



# ASPIRE IAS

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**MSME SECTOR**

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Aspire IAS into Editorial: Political economics: credit stimulus for MSMEs

## 12 historic decisions by PM Modi for the MSME Sector



Loan in 59 minutes.

Interest benefits for GST registered MSMEs.

CPSEs and Corporates more than Rs. 500 crore to join Trade Receivables e-Discounting System or the TReDS Platform.

Tech support to MSMEs via 20 hubs and 100 Spokes.

Mandatory 25% procurement from MSMEs by CPSEs.

Now, returns due to 8 Labour Laws and 10 rules to be filed only once instead of the earlier twice.

Pharma Clusters where 70% cost borne by Centre.

All CPSEs to join Government e-Marketplace (GeM).

Of the 25% mandatory procurement, 3% to be done only from women-led MSMEs.

Ending Inspector Raj and ensuring transparency.

Ordinance for simplifying levy of penalties for minor offences.

Easier process for Environmental Clearances and 'Consent to Establish.'

### Introduction:

The Centre has announced an important **credit stimulus package for micro, small, and medium enterprises (MSMEs)**.

Among the many sops doled out under the new scheme, Prime Minister Narendra Modi has promised the sanction of **business loans of up to ₹1 crore** within a **time frame of 59 minutes**, in order to encourage **faster credit flow to MSMEs**.

These companies will also receive an **interest subvention of 2%** under the scheme and support from public sector units, which will now be mandated to make at least 25% of their overall purchases from MSMEs.

It is worth noting that **MSMEs**, which account for 30% of India's gross domestic product (GDP), were hit hard by the **twin shocks of demonetisation** and the implementation of the **Goods and Services Tax** over the last couple of years.

### About the MSME sector:

The Indian MSME sector provides **maximum opportunities** for both self-employment and wage employment outside the agricultural sector. The sector generates around **100 million jobs through over 46 million units** situated throughout the geographical expanse of the country.

With **28-30 per cent contribution** to the nation's **Gross Domestic Product (GDP)** and **40-45 per cent share** of the overall **exports and manufacturing output** respectively, the sector plays a key role in our economy.

Besides the wide range of services provided by the sector, it is engaged in the manufacturing of

over 6000 products ranging from traditional to hi-tech items

### 12 Key Initiatives:

As part of the programme, prime minister unveiled **12 key initiatives** which will help the **growth, expansion, and facilitation of MSMEs** across the country.

Modi announced **59-minute loan sanctions**, relaxation in labour laws, easier compliance with environmental rules and changes in company laws for small and medium enterprises to give a boost to the nation's second-biggest employment sector.

### Five key aspects of facilitating the MSME sector:

- Access to credit
- Access to market
- Technology upgradation
- Ease of doing business
- A sense of security for employees

### Access to Credit:

Prime Minister announced the launch of the **59 minute loan portal** to enable easy **access to credit for MSMEs**. That loans up to Rs. 1 crore can be granted in-principle approval through this portal, in just 59 minutes. The Prime Minister asserted that in New India, no one should be compelled to visit a bank branch repeatedly.

The Prime Minister mentioned the second announcement as a **2 percent interest subvention for all GST registered MSMEs, on fresh or incremental loans**.

For exporters who receive loans in the pre-shipment and post-shipment period, the Prime Minister announced an increase in interest rebate from 3 percent to 5 percent

The third announcement made by the Prime Minister was that all companies with a **turnover more than Rs. 500 crore**, must now **compulsorily** be brought on the **Trade Receivables e-Discounting System (TReDS)**.

Joining this portal will **enable entrepreneurs to access credit** from banks, based on their upcoming receivables. This will resolve their problems of cash cycle.

### Access to Markets:

The Prime Minister said that on access to markets for entrepreneurs, the Union Government has taken a number of steps. Fourth announcement, that public sector companies have now been asked to **compulsorily procure 25 percent, instead of 20 percent of their total purchases, from MSMEs.**

The Prime Minister said his fifth announcement is related to **women entrepreneurs.** Out of the **25 percent** procurement mandated from MSMEs, **3 percent must now be reserved for women entrepreneurs.**

The Prime Minister said that more than **1.5 lakh suppliers** have now registered with GeM, out of which **40,000 are MSMEs.**

The sixth announcement is that all public sector undertakings of the Union Government must **now compulsorily be a part of GeM.** He said they should also get all their vendors registered on GeM.

### Technology Upgradation:

Coming to **technological upgradation**, the **tool rooms** across the country are a **vital part of product design.** His seventh announcement was that **20 hubs** will be formed across the country,

and **100 spokes in the form of tool rooms** will be established.

### Ease of Doing Business:

On Ease of Doing Business, the Prime Minister said his eighth announcement is related to **pharma companies.** Clusters will be formed of **pharma MSMEs.** He said **70 percent cost** of establishing these clusters will be borne by the Union Government.

The Prime Minister said that the ninth announcement is **on simplification of government procedures.** He said the ninth announcement is that the return under 8 labour laws and 10 Union regulations must now be filed only once a year.

The Prime Minister said that the tenth announcement is that now the establishments to be **visited by an Inspector** will be decided through a **computerised random allotment.**

The Prime Minister noted that as part of establishing a unit, an **entrepreneur needs two clearances** namely, **environmental clearance** and **consent to establish.**

The eleventh announcement is that under **air pollution** and **water pollution laws**, now both these have been merged as a **single consent.** That the return will be accepted through **self-certification.**

As the twelfth announcement, the Prime Minister mentioned that **an Ordinance** has been brought, under which, for **minor violations under the Companies Act**, the entrepreneur will **no longer have to approach the Courts,** but can correct them through simple procedures.

### Social Security for MSME Sector Employees:

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The Prime Minister also spoke of **social security for the MSME sector employees**. He said that a mission will be launched to ensure that they have Jan Dhan Accounts, provident fund and insurance.

The Prime Minister said that these decisions would go a **long way in strengthening the MSME sector in India.** He said the implementation of this outreach programme will be **intensively monitored over the next 100 days.**

### Conclusion:

Conceptually, the Prime Minister's latest credit scheme is no different from the **MUDRA loan scheme**, which has been troubled by **soaring bad loans**.

Also, the demand that PSUs must procure a quarter of their inputs from MSMEs could breed **further inefficiency** in the economy.

In September, former RBI Governor Raghuram Rajan had warned that loans extended under the MUDRA scheme could **turn out to be the source of the next financial crisis.**

Care needs to be taken to see that the **new MSME loan scheme** does not pose a similar risk in the future.

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