Improving Economic Dynamism and Accelerating MSME growth

National Task Force

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GLOBAL ALLIANCE FOR Mass Entrepreneurship

Executive Summary

Micro, Small and Medium Enterprises (MSMEs) are the backbone of the Indian economy. Nearly 6 crore MSMEs employ approximately 11 crore people, i.e., nearly 40% of India's non-farm workforce. These organizations are also critical to the distribution and supply chains of larger companies, contributing nearly 25% towards India's services GDP and 33% towards total manufacturing output.

Even pre-COVID, the sector was cost uncompetitive and many small firms are perennially stuck in a vicious cycle of informality, low productivity and remain stunted. An astonishing 95% of all firms in India employ <5 people and 98% employ less than 10 people. Only ~20,000 firms have paid-up-capital exceeding INR 10 crore. This is India's "Missing Middle". For India's economy to grow at reasonable rates and create adequate employment and prosperity, we need millions of more enterprises that are productive and capable of growing. Research shows that firms that start out formal are two to three times more productive and have a better chance of growing. However, most firms prefer to remain informal because in most states the cost of formalization and compliance is onerous. A typical MSME factory must file for 23+ registrations and licenses, 750+ compliances, and 120+ filings per annum; with labor regulations alone accounting for more than 50% of these filings. It is not easy to start or succeed as an MSME; firms were already struggling to cope with demonetization, GST and a slowing economy when COVID-19 hit. COVID-19 could become a mass-extinction event for smaller, informal firms. Estimates suggest that 30–40% of MSMEs in India may cease to exist as the pandemic drags on.

Financial and regulatory support can help MSMEs restart operations and retain jobs in the short term. The central government has recently announced a fiscal stimulus package to help MSMEs maintain liquidity and access credit. The operationalization and execution of this package at the grassroot level will determine the effectiveness of these schemes. Beyond short-term survival, this segment requires significant improvement in ease of doing business for revival and sustainable growth.

Finally, to support the push for prosperity and self-reliance ("Atmanirbhar Bharat"), India has to create a massive entrepreneurial movement with millions of competitive fast-growing firms that are capable of satisfying domestic demand and capitalizing on the opportunity created by the shifts in global supply chains. This will require vibrant local entrepreneurial ecosystems like Bengaluru and Gurgaon in 300+ cities by 2030 by carefully combining factors such as "**Seed**" (education levels, the degree to which young people have ambition and an entrepreneurial mindset), "**Soil**" (infrastructure, connectivity, access to markets, access to credit/capital) and "**Climate**" (local culture and key enabler[1]).

This document outlines key recommendations to strengthen MSMEs, ranging from short-term fiscal relief measures to "**Survive**", to medium-to-long-term structural reforms to "**Revive**" the sector and help them "**Thrive**". It is intended for policymakers, industry leaders and industry associations that intend to foster mass entrepreneurship and inject dynamism into our MSME sector. It also proposes an actionable operationalization plan, along with metrics to track and measure success, so that the benefits to the MSME sector can "**Sustain**" over several years.

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[1] Strengthening contract enforcement, improving access to land, power and labor, enhancing logistics infrastructure, instituting tax incentives, etc.

Survive: Short-term measures to enhance liquidity and credit availability

Driven by the COVID-19 lockdown, 57% of micro-enterprises have no cash reserves while 65% have had to dip into their personal savings to manage operations. Nearly 40% of MSMEs have already attempted to borrow money to survive, with only 14% borrowing from formal sources[2]. Additionally, about 73% of MSME businesses have reported a drop in orders and 50% indicated that inventory levels were up by more than 15%[3].

MSMEs also face a loss in domestic and global demand (WTO projects that global trade in goods is expected to fall by 13-32%) along with the disruption in raw materials' supply and non-payment of dues. This could cause significant compression of approximately Rs 0.8–1.2 lakh crore in profits for companies with a turnover between Rs 75–250 crore by FY21.

A recent AIMO survey of 45K MSMEs show that these organizations are unclear about the eligibility, process and structure of the recent financial package announced by the government. The note below captures potential recommendations to help these MSMEs survive the current crisis, while ensuring higher adoption of the stimulus package laid out by the government to support them.

Potential recommendations to help MSMEs "Survive":

- Enable strong execution of announced packages through state governments and local industry bodies, with clear communication of scheme details to MSMEs and banks; in tandem, mandate 30% of the stimulus package to be released to enterprises falling into the micro and small categories; also, relax NPA classification so that borrowers can repay loans in a longer timeframe and digitise the bank guarantee process
- Set aside funds specifically directed at nearly 1 crore new-to-credit MSMEs with a condition to 'formalize' informal businesses
- Enable banks to support existing loans on MSMEs via a credit guarantee fund and ensure easy repayment options for higher recovery
- Increase uptake of supply chain financing and bill invoicing (TReDS) initiatives using member networks of industry bodies (e.g., 50% FICCI, CII members within 12 months)
- Ensure quick disbursement of payables from government excise and tax departments to MSMEs

Revive: Medium-term reforms to improve ease of doing business

While India has risen to the 63rd rank globally (of 190 countries) on ease of doing business (EoDB)[4], the 'on ground' experience of MSMEs still needs to improve significantly. High compliance burdens and costs, and complex processes remain a bottleneck for growth, productivity, innovation, and formalization of the MSME sector. To start and run a business today, an MSME must navigate a complex landscape of nearly 58K compliances; further, continuous updates compound this burden (e.g., 3,500 legal updates over the last year).

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[2] GAME lead micro enterprise survey

[3] FICCI MSME Survey, April 2020

[4] World Bank "Doing Business" Report, 2019

Consequently, many opt for specialized manpower to comply (e.g., company secretaries) or remain non-compliant.

Non-compliance carry imprisonment terms from three months to 10 years, which further deters MSMEs from formalization. Beyond the sheer numbers, processes are time-consuming and unclear. For instance, registering a business takes up to 90 days in India but 1 day in leading EoDB countries such as New Zealand. Similarly, property registration takes up to 60 days but 1 day in countries like Norway. Additionally, there is often confusion and lack of clarity on procedures.

Potential recommendations to "Revive" MSMEs:

- **Simplify** compliances and processes across starting and running a business to ensure effective utilization of entrepreneurs' time and resources by:
    - Enabling the implementation of BRAP (Business Reforms Action Plan 2019) in states by creating implementation guidelines, metrics for success and increased ownership of the center on key recommendations
    - Rationalizing compliances through detailed assessment of associated laws (currently 58K compliances in India across sector, state, etc., leading to significant duplication and enhancing complexity, with 50% of these being labor compliances)
    - Simplifying seven key processes with highest impact and likelihood of implementation (registering a new business, registering property, construction permits, filling labor compliances, filling environment health and safety (EHS) compliances, availing credit, and tax compliances and payments)
- **Digitize** and streamline processes to enable reduction in timelines, decrease parallelization, and ease formalization by creating six key platforms (labor compliance, EHS fillings, tax filings, Information Wizard, central inspection system and single window)
- **Decriminalize** nearly 9K compliances with imprisonment which today deter formalization
- **Evaluate** ease of doing business at a state level along with objective and measurable criteria, and publish annual scorecard to foster improvement
- **Support** the sector through private and social partnerships leading to clear governance of industry associations, support network for MSMEs and compliance on payables by:
    - Strengthening the industry body network by rationalizing nearly 3.5K industry bodies and instituting a governance framework to ensure effective collection and escalation of grievances
    - Create an MSME support network which includes a pan-India portal and partnerships with local NGOs, and industry bodies to redirect queries from the portal to relevant local stakeholders
    - SEBI/ MCA to mandate clearance of a percentage of invoice value within 45 days of receipt of invoice and threshold guidelines to be set, e.g., minimum clearance target of at least 60% of invoice value

Thrive: Long-term reforms to boost entrepreneurial dynamism and competitiveness

Nearly 95% of India's enterprise base comprises of sub-scale and informal micro-enterprises, with limited job creation capabilities and ability to offer only low wages. Fewer than 10 lakh of India's 6.3 crore enterprises pay social security such as employees' state insurance (ESI). This lack of dynamism among MSMEs in India is driven by the absence of the right "Seed" (i.e., entrepreneurs), "Soil" (i.e., sector-specific local inputs) and "Climate" (i.e., culture and enablers). Some challenges under each of these factors are highlighted below:

- **High aspirations for formal employment and not entrepreneurship (Seed):** Entrepreneurship is dominated by 'necessity' rather than 'opportunity' and hence, a majority of India's businesses are best classified as 'self-employed'
- **Enterprises remain small, informal and unproductive without the right environment (Soil):** Limited local inputs across physical and digital infrastructure, weak supply and demand linkages, and limited access to skilled labor and credit limit the growth of even high potential firms—for instance, labor productivity in India is 1/3rd of Malaysia's and 2/3rd of China's, and India's MSME credit gap (defined using the credit to GDP ratio) stands at 70% (according to the IFC)
- **Extending focus to mass entrepreneurship (Climate):** In India, entrepreneurship is associated with tech unicorns and billionaires rather than millions of job-creating MSMEs—this focus on tech-oriented businesses discourages 'mass entrepreneurship'; the youth in India primarily aspire for government (e.g., 60% of youth in states like Karnataka and Punjab) and private-sector jobs—as a result, entrepreneurship in India is much lower than countries like Thailand and Vietnam (with 7X to 10X higher business registrations rates)
- **Performance across key enablers (Climate):** India lags behind comparable countries across key enablers, for instance steel prices are 15% higher and power costs for industrial and commercial power in India are up to 30% higher than in China. Logistics cost are 12–14% of the GDP in India compared to 8–10% for other BRIC countries.

