



MSMEs GAIN MOMENTUM: AN INSIGHT INTO THE FUND ALLOCATION IN THE BUDGET OVER THE YEARS

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Abstract

The Micro, Small and Medium enterprises (MSMEs) are the largest employers in the country after agriculture. The labor intensive sector employs approximately 114 million persons and contributes nearly 30 per cent to India's GDP. MSME is considered as the boon for the fresh talents in India promoting economic solidity in terms of growth and export. Approximately 50 per cent of our exports come from goods and services produced and sold by the sector. Not only that the MSMEs and its contributions are directly or indirectly benefitting many other prime sectors of the country. The government acknowledging the importance of the sector grants a major part of its outlay on the same. The article is an attempt to present the analysis of the improvisation in the fund allocation for the sector in the last three budgets till the current one passed on 17th of March 2021.

Keywords: *Stimulus; Accelerators, Budget Allocation; Drivers; Economy*



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Introduction

The backbone of the Indian Economy, the MSMEs have contributed significantly in the socio-economic development of the nation. It not only generates employment opportunities but also promotes the development of the backward and rural areas. As per the Government's annual report 2018-19, there are presently 6, 08, 41,245 MSMEs in India.

MSME stands for Micro, Small and Medium Enterprise (MSME), introduced by Government of India in agreement with Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 are entities occupied in the production, manufacturing, processing or preservation of goods and commodities.

The Ministry of Micro, Small and Medium Enterprises (M/o MSME) was formed in the year 1961 as a result of the merger between the Ministry of Small Scale Industries and the Ministry



of Agro and Rural Industries.

The MSME produces and manufactures a large variety of goods for domestic, as well as international markets. MSMEs help in the promotion of growth and development of Khadi, Village and Coir industries, in co-operation with concerned ministries, state governments and stakeholders.

The Classification Of The MSMEs: The Old Versus The New Definition

New MSME Classification

The distinction between the manufacturing and services enterprises has been removed by making the investment amount and annual turnover similar for enterprises engaged in both the sectors

Sector/Enterprise Type	Micro Enterprise	Small Enterprise	Medium Enterprise
Manufacturing & Services Sector, Both	<ul style="list-style-type: none"> Investment less than Rs. 1 crore Turnover less than Rs. 5 crore 	<ul style="list-style-type: none"> Investment less than Rs. 10 crore Turnover up to Rs. 50 crore 	<ul style="list-style-type: none"> Investment less than Rs. 50 crore Turnover up to Rs. 250 crore

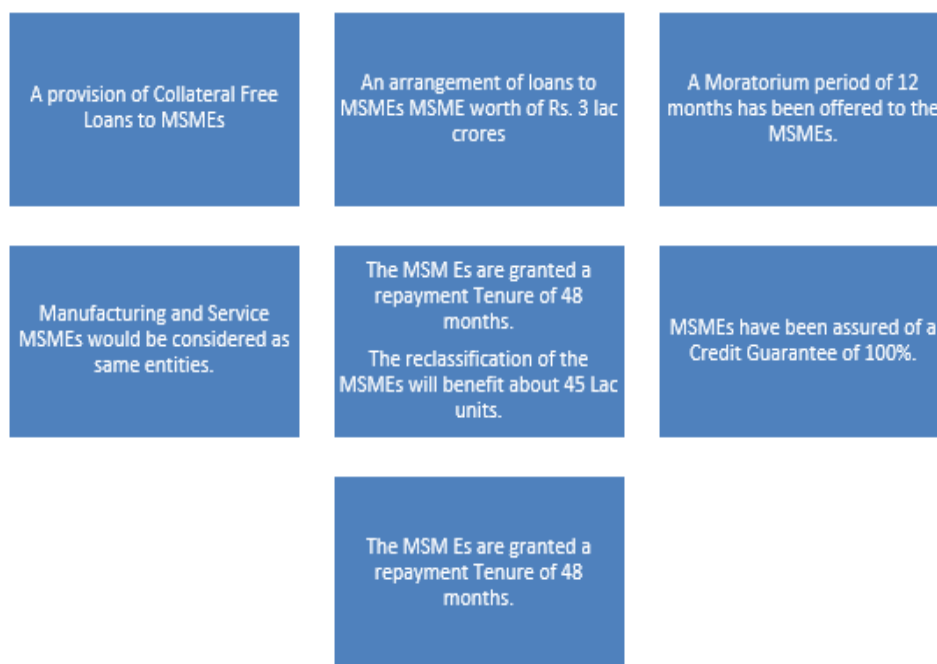
Old MSME Classification

MSMEs were classified on the basis of investment proportion into two divisions as below:

Manufacturing Sector		Service Sector	
Enterprise Category	Investment in plant and machinery	Micro Enterprises	Investment shall not exceed Rs. 10 lakh
Micro Enterprises	Shall not exceed Rs. 25 lakh	Small Enterprises	More than Rs. 10 lakh, shall not exceed Rs. 2 crore
Medium Enterprises	More than Rs. 5 crore, shall not exceed Rs. 10 crore	Medium Enterprises	More than Rs. 2 crore, shall not exceed Rs. 5 crore

The 'Atma Nirbhar Bharat Abhiyan' or the Self-Reliant India Scheme of 2020 by the Government of India has given a new definition for MSMEs that brings out the following benefits for the MSMEs.

