

Budget 2024-25: Strengthening MSMEs for a Resilient Economic Future



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Abstract:

Micro, Small, and Medium Enterprises (MSMEs) are fundamental to India's economy, often regarded as the "engine of growth." They significantly contribute to GDP, employment, and exports. However, MSMEs encounter various challenges, including limited access to finance, technology, and markets. The 2024-25 budget announcements demonstrate the government's commitment to mitigating these issues through targeted initiatives. These measures aim to enhance financial inclusion, improve liquidity, and support the technological and operational advancement of MSMEs. Nonetheless, the success of these initiatives will largely depend on their effective implementation and responsiveness to the diverse needs of MSMEs.

Key Words: MSMEs, Digitalization, Budget 2024-25

Micro, Small, and Medium Enterprises (MSMEs) are integral to India's economic landscape, often described as the "engine of growth." These enterprises significantly contribute to the country's GDP, exports, and employment, playing a vital role in the socio-economic development of the nation. As per NSS 73rd Round Survey on Micro, Small and Medium Enterprises, 2015-16, India boasts approximately 63 million MSMEs, employing around 111 million people and contributing 28.77% to the GDP. Moreover, MSMEs account for 45% of the country's total exports.

Despite their pivotal role, MSMEs face various challenges in finance, technology, marketing, and compliance. MSMEs often struggle to secure adequate and timely finance due to stringent lending norms and lack of collateral. This limits their ability to expand operations, invest in technology, and scale up their businesses. Many MSMEs lack access to the latest technologies, which hampers their productivity and competitiveness in the global market. The adoption of digital tools and modern manufacturing techniques remains a challenge. MSMEs often face difficulties in marketing their products and accessing international markets. They lack the resources to participate in trade fairs, marketing events, and digital marketing platforms.

The government's initiatives in the budget 2024-25 reflect a strong commitment to address the challenges faced by MSMEs and unlocking their potential. This budget provides special attention to MSMEs and manufacturing, particularly labour-intensive manufacturing. A package covering financial, regulatory changes and technology support have been formulated for MSMEs to help them grow and also compete globally. The following specific measures have been announced.

- **Credit Guarantee Scheme for MSMEs in the Manufacturing Sector:**

The new Credit Guarantee Scheme aims to facilitate term loans for MSMEs to purchase machinery and equipment without requiring collateral or third-party guarantees. The scheme pools the credit risks of these MSMEs and provides a guarantee cover up to ₹100 crore through a self-financing guarantee fund. Borrowers must pay an upfront guarantee fee and an annual fee based on the reducing loan balance. This initiative can significantly alleviate the financial constraints faced by MSMEs, enabling them to invest in modern machinery and enhance productivity. However, the requirement of upfront and annual fees might be a burden for some small enterprises. The effectiveness of the scheme will depend on its implementation and the ability of MSMEs to navigate the application process.

- **New Assessment Model for MSME Credit:**

Public sector banks will develop in-house capabilities to assess MSMEs for credit, moving away from reliance on external assessments. A new credit assessment model based on digital footprints will be introduced, focusing on scoring rather than traditional asset or turnover criteria. This model will also include MSMEs without formal accounting systems.

This shift towards a more data-driven and inclusive credit assessment model is a welcome change, aligning with the government's push towards digitalization of MSMEs. By leveraging digital footprints, MSMEs can be evaluated on a broader range of criteria, including their online transactions, digital payments, and other digital activities. This approach democratizes access to credit, particularly for those businesses that may not have formal financial records but are actively engaged in the digital economy.

The push towards digitalization will help MSMEs tap into the potential of digital transactions, increasing their efficiency and transparency. Digital transactions enable better tracking of business performance, improving creditworthiness in the eyes of financial institutions. This can lead to increased market access, as MSMEs can demonstrate their reliability and operational stability through digital records.

