



## Boosting Exports From MSMEs

**For Prelims:** [NITI Aayog](#), [Micro, Small, and Medium Enterprises](#), [Goods and Services Tax](#), [Reserve Bank of India](#), [RoDTEP Scheme](#), [Export Credit Guarantee Corporation \(ECGC\)](#), [Market Access Initiative](#), [Micro & Small Enterprises Cluster Development Programme](#), [Credit Guarantee Scheme for MSME](#), [Gross Domestic Product](#)

**For Mains:** Boosting Exports from MSMEs: NITI Aayog, Indian Economy and issues relating to planning, mobilisation of resources, growth, development and employment, Role of digitalization and technology adoption in MSMEs, Role of MSMEs in rural development

### Introduction

Recently, the [NITI Aayog \(National Institution for Transforming India\)](#) has released a report titled **Boosting Exports from MSMEs** focusing on improving exports from [Micro, Small, and Medium Enterprises \(MSMEs\)](#) in India.

- The report emphasizes the significant role MSMEs play in the Indian economy, contributing to employment, exports, and economic growth.

### What is the Overview of the MSME Sector in India?

- **Changing Definition of MSMEs:**
  - The [MSME Development Act, 2006](#) was revised in 2020, increasing the **investment and turnover limits for micro, small, and medium enterprises**.
  - The revision aimed to prevent the loss of benefits by raising the low threshold limit and incorporating turnover as a defining measure.
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Table 2.1: Revised Definition of Micro, Small and Medium Enterprises

Parameters	Micro	Small	Medium
Investment in Plant and Machinery	< 1 Crore INR	< 10 Crore INR	< 50 Crore INR
Annual Turnover	< 5 Crore INR	< 50 Crore INR	< 250 Crore INR
No. of MSMEs (Based on NSS data)	6.3 Crore	3.3 Lakh	5 thousand
No. of MSMEs (Based on Udyam data as on 31st March 2023)	1.5 Crore	4.6 Lakh	41 thousand

#### ▪ **Growth Trends in the MSME Sector:**

- Between **FY 2019 and FY 2021**, India witnessed a steep rise in establishing new MSME units, with around **40 lakh new units**.
  - An increase in new **micro-enterprises primarily drove the growth**.
- The share of MSME units engaged in manufacturing witnessed a **7% growth over the past eight years, with 38% of the total 54 lakh MSME units** now involved in manufacturing activities.

#### ▪ **Distribution and Concentration:**

- The majority of manufacturing activity suitable for export is concentrated among **small and medium enterprises** within the MSME sector.
- According to the **2020-21 Annual Report of the Ministry of MSMEs**, the top five states with the highest concentration of manufacturing MSMEs are **Uttar Pradesh, Maharashtra, Tamil Nadu, Karnataka, and Gujarat**.

#### ▪ **Formal Regulation:**

- The MSME sector in India comprises approximately 6.34 crore enterprises, with the majority (approximately 6.3 crore) being **microenterprises with less than 20 workers**, placing them **outside of most formal regulations**.
  - Only around **12.8 lakh enterprises exceed the 20-worker threshold** and are considered part of the formal system.
- Among the 13 lakh enterprises registered in the **Provident Fund database**, approximately 70,000 have revenues exceeding 5 crores, moving them from the micro to the small category.
  - The remaining 9.3 lakh enterprises, despite having more than 20 workers, still fall under the **micro-segment in terms of revenue definition**.

#### ▪ **Policy Landscape and Challenges:**

- The current policy landscape in India and economic packages primarily benefit small businesses but **inadvertently discourage them from surpassing certain thresholds** and expanding operations.
  - For example, the **Industrial Disputes Act of 1947** only requires government permission for employee retrenchment in companies with over 100 employees, **allowing smaller firms to dismiss employees**
    - This restriction **inadvertently incentivizes MSMEs to remain small**, hindering their ability to reap the benefits of economies of scale, and access to larger markets and resources, as well as attracting investments for innovation and expansion. **without this restriction**.
- Despite being beneficiaries of various support initiatives, many MSMEs face challenges in capitalizing on economies of scale, limiting their growth potential.

#### ▪ **Export Potential and Underperformance:**

- Despite India's large population, a **substantial portion of it remains economically disadvantaged**, leading to limited purchasing power. As a result, the effective size of the **Indian market is smaller than expected**.
  - The combination of **high competition and a small market size** creates a challenging growth environment for manufacturing MSMEs.
- Therefore, exporting is crucial for Indian MSMEs to overcome size limitations and unlock growth potential.
  - Exporting can benefit **54 lakh manufacturing MSMEs** by expanding their **customer base, increasing revenue and profit, diversifying their customer base**, and enhancing their reputation as a global player.
- Despite the opportunity, only a small percentage (0.95%) of MSMEs engage in exporting.
  - Out of 1.58 crore registered MSMEs, only around 1.5 lakh units claim to export their goods and services.

