

# CUTS Comments

## Draft National Policy for Micro, Small and Medium Enterprises (MSMEs)

### A. Background

Consumer Unity & Trust Society (CUTS) expresses its gratitude to the Ministry of Micro, Small and Medium Enterprises (MSME Ministry) for inviting comments on the **Draft National Policy for Micro, Small and Medium Enterprises in India**.<sup>1</sup>

### B. About CUTS

The vision of CUTS is "consumer sovereignty within and across borders", which it aspires to achieve through research, advocacy and capacity building on consumer protection and empowerment; good governance; trade and development; and effective regulation. In its 37 years of existence, CUTS has come a long way from being a grassroots consumer-centric organisation based in Jaipur to opening overseas Resource Centres in Vietnam,<sup>2</sup> Kenya<sup>3</sup>, Zambia<sup>4</sup> and Ghana,<sup>5</sup> Switzerland,<sup>6</sup> and most recently in the United States of America.<sup>7</sup>

It continues to remain an independent, nonpartisan, and non-profit economic policy think tank while opening various programme centres, namely: Centre for International Trade, Economics & Environment (CITEE)<sup>8</sup>; Centre for Consumer Action, Research & Training (CART)<sup>9</sup>; Centre for Human Development (CHD)<sup>10</sup>; and Centre for Competition, Investment & Economic Regulation (CCIER)<sup>11</sup>.

It has been working towards enhancing the regulatory environment through evidence-based policy and governance-related interventions across various sectors and national boundaries. Further details about CUTS are available here.<sup>12</sup> CUTS International has undertaken projects focussed on regulatory reforms such as reducing regulatory compliances in the state of

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<sup>1</sup> Draft National Policy for Micro, Small and Medium Enterprises in India *available at* [MyGov Static](#)

<sup>2</sup> [CUTS Hanoi Resource Centre](#)

<sup>3</sup> [CUTS Nairobi](#)

<sup>4</sup> [CUTS Lusaka](#)

<sup>5</sup> [CUTS Accra](#)

<sup>6</sup> [CUTS International, Geneva](#)

<sup>7</sup> [CUTS WDC](#)

<sup>8</sup> [CUTS CITEE](#)

<sup>9</sup> [CUTS Cart](#)

<sup>10</sup> [Cuts CHD](#)

<sup>11</sup> [Cuts CCIER](#)

<sup>12</sup> [CUTS International](#)

Rajasthan,<sup>13</sup> and Strengthening the Discourse on Economic Policy to Generate Good and Better Jobs in India.<sup>14</sup>

Having undertaken a study for better jobs; CUTS has now undertaken a study which involves Exploring Alternate Models of Economic Growth, Inclusive Finance and Worker Welfare<sup>15</sup> along with the Future of Jobs in India.<sup>16</sup> With its focus on inclusive and resilient economy, CUTS has conducted events centred around Cyber Safe practices for MSMEs.<sup>17</sup> It has also undertaken initiatives to promote convergence between different government departments and initiatives<sup>18</sup>; foster ease of doing business and competitiveness<sup>19</sup>; and reduce compliance cost, with a focus on MSMEs.<sup>20</sup>

CUTS has observed certain issues and the same have been discussed in subsequent sections, along with a few recommendations to address them.

### C. Introduction

CUTS International appreciates the objective and vision of the MSME Ministry, to facilitate a vibrant ecosystem for the rapid growth of the sector along with the infrastructure linkages, risk capital, raw materials and marketing facilities. CUTS international in all means aims to support the government in promoting accessible and affordable technology and its subsequent upgradation. Along with promoting a conducive environment covering ‘ease of doing business - EoDB’ and suitable exit.

The Ministry of MSME has released the draft National Policy for MSMEs in India and has recommended “specific action areas” to ensure the sector’s speedy growth. The action areas include Intergovernmental Roles & Responsibility, Legislation and Regulatory Framework for MSMEs in India, Access to Finance/Financial Assistance for MSMEs, Technology Upgradation/ Adaptation, Skill Development, Knowledge Management, Ease of Doing Business, Development of MSME Code and Exit Code.

The Micro, Small and Medium Enterprises) (MSMEs) is a highly vibrant and dynamic sector. With over 6 crore units, having 28% share of GDP and having 40% of the exports, it provides employment to 11 crores+ people. The MSMEs sector is a key contributor to India’s socio-economic development. India comprises approximately 6.3 crore MSMEs and the number of registered MSMEs increase on an average of 18 percent every year.<sup>21</sup> The MSMEs sector contributes approximately 30 percent towards the Indian Gross Domestic Product (GDP) through its domestic and international trade.