Potential recommendations to help MSMEs "Thrive":

- **Seed:** Create a pipeline of entrepreneurs by investing in education and incubation by making an entrepreneurship curriculum compulsory in schools, ITIs and colleges, and by promoting tinkering labs, entrepreneurship cells and incubators in every school and college
- **Soil:** Introduce sector-specific initiatives to create a thriving entrepreneurial ecosystem (priority sectors to be identified for each state) by:
  - Setting up land banks/ SEZs with associated physical (plug and play infrastructure, logistics, shared services) and digital (connectivity, marketplace) infrastructure
  - Attracting private anchor investors (Indian and international) to build an ecosystem around these hubs, driving demand to MSMEs, and upskilling labor and technology needs
  - Creating a branding/marketing campaign around local products, quality and infrastructure, and establishing marketing as a shared service for the hub to enable outreach

  - Streamlining access to skilled labor through tie-ups with local institutions for apprenticeship programs, and introducing vocational training around the hub through industry bodies
  - Increasing credit availability through focused angel and VC funds as a PPP initiative, and instituting supply chain finance and digital lending platforms with associated awareness

- **Climate**: Shaping an entrepreneurial culture requires demonstrating and publicizing tangible growth (e.g., export contracts, new hires, etc.) among cohorts of local enterprises. It also requires mentored support and a showcase of success (and a tolerance for failure) through targeted 'growth events/celebrations' which demonstrate the journey of small businesses. The state could enable this while also leveraging 'growth events' to bring the local ecosystem of corporate leaders, the government, bankers and VCs to help support MSME cohorts.

  Apart from fostering a culture of entrepreneurship, it is essential to ensure easy access to critical enablers, e.g., cost-effective access to land (alternative models such as amortization), power (tariff rationalization, open access) and infrastructure, taxation and incentives, and labor availability (digital platforms, training programs) to help MSMEs truly thrive.

Sustain: Set up a mission-focused organization under a credible industry leader to deliver execution intensity and governance

Five elements are required to help "Sustain" and drive the 'survive-revive-thrive' recommendations for MSMEs:

- **Leadership at the state level:** Strong public-private leadership is required to drive the implementation of these recommendations; a credible industry leader should be appointed to steer these efforts, while being supported by a very senior bureaucrat (the latter should have expertise of and influence in the government machinery, with visible support of the Chief Minister and the state leadership)
- **Organization:** An empowered team is required to drive transformation and to block and tackle day-to-day issues, with the right roles and industry linkages to action cross-cutting recommendations
- **Governance:** It is critical to establish a rigorous cadence with accountability to the Chief Minister to deliver outcomes with the right structure and to enable proactive and efficient escalation, problem solving and debottlenecking mechanisms
- **KPIs:** Metrics for success must be set and the right tools should be used to support transformation and ongoing performance management, and to define and track milestones, owners and timelines
- **Mindset:** It is essential to ensure mindset change for real industry and government collaboration; such a partnership can improve dynamism, attract investments, and create employment through an open forum for dialogue and collaborative problem solving models

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Context and Introduction

This report includes actionable recommendations that aim to revive India’s industries, , with a specific focus on the MSME group—a large part of our country’s economy and workforce. These recommendations have been developed by an “MSME Transformation Task Force" constituted by Ravi Venkatesan (Founder, GAME) and chaired by Dr. K. P. Krishnan (IAS (Retd.), Former Secretary, Government of India).

To make the recommendations pragmatic, they were shared with different stakeholder groups including central government ministries, state governments, industry bodies, corporations, social enterprises, etc., and their thoughtful inputs have been incorporated. This report also features operationalization plans as well as suggested metrics to track success where applicable to help increase the dynamism and competitiveness of MSMEs, especially in today’s environment.

Since March this year, the COVID-19 pandemic has left its impact on all sectors of the Indian economy, especially affecting MSMEs. A precipitous dip in demand, disruption in supply chains and a two-month long lockdown have together decimated cash reserves and resulted in an existential risk for the sector. To survive this crisis, 70% of India’s MSMEs have cut back on their workforce. Further, estimates suggest that 20-40% of MSMEs could permanently close.

This crisis could provide an opportunity to policymakers to strengthen the MSME sector and drive structural changes by encouraging new enterprises, formalizing existing ones, broad basing access to finance, and creating an enabling rather than inhibiting business environment.

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Summary of recommendations

This report focuses on recommendations across 4 major buckets:

1. **Survive**: Immediate actions required to ensure liquidity/credit availability to MSMEs
    a. Steps to enable strong execution of announced fiscal package
    b. Additional fiscal stimuli to provide relief to MSMEs (incl. quantum of credit, mode of disbursal etc.)
    c. Private sector initiatives that can help alleviate stress on MSMEs (TReDs, Supply Chain financing)
2. **Revive**: Medium-term (3-6 month) recommendations for increasing ease of doing business (EoDB) and operationalizing through governance framework
    a. **Simplify** compliances and processes across starting and running a business
    b. **Digitize**: Identify digital solutions to build, to streamline processes
    c. **Decriminalize**: Plan for reduction in criminalization of compliances
    d. **Evaluate**: EoDB for MSMEs across states with scorecard to improve accountability
    e. **Support**: Clear governance of industry associations, designing support infrastructure for MSME network, private sector compliance on payables and initiating a social charter
3. **Thrive**: Fundamental changes to create an entrepreneur ecosystem with suitable Seed, Soil, Climate for growth
    a. **Seed:** Education and Incubation to ensure a strong pipeline of future entrepreneurs with the right capabilities
    b. **Soil:** Sector specific initiatives across below levers – with examples for food processing and automotive components
        i. Physical and digital infrastructure
        ii. Supply and demand linkages
        iii. Access to credit and skilled labor
    c. **Climate:** Enabling a culture of entrepreneurship with initiatives on creating the right values systems and enablers around strengthening contract enforcement, improving land, power and labor availability etc.
4. **Sustain**: Creating a mission-focussed and accountable organisation under strong leadership to establish the right organization, governance, KPIs and mindset to action above initiatives

1. Survive

MSMEs have been a key growth driver for the Indian economy—in 2017, enterprises in this category employed approximately 11 crore people, which is more than 40% of India's non-farm workforce[1]. Businesses in this sector have also been a critical enabler of distribution and supply chain for larger companies, contributing nearly 25% towards India's services' GDP and 33% towards manufacturing output[2].As of October 2019, MSMEs also receive about 15% of total non-agri credit from the financial system[3].

Since March this year, the COVID-19 pandemic has left its impact on all sectors of the Indian economy, especially affecting the MSME sector. A survey conducted by GAME found 57% of micro-enterprises have no cash reserves, and 65% are dipping into personal savings. Additionally 40% have attempted to borrow money to survive, with only 14% borrowing from formal sources[5].

A survey by FICCI in April 2020 found that 73% of MSME businesses surveyed reported a fall in orders, while 50% indicated that their inventory levels were up by over 15%. Further, businesses in the sector are now facing a combination of loss in domestic and global demand (the World Trade Organization has projected that global trade in goods expected to fall steeply by 13–32%[6]), along with a loss in the supply of raw materials and the non-payment of dues.

MSMEs in India expected to lose INR 0.8—1.2 lakh crore in profits (estimated for companies with turnover between INR 75—250 crore). Despite the announcement of the recent fiscal package, a recent AIMO survey of 45K MSMEs show that MSMEs are unclear about the eligibility, process and structure of the recent financial package announced by the government.

With the right support, however, the sector can not only survive this crisis but could also emerge stronger from it.

Recommendations to help MSMEs survive the COVID-19 crisis

India's banking system has significant surplus liquidity—net absorptions under the Liquidity Adjustment Facility (LAF) averaged Rs 4.36 lakh crore from March 27 to April 14, 2020. On April 15 alone, Rs 6.9 lakh crore was absorbed under reverse repo operations (from May 1—24, this figure was Rs 111 lakh crore)[5]. Directing a portion of this liquidity towards MSMEs could help these enterprises avert possible bankruptcies and business failure problems.

Without support right now, businesses in the sector can stand to be affected by solvency risk—as high as 24% of unmitigated incremental NPA in the MSME loans portfolio—in the financial system.

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[5] GAME lead micro enterprise survey

[6] FICCI MSME Survey, April 2020

Our recommendations therefore build on these areas and focus on helping these companies stabilize their operations over the next few months, and get bankruptcy protection and liquidity support to reduce the impact of the crisis on their operations.

1.1 Enabling strong execution of announced fiscal package by working closely with state/local governments (including monitoring disbursals)

India’s Budget 2020 included several measures to accelerate the growth of MSMEs. Here’s how policymakers can help the sector grow through these planned measures.

Operationalization plan

State governments could play a PMU-facilitator-enabler role by:

- Setting up working meetings with banks to get detailed clarity on the central government’s plan (in collaboration with SIDBI)
- Educating and creating awareness on the new definition of MSMEs, relevant credit schemes to apply, pre-requisites to apply, and the application process by setting up helpdesks via industry bodies, MFIN, SIDBI, local governing bodies, etc.
- Enabling execution of the fiscal stimulus via existing district authorities and setting up appropriate governance mechanisms through them
- Setting up/leveraging existing digital platforms (e.g., CHAMPIONS) to communicate credit scheme eligibility, application processes, benefits, etc.
- Enabling banks/NBFCs to access customers (e.g., through loan melas) and collect documents in lockdown situations
- Monitoring capital distribution to ensure smaller businesses are receiving credit

Metrics for success (3 months)

- Disbursal of 80% of funds—as approved by the Cabinet—to MSMEs
- 30% of funds distributed to micro and small enterprises, and local governments

Stakeholders

Ministry of Finance, Ministry of MSME, SIDBI, RBI, Banks/NBFCs, CGTMSE, ECGC, respective state governments in partnership with industry associations

1.2 Offering initiatives in tandem with the current stimulus package

To lend additional support to the MSME sector, policymakers could consider offering some more incentives.