#### ▪ **Estimating MSME Exports:**

- There is a discrepancy between MSME exports and total exports in India. The estimation of exports originating from MSMEs is currently based on an outdated list known as the '**List of Items Reserved for Purchase from Small Scale Industries**.'
  - This list mandated by the Government of India required certain products to be procured exclusively from MSMEs.
- **Nullification of the protected goods category** necessitates **revision of the**

**estimation procedure**, highlighting the need for updating methodology to reflect current market dynamics.

- Discrepancies between **self-reported data (Udyam)** and the government's official estimates result in inflated figures for MSME exports, leading to inaccuracies.

## What are the Opportunities For MSME Exports?

### ▪ Skill-Intensive Nature of Exports:

- Both manufacturing and services exports are skill-intensive.
- India's specialization has shifted towards more skilled-intensive exports like auto parts, **electronics**, machinery, and pharmaceuticals.

### ▪ Underutilization of Low-Skill Manufacturing Potential:

- India has **not fully exploited the Lewis curve for low-skill manufacturing** exports.
  - Lewis assumed that the labour market in the modern sector is perfectly competitive, in which case the marginal product curves are the actual demand curve for labour.
- India has a competitive advantage in exporting low-skilled exports such as **apparel, textiles, leather, and footwear** but has consistently underperformed in this area.
  - Despite having a large working-age population and significant employment in manufacturing MSMEs, India's share of global exports of **low-skilled manufacturing products is only 5%**.
  - **India lags behind Vietnam, Bangladesh, and China in the proportion of low-skilled goods exports relative to the size of the working-age population.**
- Low-skilled exports **increase merchandise export share without competing for resources** from skilled manufacturing, benefiting the country. This also allows MSMEs to leverage their strengths and grow sustainably.

Product Category	India's Share (in \$bn.)	Global Exports (in \$bn.)
Herbal Supplements and Ayurveda Products	1.1	13.2
Wood Products	2.3	152.9
Handicrafts	1.1	109.3
Leather Products	1.4	28.9
Handloom Textiles	1.6	13.8
Jewellery	0.2	8.2
<b>TOTAL</b>	<b>7.6</b>	<b>326.2</b>

Table 3.2: Global Market and India's Contribution in Exports of Products Categories suitable for MSMEs\*

### ▪ Natural Fit Industries:

- Certain industries like wood products manufacturing, **ayurveda** and herbal supplements, handloom textiles, handicrafts, leather products, and jewellery are well-suited for MSME exports.
  - They possess a **unique aesthetic appealing to consumers abroad**, providing Indian manufacturers a competitive edge over products from other countries.
- They utilize traditional manufacturing techniques and craftsmanship, are labour-intensive, require low investment, and benefit from product customization and **India's heritage value in international markets.**

Manufacturing Industry	Product Categories
 Wood and wood products	<ul style="list-style-type: none"> <li>• Manufacture of products of wood, cork, straw and plaiting materials</li> <li>• Wooden frames for paintings, photographs, mirrors or similar objects</li> <li>• Wood marquetry and inlaid wood; caskets and cases for jewellery or cutlery, and similar articles</li> <li>• Wooden furniture for offices and homes</li> <li>• Furniture of bamboo</li> </ul>
 Textiles and Leather	<ul style="list-style-type: none"> <li>• Woven fabrics of silk, combed wool of handloom</li> <li>• Cotton durries of handloom</li> <li>• Gloves, mittens, and mitts; Of handloom</li> <li>• Bed sheets and bed covers, of cotton, Handloom</li> <li>• Other bed linen, printed: of cotton: Handloom</li> <li>• Carpets, rugs and mats of handloom</li> <li>• Embroidery on a textile fabric ground, in the piece, in strips or in motifs</li> <li>• Dress materials hand printed: - Of cotton and of various other fabrics</li> <li>• Handbags, whether with shoulder strap, including those without handle</li> <li>• Articles of a kind normally carried in the pocket or in the handbag: Wallets</li> <li>• Articles of apparel and clothing accessories, of leather or composition leather</li> </ul>
 Other Manufacturing	<ul style="list-style-type: none"> <li>• Imitation jewelry</li> <li>• Candles and the like</li> <li>• Agarbatti and other odoriferous preparations which operate by burning</li> <li>• Handbags of other materials excluding wickerwork or basket work</li> <li>• Parts of domestic decorative articles used as tableware and kitchenware</li> <li>• Handmade paper and paperboard of any size or shape</li> <li>• Essential oils, whether terpene less, incl. concretes and absolutes; resinoids</li> <li>• Herbal Supplements</li> <li>• Toys</li> </ul>