The Indian government envisions doubling the country’s economy to US\$ 5 trillion by 2026 and to achieve this goal, it aims to enhance MSMEs’ share in exports and its contribution to the GDP.<sup>22</sup> In addition to action areas identified by the government, focused initiatives on

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<sup>13</sup> [Reducing Regulatory Compliances in Rajasthan | ccier](#)

<sup>14</sup> [Strengthening the Discourse on Economic Policy to Generate Good and Better Jobs in India | ccier](#)

<sup>15</sup> [CUTS International - Grow Jobs-II](#)

<sup>16</sup> [CUTS international - Future of Jobs in India | ccier](#)

<sup>17</sup> [CUTS Webinar "Cyber Safety Best Practices for MSMEs" | ccier](#)

<sup>18</sup> <https://cuts-citee.org/convergence-between-trade-and-industrial-policies-in-india-contip/>

<sup>19</sup> <https://cuts-ccier.org/evaluation-of-competitiveness-ease-of-doing/>

<sup>20</sup> <https://cuts-ccier.org/doing-business/>

<sup>21</sup> [Annual Report 2020-21](#)

<sup>22</sup> [Contribution of MSMEs to GDP](#)

leveraging the potential of e-commerce to benefit MSMEs can act as game changer. Established e-commerce platforms can provide the necessary human capital skills to make the most of the opportunities through an e-business strategy that is simple, practicable, and workable within the context of a global information milieu and new economic environment. With its effect of levelling the playing field, e-commerce coupled with the appropriate strategy and policy approach can enable small and medium scale enterprises to compete with large and capital-rich businesses.<sup>23</sup>

#### **D. Preliminary Comments**

The MSME sector in India has immense potential to be one of the leading employment generators, however, it suffers from multiple issues and challenges. To address these issues MSME Ministry has proposed a draft national policy on MSME in continuation of various measures taken to date to promote competitiveness, technology upgradation, infrastructure, cluster development, dedicated credit, procurement of products & financial assistance to MSME. Set out below are some preliminary comments from CUTS International on the draft policy:

##### **D.1 The policy making process should adhere to robust public consultation and feedback mechanisms**

The draft policy was released in the public domain on February 9, 2022 and invited stakeholders, Industry Associations, MSME units and general public to share suggestions and comments until February 28, 2022. This is not adequate time for the public consultation process; as the Pre-Legislative Consultation Policy (PLCP) requires for a minimum of thirty days for the draft legislation to be kept in public domain for an effective consultation process.<sup>24</sup> The PLCP applies to principal and subordinate legislations. Given these instruments are subject to intense legislative scrutiny but a policy is not, a policy should be subject to similar, if not higher, public consultation and feedback mechanisms. Thus, draft policy should be open for public comments for at least a period of 30 days, if not more.

##### **D.2 Grievance Redressal**

The MSME sector suffers the most from the lack of an effective dispute resolution and grievance redressal mechanism. It is necessary for the government to put in place a sector specific grievance redressal mechanism at the state and district levels. This should include participation from leading small enterprise association representatives, and civil society organisations working with MSMEs to understand their challenges and provide solutions. The mechanism should reverse the burden of proof and require the other parties (including government/ department) to justify their actions or provide desired redress to MSMEs. The process to approach such forum should be MSME friendly, paper light, and resolution must be swift.

The MSME Samadhaan portal is stuck in procedural complexities and needs to a comprehensive revamp for being able to benefit MSMEs. It has been reported that applicants on Samadhaan portal are required to upload copies of several documents to support their claim,

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<sup>23</sup> [Leaving No One Behind: - Fostering an Inclusive E-commerce Ecosystem in India](#)

<sup>24</sup> [Pre-legislative Consultation Policy \(PLCP\)](#)

including signed contracts, work orders, invoices and proof of delivery of products or services to the buyer. This paperwork for each case is so extensive that it would need a minimum of four hours for a highly skilled official to go through and vet each document and make a decision on the case. This means a total of 400,000 man hours needed to dispose of the 100,000 cases. A typical official can only spend 100 man hours at work in total. The 40,000 man-months thus needed would require an army of 10,000 dedicated officials working non-stop on Samadhaan cases for four months to clear existing pendency; even as new applications will still keep on adding. However, if a more realistic number of 1,000 officials are put to work non-stop; they would need well over three years to clear the workload.<sup>25</sup>

### **D.3 Mitigating Challenges of MSMEs in Access of Credit**

The draft policy has one of the key function areas as access to finance/financial assistance to MSMEs. This is highly appreciable as one of the key issues facing the MSME industry is delayed access of credit, being an underbanked sector.

In order to solve the credit gap for MSMEs, the Reserve Bank of India (RBI) licensed Small Finance Banks (SFBs), while the Government of India launched MUDRA Yojana.<sup>26</sup> Both were steps towards moving these small businesses towards formal sector lending. These were in addition to other schemes launched by the government to support MSMEs and enable access to credit.

