



Decoding the Union budget 2023- 24 MSME Edition

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Defining of the MSME sector by the Indian government

Prior to 2018 Micro, Small and Medium Enterprises were defined in terms of investment in plant and machinery equipment. To overcome the shortcoming of lack of credible and precise details of investments available to authorities and to align the sector with Goods and Services Tax (GST), the government proposed the annual turnover as the defining factor for MSMEs¹. A notification in this regard has been issued by the Ministry of MSME and the revised definition is applicable from 1st July, 2020. The following sub categorisation has been created within the sector:

Previously: Linked to Investment		
	Manufacturing (Plant and machinery investment)	Services (Investment in equipment)
Micro	Up to Rs. 25 lakh	Up to Rs. 10 lakh
Small	Over Rs. 25 lakh to Rs 5 crore	Over Rs 10 lakh to Rs. 2 crore
Macro	Over Rs. 5 crore to Rs. 10 crore	Over Rs. 2 crore to Rs. 5 crore
Current: Linked to turnover		
Micro: Up to Rs. 5 crore	Small : Over Rs 5 crore to Rs. 75 crore	Medium: Over Rs. 75 crore to Rs. 250 crore

The share of the MSME sector in the economic and social development of the country

By 2028, it is expected that India's MSME sector will have contributed US\$ 1 trillion to the country's overall exports, accounting for around 33% of the country's GDP. There are 7.9 million registered Micro, Small, and Medium Enterprises in India (MSMEs). About 120 million employment across industries and regions are supported by the sector, which amounts for about 33% of the nation's overall GDP. The sector also includes often underappreciated and small-scale entrepreneurs like women, marginal entrepreneurs, local craftspeople, etc. who contribute to wealth development at a grassroots level. 8.59 lakh women-led MSMEs registered on the Udyam platform in FY22, making up 17% of all MSMEs. In India, 6.11% of the manufacturing GDP and 24.63% of the services GDP are produced by around 63.4 million MSMEs.

Data on the export of specific MSME-related products in all India exports was supplied by the Directorate General of Commercial Intelligence & Statistics (DGCIS). Despite a rise in the number of active MSMEs, it showed a YoY fall from 25.03% to 42.67% in FY 2022-23 (up to August 2022).

¹<https://indianexpress.com/article/business/economy/covid-impact-67-msmes-temporarily-shut-in-fy21-over-half-lost-25-revenue-7761520/>

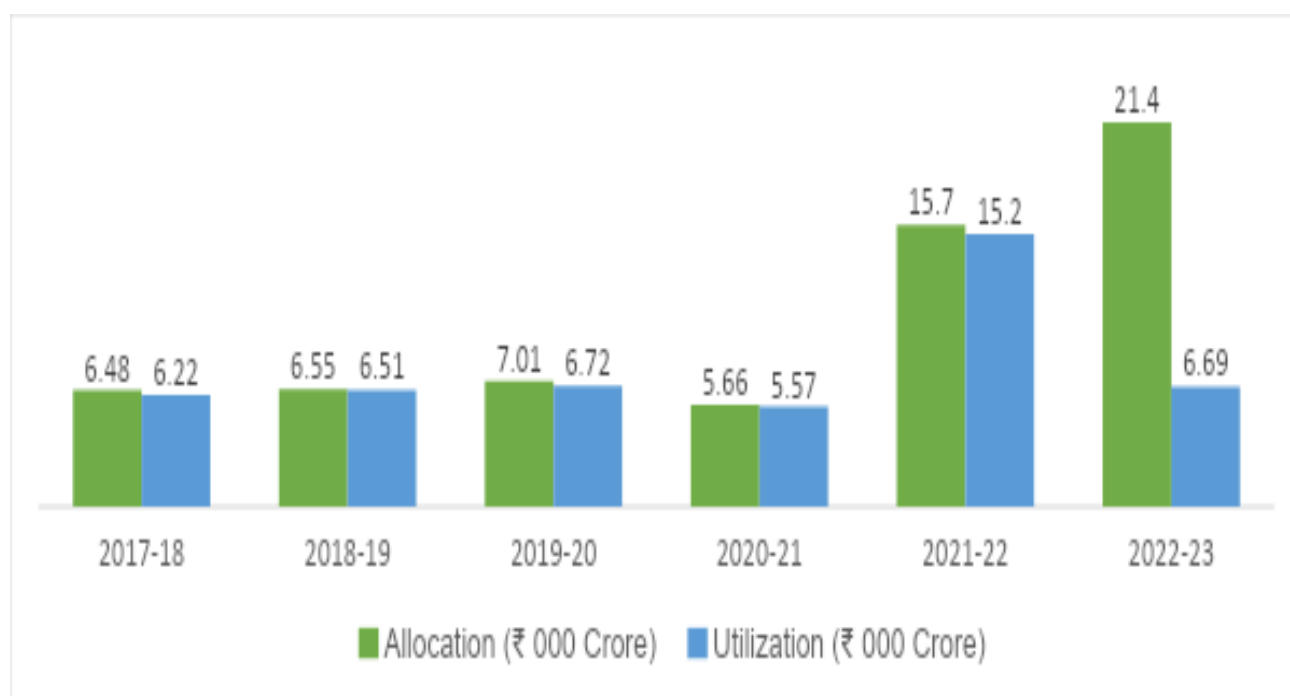
In FY22, the US (\$54.7 billion), UAE (\$13.4 billion), Hong Kong (\$9.93 billion), UK (\$7.54 billion), Germany (\$7.19 billion), China (\$5.16 billion), and Belgium (\$4.7 billion) were the top export destinations for Indian MSMEs.