Table 3.1: Product categories well suited for exports from MSMEs

#### ▪ Utilizing E-commerce for Export Growth:

- MSMEs need to operate at a sufficiently large scale to maintain sustainable profit margins in exports.
- Majority of Indian exporters generate modest revenues, making channels like **e-commerce** more feasible.
  - India's **cross-border e-commerce trade** represents a modest **USD 2 billion**, accounting for only **0.5% of total merchandise exports and 0.25% of global business-to-consumer (B2C) e-commerce exports**.
  - Projections suggest that by the end of the decade, e-commerce exports from **India could reach USD 350 billion, comprising one-third of its total exports**.
  - Globally, the B2C e-commerce market is expected to reach USD 8 trillion, **indicating significant growth opportunities for India in this sector**.
- Lack of awareness, understanding, and regulatory support hinders India's presence in the global B2C e-commerce market.



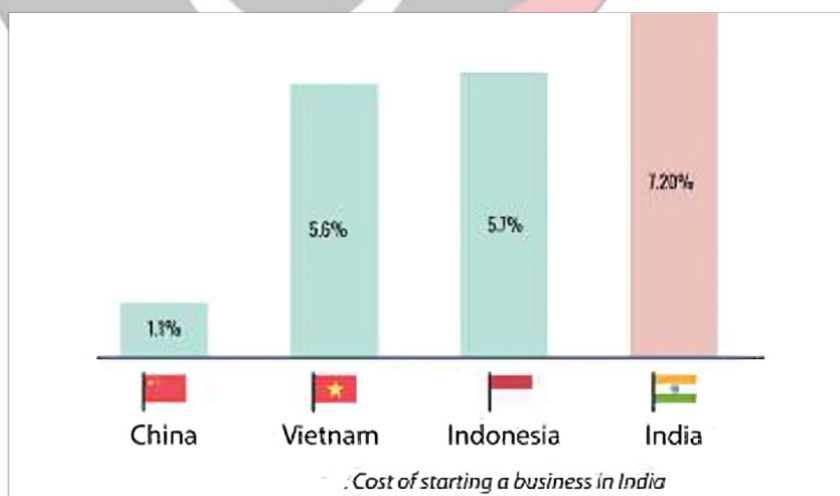
Figure 3.2: Top e-commerce product categories with high growth and Indian "Heritage" products

## What are the Challenges in Boosting Exports From MSMEs?

### ▪ Business Environment:

#### ◦ Heavy Regulatory Burden:

- Manufacturers in India face extensive regulatory requirements including business registration, taxation, environmental regulations, labor laws, and **intellectual property rights**.
- Compliance is **resource-intensive and time-consuming**, with potential financial costs and personal liability for non-compliance.
- Compliance mistakes can result in **financial costs** for the company and personal liability for the promoters.
- The **cost of starting a business in India is high**, requiring numerous procedures and approvals.



#### ◦ Dissonance between Policies and Implementation:

- Lack of harmonization between policies and practical implementation creates hurdles

during the export process.

- Different interpretations of policies increase compliance burdens, leading to delays and complications, such as unnecessary document requests by banks.
  - For example, despite the [Income Tax Law of India](#) not requiring **Form 15CA or 15CB** for payments made for purchase of goods from foreign vendors, banks often request these forms, causing delays in payment processing and impacting vendor payments and delivery to customers.

- **Testing and Certification Challenges:**

- Limited availability of specialized labs results in **delays in product testing and certification**, hindering timely shipments.
  - Obtaining certifications is time-consuming and costly, particularly for MSMEs, limiting their access to international markets and competitiveness.

- **Import Duties on Samples:**

- Customs authorities **impose high duties and taxes on imported samples**, creating working capital blockages for importers.
  - Inadequate exemptions under Customs Law exacerbate the financial burden on importers.

- **Export Incentives for E-commerce:**

- Existing export incentives **primarily favour cargo shipping, disadvantaging e-commerce exporters using courier mode.**
- **This creates a barrier for e-commerce exporters, limiting their access to programs like the [Remission of Duties and Taxes on Exported Products \(RoDTEP\) scheme](#) and [Advance Authorisation](#), and hindering their ability to benefit from government support.**

