4.Liberalisation and Industrial policy

Industry@75

1. **Objectives**
    1. Double the current growth rate of the manufacturing sector by 2022.
    2. Promote in a planned manner the adoption of the latest technology advancements, referred to as 'Industry 4.0', that will have a defining role in shaping the manufacturing sector in 2022.
2. **Initiatives by the Government**
    1. India is the fifth largest manufacturer in the world.
    2. Make in India Action Plan aimed at increasing the manufacturing sector's contribution to 25 percent of GDP by 2020.
    3. Start-up India initiative to promote entrepreneurship and nurture innovation.
    4. MUDRA and Stand-up India to facilitate access to credit.
    5. It has also undertaken massive recapitalisation of public sector banks to ease availability of credit to micro, small and medium enterprises (MSMEs).
    6. Besides, it has undertaken major infrastructure projects, such as the setting up of industrial corridors, to boost manufacturing.
    7. The Department of Industrial Policy & Promotion (DIPP) has been engaging with states/UTs to enhance the ease of doing business.
    8. The foreign direct investment (FDI) regime has been substantially liberalised. However, India receives only 25 percent of the FDI that China gets and only 10 per cent of what the USA receives.
3. **Constraints**
    1. **Regulatory uncertainty**: Regulatory risks and policy uncertainty in the past have dented investor confidence.
    2. **Investment**: There has been a cyclical slow down in fresh investment since 2011-12.
    3. **Technology adoption**: The adoption of new technologies like artificial intelligence, data analytics, collectively called "Industry 4.0", are a bigger challenge for SMEs than for organised large scale manufacturing. Data security, reliability of data and stability

in communication also pose challenges to technology adoption.

4. **Exports and insufficient domestic demand**: There has been no export driven industrial growth. Domestic demand alone may not be ad- equate for sustained, high value manufacturing.
5. **Challenges to doing business**: Despite recent improvements in our global EODB rank, it continues to be a drag on the system. This is also true of investment conditions in the states. Getting construction permits, enforcing con- tracts, paying taxes, starting a business and trading across borders continue to constrain doing business.

4. **Way forward**
    1. The government can play a crucial role in creating domestic manufacturing capabilities by leveraging proposed public procurement and projects.
    2. Mega public projects such as Sagarmala, Bharatmala, industrial corridors, and the Pradhan Mantri Awas Yojana (PMAY) can stimulate domestic manufacturing activities provided the projects are suitably structured and demand is aggregated strategically.
    3. Introduce a single window system in all states that provides a single point of contact between investor and government and facilitates all required licences and approvals.
    4. For efficient approval/inspection process, develop a system of accountability for major stakeholders like inspection bodies, testing labs, etc.
    5. Set up a portal to monitor projects beyond a given threshold so that any roadblocks are identified and addressed on a real time basis.
    6. Efforts should be made to develop self-sufficient clusters of manufacturing competence, with single window clearances to entrepreneurs and investors. Industrial corridors should address the lack of infrastructure and logistics.
    7. A greater connect between government-industry-academia is required to identify the changing requirements in manufacturing and prepare an employable workforce.
    8. E-commerce can be the driver of overall economic growth over the next decade through its impact on generating demand, expanding manufacturing, employment generation and greater

transparency.

9. Harmonise Indian quality standards with global standards in many sectors. Lack of harmonization has affected Indian exports and prevented the leveraging of trade agreements.

New industrial policy, 2017

1. Department of Industrial Policy and Promotion (DIPP) came out with a draft Industrial Policy, 2017 with an aim to create jobs for the next two decades, promote foreign technology transfer and attract USD 100 billion FDI annually.
2. **It aims to achieve the following**
    1. Create global brands out of India by strengthening linkages between Indian and global SMEs and intensifying FDI.
    2. Enhancing industrial competitiveness by reducing the cost of infrastructure such as power, logistics, easing regulatory burden, reducing the cost of capital and improving labour productivity.
    3. Advances in technology to ensure productivity and competitiveness; gear up for advancements like artificial Intelligence.
    4. Digital infrastructure to support next generation digital technologies with a focus on cyber security as well as protection of critical infrastructure.
    5. Focus on labour intensive sectors such as textiles, leather and footwear industries etc. to reap demographic dividend.
    6. Establish complete value chains, within India or across countries, in select sunrise sectors like renewable energy, food processing, electronics etc.
    7. Access to Capital for MSMEs by providing alternative finance to banks such as crowd funding, P2P, MUDRA etc.
    8. Simplifying GST. Resolving, the problem of inverted duty structure.
    9. Sustainable and responsible industrialization to reduce the carbon emissions and resource footprint of the industrial sector by transitioning towards green manufacturing, smart technologies and minimising industrial waste.
    10. Right models of technology transfer, need of academia-research

institutions- industry linkages, transparent IPR regime and encouragement to schemes such as Start-up India, Make in India etc.

