NITI AAYOG REPORT ON "DESIGNING A POLICY FOR MEDIUM ENTERPRISES" – ECONOMY

NEWS: The MSME sector is a cornerstone of India's economy, contributing nearly 29% to GDP, 40% to exports, and employing over 60% of the workforce. However, it's overwhelmingly skewed in favour of micro enterprises:

- Micro units form 97% of registered MSMEs.
- Small enterprises account for 2.7%.
- Medium enterprises make up just 0.3%, yet medium enterprises account for nearly 40% of MSME exports, showcasing their potential and strategic importance.

WHAT'S IN THE NEWS?

Current Overdependence on Micro Enterprises

- **Excessive focus on micro-enterprises**, often informal and subsistence-level, has skewed MSME policy.
- These micro firms generally have **low productivity, limited employment capacity**, and minimal integration with formal financial and supply systems.
- This approach has led to **under-leveraging** of medium enterprises, which are inherently more capable of **scaling up, innovating**, and **entering global markets**.

Challenges Faced by Medium Enterprises

a. Access to Finance is Limited

- Only **37% of medium enterprises** are able to access credit from formal financial institutions.
- Reasons include:
  - Heavy reliance on **collateral-backed lending**.
  - **Inadequate risk assessment frameworks** for assessing medium enterprise viability.
  - **Lack of dedicated, tailor-made credit lines** for working capital or expansion needs.

b. Technology Adoption Gap

- Approximately **82% of medium enterprises** do not use modern technologies like **AI, IoT, cloud computing**, or **automated production lines**.
- This leads to:
  - **Low productivity**.
  - **Poor global competitiveness**.
  - Missed opportunities in sectors like **electronics, pharmaceuticals, and automotive components**.

c. Skill Mismatch and Training Deficit

- Nearly **88% of medium enterprises** report **no participation in skill or upskilling schemes** by the government.

- Issues include:
    - **Outdated or generic training modules**.
    - **Accessibility issues** for remote or semi-urban firms.
    - Lack of **export-oriented or sector-specific training frameworks**.

d. Low Awareness of Government Schemes

- Over **90% of medium enterprises** are unaware of key portals and schemes like:
    - **RAMP** (Raising and Accelerating MSME Productivity),
    - **ZED** (Zero Defect Zero Effect certification),
    - **GeM** (Government e-Marketplace).
- Even when aware, **complex registration procedures, paperwork, and inspections** discourage participation.

e. Heavy Compliance Burden

- Medium enterprises face **repeated inspections and compliance demands** from labour, environment, health, and fire safety departments.
- This leads to:
    - **High transaction costs**.
    - Disincentives to expand or formalize.
    - A **lower ease of doing business** compared to large firms.

Why Medium Enterprises Matter

a. High Foreign Exchange Contribution

- Each medium enterprise contributes an average of **₹39.95 crore in forex earnings**, much higher than:
    - Small enterprises: ₹8.3 crore.
    - Micro enterprises: ₹1.39 crore.

b. Innovation Leaders

- Medium enterprises account for **81% of MSME R&D spending**, showcasing their role in:
    - **Automation, digitization**, and **quality enhancements**.
    - Developing **intellectual property** and **cutting-edge technologies** in emerging sectors.

c. Superior Employment Generation

- On average, a medium enterprise employs **89 workers**, compared to:
    - Small: 19.1 workers.
    - Micro: 5.7 workers.

- They contribute significantly to **skilled and semi-skilled job creation** across regions.

d. Greater Profitability and Investment Capacity

- They benefit from:
  - **Economies of scale**.
  - **Stronger infrastructure**.
  - **Higher return on capital employed**.
- Medium firms are better positioned for **export readiness** and **quality certifications**, which micro units struggle to attain.

Policy Recommendations for Strengthening Medium Enterprises

a. Tailored Finance Instruments

- Launch **working capital schemes** linked to **enterprise turnover**, with **streamlined approval systems**.
- Introduce a **dedicated ₹5 crore ME Credit Card**, with:
  - **Market-based interest rates**.
  - **Minimal collateral requirements**.

b. Technology Upgradation via ME 4.0 Hubs

- Convert existing technology centres into **India ME 4.0 Competence Hubs**.
- These centres should provide access to **AI, robotics, IoT**, and **smart manufacturing tools**, especially in high-potential sectors like:
  - **ESDM (Electronics System Design & Manufacturing)**,
  - **Pharmaceuticals**,
  - **Sports equipment**.

c. Focused R&D Ecosystem

- Develop a **3-tier R&D funding model**:
  - **Expert Committee** to identify priority areas.
  - **Proposal Solicitation** for project ideas.
  - **Outcome-based monitoring and disbursal**.
- Use the **Self-Reliant India Fund (SRI)** to support **sector-specific R&D** led by medium enterprises.

d. Cluster-Based Testing and Quality Compliance

- Expand the **Micro and Small Enterprises – Cluster Development Programme (MSE-CDP)** to include **medium enterprises**.
- Set up **regional testing, certification, and quality labs** to:
  - Help in **exports**.

- Ensure compliance with **international product standards**.

e. Customized Skill Development Initiatives

- Develop **sector-wise, export-focused training modules**, co-designed with industry experts.
- Integrate these modules into the **Entrepreneurship and Skill Development Programme (ESDP)** under the Ministry of Skill Development and Entrepreneurship.

f. Centralized Digital Support Infrastructure

- Create a **dedicated ME sub-portal** within the **Udyam portal**, with:
    - **Scheme discovery tools**.
    - **Compliance calendars**.
    - **Real-time market intelligence** and **benchmarking tools**.

Source: https://ddnews.gov.in/en/medium-enterprises-hold-the-key-to-indias-economic-future-niti-aayog-report/