- **Taxing Merchandise Export Procedure:**

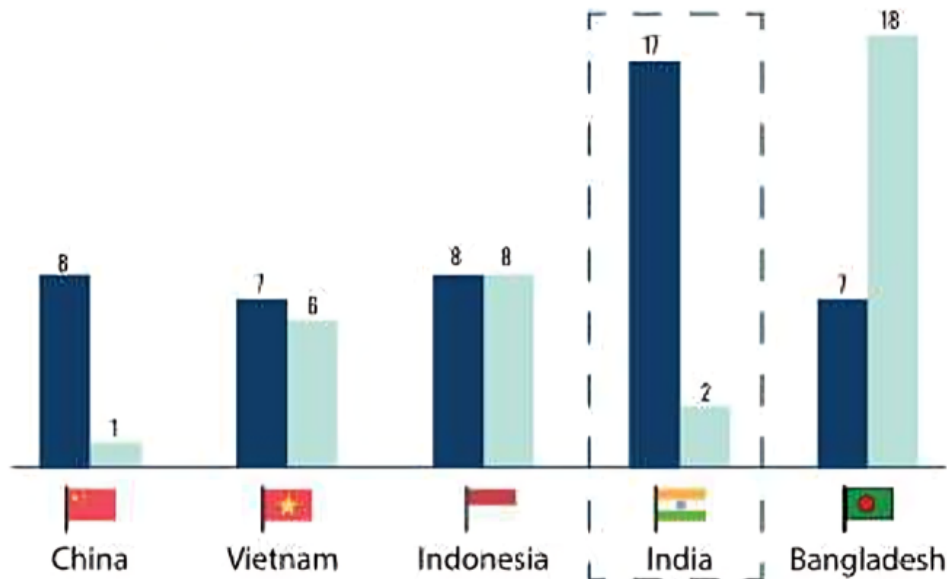
- **Fragmented Coordination:**

- Exporters must coordinate with five different government authorities: **DGFT (Directorate General of Foreign Trade)**, Customs, **[GST \(Goods and Services Tax\)](#)**, Banks, and later the **[RBI \(Reserve Bank of India\)](#)**.
  - This fragmented process requires repeated filing of similar documents and details to each authority, increasing resource burden and time wastage.

- **High Volume of Paperwork:**

- Extensive documentation requirements, including export licenses, invoices, and packing lists, pose a challenge.
- Pre-shipment and post-shipment documentation processes are time-consuming and complex, especially for inexperienced exporters.
- **India takes on average 17 days to clear exports through customs, despite exporters taking only 2 days to fill documentary compliances.**

● Days to clear direct exports through customs      ● Time taken to fill all the documentary compliance(days)



Number of days it takes to complete export related documentary compliances and get custom clearance at ports

#### ◦ **Delays Due to Customs Sampling:**

- Random sampling of shipments by customs for quality verification can cause shipment delays.
- Sampling, examination, and clearance processes extend shipping timelines, impacting timely delivery and causing logistical challenges.

#### ◦ **Tedious Payment Reconciliation:**

- The Payment reconciliation process for imports and exports remains a major pain point.
- Stringent criteria for settling shipping bills against export proceeds, a resource-intensive process with no room for error.
- Failure in reconciliation results in fines and lengthy correction processes, adding to operational challenges.

#### ▪ **Accessing Finance for MSMEs:**

##### ◦ **Limited Access to Formal Finance:**

- Only **16% of the total credit demand** of the MSME sector in India is fulfilled by commercial banks, NBFCs, and FinTech.
  - Access to capital is crucial for sustaining daily operations and driving business growth.
- Avendus Capital Private Limited estimates the **total finance demand for MSMEs to be USD 1,955 billion**, with a significant portion remaining unaddressable.

##### ◦ **Trade Finance Gap:**

- The entire MSME finance gap is estimated to be close to **USD 5 trillion, hindering their growth.**
  - The trade finance gap alone is estimated at over USD 1.5 trillion, with a rejection rate of 45% for MSME proposals.
- Reasons for the gap include a higher risk profile, lack of collateral, complex documentation, and high costs of services.

##### ◦ **Micro-enterprises Facing Credit Deficit:**

- Lack of collateral and high-risk perception by lenders lead to loan denials, with **40% of micro-enterprises being denied loans due to lack of collateral.**

##### ◦ **Accessing Working Capital:**

- Nearly **70% of the SME sector's debt demand comprises working capital demand.**
  - Lack of access to working capital credit negatively impacts the growth of small manufacturers, as working capital is essential for every step of production.

- **Limited Market Access:**

- **Lack of Exposure:**

- MSMEs often **lack exposure to global markets**, resulting in **limited awareness of demand** and quality standards.
- Absence of **market intelligence leads** to a limited understanding of **consumer preferences, trends, and competitors.**
- Conducting **market research and effective marketing** is **challenging** due to resource constraints.

- **Difficulty Finding Buyers:**

- New exporters **struggle to locate buyers in international markets** due to **lack of networks and market familiarity.**
  - Identifying potential buyers and accessing distribution channels poses challenges for first-time promoters.
- Awareness of distribution channels like **trade fairs and e-commerce platforms** is limited, hindering outreach efforts.