3. A comprehensive, actionable, outcome oriented industrial policy will enable Industry to deliver a larger role in the economy and will fulfill its role as the engine of growth and shoulder the responsibility of adding more value and jobs.

Economic liberalisation

1. It was India's dismal state of forex reserves that forced the government to bring in economic reforms. Now, 25 years later, forex reserves are at a record high. The end of the licence raj and the opening up of the economy to private and foreign capital has been a success story. But there are also several areas where our hopes have been belied.
2. **Shortcomings**
    1. **Manufacturing GDP:** The share of manufacturing GDP in 1990-91 was around 16%. This did not improve significantly and remains today at same meagre 16.2%. Although this can be attributed to high rise in services GDP but manufacturing too hasn't also lived upto its potential.
    2. **Fiscal deficit:** One underlying reason for the crisis of 1991 was the indiscriminate rise in government borrowing in earlier years. So, it was necessary to curb increasing deficit. But this did not happen. In 2014-15, the combined fiscal deficit, as a percentage of GDP, was higher than it was in 1995-96.
    3. **Quality of deficit:** In 1990-91, capital expenditure accounted for 30% of total central government expenditure. The budget for the current fiscal year puts the share of capital expenditure at a mere 12.5%. This leads to deterioration in the quality of the deficit.
    4. **Tax to GDP ratio:** One reason why government deficits remained high is that, in spite of robust economic growth, tax revenues weren't buoyant. Widespread tax evasion is probably the reason, along with a plethora of sops given to companies. Tax to GDP ratio today is just around 16-17% .
    5. **Informal sector:** Before the 1991 liberalisation, 37.11% of employees used to work in formal sector. Instead of increasing,

that proportion has been steadily coming down and in 2013, only 21.15% of employees worked in formal sector.
6. **Mortality rate:** Economic liberalisation should result in better care for our children. India made considerable progress on that front, with the under-five mortality rate coming down from 125.8 per thousand in 1990 to 47.7 per thousand in 2015. But Bangladesh and Nepal, much poorer than India, have both brought down their under-five mortality rates more than India.

3. **Positives**
   1. De-regulation and De-licensing has lead to investment friendly environment.
   2. Government monopoly and inspector raj were abolished. Thus it increased efficiency and competition in the economy. Private sector role increased in infrastructure, mining, telecom etc.
   3. Middle class boom, India experiencing toady, is possible because of the jobs and economic growth brought in by the liberalisation reforms.
   4. Service sector opened (now contributes > 60%) which increased our exports in IT, BPO, KPO etc.
   5. Problem of foreign exchange reserves is solved with increasing FDI inflows.
4. Economic reform is a continuing process and not a one-time action. The present government has opened almost all the sectors for 100 percent foreign investment and is carrying forward the legacy of the 1991 reforms.

Ease of doing business

1. India jumped 23 spots in the World Bank's Ease of Doing Business ranking to 77th place, becoming the top ranked country in South Asia for the first time and 3rd among the BRICS nations. The survey, which is restricted to Mumbai and Delhi, maps reforms across 10 parameters such as starting a business, getting construction permits, securing electricity, registering property, getting credit, protecting minority investors, paying taxes, cross-border trade, enforcing contracts and resolving insolvency.