In November 2021, NITI Aayog proposed a digital bank framework through a discussion paper<sup>27</sup> to fulfil the credit gap requirements of MSMEs. CUTS in its comments for that discussion paper recommended that regulators put efforts into understanding the challenges that already existing lenders face and try to resolve them to ensure optimum usage of those channels. A new category of lenders might eventually end up facing similar challenges.<sup>28</sup>

Thus, in order to ease the access of MSMEs for finance, the issues faced by lenders and MSMEs should be identified and solved for. These challenges could relate to limited awareness about existing schemes; capacity constraints in accessing benefits; complex conditions, terms and conditions; or lack of timely disbursement of benefits, among others. Consequently, the policy should focus on implementation issues as much as it focuses on its design.

There are subsidies that the government is providing for MSMEs but they might not be sustainable. Whereas interest-based loans are most likely to have more impact, but accessing them might be difficult for MSMEs, particularly in light of economic distress and non-performing assets on the books of lenders.

Technology and innovation to enable market based newer models of access to finance by MSMEs, such as alternative data based lending, or transaction history based lending, could be an appropriate way forward, if risks related to debt trap and excessive lending are addressed.

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<sup>25</sup> <https://economictimes.indiatimes.com/small-biz/sme-sector/why-msme-samadhaan-scheme-is-not-working-and-how-to-fix-it/articleshow/88042809.cms>

<sup>26</sup> Financing India's MSMEs: Estimation of Debt Requirement of MSMEs in India; November 2018 *available at* [IFC Report \(Financing India's MSMEs\).cdr](#)

<sup>27</sup> [DIGITAL BANKS](#)

<sup>28</sup> [CUTS Comments on Niti Aayog Digital Banks](#)

**Austria** - In this context, the case of Austria is noteworthy. Austria's federal development and financing bank for the promotion and financing of companies offers guarantees of mezzanine investments in SMEs aimed at modernization, expansion, or acquisition of other companies.

#### **D.4 National Ranking System for MSME**

The Government of India (GOI) has increased its efforts to promote Ease of Doing Business (EODB). Currently, Niti Aayog is ranking each Indian state on the Ease of Doing Business Index at the state level but if Ease of Doing Business ranking is done at the district level then it will ensure Ease of Doing Business at the ground level.<sup>29</sup>

The EODB has also favourably impacted the MSME sector that is unanimously considered as the backbone of the Indian Economy. However, a lot more needs to be done to ramp up the contribution of this sector to the economy.

The State governments under this draft policy will make efforts to improve the regulatory and compliance ecosystem for MSMEs. In addition to this, a state-wise ranking index will not only promote competitiveness amongst states but also make MSME a focus area for all state wise reforms.

However, the ranking should not remain an on-paper exercise with feedback taken from states or district administration authorities, without corresponding efforts on the ground to make lives of MSMEs easier. A bottom up approach to understand challenges faced by MSMEs, designing a transparent action plan to address such challenges, and fix accountability of relevant officers will be critical for a beneficial ranking system.

#### **D.5 Gender-focused developments**

Along with industry-specific skill development, there should be a special focus on training, developmental programs. The difficulties identified by women-led MSMEs could be different from that of other MSMEs. Hence, **Step - 1** - Identification of such issues and **Step - 2** working towards such identified issues with gender-specific skill development programs is the need of the hour. This should be done both at state, centre and district level.

#### **E. Through its comments, CUTS international will focus on the following action areas from the Draft Consultation report.**

In the light of the vision and objectives, specific action areas need deliberations for a national policy to guide, motivate, and handhold states. Whereas intergovernmental actions define potential actions, the sectoral issues that provide the scope of work in respective areas to be taken up for these comments are:

##### **1. Legislation and Regulatory Framework for MSMEs in India**

##### **1.1 Reducing compliances for promoting EODB**

- a. India’s MSME faces multiple issues and one of them is a large number of compliance or compliance burdens. MSMEs are required to deal with 364 compliances in a year i.e. one compliance a day, with adverse consequences including penalties and imprisonments, in some cases of non-compliances.
- b. The cost of compliance for MSMEs is disproportionately higher, and may often derail MSMEs journey towards self-reliance. Despite EODB reforms, the regulatory landscape has not been able to simplify compliances for MSMEs so that they can confidently and directly deal with the government, without intermediaries and the need to invest substantial time and efforts.<sup>30</sup>
- c. To this end, the government should adopt a three step to identify and reduce compliances. First, identify the source of the compliance and whether it is beyond the scope of primary legislation; if found otherwise the compliances should be immediately scrapped. The second step will be to understand the rationale for the compliance and the purpose that it serves. Any compliance that is repetitive can be scrapped. When this is done, it is essential to ensure the proportionality of the compliance to the objective of the compliance. This will result in an efficient process and EODB for the MSMEs.