- **Non-Tariff Barriers:**

- MSMEs face non-tariff barriers such as **technical regulations and certification requirements abroad.**
- Compliance is complex and costly, especially for small businesses with limited resources.

- **Accessing Export Information:**

- **Lack of Consolidated Information:**

- Indian MSME exporters struggle to **access basic information on merchandise exports and market research.**
- There is a lack of a **verified and consolidated source** of information on the entire export value chain, making it difficult for exporters to find information on export procedures.
- The information is **scattered across different government department websites**, and the **complex presentation** and technical terms used further complicate the process.

- **Limited Market Research Resources:**

- Indian businesses **lack tools or channels for conducting product and country-specific market research**, which discourages aspiring MSMEs from exploring export opportunities.

- **Obscurity of Post-Shipment Procedures:**

- Lack of accessible information on **post-shipment procedures leads to delays and financial setbacks.**

- **Fragmented Government Support Schemes:**

- Government support details are scattered across various sources, making it challenging for exporters to access them.

- **Policy Landscape:**

- **Commentary on Existing Initiatives:**

- **Lack of Clear Information:**

- Absence of a consolidated list of government incentives for exporters.
- Information on **export promotion schemes** scattered across various government sources.
- Scheme-related documents **often lack clarity** and clear descriptions of covered activities.
- Outdated information on government websites adds to the confusion.

- **Eligibility Design Hurdles:**

- Schemes with upfront eligibility criteria require significant effort and resources.



- Lack of clarity in eligibility criteria complicates the application process.
- Overlaps in benefits and mandates among different schemes create confusion for MSMEs.
- **Gaps in the Policy Ecosystem:**
  - **Integration into Global Value Chains:**
    - Lack of policies providing incentives for MSMEs to upgrade to international quality standards.
    - Need for initiatives supporting the establishment of testing and certification labs and assisting MSMEs in obtaining certifications.
  - **E-commerce Policy:**
    - Absence of a comprehensive e-commerce policy tailored to address challenges faced by e-commerce exporters.
  - **Support for New Exporters:**
    - Initiatives required to alleviate compliance burden for new exporters, including waiver of non-compliance fines for initial shipments.

## What are the Recommendations for Boosting Exports From MSMEs?

- **Create One Stop Information Channel for Exporters:**
  - The current landscape of Indian MSME exports shows that only a small fraction of **MSMEs have the capabilities for direct exports, accounting for less than 1%** of all MSME units.
    - Existing exporters have the necessary products, resources, and technology. However, they **face challenges in accessing information on export procedures, compliances, and market regulations.**
  - There is a **need for a comprehensive and regularly updated platform for exporters**, similar to **the United States International Trade Administration (US ITA) portal.**
  - The **proposal is to introduce an intelligence portal with [Generative AI capabilities](#)**, including a chatbot to provide information on export regulations, compliance, finance, market access, and government initiatives.
    - The portal will have **modules for basic information** and market research, with enhanced features. It will offer comprehensive resources, a user-friendly interface, and up-to-date information, similar to the US ITA portal.

 <p><b>Learn How to Export/Import</b></p> <ul style="list-style-type: none"> <li>-HS Codes</li> <li>-Export Procedure</li> <li>-Document Requirement</li> <li>-Regulatory compliances of top export destinations from India</li> </ul>	 <p><b>Where to find buyers/sellers</b></p> <ul style="list-style-type: none"> <li>-E-Commerce</li> <li>-Direct B2B exports</li> <li>-Deemed exports / Indirect exports</li> <li>-Global value chains</li> </ul>	 <p><b>Trade Statistics and Reports</b></p> <ul style="list-style-type: none"> <li>-Country reports</li> <li>-Top export destinations</li> <li>-Top products exported</li> <li>-Top MSME product categories and export destinations</li> </ul>
 <p><b>Obtain financing</b></p> <ul style="list-style-type: none"> <li>-Financial instrument for exporters</li> <li>-Trade finance products from Banks/NBFCs/Fintechs/ECGCs</li> </ul>	 <p><b>Government Support</b></p> <ul style="list-style-type: none"> <li>-Incentives for exporters</li> <li>-Incentives /Schemes for first time exporters</li> <li>-Major govt. initiatives to boost exports</li> </ul>	 <p><b>Capacity Building</b></p> <ul style="list-style-type: none"> <li>-Self paced modules on 'how to ship your product'</li> <li>-Self paced modules on 'how to do market research,</li> </ul>

*Information required in "basic information" module*

- **Introduction of National Trade Network (NTN):**
  - Exporters currently face the challenge of navigating **multiple portals for approvals**, licenses, certifications, and payment receipt.
  - The process involves cumbersome navigation through various interfaces, including the

physical submission of documents.