The grants allocated to the MSME sector under the Union budget 2023-24

The MSME sector encounters a number of obstacles, including capital limitations, marketing issues, labour-related difficulties, etc. By modernising the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and extending the Emergency Credit Line Guarantee Scheme (ECLGS) until March 2023, the Union Budget 2022 provided some assistance to the pandemic-affected sector.

Increase in budgetary allocation -

The budget allocation for the MSME for FY 2021–22 more than doubled to 15,700 crore from 7,000 crore in 2019–20, and the sector will receive a major relief from the 10,000 crore corpus for the provision of borrowing guarantee. To provide much-needed financial assistance and accessibility, provisions have been made for the previously announced AtmaNirbhar initiatives (namely, the Credit Guarantee Scheme for Subordinate Debt to MSMEs and the Fund of Funds). In total, the Union Budget 2023–24 allotted a record amount of 22,138 crore for the MSMEs ministry. According to papers, the allocation for the MSME ministry is lower than its Budget projection of 21.422 crore but higher than the revised estimate of 15.628 crore for the current fiscal year. India's MSME sector, which contributes 30% of the nation's GDP and directly employs around 110 million people, was severely impacted by the global slowdown and the Covid pandemic's knock-on effects.



Budgetary allocation under various union government schemes and programmes -

To support the MSME sector, especially in the aftermath of COVID-19 pandemic, under the AtmaNirbhar Bharat Abhiyan, some key allocations have been made: -

Subordinate Debt for MSMEs of 20,000 crore
\$3 trillion Automatic loans without collateral for businesses, particularly MSMEs
MSME Fund of Funds equity infusion of 50,000 crore
MSMEs are now being registered using "Udyam Registration" for the convenience of doing business
There are no international bids for purchases under 200 crores

- With effect from April 1, 2023, a revised credit guarantee scheme for 65 million MSMEs, the foundation of Indian manufacturing, would be implemented. This decision is anticipated to inject some 9,000 crore into the industry.
- The new credit guarantee programme will reduce the cost of financing for MSMEs by 1% and enable them to obtain an additional 2 lakh crore in collateral-free credit guarantees. The emergency credit line guarantee scheme was extended till March 31, 2023, and a programme called **Raising and Accelerating MSME Performance (RAMP)** with an outlay of 6,000 crore was also announced as part of the budget.
- According to a recent survey by the Small Industries Development Bank of India, about 65% of MSME operators in the nation have benefited from the **Emergency Credit Line Guarantee Scheme (ECLGS)** (SIDBI). The study used a pool of 1,029 MSMEs from 20 states and two union territories as a random sample. It has been decided to prolong the Emergency Credit Line Guarantee Scheme (ECLGS) until March 2023. 50,000 Crore has increased the scheme's guarantee protection. The scheme's entire coverage would now rise from 4.5 lakh crore to 5 lakh crore. The extra money has been set aside specifically for businesses in the hospitality industry and associated industries.
- The **Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE)** programme will receive more funding. This will provide micro and small businesses access to an additional \$2 billion in finance. The scheme's expanded funding allocation will enable MSMEs to benefit more significantly from interest-free loans.
- Under the **PM VishwakarmaKushalSamman (PM VIKAS)**, artisans and craftspeople will be able to integrate their products with the MSME value chain and increase the quality, scope, and reach of their offerings thanks to the new programme. The scheme's components will also include access to advanced skill training, knowledge of cutting-edge digital techniques, familiarity with effective green technologies, brand promotion, integration with regional and international markets, digital payments, and social security in addition to financial support. The Scheduled Castes, Scheduled Tribes, OBCs, women, and members of the disadvantaged classes will all immensely gain from this.
- Under **Vivad se Vishwas I**, government and government undertakings would reimburse 95% of the forfeited sum related to bid or performance security to MSMEs in circumstances where they fail to fulfil contracts during the Covid term. MSMEs will benefit from this. There will