### The Three-Step Framework

Step	Question	Result	Result	Result	Result
1	Does the compliance fall within the scope of any law?	Yes	Yes	Yes	No
2	Are the forms, procedure, fees, conditions, essential to ensure compliance?	Yes	Yes	No	Not Required
3	Is implementation fast and simple?	Yes	No	Not Required	Not Required
	<b>Action needed</b>	<b>Retain</b>	<b>Amend</b>	<b>Abolish</b>	<b>Abolish</b>

## 1.2 District Level Appellate Commissioner

- a. There is an increasing menace that is plaguing all public departments and industries and that is of litigation. With access to judicial recourse becoming easier and with several loopholes in the regulatory framework, more and more litigations are pursued against industries.
- b. These litigations are often handled poorly by the department and the industries due to lack of subject matter expertise in the lower hierarchy (clerks and office assistants). These people are the one’s majorly responsible for dealing with case report preparation and timely resolution of cases. However, their education background disadvantages them from fully understanding the legalese. The majority of cases filed are at High

<sup>30</sup> [Laws: The real issue: Businesses need to comply with 194 labour laws, spend Rs 4.58 lakh per annum - The Economic Times](#)



Court Level, which is geographically and monetarily a challenge for the petitioner as well as respondents.

- c. Thus, an opportunity for the litigating petitioners should be presented for solving their grievances at the facilitation centres of each district. This can be ensured by maintaining the office of an appellate commissioner at the district and state level so that the state centre should become the key CenterPoint for grievance redressal. This needs to be done through prescribing a regulating framework in this regard.

### **1.3. Competition Policy to aid GOIs Efforts**

- a. The GOI has been making significant efforts to reinvigorate the MSMEs in the light of the COVID-19 pandemic. A competition policy is very much required to aid the government's efforts,<sup>31</sup> in order to identify and address policy and legal distortions to competition, that adversely impact MSMEs. Thus, it is important to have a National Competition Policy that promotes MSMEs for the country.

### **1.4 Sustainable MSMEs Framework**

- a. Environmental sustainability can coexist with profitability and economic sustainability of MSMEs as they have a better business model to internalise sustainability. In parallel, we need to identify emerging sectors where the potential for setting up new MSMEs is already high. Waste management, decentralised renewable energy or energy efficient constructions are such examples.
- b. MSMEs or entrepreneurs are part of the same society, where despite several laws and regulations, they tend to take sustainability concepts lightly, which further gets buttressed by lax and corrupt practices of law enforcers. Be that as it may, certain rules and regulations may also require review and be made less restrictive, yet achieving the same objectives.
- c. We can take clues from **Germany**, where MSMEs are the prime economic actors for some time now, and they comply with all the sustainability rules, which are of much higher standards from those being sought in India. MSMEs in South-East Asia, reportedly, have shown immense improvement in the near past.<sup>32</sup>
- d. Education and Guidance of Financial Management and Accounting Systems to MSMEs will guide them into becoming self-reliant at a faster pace.

## **2. Technology Upgradation /Adaption**

One of pressing issues that is impeding the MSMEs growth and development in India is the lack of technology and upgrade from time to time. It also makes small business unattractive in the international export market.

### **2.1 Resources**

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<sup>31</sup> ["Competition policy is required to reinvigorate MSMEs" – Arvind Mayaram | ccier](#)

<sup>32</sup> [MSMEs: A myth that sustainability for MSMEs cannot coexist with economic profitability: Pradeep Mehta, CUTS - The Economic Times](#)

- a. For any industry or sector to grow, it needs to walk hand in hand with the technology adoption and upgradation. For this reason, the MSMEs do not have enough knowledge, resources and finances to adapt and upgrade the technology. The government should promote such upgrades and adaptations through its policies and other advancements in terms of finances and resources.
- b. Various tech upgradation schemes have been launched, which also provides subsidies. Better implementation and reduction of compliance burden to avail such resources should be the focal point of the Policy.

### **2.3 Urban and Rural**

- a. Often policies tend to forget the divide between the rural and urban established MSMEs. This needs to be recognised and policies should complement industries in both rural and urban areas of establishments.
- b. One way to encourage such deficiency is to allow policy-based digitalisation through the adoption of ICT (Information Communication Technology) tools to aid production and marketing. Recent evidence (in the context of OECD countries) shows that the use of digital tools enables even micro enterprises to access international markets. However, even in developed countries, relative to large firms, SMEs' uptake of ICT is lower, and they face higher barriers to the adoption of several digital technologies in their operational activities.
- c. The adoption of ICT tools in Indian MSMEs is limited, to say the least<sup>33</sup> Given the educational background of owners and the locational background of Indian microenterprises, the challenge to acquire ICT tools will remain formidable. The government should work with civil society and industry associations to identify and address such challenges, and facilitate adoption of ICT tools by MSMEs.