- Establishing an end-to-end **National Trade Portal (NTN)** can streamline the entire export process.
- The NTN will offer a seamless experience for exporters, providing assistance with queries and resolving paperwork gaps.
- Implementation of NTN will reduce process burden and delays for MSME exporters, enabling them to compete effectively.
- The NTN streamlines customs by using big data for intelligent inspection selection, **automating entry tax deductions with [Radio-Frequency Identification \(RFID\) tags](#)**, and **enabling real-time container tracking**.
  - It ensures seamless document flow, automatic payments, and direct deposit of duty drawbacks, minimizing the need for physical bank visits unless fraud issues occur.
- Overall, NTN ensures a smoother, automated, and transparent export process.
- The **Ministry of Commerce can lead the initiative** by forming a task force to review previous efforts like the **[Society for Worldwide Interbank Financial Telecommunication \(SWIFT\) messaging system](#)** and devise a timebound program for NTN implementation.

- The goal is to create a national trade network on par with global standards, enhancing efficiency and competitiveness in international trade.

#### ▪ **Promote E-commerce Exports:**

- Access to markets is a significant obstacle for MSME exports, but e-commerce offers a solution.
  - China's MSME e-commerce exports surpass USD 200 billion, while India's stands at only USD 2 billion.
- Cumbersome compliance processes, especially payment reconciliation, hinder e-commerce export growth.
- **Methods to Boost E-commerce Exports:**
  - Currently, Indian export regulations dictate that the exporter must be the owner of the product, and export proceeds must be received in the exporter's name.
    - This poses challenges for **MSMEs and solo entrepreneurs** in cross-border e-commerce sales, as they must act as both the **product owner (Seller on Record - SOR) and the exporter (Exporter on Record - EOR)**. This dual role increases the burden of meeting export compliance requirements and handling payment reconciliation processes, particularly as sales volumes grow.
  - **Distinguishing between SOR and EOR** would allow sellers to focus more efficiently on manufacturing while leaving selling and compliance tasks to specialist players, thereby freeing up time and resources for business growth.
  - Allow reduction in invoice value without a percentage ceiling for all e-commerce exports.
  - Introduce an **annual financial reconciliation process for e-commerce exporters** to streamline operations.
  - **Exempt import duties on rejects/returns to reduce financial burden on exporters.**
  - Consider exemption on reconciliation requirements for shipments up to USD 1000 until NTN is implemented.
  - Establish a green channel clearance for e-commerce exports to expedite customs procedures.

#### ▪ **Promote Ease of Merchandise Exports:**

- **[Ease of Doing Business](#)** initiatives should extend to export processes, especially focusing on MSME exporters.
- MSMEs can be granted **relaxation from certain compliance requirements** initially to facilitate their entry into export markets.
  - Forgiveness on errors should be considered as MSMEs learn and adapt to the requirements of export markets, promoting a supportive environment.
- A streamlined process should be established for the **time-bound disbursement of incentives to MSMEs** to ensure that **their working capital is not blocked**.
  - Timely disbursement of incentives is crucial for MSMEs to maintain liquidity and

sustain their export operations effectively.

- These measures will not only reduce the burden on MSME exporters but also encourage their participation in international trade, contributing to economic growth.
- Allow reasonable variations in **duty-free imports under advance authorization** by permitting the duty-free import of components/goods for export under the scheme.
  - Current regulations penalize slight variations between license and actual export, leading to litigation.
  - **Proposal: Allow 2-5% deviation to accommodate reasonable explanations** such as loss, damage, or defects, reducing persecution in genuine cases.
- **Improve Access to Export Finance:**
  - Access to finance is a major challenge for MSMEs. **Promoting Export Credit Guarantee can improve** working capital for MSMEs.
    - Currently, only 10% of MSMEs are using [Export Credit Guarantee Corporation \(ECGC\)](#) schemes.
    - The primary objective of **ECGC**, India's apex export credit guarantee institution, is to **protect Indian exporters against the risks of non-payment by foreign buyers** due to commercial or political reasons.
    - In FY22, ECGC insured all exports from India, totalling USD 75 billion. However, this figure is significantly **lower compared to Sinasure, China's state-owned enterprise**, which insured approximately 25% of all Chinese exports, totalling USD 900 billion in FY22.
  - There's an opportunity to increase awareness of the ECGC scheme among exporting SMEs and enhance its attractiveness by including **interest rate subvention as part of the package**.
  - **The government should introduce incentives to create a single marketplace for export credit providers, similar to higher education loans, which can lower costs for MSMEs.**
  - These measures aim to reduce financial constraints on MSMEs, enabling them to engage in international trade and support economic growth.
- **Ensure Accurate Measurement:**
  - **Insufficient reliable data hinders accurate measurement of MSME exports.**
    - Current estimates are **likely inflated due to outdated reserved sector lists**.
  - Accurate measurement and consistent tracking are crucial for initiating improvements.
    - Proposed integration of **Directorate General of Foreign Trade** data with GST and income tax data using PAN numbers as a common identifier.
    - By mapping MSME exports using existing departmental data, such as GST returns and income tax filings, firms' annual turnover and investment in plant and machinery can be determined.
    - This enables classification into Micro, Small, and Medium enterprises based on turnover and investment criteria, as per MSME classifications.
  - Reluctance to share information across government departments is a challenge. Suggest forming a committee with representatives from DGFT, the finance ministry, and the MSME ministry create a mechanism for **sharing necessary information without compromising confidentiality**.
  - This collaborative approach aims to ensure accurate depiction of MSME exports for informed policymaking and interventions.
  - The **Trade Statistics of Small and Medium-sized Enterprises (TSSME) in Japan**, offers detailed statistics on export and import activities of SMEs. Updated annually, it includes data on the number of SMEs engaged, export destinations, and exported product types.
    - Utilizing data from **GSTN registrations and income tax records, a portal akin to TSSME** can be developed to publish periodic reports on merchandise exports from MSMEs. These reports would highlight exporter numbers, top products, destination countries, and export types, facilitating informed decision-making and trend analysis.