Furthermore, the success of this model will hinge on the robustness of the digital scoring system and the banks' ability to accurately interpret and utilize digital footprints. As MSMEs adopt more digital tools and platforms, they will be better positioned to benefit from such credit schemes, ultimately leading to greater financial inclusion and economic growth for the sector.

- **Credit Support to MSMEs during Stress Period:**

A new mechanism will be introduced to facilitate the continuation of bank credit to MSMEs during their stress periods. MSMEs in the 'special mention account' (SMA) stage will receive credit supported by a guarantee from a government-promoted fund, helping them avoid slipping into the NPA stage.

This measure is crucial for the sustainability of MSMEs during challenging times, offering a safety net that can help them navigate temporary setbacks without severe consequences. It ensures that MSMEs can continue to access essential funds for their operations, thereby maintaining business continuity and safeguarding jobs. The guarantee fund acts as a financial buffer, allowing banks to extend credit with reduced risk, thus encouraging continued lending to MSMEs even when they are under financial strain.

However, the effectiveness of this mechanism will depend on several factors. Firstly, the timely and efficient provision of credit is paramount. Delays in disbursing funds can exacerbate the stress faced by MSMEs, potentially pushing them closer to default.

Secondly, the criteria for determining stress periods must be clearly defined and equitable. The mechanism should be designed to identify genuine cases of financial stress, ensuring that support is provided to those who need it most. Transparent and fair criteria will help build trust in the system and ensure that the benefits reach the intended recipients.

This measure is crucial for the sustainability of MSMEs during challenging times. It ensures that temporary setbacks do not lead to long-term financial exclusion. However, the effectiveness of this mechanism will depend on the timely and efficient provision of credit and the criteria for determining stress periods.

- **Mudra Loans:** The limit for Mudra loans under the 'Tarun' category will be increased from ₹10 lakh to ₹20 lakh for entrepreneurs who have previously availed and successfully repaid these loans. Increasing the loan limit can provide a substantial boost to successful entrepreneurs looking to scale their operations. However, the challenge lies in ensuring that the additional credit is used effectively and does not lead to over-leveraging.
- **Enhanced Scope for Mandatory Onboarding in TReDS:** The Trade Receivables Discounting System (TReDS) is an online platform designed to facilitate the financing of trade receivables for MSMEs. It allows MSMEs to auction their receivables at competitive rates, thus improving their liquidity and ensuring timely payments from large buyers, including public sector enterprises and corporates. The turnover threshold for mandatory onboarding on the TReDS platform has been reduced from ₹500 crore to ₹250 crore.

This means that companies with a turnover of ₹250 crore or more are now required to register on the TReDS platform. Previously, only companies with a turnover of ₹500 crore or more had this obligation. The new threshold will bring an additional 22 Central Public Sector Enterprises (CPSEs) and 7,000 more companies onto the TReDS platform. This increase in participants includes more medium-sized enterprises within the scope of suppliers, thereby expanding the platform's reach and utility. By having more companies on the platform, MSMEs will have greater opportunities to sell their trade receivables. This can significantly improve their cash flow and liquidity. Access to a larger pool of buyers and financiers can help MSMEs get their payments faster and at better terms.

- **SIDBI Branches in MSME Clusters:** SIDBI will expand its reach by opening new branches to serve all major MSME clusters within three years. This year, 24 new branches will open, increasing the service coverage to 168 out of 242 major clusters. Expanding SIDBI's presence in MSME clusters can enhance access to direct credit and support services. However, the impact will largely depend on the operational efficiency of these new branches and their ability to cater to the specific needs of MSMEs in different clusters.

The Budget 2024-25 announcements for the MSME sector demonstrate a comprehensive approach to addressing the various challenges faced by MSMEs. The initiatives cover financial support, credit assessment, stress management, and liquidity improvement. However, the success of these measures will largely depend on their implementation, the ability to address the diverse needs of MSMEs, and the efficiency of the support mechanisms. Continuous monitoring and adaptive strategies will be crucial to ensure that these initiatives translate into tangible benefits for the MSME sector.

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