus on is the formidable potential of enhancing the MSMEs' share in the total export and GDP of the country. There are more than 63 million MSMEs in India covering 80 per cent of the industries in the country. MSMEs alone accounts for 31 per cent of GDP and 45 per cent of total exports of the country. The government through its policy support must explore the road ahead for the MSMEs to be a part of global value chains (GVCs) and integrate them as significant players exporting products to big firms around the globe. The government must focus on the efficiency side of the Merchandise Exports from India Scheme (MEIS), as an incentive program for the export of goods manufactured or produced in India was launched under the Foreign Trade Policy (FTP) for 2015-2020. Under the scheme, the participating MSMEs in export practices must get felicitated in their duty credit scrips. [19] The launch of Aatmanirbhar Bharat can also reduce the gravity of the shock in the wake of the COVID-19 pandemic and it can be a good move to boost the performance of MSMEs in contributing to the Indian export segment.

As an apex institution for promoting, developing, and financing the MSME sector, SIDBI must ensure smooth operation of digital technology-enabled quick sanctioning of credit disbursement and ease of doing processes for the MSMEs. Apart from the institutional frameworks, SIDBI should also look more interested players' willingness to provide financial assistance to MSMEs as they signed a pact with Google Inc. in November 2021 for the pilot social impact lending with financial assistance up to ₹1 crore (US\$ 133,939.60) at subsidized interest rates to Micro enterprises. Such MoUs will help MSMEs to reduce the catastrophic impact on the MSMEs during the Corona virus-led pandemic because of the devastation to lives and livelihoods.

A scan of the global literature on MSMEs as well as field-level experiences strongly suggests that there are certain key issues contributing to the success of MSMEs. Accordingly, in drawing up MSMEs development plans, we have necessarily to identify these key issues for their successful implementation. These include aspects, such as identification and diversification, holistic versus piecemeal, bottom-up versus top-down, demand is driven versus supply-driven, group approach versus individual approach, subsidized input cost versus full recovery, vertical and horizontal linkages between MSMEs and large industries, effective management, participatory planning, and institutional restructuring. Against this backdrop, the issues of productivity, value addition, marketing, credit, infrastructure, cluster development, resource, and technology dissemination, resource management, etc. need to be examined in an ambience of liberalization, structural reform, and globalization for the MSMEs to successfully meet the relentless onslaughts of the market forces, particularly in this post-COVID-19 world.

The concept of 'flexible specialization has been widely debated in the literature on development economics but its adaptability to the ground level realities is yet to be conclusively established. Going ahead, demand, scale, funding, delivery capacity, and productivity are of strategic significance for the steady growth and structural transformation of MSMEs in India. Overcoming uncertainties in MSMEs through policy engagements requires a careful analysis of the impact of MSMEs on development performance. Towards this end, it is important to ask three questions: Is delivery of financial and promotional support to MSMEs adequate and appropriate? What needs to be done for the creation of an enabling environment for enhanced private investment for MSMEs? Whether these enterprises can perform their conventional roles of employment and decentralized development under a free-market mechanism or a new set of policies tailored to their specific needs of MSMEs is called for to foster a virtuous cycle of regenerative, broad-based growth? These questions are not merely academic but are fundamental to the emerging process and pattern of economic development in India and require a close and careful analysis of the recent developments on financial inclusion, Fintech, risk assessment for MSMEs, empowering MSMEs through policies, industrial collaborations, and capacity building training.

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