## What are the Government Initiatives Related to MSMEs?

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## Initiatives to Support Access to Finance

<p><a href="#"><u>Credit Guarantee Scheme for MSME - I &amp; II</u></a></p>	<ul style="list-style-type: none"> <li>▪ The scheme provides credit guarantees up to <b>Rs. 2 crores per borrowing unit</b> for MSMEs, previously Rs. 1 crore.</li> <li>▪ Proposals for credit facilities above Rs. 50 lakh and up to Rs. 200 lakh require an internal rating by the lending institution.</li> <li>▪ It offers <b>discounted interest rate loans and a 5-year guarantee cover</b> with one-time fees and annual service fees.</li> <li>▪ MSMEs have repayment flexibility with options like monthly, quarterly, or half-yearly installments.</li> </ul>
<p><b>Export Credit Re-Financing (ECR)</b></p>	<ul style="list-style-type: none"> <li>▪ <b>ECR is a scheme, by the RBI</b> to provide short-term credit to banks and financial institutions for export credit at the prevailing <b>repo rate under the Liquidity Adjustment Facility (LAF)</b></li> <li>▪ <b>Scheduled Banks</b> extend this facility at a repo rate plus a credit risk premium and spread of 3-4%, aiming to enhance credit availability for exporters and promote export growth.</li> </ul>
<p><b>Credit Guarantee Scheme for Subordinate Debt</b></p>	<ul style="list-style-type: none"> <li>▪ MSME promoters receive credit up to <b>50% of their stake or Rs. 75 lakh</b>, with <b>90% debt guarantee coverage from CGTMSE</b>.</li> <li>▪ A 1.50% annual guarantee fee applies. There's a maximum 7-year moratorium on principal payment, with interest paid as applied. Repayment after the moratorium is eased, with the principal fully repaid within the loan's tenor in the form of <b>Principal Equally Distributed (PED)</b>.</li> </ul>

## Initiatives to Support Market Access

<p><b>Market Access Initiative (MAI)</b></p>	<ul style="list-style-type: none"> <li>▪ Reimbursement for participation support includes flight ticket reimbursement for senior management (excluding foreign nationals) for up to three MAI events annually per member participant company.</li> <li>▪ Support extends to market research studies, joint events, reverse buyer-seller meets (RBSMs), and enhancing marketing and branding abilities for MSMEs.</li> </ul>
<p><a href="#"><u>International Cooperation Scheme</u></a></p>	<ul style="list-style-type: none"> <li>▪ MSMEs receive reimbursement for international exhibition participation up to Rs. 1.00 lakh or actual rent paid, covering space rent and airfare respectively, with allowances provided for representatives.</li> </ul>
<p><b>Procurement and Marketing Support (PMS)</b></p>	<ul style="list-style-type: none"> <li>▪ MSMEs participate in domestic exhibitions/trade fairs for capacity building, including modern packaging, barcoding, and e-commerce adoption.</li> </ul>