Fig 1: - Benefits for the MSMEs as per the new definition.



Budget for the FY 2019-2020 and the MSMEs.

The Budget 2019-20 unveiled a slew of initiatives and new provisions to tackle issues related to the MSME sector in the country. From widening the net for a reduction in corporate tax for companies to strengthening TReDs, the budget promised wide-ranging impact on small businesses. MSME Ministry was allocated Rs. 7011 Crore in Budget 2019-20.

- The Interest Subvention Scheme for Incremental Credit to MSMEs, whose revised estimates for FY 2018-19 stood at Rs 275 crore, was increased to Rs 350 crore
- Corporate Tax slab of 25% was extended to companies with annual turnover up to Rs 400 crore from earlier cap of upto Rs 250 crore.
- The total allocation under the Prime Minister Employment Generation Programme (PMEGP) and other Credit Support Schemes (CSS) this year was hiked from last year's total figure of Rs 2555.64 crore to Rs 3274.14 crore .
- Market Promotion Scheme Procurement and Marketing Support Scheme was raised from Rs. 65.00 croe to Rs. 87.60 crore.



- The total allocation for Development of Khadi, Village and Coir Industries was slightly increased from Rs 1215.60 crore to Rs 1252.65 crore.
- It was decided to extend the pension benefit to about three crore retail traders and small shopkeepers whose annual turnover was less than Rs.1.5 crore under a new Scheme Pradhan Mantri Karam Yogi Maandhan Scheme.
- Government's various schemes bracketed under its Entrepreneurship and Skill Development schemes, encompassing sub-schemes such as Rajiv Gandhi Udyami Mitra Yojana, MSME Fund, promotional services for institutions and assistance to Training Institution was increased from Rs 340.01 crore to Rs 479.91 crore

Budget for the FY 2020-2021 and the MSMEs.

- Among the key focus areas of the Budget for the FY 2020 -21, were measures to accelerate the growth of Micro, Small and Medium Enterprises (MSMEs) and to boost investment in the Indian start-up ecosystem. The budgetary allocation for the MSME Ministry in the year stood at an all-time high of Rs 7572 crore - an increase of 8% from the FY 2019-20.
- The Finance Minister proposed necessary amendments to the Factor Regulation Act 2011 to enable NDFCs to extend invoice financing to MSMEs through TReDS, thereby enhancing their economic and financial sustainability.
- The Finance Minister proposed to introduce a scheme to provide subordinate debt to entrepreneurs of MSMEs to overcome the problem of working capital. These subordinate debts were required to be provided by banks & count as quasi equity. The subordinate debt will be fully guaranteed through the Credit Guarantee Trust for Medium & Small Entrepreneurs.
- An app-based invoice financing loan's product was to be launched to eliminate the problem of late payments and consequential cash flow mismanagement for the MSMEs.
- For certain selected sectors like pharma, auto components etc. who were domestically strong but lagging in the exports, hand-holding support was proposed by the Finance Minister for technological upgrades, research and development, strategizing etc.
- A sum of ₹8,000 crore was allocated for the National Mission on Quantum Computing and Technology.

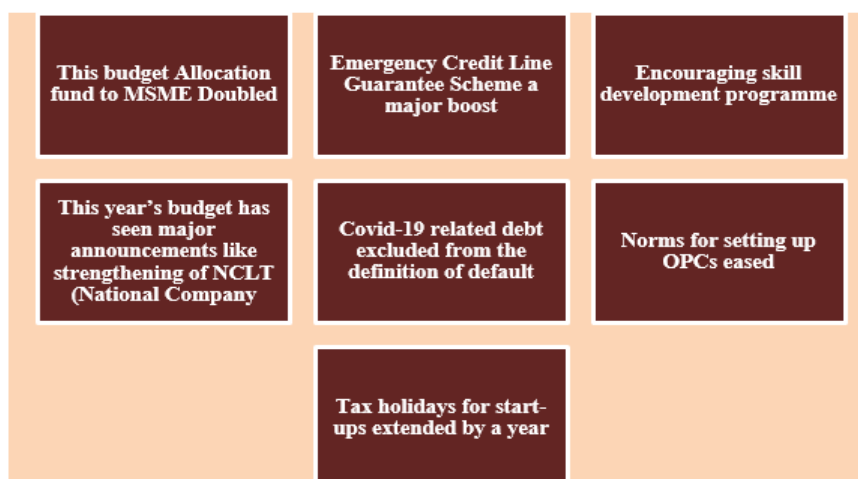
- The Finance Minister proposed a new investment clearance cell, which aimed at simplifying the lives of Indian entrepreneurs. Government had plans to do so, by providing end-to-end support and facilitation on pre-investment advisory, data related to land-banks with the help of a centralized portal.
- It was also announced that businesses with an annual turnover of up to ₹ 5 crores, comprising over 90% of GST payers, will be allowed to file quarterly GST returns.

