Reforms on MSME's

Why in news?

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Union government has announced a package of 12 initiatives for Micro, Small and Medium (MSME) sector.

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What were the issues faced by MSME?

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- Over the past two financial years, the MSME sector has suffered considerably by back-to-back policy shocks demonetization (in FY17).
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- The introduction of the goods and services tax (in FY18) both of which led to a sharp reduction in incomes in this sector.
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- The ongoing crisis in the country's non-banking financial companies sector, triggered by the weakness in IL&FS, has further restricted the flow of credit to the MSMEs.
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- In this context government has introduced new reforms to assist this crucial sector of the economy to achieve its potential.
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What is government's plan on MSMEs?

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- Union government measures are aimed at not only boosting credit availability to the beleaguered sector but also making it easier for them to conduct business.
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- For providing quick and fast relief from the liquidity crunch, the PM announced the countrywide launch of a web portal to sanction loans of up

to Rs 10 million in just 59 minutes.
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- In the first phase, the government will target 78 MSME clusters and officials from five public sector banks will be stationed in these locations to ease the process of the loans.
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- Further, a 2 per cent interest subvention will be provided on incremental and new loans to those MSMEs that have already registered for the GST.
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- The package also provides an increase in interest rebate for exporters who receive loans in pre- and post-shipment periods.
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- Besides easier credit, the package focused on improving business viability by asking all public-sector undertakings (PSUs) to henceforth buy 25 per cent of their inputs from MSMEs, as against 20 per cent earlier.
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- Similarly, all public-sector companies and corporates with a turnover exceeding Rs 5 billion have to mandatorily register on the Trade Receivables Electronic Discounting System portal a move that will enable entrepreneurs to access credit from banks, based on their upcoming receivables.
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- Government also announced a simplification of procedures with respect to seeking environmental clearances, inspections and filing returns.
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- An Ordinance to amend the Companies Act has been approved as well to reduce harassment and obviate unnecessary litigation.
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What lies ahead?

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- Without a doubt, these measures would go a long way in helping the MSME sector, however there are valid reasons to be cautious.
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- These measures have the backing of the PMO that a focused monitoring of the government’s reach-out to small businesses across 100 districts in the next 100 days.

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- Due to this officials may feel compelled to show short-term results while ignoring potentially adverse long-term consequences.
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- For instance, in the zeal to offer more and quick loans to MSMEs, efforts must be made to ensure that credit discipline does not become a casualty.
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Source: Business Standard

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