## Initiatives to Create a Favorable Business Environment

<p><a href="#">Scheme of Fund for Regeneration of Traditional Industries (SFURTI)</a></p>	<ul style="list-style-type: none"> <li>▪ Provides financial assistance up to Rs. 2.5 crore for Regular Clusters (up to 500 artisans) and up to Rs. 5 crore for Major Clusters (more than 500 artisans).</li> <li>▪ It aims to organize traditional industries and artisans into collectives, enhancing production and value addition for competitiveness.</li> <li>▪ SFURTI facilitates setting up production facilities, skill development, market development, design, and product development.</li> </ul>
<p><b>Micro &amp; Small Enterprises Cluster Development Programme (MSE-CDP)</b></p>	<ul style="list-style-type: none"> <li>▪ Support for <b>Common Facility Centers</b>, including plug-and-play facilities and infrastructure development projects, with assistance covering up to <b>80%</b> (of the maximum Project cost of Rs. 30 crores) <b>of the project cost for Common Facility Centers</b> and <b>up to 70%</b> (of the maximum Project cost of Rs. 15 crores) <b>for infrastructure development in industrial areas.</b></li> </ul>
<p><a href="#">One District One Product (ODOP) / District Export Cluster</a></p>	<ul style="list-style-type: none"> <li>▪ It aims to decentralize export promotion to the district level, and converge ongoing schemes.</li> <li>▪ Investment for existing micro-enterprises producing ODOP products, including infrastructure support for marketing and branding at the state/regional level.</li> <li>▪ Grants of up to <b>50% of total expenditure for branding and marketing of state or regional-level ODOP products.</b></li> <li>▪ Subsidy under <a href="#">Pradhan Mantri Formalisation of Micro food processing Enterprises (PMFME) scheme</a> with ODOP approach, providing credit-linked capital subsidy of 35% up to Rs. 10 lakh.</li> <li>▪ Offering credit-linked grants of 35% to support groups like SHGs and Producer <b>Co-operatives</b> for various operations.</li> <li>▪ Extending <a href="#">Seed Capital Fund</a> and providing entrepreneurship-focused training for ODOP product entrepreneurs.</li> </ul>

## Schemes that Reduce the Cost of Serving the International Markets

<p><a href="#">Export Promotion Capital Goods Scheme (EPCG)</a></p>	<ul style="list-style-type: none"> <li>▪ Provides financial aid to exporters by <b>waiving import charges</b>. Duty-free imports are permitted under EPCG, provided the exporter fulfils an export <b>obligation six times the duty savings on capital goods</b> within six years.</li> <li>▪ For shipments below ₹1 crore, exporters must provide a bond or bank guarantee at the customs port. For exports exceeding ₹1 crore, a bank guarantee is optional.</li> <li>▪ Fast-track exporters can avail of early</li> </ul>
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	redemption as an incentive. If they meet 75% or more of the specific export obligation and 100% of the average export requirement in less than 50% of the original term
<b><u>Remission of Duties and Taxes on Exported Products (RoDTEP) Scheme</u></b>	<ul style="list-style-type: none"> <li>▪ <b>Refunds of central, state, and local taxes are granted for goods and services</b> used in exported product manufacturing.</li> </ul>

<b>Initiatives to Simplify and Fast Track Certain Aspects of Export Procedure</b>	
<b>Liberalized Indian AEO (Authorized Economic Operator) Program for MSMEs</b>	<ul style="list-style-type: none"> <li>▪ Internationally recognized <b>AEO status granted within 15 days</b>, enabling <b>swifter customs clearance</b> and offering bank guarantees of up to 50-100%.</li> <li>▪ Expedited customs processes like <b>Direct Port Delivery (DPD) of imported containers, Direct Port Entry (DPE)</b> of their Export Container, exemption from bank guarantees, priority for refunds, and deferment of customs duty payment ensure faster cargo release.</li> </ul>
<b>Status Holder Certification</b>	<ul style="list-style-type: none"> <li>▪ Imports and exports are authorized and cleared through self-declaration, with a requirement of up to 100% bank guarantee.</li> <li>▪ Free-of-cost sample exports allowed without duties, subject to annual limits, and paperless declarations accepted without supporting documents.</li> <li>▪ Status Holder Certification is categorized into five tiers based on export values over two out of four years, ranging from USD 3 million to 800 million for one to five stars, respectively.</li> </ul>
<b><u>Advanced Authorisation</u></b>	<ul style="list-style-type: none"> <li>▪ No upfront duty payments required for imports, covering various duties such as Basic Customs Duty, Additional Customs Duty, Education Cess, Anti-Dumping Duty, Countervailing Duty, Safeguard Duty, and Transition Product Specific Safeguard Duty.</li> </ul>

## Conclusion

The MSME sector plays a crucial role in India's economy, contributing significantly to employment, GDP, and manufacturing output. Despite **employing over 11 crore people and constituting around 27.0% of the Gross Domestic Product (GDP)**, MSMEs face challenges in accessing export opportunities. The report proposes a strategic roadmap with six key recommendations, including the creation of comprehensive trade portals and the promotion of e-commerce exports, to unlock the immense export potential of MSMEs. By addressing these barriers and enhancing access to export finance, **India can harness the transformative power of MSMEs**, leading to substantial export growth and fostering a more resilient and competitive economic landscape.