New scheme to boost MSME sector

Why in news?

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The central government has launched the ‘Support and Outreach Initiative’ for micro, small and medium enterprises (MSMEs) recently.

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What are the proposed measures under it?

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- The government considers five factors required to run a (good) MSME –
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1. Easy access to capital at lower interest rates
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2. Better access to the market
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3. Improved technical assistance
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4. Enhance ease of doing the business
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5. Job security to the sector
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- **Capital and cash flow** - Businesses with small balance sheets and lower turnover have difficulty in accessing loan.
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- To ease the capital requirements, Centre has launched a web portal which can be used to receive in-principal approval of loans within 59 minutes.
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- Each public sector bank has been enrolled on the portal which will assess the entrepreneur's bank statement, income tax return and GST return to

sanction the loan.
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- The term loans or loans for working capital requirements up to Rs one crore will now be approved either on the designated portal or GST portal.
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- Furthermore, banks will lend loans at "subsidised rates" if applied through GST web portal, which will be less than the normal rate by 2%.
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- Exporters would also be eligible for a subsidised interest rate for pre/post shipment requirements.
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- The loans would cost 5% less than the usual rate for these exporters, which is an additional discount of 2%.
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- For all companies with turnover more than Rs 500 crore, registration on Trade Receivables e-Discounting System (**TReDS**) will be compulsory.
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- TReDS is an electronic platform that allows auctioning of trade receivable, wherein a seller (Only MSME) gets credit against a bill which is due to him at a later date.
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- MSMEs could upload their supply bills, as proofs, on the web portal to receive loans from banks.
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- Also, if MSMEs continue to face issues with respect to delayed payments from big corporations, they could register their complaints at the **Samadhaan portal** of the MSME ministry's website.
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- **Women and market -** Centre has made it mandatory for state-run units to purchase more goods from the MSME sector.
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- Thus, it will be mandatory for the government sector to buy 25% of their total supply from MSMEs.
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- Even among the mandated 25%, PSUs will now have to buy three percent of their stock from women entrepreneurs.
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- Also, it is mandatory for all central public sector enterprises (CPSEs) to register on GeM.
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- GeM or **Government e-Market** is a web portal, which provides an electronic market space where buyers and sellers can interact and sell goods.
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- According to government data, there are more than 1.5 lakh suppliers and over 29,000 buyer organisations registered on the portal.
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- By registering on the GeM, MSMEs will get easy access to various e-commerce aggregators.
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- **Technical support –** The government announced a Rs 6,000 crore package for development of tool-rooms on a cluster-based model.
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- Through this, Centre will develop 20 technology centres as hubs and 100 centres as spoke to provide training in latest technology.
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- **Ease of Doing Business -** In the pharmaceutical sector, centre will develop "pharma clusters" in the country and will bear 70% of the set-up cost.
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- It further eased operating in India by diluting paper-work and promoting minimal documentation.
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- MSMEs would now have to file returns under eight labour laws and 10 union regulations only once a year against a current practice of twice.
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- Also, inspection at various MSME centres would be done by a person, alloted randomly via an online process.
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- The person in-charge will have to upload the report on the website within 48 hours.
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- Moreover, to make the business environment more conducive, self-attestation of environmental clearances will be promoted.
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- Accordingly, one form for air and water pollution will now be required by MSMEs which will be self-attested.
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- For environmental inspections, only 10% of the Enterprises will be randomly inspected by the government.
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- Also, the government has amended Companies Act 2013 to decriminalise unintentional and minor errors and reduce the burden of approaching courts.
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- **Social Security -** Employees working under the MSME sector will compulsorily have to enrol themselves under social security schemes.
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- These would be all central government schemes related to insurance, pension, provident fund etc.

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What are the concerns?

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- MSMEs which account for 30% of India's GDP were hit hard by the twin shocks of demonetisation and the implementation of GST over the last couple of years.
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- Further, in the aftermath of the IL&FS crisis, the amount of lending done by non-banking financial companies to the MSME sector has been affected.
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- Hence, the proposed measures serve as a tool to improve credit flow and the pace of job creation in the economy.
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- However, the scheme has signs of state-led economic planning written all over it.
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- The biggest risk of a credit stimulus is the misallocation of productive economic resources.
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- Pumping extra credit into MSMEs now may well lead to a temporary boom, but it can lead to a painful bust when the stimulus ends someday.
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- Another unintended consequence is the likely deterioration in credit standards as financial institutions are pushed to lend aggressively to MSMEs.
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- Efforts to expedite business loan approvals may be welcome from the point of view of growth and job creation, but they rarely end well when motivated by political reasons.
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- Conceptually, the Prime Minister's latest credit scheme is no different from the MUDRA loan scheme, which has been troubled by soaring bad loans.
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- There are prevailing concerns that loans extended under the MUDRA scheme could turn out to be the source of the next financial crisis.
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- Thus, care needs to be taken to see that the new MSME loan scheme does not pose a similar risk in the future.
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- Also, the demand that PSUs must procure a quarter of their inputs from

MSMEs could breed further inefficiency in the economy.
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- Altogether, the MSME loan scheme is yet another example of how bad economics can make for good politics.
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Source: The Hindu

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