2. **Steps by Government to improve**
    1. Goods and Services Tax (GST) is seen as one of the biggest reforms in India's history aimed to make complex taxation system easier.
    2. Passage of Insolvency and Bankruptcy Code (IBC). It has become easier to take necessary action against failed companies.
    3. Reform in power supplies. Ex: UDAY scheme to bail out power companies.
    4. Protecting minority investors owing to initiatives taken by SEBI like rationalisation of KYC norms, increasing number of arbitration centres and simplifying FPI norms.
    5. The Central Board of Excise and Customs (CBEC) launched SWIFT portal for speedier clearance of inbound shipments.
    6. To help ease business startups, the government has merged PAN and TAN with SPICe form (Simplified Proforma for Incorporating Company Electronically). Registration is also faster under the Goods and Services Tax (GST) regime.
    7. In 2016, introduction of Income Computation and Disclosure Standards (ICDS) has eased the payment of taxes online and gathering of data.
    8. India made obtaining a building permit faster by implementing an online single window system for the approval of building plans.
3. **Challenges**

However, some challenges still seek redressal:

- **Construction permits**: States need to expedite municipal permits by making all the applications online through a single window clearance.
- **Starting business**: Better implementation of Startup schemes and simplifying clearance process including single window clearance and self-certification.
- **Enforcing Contracts**: Setting up commercial courts, strengthening alternate dispute resolution like mediation, amending model BIT to do away the dilution of Investor state dispute settlement mechanism.
- **Clearance issues**: Strict implementation of EIA, SIA etc so that projects don't get stuck later.
- **Inflexible labour policies**: Labour laws like Factories Amendment Bill for overtime working, Employee compensation amendment bill for compensation to employees, Model Shops and Establishments Bill for 24*7 business and other reforms to streamline hiring and firing policy.

India has shown resolve in tackling difficult issues and its performance in the ease of doing business has been remarkable. India can improve its ranking further by concentrating on areas where there is more room for improvement like construction permits etc. and by synergizing the efforts of everyone concerned with the regulatory process.

4. **Criticism of the ranking**

Lacuna In The Ranking Framework

- ***Restricted Analysis:*** The ranking framework is only restricted to the cities of *Mumbai and New Delhi*, thus ignores the improvement or hurdles in business environment in other parts of India. Recognizing this limitation, World Bank is in process to calculating district wise ranking.
- ***Indicators Not Comprehensive:*** The World Bank's intent is to measure a country's progress on a few doing business indicators in great depth, without trying to be comprehensive about the indicators or striving for a statistically large sample.
- ***Qualitative Aspect:*** The index does not take qualitative factors into consideration. The notion of a supportive business environment cannot be seen in isolation of a country's health and education indices, its political climate and the robustness of key institutions.
- ***Biased:*** The index has also evoked criticism by Nobel Prize winner Paul Romer who suggested that the Index's methodology is biased and alleged the political motivations of the World Bank staff in influencing the ease of business rankings. Moreover, he questioned the repeated changes in methodology for calculating the same.
- ***Confine Itself To Review Of Old Rules And Regulations:*** Critics have argued that the report does not take a nuanced view of regulation.

5. Although there may be lacunas in EODB rankings, but it do serve as the most trusted ready reckoner for foreign investors looking to set up shop in a country. For that reason, this is an achievement for India to celebrate. Moreover, the learnings will be especially critical as the country strives to focus on further improving its performance on Doing Business with the objective of achieving the vision of making India the easiest and simplest place to do business in.

Start-up India

1. Government has recently launched an India Aspiration fund (IAF) with a corpus of Rs.2000 crore and a startup policy in form of Startup and Entrepreneurship bill to give a boost to the startup companies.
2. **Budget 2019-20**

3. 

4. **Highlights of startup India program**
    1. It fixed qualifications as to what a startup is.
    2. Funding support of worth 10,000 crore rupees which will be managed by private professionals.
    3. With the intention of reducing the regulatory burden on startups, they have been exempted from six labour laws and three environmental laws for a period of three years.
    4. Income tax exemption is also provided to startups.
    5. Start-ups will also be provided free legal support in filing intellectual property rights (IPR). Patent applications filed by startup will be fast tracked at lower costs.
    6. To provide equal platform to startups in the Government procurements, the criteria of prior experience or turnover will be

