

CONCERN OVER EXTENSIVE REGULATIONS

Threshold-based relief for MSMEs must have sunset clauses

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The threshold-based concessions and exemptions for the micro, small, and medium enterprises (MSME) sector create the unintended effect of incentivising enterprises to cap their sizes below the thresholds and therefore, must have sunset clauses, the Economic Survey 2023-24 said.

An enterprise is classified as an MSME based on a set of criteria. A micro enterprise is where an investment in plant and machinery or equipment does not exceed ₹1 crore and turnover does not surpass ₹5 crore.

A small enterprise is where the investment in plant and machinery or equipment does not exceed ₹10 crore, and turnover does not exceed ₹50 crore.

And, in a medium enterprise, the investment in plant and machinery or equipment must not exceed ₹50 crore, and turnover should not surpass ₹250 crore.

The Survey said that MSMEs face extensive regulation, compliance requirements and significant bottlenecks with access to affordable and timely funding being some of the core concerns.

“Licensing, inspection and compliance requirements that MSMEs have to deal with, imposed particularly by sub-national governments, hold them back from growing to their potential and being job creators of substance,” said the Survey.

Ashok Saigal, co-chairman of the MSME committee of the Confederation of Indian Industry (CII) said: “There is a certain need for simplifying the compliance. This will definitely help MSMEs to work in a more efficient manner.”

The Survey said many MSMEs struggle to secure necessary funds to start, operate, or expand their business due to a variety of reasons. These include lack of collateral or credit history, high interest rates, complex documentation requirements, and



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long processing times, among others.

The Lok Sabha Standing Committee on Finance, in its April 2022 report on ‘Strengthening Credit Flows to MSMEs,

noted that the credit gap in the MSME sector is estimated to be around ₹20-25 trillion.

The Survey also called for

rationalisation of building regulations to boost the country’s manufacturing capacity.

“There is a need to examine and rationalise building regulations to augment manufacturing capacity. Better utilisation of land will bring down the fixed cost of production per unit, thus incentivising the entrepreneur to hire more workers as well. Apart from studying international best practices, inter-state comparisons can help states identify best practices and adopt appropriate policies,” the Survey said.

The Survey further added that the sectors with widely scattered production units, such as textiles and MSMEs, seek solutions to constraints in supply-chain management, market access and formalisation.

MSMEs are considered the backbone of the Indian economy, contributing approximately 30 per cent of the country’s gross domestic product (GDP), 45 per cent of manufacturing output, and providing

employment to 110 million people.

It said the government has implemented initiatives aimed at supporting formalisation, ease of registration and grievance redressal, like the Samadhaan Portal, Sambandh Portal, and Champions Portal.

“Progressively, easing the compliance requirements with a single-window mechanism for clearances, digitisation of processes and equipping MSMEs to handle these processes with ease of providing grassroots-level facilitation to ensure market access to MSME products and government-industry-academia collaboration to upskill the workforce,” said the Survey.

The government has launched several schemes, such as the Pradhan Mantri Mudra Yojana and the Credit Guarantee Fund Trust for Micro and Small Enterprises, aimed at providing affordable credit to MSMEs.

“The initiatives have shown considerable promise in addressing these challenges,” the Survey said.