Budget for the FY 2021-2022 and the MSMEs.

The latest Union Budget 2021-2022 was presented on 1st of February 2021. This Budget was unique because it came after a staining year when Covid-19 has sent the economy into a deep recession. The Micro, Small and Medium Enterprises (MSME) sector was hit particularly hard. With the pandemic far from over, the real job of recovery is still to start.

The central government and the Ministry of Finance has made a provision of Rs 15,700 crore, more than the double the previous year for the Ministry of Micro, Small and Medium Enterprises (MSME) sector in the Union Budget 2021-22. The increase in the proposed capital expenditure of this year is the highlight for the MSME sector.

Fig 2: Highlights of the recent budget 2021-21



- The elevating feature of this year's budget is that it has relaxed norms around setting up businesses and incentivizing funding for startups. The budget has also shown considerable flexibility by doubling the allocation to MSMEs to Rs 15,700 crore for the next financial year. The budgetary allocation for the MSME sector for 2020-21 was Rs 7,572 crore.
- The Emergency Credit Line Guarantee Scheme (ECLGS) has turned out to be a real boon for MSMEs, which found itself struggling with several challenges like liquidity crisis,



scarcity of labour and non-payment of dues triggered by the Covid-19 pandemic so much so that till November 12, 2020, Rs 2.05 lakh crore of loans was approved to 61 lakh borrowers under this scheme. This scheme has helped revive the sagging fortunes of MSMEs in a big way in the last few months.

- The government will ensure that not only MSME business loan is easily available but even entrepreneurship and skill development programmes for the MSMEs get higher share so that they can strike the ground running. With this the government has proposed to allocate Rs 300 crore towards the establishment of new technology centres for the MSME units. Meanwhile, the Federation of Indian Micro and Small & Medium Enterprises (FISME), feels that the reduction in customs duties on steel and ferrous and non-ferrous scrap will do a world of good to the MSMEs as it will help considerably reduce the raw material prices.
- The budget revealed on strengthening of NCLT (National Company Law Tribunal) framework, implementation of e-courts system, a special framework for MSMEs, besides opening of alternate methods of debt resolution. These steps would give a significant boost to MSMEs in the coming days.
- The strengthening of the NCLT framework would bring relief to liquidity starved firms that bore the force of the pandemic. The government made it clear that Covid-19-related debt would be excluded from the category of default. In an effort to insulate small businesses from being dragged to the NCLT, the government has decided to raise default threshold for triggering insolvency to Rs 1 crore from just Rs 1 lakh earlier.
- The government through its various initiatives and policies is encouraging entrepreneurial spirit and benefit startups in setting up one person companies (OPCs). The OPCs would grow without any limitations on paid-up capital and turnover. Also, the OPCs can be converted into any other type of company at any time. The reduction in residency limit allows Indian citizen to set up an OPC within 120 days cancelling the previous period of 182 days.
- In a major post-pandemic boost, the 2021 budget has projected an “add on” on the eligibility for claiming tax holidays for startups along with the capital gains exemption for investment in startups till March 31, 2022, to incentivize funding.



Conclusion

Though the budget this year doubled the outlay for the MSMEs but also failed to strike a significant chord among the people. The initiatives like the collateral-free loans for businesses, setting up of funds for MSMEs, the PM Garib Kalyan Yojana, and subordinate debt for MSMEs are not just sufficient for the revival of the sector.

MSMEs require easy access to funding which has not been possible due to diverse reasons including policy hurdles and the reluctance of bankers to provide loans. The guarantee to give collateral-free loans have not brought about enough improvements despite the Rs 3 lakh crore relief packages that were announced. It also to be noted that there are many pending cases filed for debt resolutions and crores of rupees are yet to be paid by the government for the purchase of goods and services.

However the truth is that the sector needs direct interventions to facilitate them in the current scenario. Unfortunately, the budget will not be able to provide such a push to the sector and lays to risk many livelihoods and employment opportunities in the country.

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