    exempted without any relaxation in quality standards or technical parameters.
    7. Government will create a policy framework for setting up of incubators across the country in public private partnership, build innovation centres at national institutes and set up seven new research parks.
    8. Government will setup a Start-up India hub which will be a single point of contact for startups. 7 new research parks which shall enable companies with a research focus to set up base and leverage the expertise of academic research institutions.
    9. Exit rules have also been simplified.
5. **Why India need start-ups**
    1. India needs 10-12 million jobs a year and start-ups being the centers of innovation will enhance employment creation.
    2. Startups can increase our exports and reduce our imports. They can reduce our dependence on other countries and can bring strategic advantage. Ex: Startups in defence.
    3. They have the potential to bring social change in the society by empowering the weaker sections.
    4. With more start-ups India can aspire to be world leader in skilled labour more than an outsourcing destination.
    5. They encourage competition in the market.
    6. They have the potential to create demand within the country, which may last longer given the global economic prospects.
6. **Criticism of Government funding**
    1. Various lacunae exists in the general governance of the country such as lack of food, clothing, education, skill, etc. In a situation such as this, using tax payers money in an already flourishing sector is not very wise.
    2. Investment in start-ups involves high risk.
    3. Govt funding may also discourage other VCF to invest in the same startup.
    4. And also there is no guarantee that the startup may not be merged in a foreign company.
    5. Govt funding may lead to increase in corruption, a situation of funding raj just like license raj.

7. **Why is it welcome**
    1. Present scenario of start ups is dominated by IT and e-commerce companies. we need start ups that addresses problems of fertiliser, nutrition, energy etc.
    2. Besides, private venture capital is available mostly to urban youth and also to individuals from institutes of excellence such as the IITs. In this crowd, the rural youth is left with very limited options.
    3. Investing in start-ups is of long term nature and hence benefits cannot be reaped immediately. Similar criticism was faced by MOM mission by India.
    4. Will increase funding options for many startups which can increase employability.
8. **Way forward**
    1. Integration of skill development initiatives with such policy will create skilled individuals for entrepreneurship.
    2. Short term courses in entrepreneurship is required to give the necessary theoretical knowledge to start a business. This should be targeted primarily towards rural youth.
    3. It will also be important to consider tax exemptions for angel investors, seed capital funds and stock options offered by Startups to employees. Government should consider providing indirect tax incentives for Startups.
    4. The easing of rules and creation of a conducive policy environment should not be restricted just to startups. It should be extended to all businesses.
9. **Women in startups**
    1. Setting up a special fund for providing capital to women entrepreneurs.
    2. Schemes to incentivise their participation (tax and other incentives for instance).
    3. Creation of an unofficial body comprising of successful women entrepreneurs to guide inquisitive minds and conducting workshops funded by government.
    4. Successful startups to include at least 1 women director in their corporate governance structure.
    5. Creation of a environment which enable them to pursue

entrepreneurship (safety, encouragement, rewards, etc).

6. Programs to increase the number of women who take up higher education and technical education (schemes like pragati and udaan are steps in the right direction).
7. Vocational training to women.
8. Educating the society to change their mindset and value the organisational skills of women and provide them freedom to contribute towards economic growth of the country.

10. **Way forward**
    1. The present provisions are pro towards tech startups. It should make special provisions to ensure that this support structure extends to the agriculture, manufacturing, and handicrafts sectors.
    2. Action Plan exempts startup from adherence to just six labour laws. There are about 45 laws at the central level and about four times this number at the state level.

Small enterprises in India

1. There are almost 95% micro units and only 0.2% medium units in India. This is strange considering the long time sector has been supported by the Government. Too many firms in India remain small, unregistered, informal and shrink rather than increase in size and operation.
2. **Causes**
    1. As soon as the business migrates from micro and small to medium and large, almost all the Governmental perks are lost.
    2. Compliance costs such as money, time and labour costs rise drastically once a firm graduates from medium to large.
    3. Most government schemes like Deendayal Upadhyay Antyodaya Yojana focus on incentivising starting of a business but don't incentivise up scaling of business.
    4. Firms deliberately remain small because as they grow they come under strict labour laws.
    5. Generally, small firms have good business idea but lack marketing and branding strategy to evolve themselves as a big firm.
    6. India's low rank on ease of doing business (132/173) indicates

that it is too cumbersome to expand business.

3. **How to overcome problems**
    1. **Finance:** We need banks that specifically cater the needs of the small firms. Recently launched Payments banks, MUDRA bank and Small Finance Banks (SFB) can be a solution.
    2. **Labour reforms:** Self-certification will help in reducing the bureaucratic hassle and exploitation of small firms. Apprenticeship programme is expected to provide low paying small firms with technically skilled manpower.
    3. **Collaboration hub:** Setting up a hub like Start-up India hub for collaboration of Governments, consultants, R&D institutions, etc., that would assist small firms to adopt best practices through exchange of ideas can be a way for adoption of better technology.
    4. **Incentives:** Innovation awards as provisioned in the Atal Innovation mission (AIM) should be provided to prompt small firms to spend on R&D and hence become more competitive.
    5. **Focus on manufacturing:** The launched Make in India program is another move by the government to promote manufacturing, with a focus on SME sector. Dedicated e-commerce portal to provide wider market coverage.
    6. **Skill development:** Since majority of people employed in this segment is unskilled or semi-skilled, therefore skilling programs can be important game changer. In this regard, the government has launched the Skill India Mission.
4. SMEs are strong tools for poverty alleviation, and empowerment of marginalised segment, therefore there is an urgent need to bring in reforms to this sector.