- Mandating 50% of the stimulus package to be released to enterprises falling into the micro and small categories
- Relaxing NPA classification so that borrowers can repay loans in a longer timeframe/ moratorium on NPAs negatively affecting credit scores for a temporary period
- Allowing exemption from bank guarantees in case of lack of supply of stamp paper, or adopting digital e-stamps for BGs to enable banks to lend

Operationalization plan

Policymakers could facilitate this by:

- Operationalizing via a central mandate from the Ministry of Finance
- Ensuring funds are administered and monitored by SIDBI (funds to be distributed when companies meet criteria)
- Monitoring disbursal of funds and amounts given to micro and small enterprises (can be done by state governments)

Metrics for success (3 months)

- 30% of funds distributed to micro and small enterprises and local governments

Stakeholders

Ministry of Finance, SIDBI, RBI, Banks/NBFCs, CGTMSE, ECGC, state and local governments

1.3 Providing 1 lakh crore worth of new loans to first-time MSME borrowers

This could include Rs 1 crore loans, each with a ticket size of Rs 1 lakh, with a credit backstop by the government. The size of this fiscal package could be Rs 0.2–0.3 lakh crore.

Operationalization plan

- Ensuring the fund is administered by SIDBI
- Operationalizing and implementing the plan via a digital portal and offline channels to disseminate current scheme details to MSMEs
- Following a simple and rule-based claims process for the backstop
- Providing liquidity at lower interest rates due to the reduced amount of capital required to support smaller enterprises who have historically not needed credit (e.g., in service businesses) but have suffered a significant revenue loss due to the lockdown
- Using the as a vehicle to formalize many MSMEs (through simple forms, etc.)

Metrics for success (3 months)

- Approval and disbursal of provision for first-time borrowers

Stakeholders

Ministry of Finance, SIDBI, RBI, Banks/NBFCs, CGTMSE

1.4 Setting up a credit guarantee fund for existing MSME loans

The size of this fiscal package could be Rs 0.9–1.7 lakh crore.

Operationalization plan

- Using existing mechanisms like CGTMSE and ECGC for exporters, with risk sharing between the government and the bank/NBFC, e.g., 75–25% (exact split to be discussed prior to finalizing) and a clear, simple, rule-based claims process
- Absorbing any NPA slippage and incremental credit costs for MSME loans that might occur despite the liquidity infusion; offering credit guarantee only for loans not in 30+ dpd pre-COVID (e.g., Feb/Mar 2020)

Metrics for success (3 months)

- Approval and setup of credit guarantee fund

Stakeholders

Ministry of Finance, SIDBI, RBI, Banks/NBFCs, CGTMSE, ECGC

1.5 Alleviating stress on MSMEs

This needs to be done to help the sector recover from the crisis.

- Strengthening supply chain financing for small businesses
- Driving adoption of TReDs and other bill discounting mechanisms to ensure timely payments from large companies to MSMEs
- Repaying dues owed to MSMEs immediately by the government (e.g., GST refunds, etc.)

Operationalization plan

- Ensuring the plan is driven by private sector players and bodies (e.g., FICCI)
- Encouraging the excise and taxation department to set up a desk to address and process issues related to the repayment of government dues

Metrics for success (3 months)

- Finalize plan for roll-out via conversations with key FICCI and CII members
- Begin roll-out of TReDs adoption and supply chain financing to MSME partners

Metrics for success (12 months)

- Half of FICCI, CII members onboarding over 75% of their MSME partners on TReDs
- Half of FICCI, CII members providing over 50% of their MSME partners with supply chain financing

Stakeholders

FICCI, CII and industry bodies, Excise and taxation dept., Ministry of Finance, RBI, Banks/NBFCs, TReDs

2. Revive

While India has risen to 63rd globally (of 190 countries) on ease of doing business[7] rankings, the 'on ground' experience of MSMEs remains largely unchanged - high burden and costs of compliance and complex processes remain a bottleneck for growth, productivity, innovation, and formalization. To start and run a business today, an MSME must navigate a complex landscape of ~58K compliances; continuous updates compound this burden (e.g. 3500 legal updates over the last year) and consequently, many opt for specialized manpower to comply (e.g. company secretaries) or remain non-compliant. Non-compliance of ~9K (14%) of these compliances carry imprisonment terms from 3 months to 10 years, which further deters MSMEs from formalization. On average a typical MSME factory must file for 23+ registrations and licenses, 750+ compliances, and 120+ filings per annum; labor regulations account for more than 50% of these filings.

Beyond the sheer numbers, processes are time-consuming; for instance, registering a business takes up to 90 days in India but 1 day in leading EoDB countries such as New Zealand; similarly, property registration takes up to 60 days but 1 day in countries like Norway. Additionally, there is often confusion and lack of clarity on procedures. Apart from these multi-step time-consuming processes, there is a lack of strong support networks to guide entrepreneurs. This complex landscape has led to entrepreneurs spending significant amount of time and cost to remain compliant and deters MSMEs from formalization.

In a COVID world, this has become a disproportionately high burden on MSMEs. With new notifications each day and increased inspections in the social distancing age, ensuring that the business environment facilitates rather than debilitates MSMEs is crucial.

Ensure Ease of Doing Business

If MSME formalization processes are simplified and streamlined, this could be one of the key unlocks required for the sector's revival in the medium to long term.

Once recommendations to help the MSME sector survive the crisis are in place, steps to ensure Ease of Doing Business can be implemented across five pillars—**Simplify, Digitize, Decriminalize, Evaluate and Support**. This will help the sector revive.

2.1. Simplifying the process and compliance landscape

MSMEs currently face a complex landscape with 58K compliances and multi-step time-consuming processes across sectors and states. Key challenges include:

1. **No clear list of compliances** to be filled based on sector or state from the entrepreneur's point of view
2. **Time-consuming processes** are in place; for instance, starting a new business can take two—three months, construction permits take six months; there is a lack of information on steps and timelines for each of these processes
3. **Constant updates to compliances** add to complications; for example, nearly 3K updates are made annually (3,069 updates in 2019) with eight updates per day—this is impossible to track for an MSME (updates are also made on amendments, further increasing the complexity)

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[7] World Bank "Doing Business" Report, 2019

4. **Cost intensive** as hiring of company secretaries is necessary to enable timely fillings to help keep track of updates and interpret the complex legal language

Existing solutions to simplify processes—BRAP reforms

The 80 Business Reforms Action Plan (BRAP) reforms designed by the DPIIT (Department of Industrial Policy and Promotion) in tandem with state departments and the World Bank are aimed at making all the existing processes of doing business simple, predictable and consistent. These reforms are thorough and well-thought out guidelines to help state governments with process improvements. However, they do not reduce compliances or associated laws. Addressing challenges that have led to the slow implementation of these reforms can significantly simplify processes.

Some challenges to existing BRAP reforms include:

- Lack of clear quantifiable and trackable metrics for success and actionable implementation plans for each reform
- Onus only on states; however, many digital solutions can be created at a national-level and then rolled out by states, e.g., single-window system for starting a new business
- Monitoring of implementation is done by states themselves; they fill out their own progress that feeds into a scorecard

Recommendations

1. Ensuring **BRAP reforms are implemented** across states
    - *a.* For existing 80 BRAP 2019 recommendations build **clear metrics for tracking success for states**
    - b. Bifurcation of **BRAP reforms for center and state:** Ensuring central responsibility across similar reforms across states (28 of 80 reforms to be moved to center as detailed in Appendix 2, committee required to finalize)
    - c. Creation of detailed implementation plans for each BRAP guideline
2. **Simplifying seven key processes**[8], such as **starting a new business** to be reduced from two months to less than 7–15 days[9], **registering property** from two months to less than 15 days[10] (similarly across taxes compliances and payments, environment, availing credit, enforcing contracts, labor laws, etc.)
3. **Rationalizing 58K compliances** across center/state and sectors as well as limiting daily compliance changes[11] (focus on rationalizing labor compliances which make up 50% of all compliances)

Implementation plan

BRAP reforms (Recommendation 1)

- Committee of experts convened (same committee that has worked on BRAP design along with representation of social enterprises such as deAsra and Deshpande) to work

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[8] 7 key processes - Starting a new business, registering property, construction permits, labor fillings, availing credit, paying taxes and filling regular compliances like EHS

[9] Best in class like New Zealand at 1 day for starting a business as per World Bank study on EoDB

[10] Best in class like Norway and Portugal at 1 day for registering property World Bank study on EoDB

[11] In line with Avantis and FICCI report; Additionally e.g., of specific laws to be relooked at forming the basis of many compliances are air and water act, civil aviation clearance, Indian boiler act etc.

on designing metrics for success, center and state bifurcation of reforms, detailed implementation guidelines by August 2020

- Implementation of BRAP reforms in pilot states through coordinated activity across center and states from July 2020 to December 2020
- Full scale implementation of all BRAP reforms across all states scaling up learnings from pilots

Compliance rationalization (Recommendation 3)

- Convene committee to finalize compliances changes for rationalization in line with work done by FICCI and Avantis by July 2020 for two pilot states (committee of experts to deliberate and finalize compliance changes and associated legal changes along with decriminalization)
- Launch compliance simplification in across center and all states by January 2021
- **Process simplification:** Designing additional reforms for process simplification over and above BRAP across areas such as tax payments, etc., by December 2020 *(same expert team as in bullet 1)*

Metrics to measure success

BRAP reforms

- Metrics designed, center and state split of reforms, and detailed implementation guidelines created by September 2020
- 50 BRAP reforms effectively implemented in 2 pilot states by December 2020
- 65+ BRAP reforms implemented in 80% states by July 2021

Compliance rationalization

- 50% reduction in compliances for 2 states through compliance simplification pilot by December 2020.
- Total number of compliances assessed and rationalized across central govt and 20+ states

Owners: Ministry of MSME, DPIIT, State govts; Stakeholders: Private (e.g., Avantis) and social (e.g., deAsra, Deshpande) organizations to be enlisted along with industry bodies (p*otential to involve labor unions)*

2.2. Digitizing compliance processes through private partnerships

Key business processes are time consuming process, for instance starting a new business takes 2-3 months, procuring construction permits takes 6 months, registering property takes 2 months. Entrepreneur are faced with many challenges while trying to complete these multi-step processes, key challenges include:

1. Lack of singular source for all **MSME information consolidated in one place**, including processes, schemes applicable for each sector and state
2. **Different portals for each process** as different central and state authorities are responsible. This also increases the number of point of contacts for queries leading to confusion
3. **Parallelization** of process (only after 1 registration can you get the next) leads to back and forth and time wastage for the entrepreneur

4. Lack of transparency for entrepreneur including timelines, status of application, reasons for rejections etc.

These challenges can be effectively addressed by digitizing processes.