### **2.4 Cyber Safe Practices for MSMEs**

The advancement in digital technologies has transformed businesses and processes across the globe. More importantly, the shift towards the adoption of digital technologies is prominent in developing countries, such as India.<sup>34</sup>

- a. All of these are sustained by an infrastructure called cyberspace, a connected internet ecosystem.<sup>35</sup> As in the offline world, the internet ecosystem also has its vulnerabilities and threats called cyber threats. These vulnerabilities and threats affect individuals and enterprises causing them losses of billions of dollars globally.<sup>36</sup> To this end, cybersecurity<sup>37</sup> strives to protect systems including networks, applications, and resources from cyber threats and cyberattacks.

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<sup>33</sup> [Modernisation of MSME Sector](#)

<sup>34</sup> [India's Trillion Dollar Digital Opportunity](#)

<sup>35</sup> [NITI Aayog](#)

<sup>36</sup> <https://assets.kpmg/content/dam/kpmg/in/pdf/2017/12/Cyber-Crime-Survey.pdf>

<sup>37</sup> International Telecommunication Union (ITU) defines cybersecurity as “collection of tools, policies, security concepts, security safeguards, guidelines, risk management approaches, actions, training, best practices,



- b. With lack of awareness, low organisational priority and lack of skilled personnel make MSMEs an easy target, according to a survey by ESET.<sup>38</sup> Indian MSMEs were the most vulnerable to cyberattacks for the consecutive three years leading to 2016. Lack of awareness or knowledge is a fundamental vulnerability where the MSMEs do not always know if they have been attacked or breached. Similarly, the business owners may not be aware that the data has been leaked, how much of their data has been leaked and what type of data has been leaked.<sup>39</sup>
- c. Some of the vulnerabilities of MSMEs in cybersecurity include a shortage of qualified personnel due to lack of affordability, lack of capital allocation for cybersecurity, using smartphones for business transactions, and employee carelessness.

CUTS International under its study ‘Cyber Safe East’<sup>40</sup> where it conducted workshops for MSMEs collated findings for best practices of cybersecurity for MSMEs. The following list of practices will direct the MSMEs towards a basic approach of cybersecurity<sup>41</sup>

Strategy	Description
Management and Employee Awareness	Awareness is the fundamental key to cyber precaution and protection. Understanding this basic approach, MSMEs should train the management and employees to identify phishing emails and messages, suspicious websites and regulate policy for use of personal devices on the official network.
Unified Threat Management/Firewall	The most primary and basic approach to securing a business is installing a firewall, intrusion detection system and intrusion prevention system.
System and Software Update	MSMEs should regularly update their computer systems, browsers, applications, antiviruses, etc. to patch security vulnerabilities in the system and software.
Paid Softwares and Tools	Data backups help safeguard and preserve organisational data, if it is lost due to a cyberattack. Thus, MSMEs should regularly backup data and distribute backup storages between cloud storage and servers including removable media if the data volume is not too large.
Engage IT Expert	MSMEs should employ a dedicated IT department to regularly monitor and review software and security configurations of the business.
Hiring Reputable Service Providers	MSMEs should be cautious and informed while hiring a service provider and assess if the provider invests in cybersecurity

assurance, and technologies to protect the cyber environment and organisation and user’s assets. *available at [Cybersecurity](#)*

<sup>38</sup> [Cyber Security: Here's why India's small businesses are sitting ducks for cyber criminals](#)

<sup>39</sup> [http://www.iiakm.org/ojakm/articles/2019/volume7\\_1/OJAKM\\_Volume7\\_1pp14-26.pdf](http://www.iiakm.org/ojakm/articles/2019/volume7_1/OJAKM_Volume7_1pp14-26.pdf)

<sup>40</sup> [Cyber Safe East India - Workshops on Cyber Security for MSMEs | CUTS Calcutta Resource Centre](#)

<sup>41</sup> <https://cuts-crc.org/pdf/briefing-paper-cybersecurity-challenges-for-indian-msmes.pdf>

	management and recovery framework if it loses business data in any cyberattack.
Multi-factor Authentication	To prevent any unauthorised access, MSMEs must add a layer of protection using multi-layer authentication.
Revisit Password practices	Businesses must adopt a password change policy for every device that should be updated every 60-90 days and ensure a policy to encourage creating complex passwords.

MSMEs must be incentivised and trained to adopt the aforementioned good cybersecurity practices. MSMEs which are able to adopt such practices should be appreciated and felicitated, to motivate other MSMEs to follow suit.

### 3. Skill Development

#### 3.1 Skill Development to include upskilling, reskilling, and vocational training or retaining competencies

India faces a mammoth problem related to its workforce, which is creating enough job opportunities for approximately one million people who become eligible unemployed workers, each month. The need of the hour hence is a massive expansion in small enterprises in the private sector over the current decade to absorb this ever-growing labour force. One of the ways to do it is to provide skilling facilities. Skill development and job creation go hand in hand.