be built up an Entity DigiLocker for use by MSMEs, big enterprises, and charity trusts. This will be done in order to securely store and exchange documents with various authorities, regulators, banks, and other business entities whenever necessary. With the introduction of a unified Skill India Digital portal for connecting with employers, including MSMEs, the digital ecosystem for skilling would be significantly expanded.

Sector wise share of the MSME in the Budget -

- **Defence:** 68% of the capital procurement budget allotted for domestic industry under the AtmaNirbharta has been set aside in the budget for 2023. A 25% allotment of the defence R&D budget was also made available for sectors, start-ups, and universities. This news will provide MSMEs in the defence and aerospace industries with a chance to create goods and innovate in accordance with international standards.
- **Sunrise sector:** The government will fund R&D in up-and-coming industries such artificial intelligence, green energy, clean mobility systems, genomics, drones, geospatial systems, the semiconductor industry, and its ecosystem. These chances will allow MSMEs to reinvent their products and enter new markets.
- **Clean energy:** Climate change was a key topic in the Budget. The government announced an additional allocation of 19,500 Crore for Production Linked Incentive for producers of high-efficiency solar modules to fulfil the target of 280 GW of installed solar power by 2030 in keeping with its commitment to net-zero emissions. This announcement will give MSMEs in the module manufacturing sector the crucial boost.
- **Capital infrastructure:** The PM GatiShakti Master Plan was declared. In accordance with this plan, the National Highways network will be increased by 25,000 km in 2022–2023, which will facilitate the efficient movement of goods through various modes, cut down on logistics time and costs, help with just-in-time inventory management, etc. The Finance Minister has suggested allocating \$1 billion for 2022–2023 to help the states spur overall economic investment. The plethora of infrastructure projects will support MSMEs' expansion, broad-based recovery, and job creation. Proposal for setting up of seven textile parks across the country under the Mega Investment Textile Parks scheme will generate further activities among the MSMEs due to strong forward and backward linkages.
- **Metal and alloys:** The 2.5% Basic Custom Duty (BCD) concession on copper scrap is still in place to guarantee the supply of raw materials for secondary copper producers, the majority of which are MSMEs. The MSME sector will benefit greatly from the decrease of customs tax on semis, flats, and long goods made of non-alloy, alloy, and stainless steel as well as the lowering of duty on steel and copper scraps. Chemical customs duty rates should be calibrated to promote domestic value addition and eliminate inversions. The necessary incentive for MSMEs operating in this area will be provided by the rationalisation of customs duty on gold and silver.
- **Textile:** The MSME sector's ability to compete on pricing in the export market would also be aided by the rationalisation of levies on the raw materials used in textile manufacture. Reduced BCD rates on caprolactam, nylon chips, nylon fibre, and nylon yarns will benefit MSMEs, the textile industry, and exports.

- **Training:** One of the key elements in the long-term growth of MSMEs is qualified and trained labour. The National Apprenticeship Training Scheme (NATS) should be reorganised to provide post-education apprenticeships and teach graduates and diploma holders in engineering, which would help meet the demand for labour in the MSME manufacturing sector.
- **Customs and taxes:** The MSME sector will substantially benefit from the rationalisation of custom duties on steel screws, plastic building products, prawn feed, finished gemstones, and rationalisation of duty-free exemption on goods to encourage exports of apparel, leather goods, and handicraft items.