Recommendations

1. Creating **six key digital systems** centrally to enable process simplification: The six key digital systems include an online system for filling labor compliances (incl. ESI, PF etc.) , EHS, tax filling (compliances and payments), an Information Wizard[12], central inspection system, and a single window system through the extension of SPICE *(detailed in appendix)*
2. Moving aforementioned systems **under central government mandate for creation**, while ensuring implementation through states
3. Instituting **robust flagging and escalation mechanisms** to overcome slow application movement (to central government and local bodies)
4. Establishing transparency in tracking for entrepreneur as per BRAP guidelines for each of the digital initiatives
5. Enabling states to create digital solutions as part of BRAP reforms (30 of 52 state reforms require digitization) e.g., digitization of process for construction permit, access to utilities, digitization of land records

Implementation plan

This includes **leveraging private players** (next gen tech players, e.g., Swiggy, Flipkart) **to design the digital interface** for the six key solutions from July 2020 to September 2020. Existing solutions such as Maharashtra Maitri portal and the GSTN model for enabling MSMEs to access software for fillings, etc. can be leveraged to further accelerate timelines.

- Committee to chart out workplan for the solutions required, engage in prioritization of features, assess existing solutions to leverage and assign owners (with guidelines for onboarding next gen tech players) by July 2020
- Solution owners to work with states to understand specific requirements and information gathering required by July 2020
- Creation of the digital solution through iterative process by August 2020
- Institute central team and state teams to manage portals and test workflow by September 2020
- Training of all physical government teams on portal usage to guide / help entrepreneurs by October 2020
- Begin operationalization of six key digital initiatives in states by October 2020
- States to convene committee by August 2020 to focus on the creation of digital solutions as a part of the state's BRAP reforms by December 2020

Metrics to measure success

- Creation/ scale up of six digital platforms by October 2020
- Prioritization of next wave of digital solutions by September 2020 to be created by the six-month mark

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[12] Information Wizard to include (in addition to BRAP) daily compliance changes and view of all compliances by region and sector – potential to collaborate with Avantis

- Over 20 states to operationalize the six solutions by July 2021
- 60% of all new MSME businesses to be registered through the online portal by July 2021
- States to create digital solutions for 30 of 52 state BRAP reforms and operationalize by December 2020
- Next wave of digital solutions created by January 2021

Owners: Ministry of MSME, DPIIT; Stakeholders: Private partners, next gen tech players, state governments (for roll-out)

2.3. Decriminalizing compliances

Criminalization of 9K (14% of) compliances, with imprisonment terms from 3 months to 10 years, significantly deters MSMEs from formalization. This also boosts the Inspector Raj system and increases the monetary repercussions MSMEs are faced with.

Recommendations

1. Screening and reassessing ~9K compliances and associated laws for **decriminalization by state and central govts**
2. Blanket extension/de-criminalization/removal of penalty for compliances not renewed during stipulated time period of COVID

Implementation plan

- Committee convened to work on decriminalization (along with simplification) for pilot in 2 states by July 2020 (potential to involve organizations such as FICCI and Avantis)
- Committee to finalize decriminalization changes in two pilot states (in tandem with simplify pilot) by December 2020
- Launch pilot scale up to center and all states by January 2021
- DPIIT and state govts to take decision on extension/de-criminalization of compliances during COVID-19

Metrics to measure success

- Committee convened to work on decriminalization (along with simplification) by July 2020
- Pilot carried out in two states for decriminalization (with simplify pilot) by December 2020. This would entail completing the assessment of compliances with clear recommendations on legal changes required.
- DPIIT to take decision on extension/ de-criminalization of compliances during COVID-19
- 50% of compliances decriminalized by July 2021

Owners: Ministry of MSME, DPIIT; Stakeholders: Organizations such as FICCI, CII, Avantis

2.4. Evaluate states based on performance on MSME EoDB scorecard

The current EoDB scorecard by DPIIT is focused on assessing EoDB across the board from micro enterprises to large corporates. Assessing EoDB solely from an MSME lens will help provide visibility across key issues and bottlenecks. Additionally the scorecard is based on assessing implementation of the 80 BRAP reforms and states are meant to objectively fill out their own progress for this. Thus there is a need for trackable, objective metrics focused only on MSME EoDB.

Recommendations

1. **Design and roll-out a state-level objective MSME scorecard** that is created with a partner such as QCI, India Today, Crisil, etc.; the scorecard should include clear trackable metrics as well as a perception survey, keeping in mind inherent disadvantages for states
2. **Publicize performance of states** on EoDB scorecard (similar to Swachh Bharat)
3. **Incentivize states** based on EoDB score through credit and funding allocation
4. States to launch scorecard for key districts on MSME EoDB

Implementation plan

- Create and launch EoDB annual state scorecard for MSMEs by October 2020
- Expert panel (including Finance Ministry, Ministry of MSME) to design credit allocation process / other incentives based on scorecard by September 2020 (Potential to work with finance commission on revenue allocation based on EoDB scale / infrastructure funds to ensure creation of SEZs, industrial parks by taking into account EoDB scale)
- Publish rankings from October 2020 internally, and externally from January 2021
- Pilot states to launch district level scorecard with GAME and CCS by August 2020

Metrics to measure success

- First state EoDB scorecard published in October 2020 for internal consumption. The first scorecard is for all the states to understand the scoring process, provide feedback and raise any concerns
- First state EoDB published in public domain by January 2021 (post accounting for state level feedback)
- Process of incentives and scorecard linkage designed by September 2020
- Incentives distributed in accordance with state scorecard by January 2021
- First district wise MSME EoDB scorecard published by March 2021 based on pilot results for Punjab

Owners: Ministry of MSME; Stakeholders: GAME, CCS**,** Niti Aayog and third party players such as QCI, Crisil, India Today

1.5. Supporting through public and social partnerships

Key challenges

1. Complex network of industry associations with >3.5k industry associations, leading to lack of clarity for entrepreneur and dampened effectiveness in collecting grievances and enabling changes
2. Lack of a pan India support network. This has been addressed by the recent launch of the Champions portal, however can be further strengthened to ensure it is a one stop for all queries and information with relevant on ground ties to NGOs and industry associations
3. Effective protections to ensure MSME payables are cleared on time by mid and large corporates lessening the working capital burden

Recommendations

This includes implementing four key recommendations: Strengthening industry bodies, mandating MSME payables, instituting a pan-India support network and creating a social charter.

1.5.1. Strengthen effectiveness of MSME industry bodies

a. Improve **collection of grievances** at grass root level and ensure these are heard at state level

b. **Increase accountability** through governing framework

c. Ensure **funding for strong secretariats** through govt and private channels

d. Institute guidelines for industry bodies to play role of **self-regulatory organizations**

Implementation plan

- Ministry of MSME to chart out 3.5k of bodies including sectors, nature of work, member strength etc. by July 2020 and plan for rationalization to ensure adequate representation and clarity for MSMEs by August 2020
- Finalize governing framework by August 2020
- Set up of pan India strategic partner for coordinated recommendations to industry bodies by October 2020
- Enable sustainable government / private sector funding to set up a strong secretariat for state, central bodies by October 2020
- Select industry bodies for SRO pilots by August 2020

Metrics to measure success

- Industry body governance framework designed along with pan India strategic partner by October 2020 and operationalised by January 2021
- Pilot launched for 1-3 industry bodies to play SRO role by August 2020
- Guidelines implemented for industry bodies to play SRO role by July 2021

Owners: **Ministry of MSME; Stakeholders:** DPIIT, Niti Aayog, industry associations, SIDBI, GAME, Omidiyar

1.5.2 MSME payables - SEBI/ MCA to mandate clearance of a percentage of invoice value within 45 days of receipt of invoice.

a. Threshold guidelines to be set e.g., minimum clearance target - as least 60% of invoice value to be cleared

b. Other criteria to be value of contract under stipulated value and turnover in stipulated range

c. Mandate to include penalization details in case of default

d. Potential to mandate annual reporting of status and timeliness of payment clearances as part of the quarterly audit process

Implementation plan

- SEBI/ MCA to assess fulfilment of MSME payables July 2020
- Detailed guideline, including turnover, contract amount, number of days etc. to be designed by August 2020
- Roll out of guideline, checks and associated repercussions by August 2020

Metrics to measure success

- Detailed guideline and associated checks and repercussions designed by August 2020
- Operationalization of mandate across all states by January 2021

Stakeholders: SEBI and Ministry of Corporate Affairs

1.5.3. **Support network - Institute pan India MSME support network by combining existing government portals** (such as Champions and ideas.gov), with tie ups with on ground industry bodies, MSME clusters and NGO's to address queries/ grievances/ information requests. This would entail redirecting queries from this central government portals to state portals / local bodies based on region and functional expertise

This will enable decrease in use of government bandwidth and expansion of network through targeted awareness of platform leveraging existing local body networks

Implementation plan

- Select existing support portal (e.g., Champions) to be extended into key centralised portal (decision to be taken with enterprises such as Haqdarshak, deAsra) by August 2020
- Select tech partner to create back-end infrastructure for query redirection by August 2020
- Design public-social partnership requirements (such as timeline for query answering, incentivizes for total queries answered) and onboard social sector partners such as deAsra and Deshpande foundation and industry bodies by August 2020

Metrics to measure success

- Specifics of public and social partnership defined by August 2020
- 40 local partners onboarded by August 2020
- Relocation of man-power in states for query management (currently there is a team in each state to address queries for the Champions portal, through industry association and NGO involvement there is opportunity to redistribute this man-power)
- Increase portal visits and query generation to value equal to 10% of all MSMEs in 6 month time frame

Owners: **Ministry of MSME; Stakeholders:** Enterprises such as deAsra, Haqdarshak, industry associations and EDI

1.5.4. **Creation of a social charter** leveraging FICCI / CII to help MSMEs in ecosystems of larger companies

Potential to link charter signing to incentives such as preferential credit etc.