Corporate Social responsibility (CSR)

1) Definition

Corporate social Responsibility refers to social activities undertaken by companies to bring about a positive change in the environment and society in which these companies operate.

2) Mandatory CSR

In 2013, the companies Act was amended and made it mandatory for companies with a net worth of at least 500 crore, a turnover of 1000 cr or a net profit of 5 crore is obliged to spend 2% of its avarage profit over the last 3 years on CSR

3) Need

1) Business have a social responsibility
2) It will garner good will to the company

4) Significance

A large amount raised every year through mandatory CSR can alleviate many of our social and environmental issues

5) Issues

1) Not all companies makes contribution towards CSR
2) Companies allocate money for CSR and select some charity, NGO or govt project to fund. They ends up in 'PM relief funds'
3) Many companies do not have in-house expertise in identifying the projects and spending the amount
4) Many companies that were giving more than 2% earlier, scaled back their spending According to accountancy firm KPMG
5) Most of the funding goes to education and health care neglecting important areas like hunger and nutrition
6) Regional inequality in CSR spending
7) Some companies make donations to the charities and get it back from them in the form of orders

Companies Amendment Act 2019

1) The unspent amount should be transferred to PM's Relief funds
2) Non complaince will not only attract fines but also lead to imprisonment
3) Centre Govt to have rule making powers

Criticism

1) It will reduce the initiative to invest time in CSR activities and money would end up in the PM's Relief fund
2) It is like punishing the corporate sector for non-performance of state
3) It will lead to greater bureaucratic discretion and interference

MSME

1. MSMEs contribute 30% to nation's GDP and yet do not have access to formal banking loans, credits, etc. So, Govt has launched MUDRA bank to provide funding to MSME.
2. **Limitations with previous schemes like MUDRA**
    1. Most of the previous credit facilities were through the banks which were hampered because of high NPAs. Banks have options of diverting PSL quota to SIDBI and NABARD which motivated them to avoid high risk lending.
    2. Other schemes failed to provide loan to most vulnerable and landless sections who can gain significantly from such schemes.
3. **Significance of MSME**
    1. With 30% contribution to the nation's GDP, 40% to exports and 45% to manufacturing output.
    2. MSME sector has potential to generate around 100 million jobs throughout the country. It promotes both self-employment and wage-employment outside the agricultural sector.
    3. This sector is also inclusive, because two-thirds of these units are operated by SCs, STs and OBCs.
    4. Resilient to global and domestic economic circumstances. The sector has sustained an annual growth rate of over 10% for the past few years.

5. They are also important for promotion of industrial development in rural areas, use of traditional or inherited skill, use of local resources, mobilisation of resources and exportability of products.
6. Besides the wide range of services provided by the sector, the sector is engaged in the manufacturing products ranging from traditional to hi-tech items.

4. **Challenges faced by MSME**
    1. Lack of scaling up. Most of the unregistered MSMEs would predominantly comprise micro enterprises, particularly confined to rural India.
    2. The sector is always fund starved. Banks provide finance at far higher interest costs than what large enterprises can negotiate.
    3. The sector has little access to skilled manpower and technology.
    4. There are lack of standardisation practises of products and proper marketing channels to penetrate new markets are not present.
    5. Infrastructural challenges like availability of assures electricity, transportation facility, access to ports.
    6. Regulatory limitations posed by labour laws, taxation policy, environmental laws.
5. **MUDRA importance**
    1. This is being setup to fund the unfunded 58 million MSME businesses in the non-formal sector. This sector receives only 4% of its credit needs from banks. At the same time, formal sector which generates less than 10% of employment receives most of its credit needs from banks.
    2. This will fund the millions of entrepreneurs by an innovative financial architecture that will integrate the existing private financiers of small businesses as last mile lenders.
    3. MUDRA scheme has larger budget fund allocation pool. Government has decided to provide annual fund of Rs.1 trillion.
    4. MUDRA is directly under central Government and mandated under Union Budget 2015. Hence, outside purview of state politics.
    5. Earlier loans by MFIs have instances of suicide because of unethical extortion method by finance institutions. But MUDRA repay methods are very simple. Pre-payment options are available in MUDRA loans.

