

● STRENGTHENING SUPPORT

Centre looks to streamline MSME incentive schemes

PRASANTA SAHU
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THE CENTRE HAS drawn up a plan to streamline and strengthen incentive schemes for the micro small and medium enterprises (MSMEs), and this may be one of the priorities of the Narendra Modi government if voted back to power for a third term.

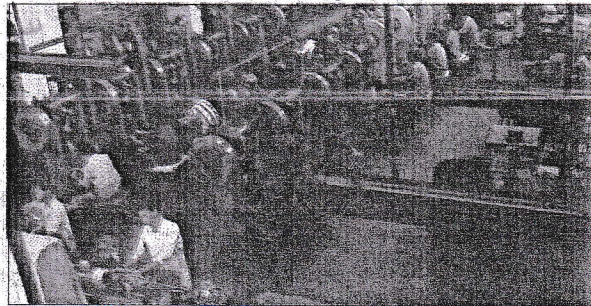
The new measures being looked at include giving certain incentives to manufacturers for their domestic procurement from MSMEs under production-linked incentive (PLI) schemes, which are likely to be revamped.

"The government is looking at streamlining all MSME subsidy and credit-linked schemes to rationalise them.. merging some of these could ensure their maximum reach and claims are hassle-free," a senior official told FE.

The 64 million-strong MSMEs are the backbone of the Indian economy. They account for over 110 million jobs or 23% of the country's labour force, making it the second-largest employer in India after agriculture.

They contribute 27% of India's GDP, account for 38.4% of the total manufacturing output and contribute 45% of the country's total exports.

Access to finance is regularly seen as a key bottleneck for MSMEs. The promotion of export credit guarantees can help



THE MSME SECTOR

■ Employs	■ Contributes	■ Accounts for	■ Contributes
23%	27%	38%	45%
of India's labour force	of GDP	of mfg output	of exports

improve working capital availability for MSMEs.

A Niti Aayog report has also suggested the government must create an incentive package to increase export credit guarantee substantially.

It also suggested a single marketplace where all providers of export credit can compete for business and help reduce the cost to MSMEs.

The Interest Equalisation Scheme, which has been running since 2015, may be reviewed by the new government after polls to make it more impactful for MSME exporters.

In December, the government extended the scheme for pre- and post-shipment rupee export credit until June 30, 2024.

Under the scheme, MSMEs get a 3% interest subsidy.

The Federation of Indian Export Organisations (FIEO) has been demanding that the interest subsidy for MSME manufacturers be raised to 5% given the rise in interest rates in the last two years.

Similarly, in 2020, the government announced a ₹50,000 crore Self Reliant India (SRI) equity fund in public-private partnership mode to provide growth capital to the deserving and eligible units of

the MSME sector in 15 years.

From January 1, 2023, to November 30, 2023, SRI has invested around ₹3,658 crore by assisting 242 MSEs.

The government plans to make an effort to ensure that MSMEs have no difficulty in claiming the benefits under the scheme.

"The current processes for claiming benefits in government schemes are generally seen very difficult," another official said, emphasising the need to make them smoother for small firms.

This was one of the reasons why MSMEs stayed away from directly participating in any of the 14 PLI schemes, which offered nearly ₹2 trillion in incentives till FY30.

Just around 4% of the benefits have been claimed by PLI manufacturers after these schemes were rolled out in FY22.

The PLIs will be revamped soon to make them effective by tweaking norms, reopening some of the schemes for new players to come in, cutting back schemes which did not pick up and adding some more schemes.

"The PLI revamp may include giving incentives for including MSMEs in their supply chains," the second official said.

Currently, the PLIs suffer from a major deficiency which is that there is no obligation to create domestic supply chains, the official added.