- a. The policy only throws light on Skill Development and does not on board the importance of upskilling, reskilling, and vocational training.
- b. The policy should promote skill development by also facilitating growth in the skill during the course of work, meaning upskilling and reskilling as the economy advances in technology.

#### 3.2 Promote facilitation of MSMEs on the E-commerce platforms

- a. The policy advancement by the government is to promote and facilitate MSMEs expansion. The idea is to promote onboarding first-generation entrepreneurs and MSMEs to initiate and eventually, expand their businesses, given the greater ease of doing ‘digital’ business and lesser investments online compared to brick and mortar businesses.
- b. Onboarding MSMEs on digital platforms could be beneficial. MSMEs can penetrate into wider geographies and can sell their outputs across countries and globally.<sup>42</sup> This will allow them to tap distant markets without any physical presence.<sup>43</sup> The onboarded sellers will not have to invest further for distribution. Most e-commerce platforms

<sup>42</sup> [Protecting Consumers, Sellers and Platforms: A Case for India's Upcoming E-Commerce Industry](#)

<sup>43</sup> [Annual Report 2020-21](#)

provide for complete logistics. This serves a dual purpose - it grants a greater customer base to the small sellers; and in turn, enhances the number of jobs.<sup>44</sup>

### **3.3 Create MSME clusters to collaborate with companies offering innovative infrastructure, R&D institutions, and universities that specialise in a specific industry or knowledge area for skill development.**

#### **3.4 Identify multiple levels of imparting skill**

- a. Skill Development is the process of identifying the skills gap in youth and providing skilling training & employment benefits to them.
- b. Our education system does not address the idea of skilling youth who can be employed in manufacturing, service or the commercial sector.
- c. Customised programmes for skill development be made available both at state and central level. But before this, there should be proper channels to identify the issue of skill development, and the need to quantify such development through courses, training, workshops, meetings etc.
- d. The realisation for the need for skill development should not come only at the governmental level but should follow through the hierarchy (all stakeholders) in the industry along with the stakeholders in the value chains.

#### **3.5 Apprentices Act, 1961 and Apprenticeship Rules 1992<sup>45</sup>**

- a. The ground understanding of the Apprentices Act, 1961 and Apprenticeship Rules 1992 is absent among the industry players, State Governments, private players, etc. The legal provisions are interpreted differently by different people.
- b. The poor understanding of the legal provisions of the Act is adversely affecting the apprenticeship training. With no or obsolete knowledge on the Act, industries are not coming forward and the government's aim of achieving big numbers in the apprenticeship training seems difficult with addressing the root cause of the problem.
- c. Creating awareness about the industry reforms which have been done in the Act and the legal understanding needs to be developed among key stakeholders, especially industry, PSUs, MSMEs, etc.

#### **3.6 There should be specific skill development programs for women-led MSMEs**

- a. Along with industry-specific skill development, there should be a special focus on training, developmental programs. The difficulties identified by women-led MSMEs could be different from that of other MSMEs. Hence,
- b. **Step - 1** - Identification of such issues and **Step - 2** working towards such identified issues with gender-specific skill development programs is the need of the hour.

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<sup>44</sup> ['Creating an Informed Discourse on Good and Better Jobs in India'](#)

<sup>45</sup> [The Apprentices Act, 1961 \[Act No. 52 of 1961 - as amended by 27 of 1973\]](#)

### 3.7 Training and Courses

- a. There should be training and courses for updating MSMEs with government regulations, and other opportunities in place for growth. Following the hierarchies there should be courses for industry conduct, establishing a start-up, work-life management courses, etc.
- b. This will help industry players to develop skills that are not directly related to the working of the enterprises/business but also other qualities that may be required to run an MSME.

### 4. EoDB - Ease of Doing Business

With India's ranking jumping 79% in the World Bank's 'Ease of Doing Business Rankings' in the last four years, the world's fastest-growing economy is finally gaining acceptance as an ideal destination for setting up a business or manufacturing base. The government has introduced a number of business-oriented reforms and cut red tape in the last few years that have allowed India to climb rapidly and break into top lists. To develop an ecosystem, the need of the hour is to realise the pressing needs of MSMEs at a grassroot level.

The Union Budget 2022 focuses on ease of doing business for MSMEs by introducing policy interventions towards boosting liquidity, reducing input costs, and driving financial inclusion by mobilising post office infrastructure for banking services. However, experts say these measures are limited in their scope, focusing only on the formal sector when 90% of the MSMEs fall in the informal economy.

