

## MSME Sector – Game Changers in the 12<sup>th</sup> Five Year Plan

The Working Group on Micro Small and Medium Enterprises (MSMEs) Growth for 12<sup>th</sup> Five Year Plan has presented its few recommendations that aim to give a new thrust to this sector.

### Current Scenario

The MSME sector is a significant contributor to overall manufacturing output (45%) and exports (40%) of the country, along with being a major source of employment (about 69 million persons are employed across 26 million units in the country). Additionally, 50% of these MSME units are owned by marginal groups in society that is indicative of the inclusive nature of ownership and operations in this sector.

The Working Group hence, intends to boost MSMEs to graduate them to being significant players in the global marketplace. It has consequently, identified 6 “Game Changers” or Umbrella Schemes in the 12<sup>th</sup> Five Year Plan -

#### 1. Finance

Operationalization of SME exchanges for enabling access to Equity Finance.

#### 2. Technology

- Scheme for acquisition and up-gradation of technology.

#### 3. Infrastructure

- Developing clusters of excellence.
- Setting up of 100 Tool Rooms and PPDCs.

#### 4. Marketing

- Procurement policy for Goods/services from MSEs by the Government Departments and Central PSUs.
- B2B International portal.
- Enabling global footprints of MSMEs.
- Leveraging Defence Offset Policies in favour of MSMEs.

#### 5. Skill Development

- Revamped Skill Development & Capacity Building Programme.
- Encouraging young/ first generation entrepreneurs by up-scaling PMEGP and other programmes.

#### 6. Institutional Structure

- Strengthening of Institutions – MSME-DIs, EDIs and KVI Institutions.
- Application of E-tools in promotional and regulatory matters for facilitating easy entry.
- Real time Statistical & Policy Analysis through strengthening of Database.

The Working Group recommends focused efforts for time-bound implementation of the Game Changers.

## Credit and Finance

While all the other verticals in this scheme are long-term attempts at transforming the MSME canvas, the credit and finance vertical is perhaps the most immediate necessary condition for augmentation of this sector. The main recommendations under this vertical are hence, highlighted in detail below –

The working group recognizes that there is a considerable credit gap in this sector, especially, when a high growth trajectory is being charted out. Recommendations in this regard, pertain to both financial support and policy reforms.

### **Financial Support -**

- Guarantee coverage under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) may be increased at least 10 times the corpus during 12<sup>th</sup> FYP
- Corpus enhanced by Rs 10750 crore, making Rs 180,000 crore of credit guarantee available to MSEs by the end of the 12<sup>th</sup> FYP
- A guarantee fund with a corpus of Rs. 2500 Cr. for the Venture/Angel fund investments in MSMEs
- Introduce SME exchanges and provide budgetary support of Rs 100 crore to incentivize market making on the new proposed exchange
- Enhancement of subsidization scheme between NSIC and MSMEs for credit rating, from allocation of Rs 174 crore in 11<sup>th</sup> FYP to Rs 600 crore in 12<sup>th</sup> FYP
- Equity financing to be extended under Rs 5,000 crore budgetary support

### **Policy Reforms –**

- RBI-registered 'AAA' and 'AA+' rated NBFCs be made eligible for becoming Member Lending Institution of CGTMSE, subject to availability of additional corpus of CGTMSE
- Banks may adopt clusters in collaboration with Industry Associations as per RBI guidelines
- SIDBI and NSIC may be permitted to raise SLR bonds / Tax free bonds/Capital Gains bonds from the market as per the eligibility limit fixed by Government of India to enable these institutions in providing cost effective credit to the MSME sector
- RBI may announce a revised OTS scheme for SMEs under which MSMEs classified in NPA category as on 31st March 2008 and these units may be eligible for obtaining further finance
- Enhance existing exposure by banks to Capital Market cap by 20% for MSME Venture Capital (VC) Funds (from 40% to 48% for dedicated MSME VC Funds) and permit investment up to 10% of corpus by Pension/Provident Funds in dedicated MSME VC funds.

## Other Areas

The working group has also emphasised the importance of other key developments, essential in this endeavour to boost the MSME sector, such as technology acquisition by clusters in association with R&D institutions, development of quality testing centres through the PPP mode, promotion of e-marketing, marketing intelligence and customer services, access to markets through exhibitions and support SPVs, scaling up training facilities along with establishment and enforcement of institutional and legal framework for MSMEs at the national and state level. Environmental concerns and appropriate technology have been stressed in the policy framework.

Table 1 provides the proposed allocations for each of these verticals, aggregating to nearly Rs 50,000 crore during the 12<sup>th</sup> FYP plan period.

**Table 1: Total Allocations proposed in 12<sup>th</sup> FYP for MSMEs**

Vertical/Scheme	Proposed Allocation (Rs. Crore)
Credit and Finance	19,450
Technology	9,500
Infrastructure	11,360
Marketing	2,110
Skill Development	3,600
Institutional Structure	3,100
<b>Total</b>	<b>49,120</b>

## Conclusion

The study of the bottlenecks and consequently the proposals to facilitate the enhancement of the MSME sector draws strength from the efficient allocation of the anticipated financial support along with competent implementation of the policy framework at the national and state level.

***With the government under considerable stress on the expenditure front this year, these recommendations though crucial, might be subject to fiscal constraints. Selective implementation on a priority basis would however, be essential. While a front-loading of these schemes during the 12<sup>th</sup> FYP might be desirable, the government in its budget programme for FY13 could introduce a phased implementation of these recommendations.***

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