Implementation plan

- FICCI/CII to create social charter with DPIIT by July 2020
- FICCI/CII/DPIIT to advocate for companies to sign the charter August 2020 onwards

Metrics to measure success

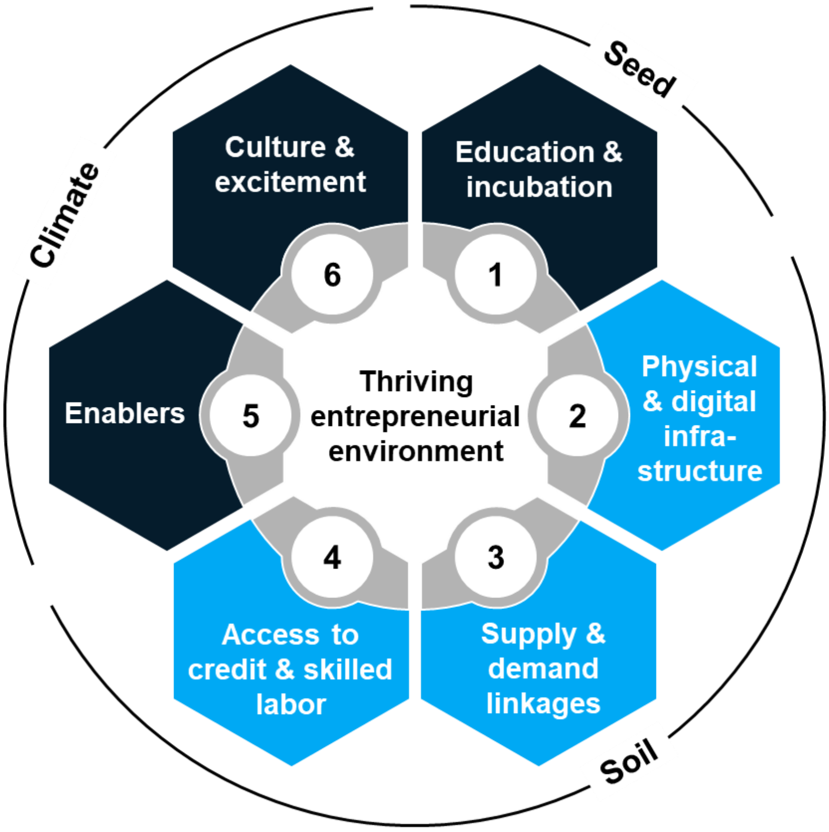
- Creation of charter by July 2020
- Social charter signed by top 1k companies by December 2020

Owners: Ministry of MSME and FICCI/CII

3. Thrive

Like natural ecosystems, dynamic entrepreneurial ecosystems rest on the right conditions of seed, soil, and climate. Nobel Laureate Ned Phelps identifies these conditions as essential to unlock 'mass flourishing.' The phenomena of "unprecedented brilliance sprouting up- first in Britain and America, later in Germany and France. (Where) Cities mushroomed, myriad companies formed and, with the emerging economies, masses of people showed a new spirit: going one's own way, taking one's chances, seizing one's opportunities."

🟦 Sector specific



- **Seed:** numerous individuals able and willing to tinker, innovate, and build to become entrepreneurs and job creators. Ned Phelps (Nobel Laureate) describes these as the modern values of individualism, vitalism, and self-expression. These traits and motivations develop through exposure to entrepreneurial activity, role models, and mentorship.
- **Soil:** Local inputs conducive for and responsive to the needs of these entrepreneurs. These inputs include timely and appropriately finance, supply and demand linkages, physical and digital infrastructure, and finance and skilled labor. Many such inputs require a more profound understanding of and deliberate support of small businesses.
- **Climate:** a culture that enables and celebrates entrepreneurship. Enablers include necessary inputs such as land, power, logistics, and labor access will play a key role.

India’s missing dynamism

On both new enterprise creation and growth of existing enterprises, India’s performance is lacking. 95% of India’s enterprise base comprise of low productivity, sub-scale and informal micro-enterprises which have limited job creation capabilities and offer low wages. Fewer than 10 lakh of India’s 6.3 crore enterprises pay social security such as ESI. This lack of dynamism among MSMEs in India is driven by the absence of the right Seed (i.e. entrepreneurs), Soil (i.e. sector specific local inputs) and Climate (i.e. culture and enablers). Some challenges under each of these heads are highlighted below:

Seed

- **High aspirations for employment, not entrepreneurship:** India's youth see a wide gap between their aspirations and opportunities. Many living outside of tier-1 cities aspire for government and private sectors jobs. For example, taking the state of Punjab, over 7 lakh youth applied for 7000 police constable positions, 1.5 lakh of whom were either graduates or above. As a result, business registration rates in Thailand and Vietnam are 7X to 10X than in India[13].

Soil

- **Enterprises remain small, informal, and unproductive:** the absence of dynamic entrepreneurs or 'seed' combined with inappropriate or inhibiting local inputs force firms to stay small. Fewer than 5% of India’s enterprises employ more than 5 people. In fact, India has ~20000 companies with paid up capital of over INR 10 crores capable of productively employing and reasonably compensating our non-farm work force. Consequently, government jobs, continue to offer a wage premium than many MSMEs do not. Limited local inputs across physical and digital infrastructure, supply and demand linkages and access to skilled labor and credit limit the growth of even high potential firms. For instance, labor productivity in India is 1/3rd of Malaysia's and 2/3rd of China’s. According to the IFC, India has an MSME credit gap of 70%, much of which represents the unaddressed needs of small enterprises (as opposed to Micro) and manufacturing units. With low capital base and limited credit flow, even well performing firms find it hard to grow and create more jobs[14].

Climate

- **Performance across key enablers**: India lags to comparable countries across key enablers, for instance Indian steel prices are 15% higher than China's, power costs for industrial and commercial power in India are up to ~30% higher than China's. Logistics cost are 14% of GDP in India compared to 8-10% for other BRIC countries. Additionally India has poorer logistics connectivity on average in India it takes 7-10 days to reach a port compared to 0.2 days in China due to superior connectivity.
- **Extending focus to mass entrepreneurship:** In India, entrepreneurship is associated with tech unicorns and billionaires rather than millions of job-creating MSMEs. This focus on tech-oriented businesses discourages 'mass entrepreneurship.’ Youth in India primarily aspire for government (e.g. 60% of youth in states like Karnataka & Punjab) and private sector jobs. As a result, entrepreneurship in India is much lower than countries like Thailand and Vietnam (with 7X to 10X higher business registrations rates). Less than 10% of youth are interested in setting up their factories, small export houses, and trading businesses.

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[13] https://data.worldbank.org/indicator/IC.BUS.NDNS.ZS

[14] https://www.intellecap.com/wp-content/uploads/2019/04/Financing-Indias-MSMEs-Estimation-of-Debt-Requireme-nt-of-MSMEs-in_India.pdf

3.1. Fundamental changes to create an entrepreneurial ecosystem

Recommendations

3.1.1. Seed: Education & Incubation

Create a pipeline self-sustaining pipeline of entrepreneurs, by investing in education and incubation: Introduce the entrepreneurial mindset curriculum to schools and colleges: developing entrepreneurial values early will ensure that many more of India's youth become 'job creators' rather than 'job seekers.' In partnership with the Delhi Government, Udhyam Shiksha developed an entrepreneurship mindset curriculum for 12000 government schools and 7.5 lakh students from 9th to 12th standard. Through immersive coursework in running a business, meeting local entrepreneurs, and micro research projects, these students have developed core entrepreneurial traits: grit, self-awareness, and independence. At the end of the year, 90% of participating students repaid an INR 1000 business loan.

Operationalization plan:

1. Identify NGO partners to facilitate the consortium, define outcomes, pull in best practices, and build government stakeholders and teachers' capacity.
2. Constitute a working group of teachers, mentor teachers, department of school education officials, and experts to design curriculum
3. Pilot curriculum with ~5% of school students and iron out any design and execution challenges
4. Scale the program across all public schools

Metrics for success:

3-month outcomes:

- Working group of teachers, mentor teachers, curriculum designers, education dept. bureaucrats, and project management unit defined

12-month outcomes:

- 6-month pilot with ~5% of the total cohort of students, colleges, and ITIs complete

Stakeholders/partners: Departments of School education in states and NGOs like Udhyam, Going to School, and Lend a Hand India

3.1.2. Climate: culture & excitement

Shape cultures and attitudes to encourage and appreciate entrepreneurship: Dynamism is localized as the ecosystem begins to take shape around a core group of successful entrepreneurs. This dynamism then exports to other districts, regions, and states. The story of India's IT sector and China's mass entrepreneurship movement reflects this progression. For example, in Indian IT, a few entrepreneurs began to develop small but robust businesses, and existing institutions began to enable these entrepreneurs (e.g., banks, regulators) or new institutions - NASSCOM, Tech VC firms. – began to evolve around them. Few ‘entrepreneurship ecosystem’ models can replicate this organic growth. However, Harvard Professor Dan Isenberg, contextualized for India below, comes closest. His ‘Scale Up’ has demonstrated tangible and rapid success in both developing (e.g., Manizales in

Colombia, Puerto Rico) and developed (e.g., Barcelona, Milwaukee in the United States) contexts.