Easing of regulatory compliances mechanisms-

- For the purpose of consolidating and taking over the current stressed debt, the budget suggests the establishment of Asset Reconstruction Company Limited (ARCs) and Asset Management Companies (AMCs). The ARCs will make sure that these recently acquired assets with stressed debt are monetized. This will improve lending, remove subpar assets from bank books, and allow banks to concentrate on the actual profitability of MSME initiatives.
- Limit for Tax Audit increased from \$5 million to \$10 million, relieving a significant portion of MSMEs from the burden of compliance. Instead of the previous 6 years, the time period for reopening an IT assessment is now 3 years. The case can only be reopened to include further evidence in significant tax evasion instances (over 50 Lakh). Instead of the previously prescribed 6 years, the time period for reopening an IT assessment is now 3 years. The case can only be reopened for a maximum of 10 years in the case of major tax evasion crimes (over 50 Lakh). In the event of previous assessments, this will promote certainty for small industries and reduce litigation. For small taxpayers with taxable incomes up to \$50,000 and any challenged incomes up to \$100,000, there is a Faceless Dispute Resolution Committee. By resolving the matter at the outset, this will lessen ongoing litigation and stop new disputes.

Key recommendations to the GOI from the World Association of Small and Medium Enterprises (WASME) to bolster the MSME sector in India:

Ease of doing business for MSMEs -

- The NPA categorization term for MSMEs may be raised from 90 to 180 days because the working cycle of a business or enterprise might occasionally last much longer than 90 days. Banks' hesitation to provide MSMEs with accessible funding has been attributed, in part, to the NPA categorization period.
- Enacting legislation or a law requiring buyers to pay MSMEs within 45 days of the day they accepted their materials, as well as paying the current interest rate if there is a payment delay that lasts more than 45 days. Except for significant changes like the appointment of a new director or a capital increase, compliance obligations for MSMEs should be in a single straightforward form against many submissions. For MSMEs, violations of the 2013 Companies Act with a back date of more than five years may be deemed closed.
- MSMEs may be eligible for a one-time payment from the government if they are willing to close down their current unproductive business (OTS).
- Competitive SME associations like WASME may be encouraged or strengthened to open export centres or houses abroad in collaboration with Indian high commissions or embassies for the purpose of offering hand-holding support to its members. This would help stimulate export.

Tax / GST -

- In certain places where larger businesses/medium-sized and large industries might not provide much value, MSMEs need financial aid from the GOI to survive. Consideration may be given to raising the GST exemption threshold for microbusiness owners to Rs. 2 crore.
- Micro and small business owners shouldn't be subjected to the 18% interest charge for paying GST after the deadline. The upper limit could be lowered to 12%.
- Consideration may be given to exempting micro enterprises from paying income tax in FY23 and FY24. It will facilitate reinvestment and market exploitation of profits made. The tax exemption for Micro Businesses with Sole Proprietors will grow from 2.5 to 5 Lacs, and the same tax exemption will be given to SME Business Employees.

Finance -

- Allocating funding to the state government for the construction of new, product-specific industrial clusters or estates for MSMEs on a lease rent or free hold basis may be taken into consideration for locations along well-connected routes, highways, and ports.
- Assistance to micro and small exporters via insurance protection with a steady exchange rate for a year to shield them from the volatility of international currency rates.

- Reforms and hands-on assistance may be more helpful to the growth of micro, small, and medium-sized businesses than fiscal pressure to keep borrowing prices low.
- A programme like TREDIS may be used to address supply chain financing. Mandatory participation on the platform for medium-sized and big businesses. It will ensure speedy and affordable funding, addressing the problem of SMEs' access to capital. The GOI may offer back-end services by building infrastructure to increase sector performance through state government and consulting firms, as the MSME sector provides goods and services to large industrial businesses/entrepreneurs.
- The government of India may offer MSMEs an easy lending option for affordable, internationally accessible technologies. It will support MSMEs in improving the calibre of their output.
- Cheaper loans for MSMEs, either through an expansion of the Emergency Credit Line Guarantee or budget changes in response to the increased interest rates that banks are already charging. The programme can be expanded to include MSME exporters. MSMEs are the backbone of the economy and require help from the GOI to stay competitive in both domestic and global markets. Cheaper loans may be given to MSMEs by the GOI in order to enhance the service industry, notably in the fields of health, tourism, finance, IT & ITES, and education. It will aid in luring foreign partners as well. FIN-TECH Park and E-Waste Park establishment in states for MSMEs may be supported financially by GOI to state governments. A PLI programme might be implemented.