#### 4.1 Ease in Approvals and Registrations

- a. **Single window service** should be set up to give clearance for all the permissions to ensure faster and more efficient action. Single window service should be set up to give clearance for all the permissions to ensure faster and efficient action and decision-making along with contract enforceability and other legal reforms, flexible labour laws, and reforms like digitising land records, building new industrial infrastructure, and making available Land for setting up new enterprises in the MSME Sector.
- b. **Export** - This must also include the export procedures for MSMEs and the simplification of the procedures with the concerned authority.

#### 4.2 Investment Promotion Schemes<sup>46</sup>

- a. There are several promotion schemes launched for MSMEs at both the central and state levels. However, these promotional schemes are claimed to have stringent eligibility criteria for investments, complicated screening, and inspection processes, resulting in delays in the disbursement of incentives.<sup>47</sup>
- b. Several incentives under the scheme kick in after firms make desired investments, become operational, and generate revenue. Such post-facto incentives may not be much

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<sup>46</sup> [CUTS international - Reducing Regulatory Compliances in Rajasthan](#)

<sup>47</sup> [Scheme for Investment Promotion/Make in India](#)

attractive to firms that require upfront support, during starting of operations and might not have adequate working capital.

- c. High investment thresholds may disqualify micro and small enterprises (having the potential to generate significant employment).
- d. Such provisions may not inspire confidence and could discourage interested entities from applying and benefitting from the scheme. These need to be reviewed and reformed.

#### **4.3 Three-year exemption**

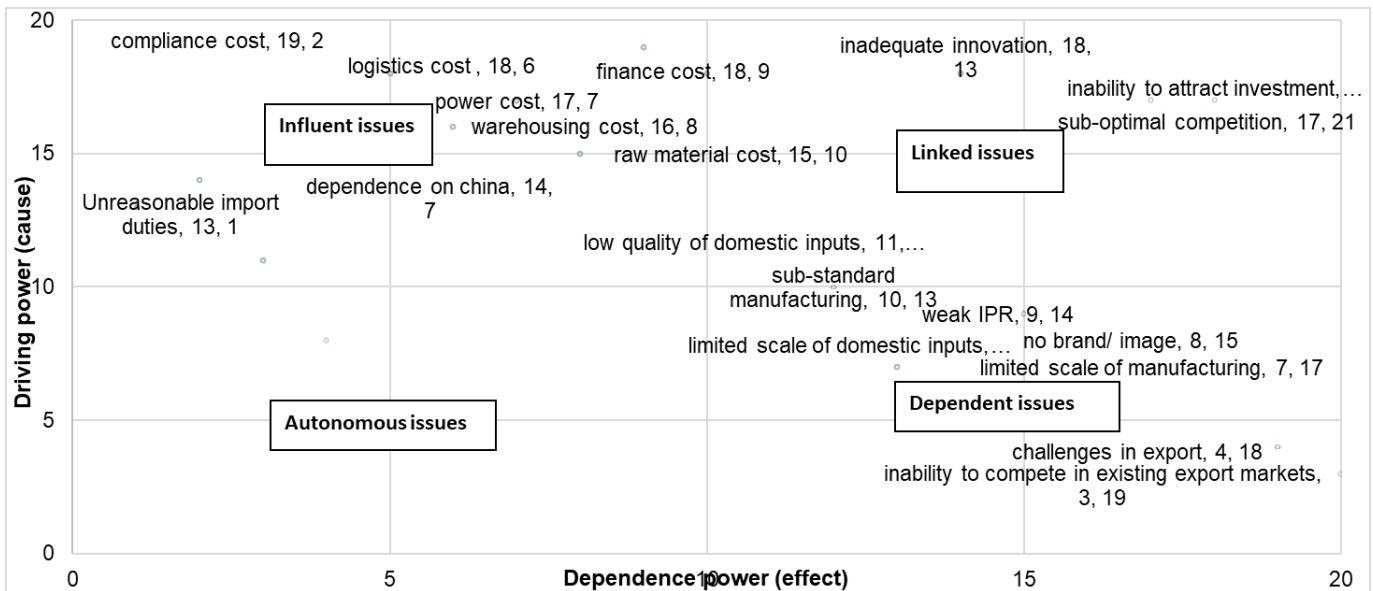
- a. Exemption of compliances for MSMEs for three years of their inception could quickly become a burden for enterprises after the end of three years. After this period ends, banks would be concerned about the viability of their business. Even prior, given banks are aware that MSMEs will have to face compliance-related challenges after 3 years, they might be reluctant to finance MSME-related projects. To address such issues, banks need to be nudged to provide finance to MSMEs. In addition, compliance facilitation officers can be deployed by government to support MSMEs in compliance management.
- b. Moreover, project financing is a major challenge, which often also delays projects leading to cost escalations. MSMEs are required to submit collateral despite government directions of collateral-free lending of up to Rs. 5 lakhs. There are schemes to reduce financing related charges for MSMEs but these are not implemented in spirit. The state-level banking committees and the financial corporation also are not interested to hear the woes of MSMEs. There is a need to address such challenges to ensure schemes and policies are implemented in the right spirit.
- c. There should be different classification of the Compliances and Cost of Compliances for MSMEs after three years of establishment. The current MSME compliance classification is similar to that of Industries, where there should be brevity in the compliance and further the cost of compliances for MSMEs post three-year requirement of compliances, is proportional to the risk.