For India, the process to replicate the successes of China and India's IT sector will require:

- **Demonstrating significant growth among small enterprises early:** identifying a few 'high potential' entrepreneurs and providing formal acceleration support to them through mentors and workshops on capacity, cash, and customers will initiate a virtuous cycle of growth for many. In Manizales (Colombia), the entrepreneurship ecosystem project led by Dan Isenberg supported an entrepreneur to double her exports, which became a cause for celebration, a 'growth event' to inspire the ecosystem, and a quick win to crowd-in many more partners.
- **Inspiring the ecosystem of bankers and partners to support:** entrepreneur's endogenous success is necessary but not sufficient for an ecosystem to develop. For this, local ecosystem actors (e.g., bank branch managers, MNC buyers/CEOs, industry associations) must be actively involved and increasingly become more 'entrepreneur responsive.' In Manizales, this included regular forums for entrepreneurs to interact with these stakeholders and dedicated and frequent 'leadership and policy workshops' which worked with stakeholders to modify their products and processes to become more entrepreneur-centric.
- **Celebrating and showcasing the success of entrepreneurs:** shifting our popular imagination of entrepreneurship from technology to bread and butter MSMEs will require regularly communicating 'growth events' of new hires, contracts, financing, expanded facilities. With more success of 'mentored companies', Manizales became a national story with coverage across social and print media. The 'celebration of growth events' encourages and inspires new entrepreneurs, reinforcing the work on entrepreneurship mindsets curriculum in schools and colleges. Manizales demonstrated a 100% increase in entrepreneurial activity, over two years, through this effort.

Operationalization plan:

1. Identify 1-2 clusters or cities to deploy the 'entrepreneurial ecosystem' model.
2. Build ownership among local ecosystem actors for the 'scale-up' program (e.g., Universities offer space, influential entrepreneurs agree to speak with 'scale-up' entrepreneurs)
3. Build 'best in class' but customised curriculum for entrepreneurs with their inputs and that of experts on customer, capacity, and cash
4. Create and build capacity of a pool of mentors; host local ecosystem players (e.g., banks) to build capacity to serve local entrepreneurs better
5. Host forums where 'scale up' entrepreneurs can engage influencers, banks, buyers, etc.
6. Widely publicise 'growth events' on social and local media to celebrate entrepreneur success.
7. Build capacity of a local University to take the 'scale up' program forward

Metrics for success:

3-month outcomes:

- Identify 'high potential' enterprises to scale up
- Onboard 5-6 local stakeholders (e.g., banks, local industry association, university, etc.) and 10-12 mentors

12-month outcomes:

- At least 30% growth among all scale up enterprises
- New export contracts for a select number of enterprises
- Loans from local banks + VC funds for scale up companies

Stakeholders: Department of Industry and Commerce, GAME, and other experts such as Dan Isenberg, Poornatha, NSRCEL, CIIE, etc.

3.2. Soil: State specific initiatives for identified target sectors

1. **Identify land and set up land banks to attract global players**
    a. Food processing: 200 - 1000 acres
    b. Auto: 1000 – 5000 acres
2. **Set up hubs with physical and digital infrastructure**
    a. Plug and play infrastructure (e.g. effluent treatment plants, Dormitory, gas supply, and solid waste management for auto etc.)
    b. Logistics infrastructure (e.g. multi-modal connectivity, freight corridors)
    c. Supply and demand linkages via a digital marketplace
    d. Conducive regulatory environment to encourage investment and production
    e. Improve digital coverage and internet connectivity (via setting up of towers and WiFi hotspots)
3. **It is imperative to attract large industry players as anchor investors and partners to the hubs in the next 12-18 months**
    a. Food processing: ITC, Nestle, Danone
    b. Auto components: Tier 1 suppliers – Bosch, Continental, Denso OEMS – Ford, Tesla
4. **Market the state and its products to both domestic and export markets**
    a. Food processing: Market a basket of products based on the state's rich food heritage E.g., For Punjab: Makki ki roti, Amritsari Kulche, Butter Chicken etc.
    b. Auto components: Establish marketing as a shared service for the hub to enable effective campaigns and outreach for MSME components
5. **Enable streamlined access to credit and skilled labor**
    a. Set up vocational training programs in collaboration with local universities
    b. Strengthen supply chain financing and TReDs adoption to enable access to credit for MSMEs

3.3. Food processing example: Setting up a thriving hub in states

Illustrative example (Punjab) to leverage and grow its food processing MSMEs: Similar initiatives can be developed on a state level using this framework, based on raw material availability, land availability, existing infrastructure, constraints of logistics, digital connectivity, etc.

3.3.1. Land

- **Set up land banks to encourage private players** to enter the state**/identify existing hubs that can be upgraded**
- **Identify three existing food processing hubs that can potentially be upgraded** (Ludhiana, Pathankot, Bathinda)

3.3.2. Hub infrastructure

- **Reduce freight costs by establishing multi-modal connectivity** from major inland manufacturing/trading hubs to ports, high-speed roadways and railways, freight corridors to connect major industrial hubs, ports and urban centers, with mechanized terminals for commodity handling
- **Standardize norms for warehousing, packaging, pallets, vessels, etc**., aligning with international standards
- Establish production facilities with **capabilities and technology** to process **multiple products**, and to increase **productivity and utilization**
- **Set up a digital marketplace** for MSMEs to source raw materials and sell their products (along with the required physical infrastructure)

3.3.3. Anchor Investors/partners

- **Identify and onboard key anchor partners** (e.g., ITC, Nestle, Danone, etc.) to generate demand and drive technology adoption via global roadshows and outreach programs
- **Create a conducive regulatory environment** to encourage investment through:
    - GST subsidies, freight subsidies and reduced power tariffs for the first two years after setup of the hub
    - Wage reimbursements for women workers at Rs 6,000 per month for five years for units employing more than 1/3rd of women in the day shift
    - 50% reimbursement for expenditure on developing infrastructure and equipment for farmers, including post-harvest handling and storage subject to a maximum of 25% of FCI; part of this (25–50%) can be taken from NHM or MoFPI schemes

3.3.4. Marketing

- Stimulate food processing with emphasis on **quality, branding**; identify select **focus products on the basis of Punjab's rich food heritage**
- **Potential value chains/product lines to focus on:**
    - **Frozen fruits/vegetables**: With improvement in agronomy and processing, Punjab can become the preferred source for foods such as green peas, citrus fruits, etc., targeting markets such as India and the Middle East

  - **Value-added frozen foods**: Drive demand through promotional campaigns around a basket of "Authentic Punjabi Food", such as Makki ki Roti, Amritsari Kulche and Chole, Gajar ka Halwa, etc.

3.3.5 Credit and skilled labor

- Set up agri-focused angel and VC funds as a PPP initiative to finance entrepreneurship in focus sectors
- Enable streamlined access to credit via supply chain finance, digital lending platforms and awareness programs for schemes
- Partner with universities to provide vocational training to ensure Punjab has a skilled talent pool to enable its growth

Cross-cutting initiatives to establish a thriving food processing sector in Punjab

3.3.6. Education and incubation

- **Create a world-class food and agricultural university/upgrade an existing university** (e.g., Punjab Agricultural University) and research laboratory to stimulate agriculture research
- Encourage private sector players and foreign universities to partner with universities through grants and tie-ups
- Establish a strong lab-industry and farm links so that innovative products developed by these universities are used in the agri and food processing sectors

3.3.7. Regulatory enablers

- **Technology transfer especially in productivity enhancing machinery**: Building state-level relationships with companies/nations, enabling bulk buying, etc.; encourage these companies to set up 'plug and play' enterprise models
- **Potential reforms to attract investments and enable the sector to grow**
  - Modifying GST(SGST/IGST) subsidy to 50% of the net GST without a throttle subject to a maximum of 75% of FCI for the GST slabs of 12% and 18%, where packaged foods are covered; the current scheme provides a throttle of 25% for the 12% slab and 50% for the 18% slab with a limit of 200% of FCI—this will accelerate payback while reducing the overall amount, encouraging faster reinvestment
  - Reduction in power tariff to Rs 3.5/unit by giving the benefit of the incremental power cost vs the current Rs 5/unit
  - Wage reimbursement for women workers at Rs 6,000 per month for five years for units employing more than 1/3rd of women in the day shift; the current scheme provides for Rs 4,000 per month for all employees for five years
  - 50% reimbursement for expenditure on developing infrastructure and equipment for farmers, including post-harvest handling and storage, subject to a maximum of 25% of FCI; part of this (25–50%) can be taken from the NHM or MoFPI schemes
  - Freight subsidy for frozen products for movement out of the state at Rs 2/kg for domestic markets and Rs 5/kg for exports

3.3.8. Culture of entrepreneurship

- Strengthen the PR & Comms department to broad base/mainstream information on entrepreneur success, state success and schemes

  - This can also be done through partnerships with youth platforms (e.g., Yuvaa, Pravah, etc.)
  - Focus on platforms where youth/entrepreneurs are (e.g., TikTok, Facebook, WhatsApp, etc.) and tailor content accordingly

3.4. Auto components example: Setting up a thriving MSME ecosystem

Illustrative example (Punjab) can leverage and grow its auto component MSMEs: Similar initiatives can be developed on a state level using this framework, based on existing auto-component capabilities, land available, existing infrastructure, constraints of logistics, etc.

Attract anchor companies to set up PV manufacturing in Ludhiana, tractor and CV manufacturing in Mohali and build an MSME hub around them

3.4.1. Land

- **Set up land banks to encourage private players** to enter the state**/identify existing hubs that can be upgraded**
- **Reduce acquisition costs** through debt raising / amortization and allow leasing

3.4.2. Hub infrastructure

- Power – Reduce cost to hub through tariff rationalization and open access
- Facilities/ equipment – Establish **common facilities**[15] for advanced manufacturing (PPP ventures) E.g., Auto-Chennai, Auto-ancillary-Coimbatore
- Logistics – Establish **multi-modal connectivity and high-speed roadways and railways**, freight corridors to connect the hubs to ports, urban centers; ensure hubs are equipped with mechanized terminals for commodity handling
- Standardize norms for **warehousing, packaging, pallets, vessels**, etc., aligning with international standards
- **Establish MSME supply linkages for the hub**, and value proposition for anchor companies to create scale and higher technology adoption
- **Set up a digital marketplace** to sell goods (include an MSME directory with track record, quality rating, manufacturing process etc.)