Support to Rural Enterprises-

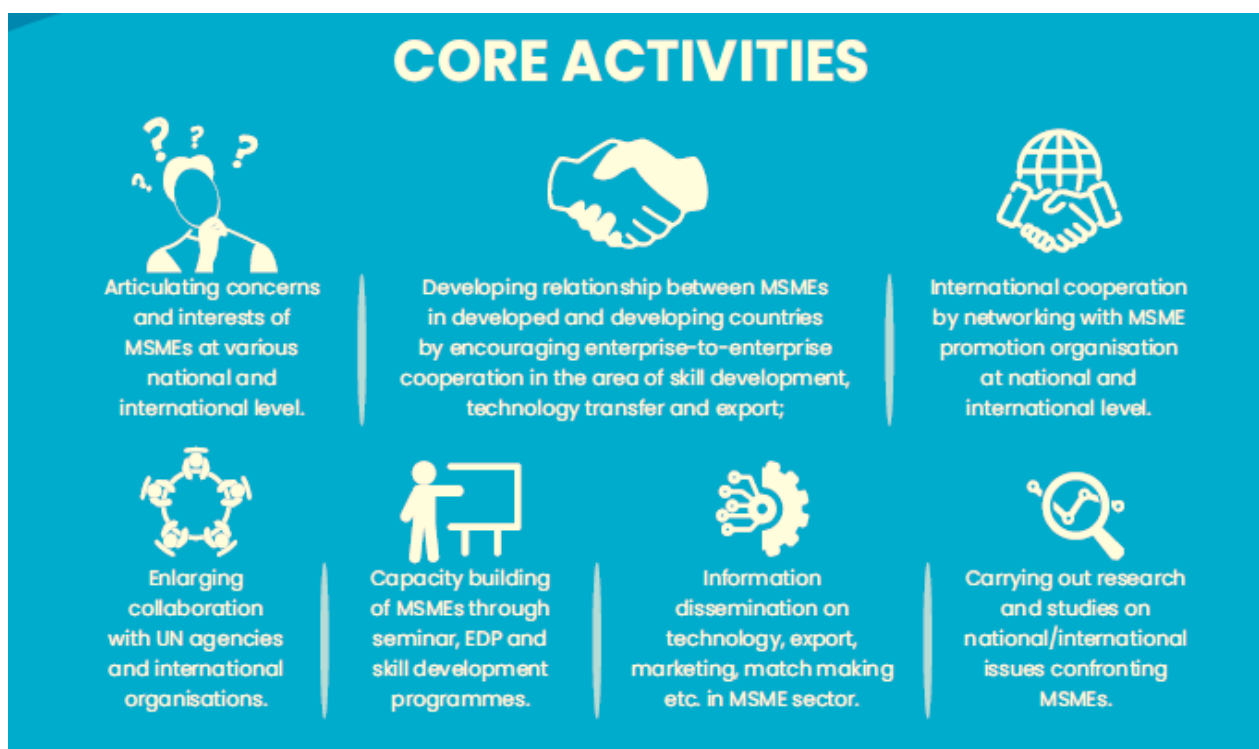
- The government of India may establish a special corpus fund to support rural microbusinesses by offering a subsidy of up to Rs. 5.0 lakh per unit for the purchase of high-tech, non-polluting equipment (machines and equipment). Unemployed graduates and recent graduates may receive special consideration. It will aid in halting the movement of people from rural to urban/large city areas.
- The cost of a rural hant or an exhibition of national or international standards for rural MSE entrepreneurs may be covered by the government of India. Rural Export Centers may be established in villages with more than 300 MSEs in collaboration with the district's local competitive SME associations like WASME. Villages may also open centres for testing and quality.
- The Government of India may consider providing a 100% subsidy for travel, lodging, transportation, and other costs to Rural MSEs participating in international exhibitions abroad.
- Under One District One Product (ODOP), a provision for establishing ODOP Malls in each district by the state government was created. The union and state governments can thus encourage competitive SME associations like WASME which possess land, can be given preference in selection and 100% funding for the construction of the ODOP malls may be provided to such SME Association. And the said land of the SME shall be treated as the SME association's contribution towards the ODOP initiative.

World Association for Small and Medium Enterprises (WASME),



WASME is an International Non-Governmental Organization that has observer and consultative status with many UN agencies, such as UNIDO, UNCTAD, UNICITRAL, WIPO, ILO, ECOSOC, UNESCAP, ITC, and UNESCO. Additionally, WASME has several inter-governmental and international organization affiliations. It has been striving to stimulate, foster, promote, and coordinate international cooperation for the growth & development of MSMEs.

WASME was founded in 1980 with the goal of supporting MSMEs in member countries. We have achieved this through our strong association with local government bodies, regional authorities, international linkages, civil societies, SMEs, etc. We are continuously working to improve our innovative and sustainable framework so that we can better serve MSMEs around the world.



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