6. Target set for Shishu (40%, under 50,000), Kishore (35%, 50,000-5 lakhs) and Tarun (25%, 5lakhs-10lakhs), hence MUDRA bank is compartmentalised to benefit more to smaller business.

6. **Limitations**
    1. Small banks are recently proposed with same objective.
    2. Creating another refinance agency will add to bureaucratic burden. Rather, SIDBI could have been reformed to suit the needs of MSME.
    3. Even the vulnerable sections of society are covered by programmes being run by ministries like tribal affairs and social justice.
    4. Also a credit guarantee scheme has also been already functional for the past decade.
7. **Other Govt schemes for MSME**
    1. The MSME Cluster Development Programme is being implemented by the government for the holistic and integrated development of these enterprises in clusters through infrastructure upgradation.
    2. The Credit Linked Capital Subsidy scheme also assists in the technological upgradation on MSMEs.
    3. The National Manufacturing Competitiveness Programme of MSME ministry aims to equip MSMEs with technology based tools in the areas of quality upgradation, productivity, design development, energy efficiency and marketing.
    4. ASPIRE scheme of MSME aims to promote innovation and rural entrepreneurship through rural livelihood incubator, technology and fund of funds.
    5. SFURTI make traditional industries productive and competitive.

5) Govt Initiatives

i) PM Modi announced support and outreach programme for MSME which will help growth, expansion and facilitation of MSMEs. This will address 5 key aspects of MSMEs

(a) Access to credit – in-principal loan approval with in 59 minutes
– 2% interest subvention for GST regd firms

(b) Access to market – public sector companies asked to procure 25% of their total purchases from MSMEs

(c) Technology upgradation – Rs 6000 crore package
– hub and spoke to provide tech centres and training

(d) Ease of doing business – easy complaince

(e) Social security schemes – compulsorily enrol under social sector schemes of centre related to insurance, pension etc

2) TReDs – Trade Receivables e Discounting system
3) CriSidEx – first sentiment index for MSME
4) Credit Guarantee scheme
5) Scheme of funds for Regeneration of Traditional Industries (SFURTI)
6) MUDRA scheme
7) start up India
8) PMKVY

8. Over the last seven decades, the policies of the government have stifled the growth of MSMEs in the economy and there is domination of Dwarfs in Indian economy, which has impacted their job creation and productivity levels.

Credit availability for MSMEs

1. The MSME sector accounts for an estimated 30% of country's GDP, 45% of its manufacturing output, and 40% of merchandise exports.
2. Prime Minister has announced 12 measures under the MSME support and outreach programme to boost the Micro, Small and Medium Enterprises (MSME) sector, including a portal that would enable the units to get a loan upto Rs. 1 Crore in just 59 minutes.