3.4.3. Anchor investors/ partners

- Reduce **corporate taxation for MSMEs and anchor companies in hubs** (to attract higher R&D and technology investments)
- Proactively **reach out to global OEMs,** car, tractor and truck manufacturers and Tier 1 suppliers to set up facilities in identified SEZs/hubs
- Create economic diplomacy **outreach programs** through envoys and ambassadors for partnerships with countries having automotive expertise
- **Showcase automotive MSME capabilities**, e.g., through road shows, trade exhibits etc.

3.4.4. Marketing

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[15] Infrastructure such as water/gas supply, compressors and solid waste disposal facilities are essential in auto hubs

- Establish **marketing as a shared service for the hub** to enable effective campaigns and outreach
- Market **success stories** of MSMEs meeting global supplier orders **with emphasis on quality and expertise**

3.4.5. Credit and skilled labor

- **Set up auto-business focused angel and VC funds** as a PPP initiative to finance auto entrepreneurship in focus sectors
- Enable streamlined access to credit via supply chain finance, digital lending platforms and awareness programs for schemes
- Partner with universities to provide vocational training near the hub, to ensure localized skilled talent pool
- Develop **apprenticeship program** for college students to work with automotive MSMEs to improve access to skilled labor
- Leverage industry bodies (SIAM, ACMA) for trainings to improve operational excellence

Cross-cutting enablers to establish a thriving auto components sector

3.4.6. Education and incubation

- **Develop best-in-class apprenticeship program for college students with automotive MSMEs**
  - Make it a standard college requirement (entrepreneurship course with internship)
  - Incentivize apprenticeship model E.g., through government grants
  - Ensure percentage of apprentices must convert to FTEs
- **Industry association sponsored innovation challenges**: to solve critical sector bottlenecks and drive entrepreneurial intent
- **Develop existing engineering universities into leading research centers for automotive component industry**
  - Increase public sector research grants for specific products
  - Encourage private sector players and foreign universities to partner with universities through grants and tie-ups
  - Establish strong lab to industry links so that innovative products developed by these universities can be actioned on ground
  - Invest in upgrading R&D infrastructure and machinery in existing training centers to increase specialized workforce and adapt curriculum to focus on specialized training related to high growth segments

3.4.7. Regulatory Enablers

- Reduce **corporate taxation for MSMEs and anchor companies in hubs** (potential to incentivize design-led companies to attract higher R&D and technology investments)
- Provide tax incentives for private companies for export orders above certain threshold

3.4.8. Culture of entrepreneurship

- Enable cultural shift on adherence to orders such that orders are met **"On Time and In Full"** though Increasing awareness on expectations, celebrating MSMEs following best practices etc.

3.5. Climate: Enablers to drive ecosystem development

India lags behind comparable countries across key enablers, for instance Indian **steel prices** are 15% higher than China's, **power costs** for industrial and commercial power in India are up to ~30% higher than China's. **Labor productivity** in India is 1/3rd of Malaysia's and 2/3rd of China's. **Logistics cost** are 14% of GDP in India compared to 8-10% for other BRIC countries. Additionally India has poorer logistics connectivity on average in India it takes 7-10 days to reach a port compared to 0.2 days in China due to superior connectivity. Below are key recommendations to improve performance across these enablers to boost business.

Enablers have been prioritized based on impact on MSMEs and timeline of implementation. The below recommendations are those which have high impact on MSMEs and are classified based on timeline of implementation

3.5.1. Land

Short term recommendations for immediate implementation

- **Make land banks available in different states with transparent pricing and no acquisition road blocks**
- **Adopt alternative models for land allotment and acquisition**, such as land amortization, easy buy model, easy lease model, debt raising etc.
- Reduce time taken for acquisition to max. 12 months (down from 42) through process simplification

Medium to Long-term recommendations

- **Accelerate digitization of land records and automation of acquisition** process (part of BRAP reforms and The Digital India Land Records Modernization Program)
- Scale up The Urban Property Ownership Records initiative of the Govt of Karnataka to **provide title cards; that guarantee ownership records to property owners in cities** by triangulating data from physical survey, document verification and possessory rights.

3.5.2. Infrastructure

Short term recommendations for immediate implementation

- Declare **targets and pipeline of projects across industrial clusters (e.g., National infrastructure projects)** to provide visibility of future demand
- **Encourage Asset Recycling initiatives (privatization)** e.g. Toll-Operate-Transfer (TOT) by lowering initial estimated concession price

Medium/ Long term recommendations (structural reforms)

- Develop prerequisites of a PPP model for government spending to **attracts/incentivizes foreign investments e.g.,** ensure fair tender process by providing returns, accurate tech. information & ensure all permits are obtained before bids

3.5.3. Power

Short term recommendations for immediate implementation

- Reduce commercial and industrial tariffs by progressive elimination of **cross subsidy surcharge** and move to **cost reflective tariffs**

- Streamline open access approvals **(30 days clearance)** and standardize process for OA clearance across STUs and Discoms as part of to bring transparency and monitor progress
- **Reduce the number of contracts that need to be signed between various parties involved** (generation company, state transmission companies, central grid, DISCOMS, industrial user, etc.)

Medium/ Long term recommendations (structural reforms)

- Institute mechanism for state power entities to **pay off existing dues** to businesses and initiate **on time payments** in the future
- Separate content and carriage operations by increasing competition for DISCOMS, improving service delivery and reducing tariffs

3.5.4. Logistics

Short term recommendations for immediate implementation

- Establish **deeper connectivity to & from industrial clusters,** e.g., accelerate DMIC, identify under/unserved clusters
- Enhance **digitization at ports by mandating online customs clearances from all departments**, through a common system to standardize processes and reduce the need for multiple clearances
- **Modernize port infrastructure with mechanized terminals for bulk commodity handling** at key hubs and dedicated & well-managed cargo terminals at all major airports need to be fast tracked

Medium/ Long term recommendations (structural reforms)

- Create a **national logistics platform to act as a single window portal for all logistics providers** for certifications and compliances, an **e-marketplace for logistics services** and a data bank for vehicle financing, insurance applications, etc. This would be **Unified Logistics Interface Platform** for hassle free domestic and international logistics utilizing 10+ data sources (e.g., UPI, Jan Dhan Wallet)
- Create **conducive multi-modal ecosystem** to lower logistics cost & enable shift to rail by optimizing cost & reliability (especially from major inland manufacturing hubs and trading clusters to ports, developing high-speed roadways and railways freight corridors)
- **Improve warehousing and storage norms through**
  - Accelerating the development of designation as Free Trade and Warehousing Zones, in logistics parks and urban centers
  - Standardizing norms for warehousing, packaging, pallets, vessels such as truck bodies etc., across the country and aligning with international standards

3.5.5. Labor

Short term recommendations for immediate implementation

- **Improve labor availability by** creating a Portal/App for **two-way interface between labor and government for job matching**

- Recommend design of **specialized courses from agencies such as National Skill Corp**. in collaboration with industry and integrate them through online training / certification modules

Medium/ Long term recommendations (structural reforms)

- Create infrastructure such as schools, hospitals, housing facilities around industrial clusters to enable businesses to attract and retain workforce

3.5.6. Public procurement

Short term recommendations for immediate implementation

- Establish **National Prompt Payment Regulations** for all public procurement contracts. Mandate clearance of majority of invoices within 30 days of receipt, Mandate annual reporting of status and timeliness of payment clearances from all departments to Parliament with oversight of the CAG)

Medium/ Long term recommendations (structural reforms)

- Transition all government agencies to an accrual-based accounting system. (Indian Railways has completed the transition, India Post set to be next)
- Create independent review board for public contracting grievances with power to offer arbitration service

3.5.7. Enforcing contracts

Medium/ Long term recommendations (structural reforms)

- Implement BRAP reforms 71 to 75 on Contract enforcement:
  - # **71 – Constitute Commercial Courts** (in major towns/cluster of districts so as to cover the whole State)**;**
  - **# 73 – Ensure that at least 90% vacancies in Commercial Courts have been filled up** for Judges, stenographers, senior clerks, clerks, assistants, and support staff;
  - # 74 –Publish data regarding the number of suits, applications and appeals filed and pendency, along with status of each case;
  - **# 75 – Paper-less Courts** Design and implement a system that allows e-filing facility, e-cause lists, e-summons, online payment of court fees and process fees

3.5.8. Incentives

Short term recommendations for immediate implementation

- Reduce **corporate taxation** for companies in hubs / R&D focused companies
- Prove tax incentives for export orders above threshold, and decrease customs across focus industries

Medium/ Long term recommendations (structural reforms)

- Create excise free zones to boost exports

4. Sustain

To ensure the above 3 pillars of recommendations are effectively and sustainably implemented **we need to transform/create the right mission-focused organization under a credible industry leader**

To build such an MSME-focused organization, five categories of recommendations are required around leadership, organization, governance, KPIs and mindset. These recommendations can enable transformation in the MSME space, and are necessary but not sufficient without the implementation of the initiatives mentioned in the previous three sections.

4.1 Leadership: Strong public-private leadership to drive and debottleneck implementation

1. Appoint a credible industry leader to lead the organization supported by a very senior bureaucrat with expertise of and influence in the government machinery
2. The leader should have access to respective state Chief Minister and their leadership, and must have their visible support

4.2 Organization: Set up and empower the right team to drive transformation

1. Create a small and empowered team to block and tackle day-to-day issues
2. Set up the right roles and industry linkages to foster relationships that can help action cross-cutting recommendations

4.3 Governance: Establish a rigorous cadence to deliver initiatives and improve performance

1. Set up an effective structure to enable proactive escalation, as required
2. Ensure problem solving and debottlenecking mechanisms for workstreams are in place, including formal reviews using defined KPIs and attendance
3. Use structured agendas for key meetings, with inputs and outputs clearly defined

4.4 KPIs: Set metrics for success and use the right tools to support transformation and ongoing performance management

1. Incentivize team spirit and collaboration through joint project targets
2. Define milestones and key owners, as well as metrics for success and aspirations, at the start of the program
3. Track initiatives through live dashboards (linked to financial/operational reports) to enable problem solving and debottlenecking
4. Implement robust and unambiguous processes and guidelines to help with funding approval, finance validation, and financial and non-financial incentives

4.5 Mindset: Infuse mindset on change readiness and take decisions with accountability

1. Set up an open forum for dialogue between the industry and government
2. Build a collaborative problem-solving model with a forward-looking approach to drive actions across buckets

Next Steps

The paucity of jobs is a global challenge, affecting over a billion young people. Such an intractable problem will require the collective effort of key stakeholders to bring key actions to life.

