



E-Commerce and MSMEs

This editorial is based on [“Amplify E-Commerce and Help All MSMEs Reach Markets Online”](#) which was published in Livemint on 01/02/2022. It talks about the significance of MSMEs shifting to e-commerce platforms and the challenges posed by the GST.

For Prelims: Micro, Small and Medium Enterprises (MSMEs), E-commerce, Goods and Services Tax (GST), Ease of Doing Business (EoDB).

For Mains: Challenges to development & growth of MSMEs, MSMEs - Shifting to e-commerce platforms and issue of GST compliance.

Covid-19 has caused a tectonic shift in all spheres of our lives, economy, entertainment, education, travel, etc. Businesses and services have become ever more dependent on technology.

In this context, the [Micro, Small and Medium Enterprises \(MSMEs\)](#), a significant major contributor to the India growth story, still lags somewhere behind.

[E-commerce](#) marketplaces are today the best possible enablers for digital transformation at minimal cost, innovation and investment. However, in this transformation, the [Goods and Services Tax \(GST\)](#) poses several roadblocks for MSMEs.

As India charts a post-covid roadmap to economic recovery, it will be crucial to evolve a GST policy that's sale-avenue agnostic, treating online and offline approaches of businesses alike.

MSMEs, E-Commerce and Indian Economy

What is the Contribution of MSMEs?

- **In GDP and Exports:** With around 36.1 million units throughout the geographical expanse of the country, MSMEs contribute around **6.11% of the manufacturing GDP** and **24.63% of the GDP from service activities**.
 - It contributes around **45% of the overall exports** from India.
- **In Growth and Development:** MSMEs **promote inclusive growth by providing employment opportunities in rural areas** especially to people belonging to weaker sections of the society.
 - It provides **opportunities for budding entrepreneurs** to build creative products **boosting business competition and fuels growth**.
 - However, **currently less than 10% of Indian MSMEs sell online** and 85% are unregistered.

Why is it Significant for MSMEs to Shift to E-Commerce Platforms?

- **Self-Reliance:** E-commerce can contribute significantly in **achieving the vision of 'vocal for local'** and **'Atma Nirbhar Bharat'**.
- **Expands Reach of Businesses:** It allows for products even **from hinterlands to get to the national market**, thus, providing opportunities to artisans and small sellers from Tier-2/3 towns to sell online to customers **beyond their local catchment**.
- **Significance for Start-ups:** By investing in supply chains, the e-commerce sector provides opportunities for MSMEs to **partner them in supply and delivery networks**.
 - Start-ups and young brands are also finding opportunities to build national brands and even go global.
- **Generating Jobs:** According to a report by Accenture and the Trust for Retailers and Retail Associates of India, **digitizing just 10% of India's 13 million general stores** has the **potential of generating an estimated 3.2 million new jobs** in the country.

What Issues does GST Pose?

- Under the current framework, many **small businesses may not be able to transition** to e-commerce platforms **due to their GST registration related issues**, posing a hurdle in accessing the large customer base that global e-commerce majors offer.
- The e-commerce sector also suffers in terms of **Ease of Doing Business** online. Sellers on e-commerce marketplaces **do not get advantage of GST threshold exemption** (of Rs 40 lakh) for intra-state supplies that offline sellers enjoy because the online sellers have to **"compulsorily register"** even though their turnover is low.
- MSMEs operating through online platforms are burdened with cumbersome and **time-consuming periodical compliance needs** like registration and the **monthly filing of returns**, which further dissuades them from registering under the GST Network.
- The discrepancy between registration thresholds for online and offline sellers, coupled with a complex GST registration process, can prove a major deterrent for small businesses keen to venture into e-commerce platforms to expand their businesses. This also results in an indirect tax revenue loss for the government.

What are the Other Challenges?

- **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.

What is the Way Forward?

- **Push for Digitization of MSMEs:** As India's economic recovery remains fragile, it would be **prudent to help fast-track India's e-commerce sector** and the onboarding of MSMEs.
 - Micro, small and medium enterprises (MSMEs) will definitely flourish with **technology and digitization of their processes, inventory management and interface with markets**, either directly or via the e-commerce ecosystem.
 - We must proactively get MSMEs selling online, as also artisans and farmer-producer organizations scattered across India, and provide them marketing support.
- **An Enabling GST Ecosystem:** In the spirit of empowering small retailers and not placing online platforms at a disadvantage to brick-and-mortar businesses, **MSMEs should be liable for GST only at the threshold value**, irrespective of whether they sell offline or online.
 - **GST parity, in terms of registration, between offline and online sellers** would help in integrating small business owners in the country with the e-commerce ecosystem.
 - Also, amending the rules to **allow small offline sellers to sell online without needing**

a **GST registration** will increase GST and income tax collections for the government, **increase control and transparency**, and improve **efficiency of tax collection**.

- **Assistance from Tech-Giants:** 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 can **simplify the PPOB requirement by making it digital** and not requiring physical presence to expand the reach of MSMEs.
 - **Eliminating the need for state specific physical PPOB** requirements will facilitate sellers to get state-level GST with a single national place of business.

Conclusion

E-commerce has clearly played a phenomenal role in the rise of economies such as China's. India must catch up fast with its domestic and export potential. In its quest to achieve a \$5 trillion economy, the Government of India should **boost digitalization, push inclusivity in ways that support MSMEs, ensure GST parity** and empower small businesses to venture into the online ecosystem and diversify their operations.

Drishti Mains Question

Discuss the issues associated with the transition of MSMEs from conventional offline methods of doing business to e-commerce platforms.