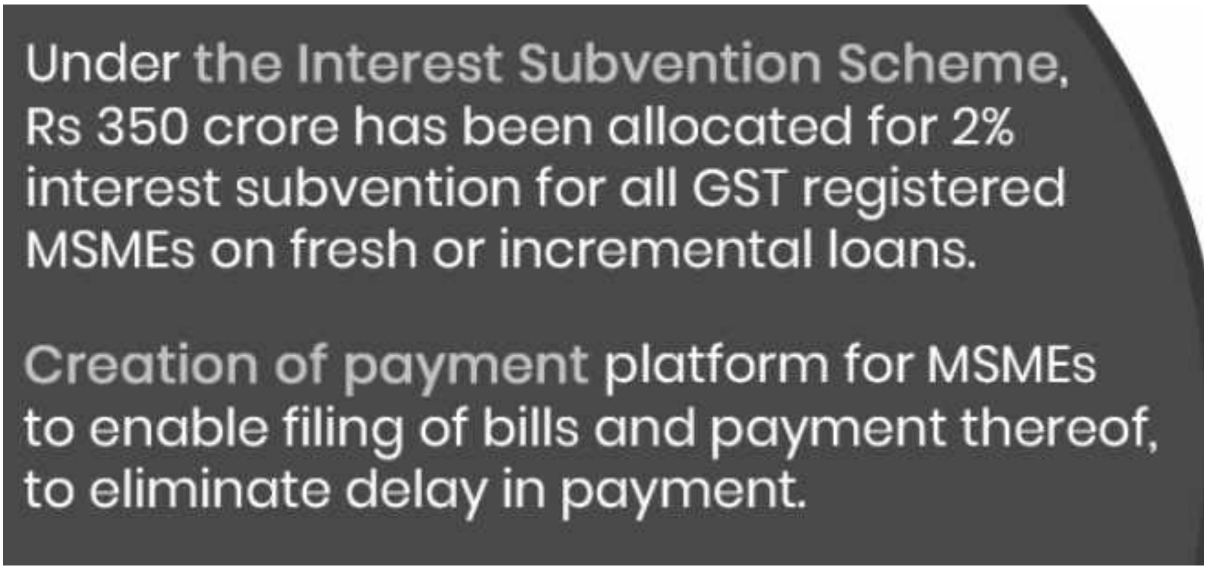
About The Measures

- ***Five Key Areas:*** The government will focus on five key aspects for facilitating the MSME sector. These include *access to credit, access to market, technology upgradation, ease of doing business, and a sense of security for employees*.
- ***GST Registration Mandatory:*** The firms registered on the GST portal would be able to avail themselves of loan facility on the portal itself.
- ***Interest Subvention:*** Moreover, GST registered firms will also get a *2% rebate* on interest rates for fresh & incremental loans. For exporters, who receive loans in the pre-shipment and post-shipment period, an increase in interest rebate from **3 % to 5%** was announced.
- ***Compulsory Procurement:*** The Public sector companies had now been asked to compulsorily *procure 25%, instead of 20%* of their total purchases from the MSMEs. Further, of the 25% procurement mandated from the MSMEs, *3% must now be reserved for women* entrepreneurs.
- ***TReDS Portal:*** All companies with a turnover of 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. Thus, will resolve their problems of cash cycle.
- ***GeM Portal:*** All public sector companies have been mandated to register on the GeM portal (Government e-Marketplace) through which they can source their requirements. A total of 1.5 lakh suppliers comprising 40,000 MSMEs are currently registered with GeM.
- ***Technology Upgradation:*** On technological upgradation, the *20 tool hubs* would be formed across the country and *100 spokes* in the form of tool rooms would be established.
- ***Other Measures:*** The other measures announced were establishing clusters of pharma MSMEs, the easing of return filing, the allotment of inspectors for routine inspections of factory units, the merging of air and water pollution permits and the simplification of the process to address minor violations under the Companies Act.

Challenges

- ***Surge in NPAs:*** But at the same time, it should also be considered that the biggest risk of a credit stimulus is the misallocation of productive economic resources. Thus, unintended consequence is the likely deterioration in credit standards as financial institutions are pushed to lend aggressively to MSMEs as seen in case of *MUDRA Loans Scheme*, which has been troubled by soaring bad loans.
- ***Inefficiencies:*** There is a fear that obligation on PSUs for procuring a quarter of their inputs from MSMEs could breed further inefficiency in the economy.
- ***Release of Input Tax Credit:*** The promise of higher interest subvention to exporters is welcome, too, although the real reform the sector needs is faster release of much-delayed input tax credit on exports.
- ***State Support A Must:*** The Central Government has promised that factory inspectors will be permitted to conduct visits through random computerized allotment with compulsory publication of reports *within 48 hours*. In addition, there would be only a single environmental approval for both air and water pollution. But the implementation here, too, is dependent mainly on the states concerned.

Budget 2019-20 for MSMEs



E-commerce

1. The Indian e-commerce market is expected to grow to US$ 200 billion by 2026 from US$ 38.5 billion as of 2017. It has transformed the way business is done in India.

E-commerce policy

1) New Guidelines

(i) On December 2018, the Ministry of Commerce and Industry issued a revised set of guidelines on FDI in e-commerce

2) Terms

(i) E-commerce : means buying and selling goods and services over digital or electronic network

(ii) Models

Inventory model	Market place model
- Companies can stock products and sell them to consumers directly - Prohibits FDI	- Companies provide a platform for the buyers and sellers to come together ie they act as a facilitator - allows 100% FDI

3)

Benefits
- Small businesses
  - wider market
  - no investment on distribution networks and infrastructure
- Eliminates middle men
  - connect buyers with sellers directly
- Employment
  - direct and indirect job opportunities

4) Why new rules ?