#### **5. Intergovernmental roles and responsibilities**

To ensure better convergence and coordination among government departments at horizontal and vertical level, using elements of interpretive structural model (ISM), a framework could be designed to identify inter-relationships (forward and reverse relationships) among issues being addressed by government departments at different levels. Such framework could look something like this:

Issues/Areas of concerns	Import duties	China reliance	Inputs quality	Inputs scale	Logistics cost	Warehousing cost	Power cost	Input cost	Compliance	Finance cost	Tax issues	Production quality	Scale of production	Innovation	Brand/image	Investment	Export challenge
High import duties	X	R	F	F	0	0	0	F	0	0	0	F	F	F	0	F	F
Dependence on China		X	F	F	R	R	R	R	R	R	R	F	F	F	F	F	F
Quality of domestic inputs			X	F	R	R	R	R	R	R	R	F	F	R	F	FR	F
Scale of domestic inputs				X	R	R	R	R	R	R	R	0	F	R	FR	FR	F
Logistics cost					X	F	F	F	R	FR	FR	F	F	FR	F	FR	F
Warehousing cost						X	R	F	R	FR	R	F	F	FR	F	FR	F
Power cost							X	F	R	FR	R	F	F	FR	F	FR	F
Raw material cost								X	R	FR	R	F	F	FR	F	FR	F
Compliance cost									X	F	R	F	F	FR	F	F	F
Finance cost										X	R	F	F	FR	F	FR	F
Taxation issues											X	F	F	F	F	FR	F
Manufacturing quality												X	F	FR	F	FR	F
Scale of manufacturing													X	FR	R	FR	F
Inadequate innovation														X	F	FR	F
Weak brand/image															X	FR	F
Insufficient investment																X	FR
Challenges in export																	X

Issues in which strong inter-relationships is identified from the framework, can be represented in a power matrix for categorisation in four quadrants (autonomous, linked, influent, and dependent), indicating the power they exert on other issues. Such categorisation helps in prioritising issues that need to be resolved. An indicative representation is below.



Based on such power matrix, relevant policies and departments could identified wherein coordination and convergence is required, to address a specific issue. Specific measures to address such issue, taking into account existing policies and measures adopted by different government departments, can then be designed, in accordance with the steps mentioned below

Steps	Questions	Answers
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<b>Legitimacy:</b> There is clarity on objective of the proposed measure	1. Have the issues which need to resolved correctly identified? 2. Has the inter-relationship between issues adequately recognised? 3. Has necessary prioritisation of issues been done?	Yes	Yes	Yes	Yes	No
<b>Suitability:</b> There is no existing measure which could adversely impact the objective	1. Is there no existing measure which impacts the issues? 2. If there is an existing measure, is it effective? 3. If there is an existing effective measure, can it adversely impact resolution of prioritised issues?	Yes	Yes	Yes	No	Not required
<b>Necessity:</b> The proposed measure, in its current form, is essential to achieve the objective	1. Has the proposed measure been designed through inclusive stakeholder consultations, including those linked with existing measure? 2. Has the measure been compared with other possible alternatives, which have been rejected for valid reasons, before being proposed? 3. Is there clarity on how the measure will: resolve prioritised issues; work in tandem with existing measure; be implemented, including implementing agencies, milestones, outcomes, and timeframe?	Yes	Yes	No	Not required	Not required
<b>Proportionality:</b> Benefits of the measure are likely to outweigh its costs	1. Have the costs and benefits of the proposed measure on different stakeholders been assessed, including those linked with existing measure, if any? 2. Have necessary mechanisms to address implementation challenges proposed? 3. Have necessary mechanisms to mitigate possible unintended consequences proposed?	Yes	No	Not required	Not required	Not required
<b>Action required</b>		<b>Adopt</b>	<b>Amend</b>	<b>Redesign</b>	<b>Reform existing measure</b>	<b>Identify problem accurately</b>

Such coordination between government departments could be enabled through policy coherence units, constituted at central and state levels.

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CUTS International looks forward to The new policy for MSMEs from the Ministry of MSMEs and its acceptance of comments and recommendations given above, and assisting Ministry MSMEs in its endeavours of empowering consumers and individuals. We would be happy to make a presentation of our comments if the need for so arises.

For any clarifications/further details, please feel free to contact Neelanjana Sharma ([njs@cuts.org](mailto:njs@cuts.org)) and Tanya Goyal ([tng@cuts.org](mailto:tng@cuts.org)) .