



Empowering the MSMEs Digitally

 drishtias.com/current-affairs-news-analysis-editorials/news-editorials/19-03-2021/print

This article is based on “**How e-commerce marketplaces can drive MSME makeover**” which was published in The Indian Express on 18/03/2021. It talks about how the MSME sector of India is the backbone of its economy and how the involvement of e-commerce in the sector can help it thrive.

India’s economic landscape is defined by its **micro, small and medium enterprises (MSMEs)**. However, the sector is based on obsolete technology, which hampers its production efficiency.

With India’s goal of inclusive development, enhanced livelihoods and the notion of “vocal for local”, **e-commerce** marketplaces for the MSMEs become more significant.

With its ability to accelerate businesses, e-commerce could be a means for Indian MSMEs to unlock global value chains.

Moreover, automation in the production process for greater efficiency and availability of more channels to MSMEs to provide access to greater markets is the need of the hour.

MSMEs and e-Commerce

- **MSME:** As per data from the **Ministry of Micro, Small and Medium Enterprises**, almost 51% of Indian MSMEs are based in rural areas.
 - They often need exposure to large markets and expertise to be able to scale up and enhance capabilities.
 - Some of the challenges that MSMEs are faced with today are working capital crunch, supply chain bottlenecks, technological glitches, elaborate GST compliance framework, limited customer appetite for spending and many more.

The answer to some of these challenges lies in MSMEs embracing digital solutions for managing various aspects of their business.

- **e-Commerce:** The share of e-commerce in total retail has been growing consistently across the world, particularly in China, the US, and in countries in the Asia Pacific region.

Studies suggest that the India's e-commerce market is expected to expand to USD 84 billion by 2021 from USD 24 billion in 2017.

E-commerce could provide Indian MSMEs an opportunity to attract consumers and organizations from India.

Significance of Digitization in MSMEs

- **Connects MSMEs Globally:** It allows for small companies and startups located even in hinterlands to get their products to the national as well as global market.
 - It provides opportunities to artisans and small sellers from Tier-2/3 towns to sell online to customers beyond their local catchment.
- **Investment and Income:** E-commerce marketplaces are today the best possible enablers for this transformation at minimal cost, innovation and investment.
 - By investing in supply chains, the e-commerce sector provides opportunities for MSMEs to partner them in supply and delivery networks.
 - This leads to additional income generation through multiple livelihood opportunities and thus contributes to economic prosperity and inclusive growth.
- **Cost Effective:** E-commerce could also become a tool for Indian MSMEs to lower operational costs, increase revenue, acquire more customers and benefit from customer advocacy.
 - The online medium could help them access a seamless global supply chain at a fraction of the proportional cost of market access and delivery, freeing up cash for growth.

Challenges Associated

- **No Threshold Exemption from GST:** The businesses with an annual turnover of up to Rs 40 lakh are exempted from **GST**.
 - Sellers on e-commerce marketplaces do not get advantage of **GST threshold exemption** for intra-state supplies that offline sellers enjoy.
 - They have to “compulsorily register” even though their turnover is low.
- **Physical Principal Place of Business (PPOB):** In e-commerce, it is not quite practical for online sellers to have a physical PPOB.
 - It leads to increased complexities for MSMEs in registering in e-commerce marketplaces.
- **Lack of Access to Appropriate Infrastructure and Technology:** Buying the latest smart devices, best internet services, retaining skilled employees to manage digital systems and maintaining physical and digital infrastructure is also an expensive affair for small, nascent companies.

- **Lack of Awareness:** There are still many small and medium scale enterprises who are unaware of the impact of digital transformation and fail to build customer loyalty and retention as other e-businesses.
Moreover, MSMEs are resistant to augment digital technologies because cutting-edge technologies evolve faster, and they sometimes may not be able to match up with that advancement.
- **Maintaining a Database:** Storing, analyzing, and managing crucial structured and unstructured data to make business decisions is challenging for MSMEs.
Data, cloud, and system management along with the training required to handle them, leave MSMEs uncertain.

Way Forward

- **Dovetailing Existing Schemes with Technology:** Examine the **existing schemes and benefits for MSMEs**, which were formulated with an offline, physical market in mind, and tweak them to include the special needs to leverage online sales channels.
 - For example, MSMEs could be given fiscal incentives to access markets and invest in digital marketing. The objective is to incentivise those who shift to the digital mode.
 - Connecting the skilling policy and programmes with the requirements of the e-commerce sector to meet future demand of the sector.
- **Increasing Exports via e-Commerce:** Taking specific steps to increase exports via e-commerce. The steps may include:
 - Identifying products that have potential for the export market.
 - Connecting e-commerce with export-oriented manufacturing clusters.
 - Encouraging tie-ups with sector-specific export promotion councils.
 - Leveraging existing **Special Economic Zones** to create e-commerce export zones.
- **E-Commerce and Foreign Trade Policy (FTP):** The Foreign Trade Policy should identify the areas required by online sellers to succeed in global markets and include e-commerce export specific provisions in the upcoming revised policy. It may include:
 - Specific policy provisions providing incentives for e-commerce exports.
 - Enabling end to end digitization for e-commerce exports.
- **Role of Bigger Tech-Based Companies:** Many technology based companies are building exclusive tools to support small and medium scale enterprises by enhancing their business proficiency and profitability.
 - **Google Advantage** is one such initiative by Google India that facilitates MSMEs to use the growing online clientele base.
 - **Google My Business** is specifically developed to support startups, and MSMEs in India to succeed virtually.

- **Simplifying the PPOB Requirement:** The government shall simplify the PPOB requirement especially for online sellers by making it digital and not requiring physical presence to expand their reach outside their home state.
 - Replacing physical PPOB with Place of Communication.
 - Eliminating the need for state specific physical PPOB requirement will facilitate sellers to get state-level GST with a single national place of business.

Conclusion

- Manufacturing by small units, cottage units and MSMEs has been a major contributor to India's growth story.

These small sectors, if effectively facilitated by digitisation, will be the game changer to accelerate economic growth, employment, income levels and enhance supply chain efficiencies.
- Digital proficiency for MSMEs is vital to set foot in the online market successfully. Without that, the sector can not be future ready.

Drishti Mains Question

Digital empowerment is the key differentiator for the MSMEs Sector. Discuss the challenges and opportunities associated with the digitisation of MSME sector in India. (250 Words)