(i) To prevent unfair trade practices

(ii) Skewed market place model

(iii) distorts free market

(iv) data commercialisation

1. **Need for new e-commerce policy**
   1. India’s existing e-commerce policy, as represented by the IT Act, FDI policy, etc., lacks comprehensiveness, interdepartmental coordination and enforcement muscle.
   2. Small and Medium Enterprises (SME) sector needs to be protected against the threat of global corporate oligarchies and capital dumping to protect domestic businesses.
   3. Unlike China’s e-commerce policy which led to emergence of global commerce giants such as Alibaba, India has failed to provide such ecosystem.

4. Domination of India's e-commerce space by global giants like, Amazon, Airbnb, Uber etc. There is need to prepare domestic companies to compete on a level playing field with any global giant.
5. To prevent clever corporate structuring where global giants, through their domestic operators, have been able to circumvent the spirit of domestic laws while possibly adhering to it in letter.
6. To provide sufficient safeguards for predatory pricing and deep discounting.

2. **Provisions under New rules**
    1. **Control over inventory:** The e-commerce marketplace entities cannot exercise ownership or control over inventory.
    2. **Ban on selling at platforms:** The new guidelines explicitly state that an entity having equity participation in e-commerce marketplace entity or its group companies will not be permitted to sell its products on the platform run by such a marketplace entity.
    3. **Ban on exclusivity clause:** The intention of this clause is to ensure that the e-commerce marketplace player doesn't arm twist a vendor into exclusive arrangements nor can they have a single vendor supply more than a quarter of the inventory.
    4. **Prevent preferential treatment:** E-commerce marketplaces have to provide services to vendors on the platform at arm's length and in a fair and non-discriminatory manner.
    5. **Cashback offers:** Cash backs provided by the e-commerce entity should be fair and non-discriminatory and be made available to other vendors in similar circumstances.

Positive Impact

- ***Plugging loopholes:*** The updated norms for foreign direct investment in ecommerce will not impact the stability and predictability of the country's regulatory environment as there is no change in law and it merely plug the loopholes in the current law.
- ***Solve the long pending grievance:*** India's retailers have repeatedly complained that e-commerce companies were violating the ban on **business to consumer (B2C) e-commerce**. The current policy allows 100% FDI under the automatic route in **business-to-business (B2B) e- commerce** but prohibits any foreign investment in B2C ecommerce.
- ***Better implementation:*** The changes were aimed at better enforcement of the policy as enunciated by **Press Note 3 of 2016**, which had banned FDI in the inventory model of ecommerce and laid down the conditions for ecommerce marketplaces. FDI is only allowed in the marketplace model, offering a platform for vendors to sell to customers.
- ***Fair competition:*** The move to tighten the noose around major e-commerce players will culminate into a fair market competition.
- ***Help local players:*** The norms, will help protect domestic players such as Reliance that are eyeing a share of the e-commerce market in the country. Thus, Indian companies would get opportunities similar to what Chinese companies had received initially, which led to the building of Chinese giants such as **Alibaba, Tencent, and JD**.

Negative Impact

- ***Abrupt policy change:*** The move has rattled top global retailers such as Walmart and Amazon, who have made significant investments in the country, as they grapple with the abrupt policy change and jobs in the sector could also be at risk. Further, this is detrimental to the concept of ease of doing business.
- ***Not possible to offer consumer friendly initiatives:*** The key differentiators such as online exclusive brands, cashbacks and priority deliveries, among others, may not be possible anymore. As the cashback offer will become expensive to execute for platforms, especially in terms of providing logistics and wallet services that have to be made equally available to all vendors.
- ***Difficulty in implementing exclusivity clause:*** The ban on exclusivity may be difficult to implement where a seller wants exclusivity. Further, once there is an exclusive arrangement, it is difficult to judge if this was mandated by the marketplace entity or the seller.
- ***Difficulty in monitoring:*** Some of the changes are prescriptive and can be difficult to monitor, especially for small and mid-size ecommerce players.
- ***No justification for banning private labels:*** It is hard to justify why online stores should not be allowed to display their own labels, when offline ones are allowed to do so.
- ***Guidelines are discriminatory:*** Since such restrictions do not apply to brick-and-mortar sales, the guidelines are discriminatory against e-commerce.