The members of this taskforce are passionate towards addressing this issue and are available for discussions to help enable 'public-private-civil society partnerships' to operationalize the recommendations. Across each of the recommendations, select task force members can guide central and state governments, private and social enterprises on execution best practices.

Overall

- Guide stakeholders (public, private and social) on the detailed recommendations across the four categories of Survive, Revive, Thrive and Sustain, including operationalization plans, metrics for success and stakeholders
- Enable discussions around recommendations to ensure public, private and social involvement

Survive

- Equip states to disseminate information on schemes through media discussions and with resources (such as handbooks, documents with key information, etc.)
- Engage with associations such as CII and FICCI, to drive the adoption of TReDs through advocacy with private players to ensure timely payments from large companies to MSMEs

Revive

- **Framework for industry association**

  Recommend best practices on governance framework design across 3.5K industry associations along with a pan-India strategic partner

  Equip states on best practices for SRO pilot design and execution for industry associations
- **Scorecard**

  Share best practices on district-level MSME EoDB scorecard for states to run pilot evaluations

Thrive and Sustain: Based on discussions with central government and various state governments, select task force members are open to guide the design and deployment of prioritized next steps as required.

Appendix 1 – Survive

Additional ideas for consideration

Consider the following to clear bottlenecks in liquidity and trade finance:

- Relaxing pricing caps on securitization (via PTC) to make HFC/ NBFCs amenable to pooling; defer recognition of PTCs as on-book exposure under Ind-AS to allow time for adjustment
- Removing the co-terminal clause of PSL benefit to banks and instituting separate on-lending caps for NBFCs and HFCs to infuse finds
- Extending credit enhancement for portfolio purchase by PSU banks under securitization from NBFCs beyond two years since the need for credit enhancement is higher in subsequent years
- Allowing access to pre-shipment finance for Indian exporters from offshore banks in line with global competition
- Simplifying the DSIR recognition process, relaxing the “export” definition for MSMEs and permitting export credits for entities with exports over INR 100cr

Access to pre-shipment financing to Indian exporters from off-shore banks

- Export financing should be made available to Indian exporters both for the Pre/Post Shipment financing legs in line with their global competitors
  - Pre-Shipment financing can be availed by the exporter directly from an overseas bank
  - Pre-Shipment financing can be availed by the exporter directly from banks located in IFC at GIFT City
- This will facilitate exports by making Indian exporters more competitive as compared to their global counterparts

Support on mortgage backed securitization

- NHB can finance and hold larger amount of mortgage outstanding. Similar models have been successful elsewhere. For e.g. - in the US, the Government sponsored enterprises such as Freddie Mac, Fannie Mae, etc. play a prominent role in liquidity provision. Of the USD 15 Trillion of mortgages outstanding, Government sponsored entities finance and hold mortgage backed securities for nearly half the amount

MSME Samadhaan

- Central and state governments, and PSEs cumulatively owe approx. Rs.6637 crore. (as of 11th June)
- Applications have been pending since 2017 even though MSEFCs have to resolve these within 90 days as per the MSMED Act, 2006.

Actions already taken by the government

Reforms	**Considerations for implementation**
Collateral free loan of INR 3 lakh crores for MSMEs — a move that will enable INR 45 lakh units to restart work and save jobs.	Automated loans to existing borrowers; given a history of lending, existing account with lending bank etc., this is relatively easy to implement
Subordinate debt financing of INR 20,000 crores for 2 lakhs stressed MSMEs.	Same as above Potential fund infusion for partial credit guarantee for CGTMSE
INR 50,000 crore equity infusion via Mother Fund-Daughter fund for MSMEs that are viable but need handholding. A fund of funds with corpus of Rs 10,000 crore will be set up to help these units expand capacity and help them list on markets if they choose	Accurately identifying enterprises and sectors that have the best growth prospects
Rs 30,000 crore special liquidity scheme for investing in investment grade debt papers of NBFCs, HFCs and MFIs. These NBFCs are those that are also funding MSMEs. These will be fully guaranteed by government of India. Rs 45,000 crore partial credit guarantee scheme 2.0 for NBFCs.	Uptake of such schemes (e.g. CGTMSE) by NBFCs tend to be low due to onerous processes (e.g. onboarding challenges, redressal if guarantee applications are rejected etc.); overhauling and simplifying these processes will be critical
Liquidity relief of Rs 2,500 crore EPF support to all EPF establishments and more than 72 lakh employees. The EPF contribution will be paid by the government until August 2020. Statutory EPF contribution 6750 crores for all organisations (except government organisations) and their employees covered by EPFO to be reduced to 10% from 12% earlier	Ensuring timely deployment from the government will likely be the biggest challenge
Special Rs 5,000 crore loan facility scheme for street vendors to avail Rs 10,000 of working capital per vendor.	In India, only 13 lakh vendors seem to have valid identity cards – therefore, a vast majority will be excluded; formalising and registering street vendors with the incentive of working capital will help large scale formalisation

Considerations for operationalization of the fiscal package

Criteria	Options	Key considerations	Additional Design elements
Eligibility	All MSMEs Selected sectors/ geographies	In most markets, impact on large corporate is much more based on sector while impact on Micro SMEs and SMEs is more broad-based	**Sector** **Geography** **Business viability** **Earnings** (proof of earnings drop)
Product features	Loans vs Grants Cover running costs only vs Cover running costs + Investments Tenor: 12 mo vs 15 mo Interest rate cap vs Set interest rate	**Early repayment** should be allowed (i.e. no penalty) and encouraged by offering interest discounts If the government funds the whole amount for the loans at disbursement, bank gets paid for administration & process fees but rest of interest payments are passed on to the government	**Loan limit setting:** For existing borrowers and non-borrowing customers For non-borrowing customers with bank accounts Previously unbanked customers
Loan distribution	Public only vs All banks Centrally defined processes vs Bank-wise processes General pool vs Bank quotas	Existing lenders have both the incentives to lend to customers and best familiarity with each borrowers The large size of funds required to meet the liquidity needs to fund the loans at disbursements The processing capacity and access points needed to meet the rush in demand by borrowers The requirement for a centralized digital system to process and track applications and approval	**Verification methodology**

Criteria	Options	Key considerations	Additional Design elements
Loss sharing	Full coverage by govt. vs Partial coverage by govt.	Differentiate between existing borrowers and customers who are non-borrowers or new to the banking system	Level of guarantee can further be customized by type of relief loan / products
Fraud	**Option 1: Create a central database** with information of existing/ eligible borrowers. **Option 2: Create a single window** for applications to be screened and approved by government before being passed / directed to the participating banks	**Multiple access to funds** by eligible parties **Access to funds by ineligible parties** (e.g. fraudulent documentation) Access to funds **greater than allowed amount** / more than necessary	Treatment and penalties for fraudulent applications
Compliance	**Option 1** Audits are done selectively for a sample of loans that defaulted. If there is an improper use, the credit guarantee is void. **Option 2** Loans will be fully forgiven for debtors that fully comply with terms & conditions	In reality, **only a subset of the default cases will be audited and violators will be publicly named and severely punished to deter others** from not paying or engage in misuse of the funds.	**Allocation of roles & responsibilities** to the institutions best suited to conduct audits, investigation and prosecuting violators

1. https://msme.gov.in/sites/default/files/Annualrprt.pdf, Primary Labor Force Survey 2018
2. https://www.cii.in/Sectors.aspx?enc=prvePUj2bdMtgTmvPwvisYH+5EnGjyGXO9hLECvTuNuXK6QP3tp4gPGuPr/xpT2f
3. Analysis based on https://sidbi.in/files/announcements/MSME%20PULSE%20OCTOBER%202019_Edition%207.pdf
4. Trade set to plunge as COVID-19 pandemic upends global economy: https://www.wto.org/english/news_e/pres20_e/pr855_e.htm
5. https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=3853
6. https://economictimes.indiatimes.com/news/economy/policy/view-sitharamans-first-tranche-of-rs-20-lakh-crore-covid-package-aimed-at-giving-jobs/articleshow/75725339.cms

Appendix 2 – Revive

1. Simplify and rationalize the 58K[16] compliances

Key challenges

- **Time consuming process** due to complex landscape of 58K compliances
  - **No clear list of compliances** to be filled based on sector, state from the entrepreneurs point of view
  - **Different portals for each compliance** as different central and state authorities are responsible for different compliances. This also increases the number of **point of contacts for queries leading to confusion**
  - **Parallelization of process** (only after 1 registration can you get the next) leads to back and forth and time wastage for the entrepreneur
- **Cost intensive as hiring of company secretaries** is necessary to enable timely fillings to help keep track of updates and interpret the complex legal language
  - **Complex legal language** in compliances and associated laws
  - **Constant updates to compliances -** ~3k annually (3069 updates in 2019) with 8 updates per day which is impossible to track for an MSME without dedicated team (Updates are also made on amendments further increasing the complexity)

Recommendations

- Rationalization of 58K compliances across center/state and sectors[17] (initial focus to be on rationalizing labor compliances ~50% of all compliances)
- Amendments - limiting daily compliance changes based on state and center guidelines (yet to be created)
- Decreasing parallelization of process (covered in detail for key processes below)
- Information of compliances by sector and state with easy usability for entrepreneurs (part of the information wizard portal covered in digitize section)
- Potential to explore rewrite of laws taking into account all amendments as updates to amendments creates significant confusion

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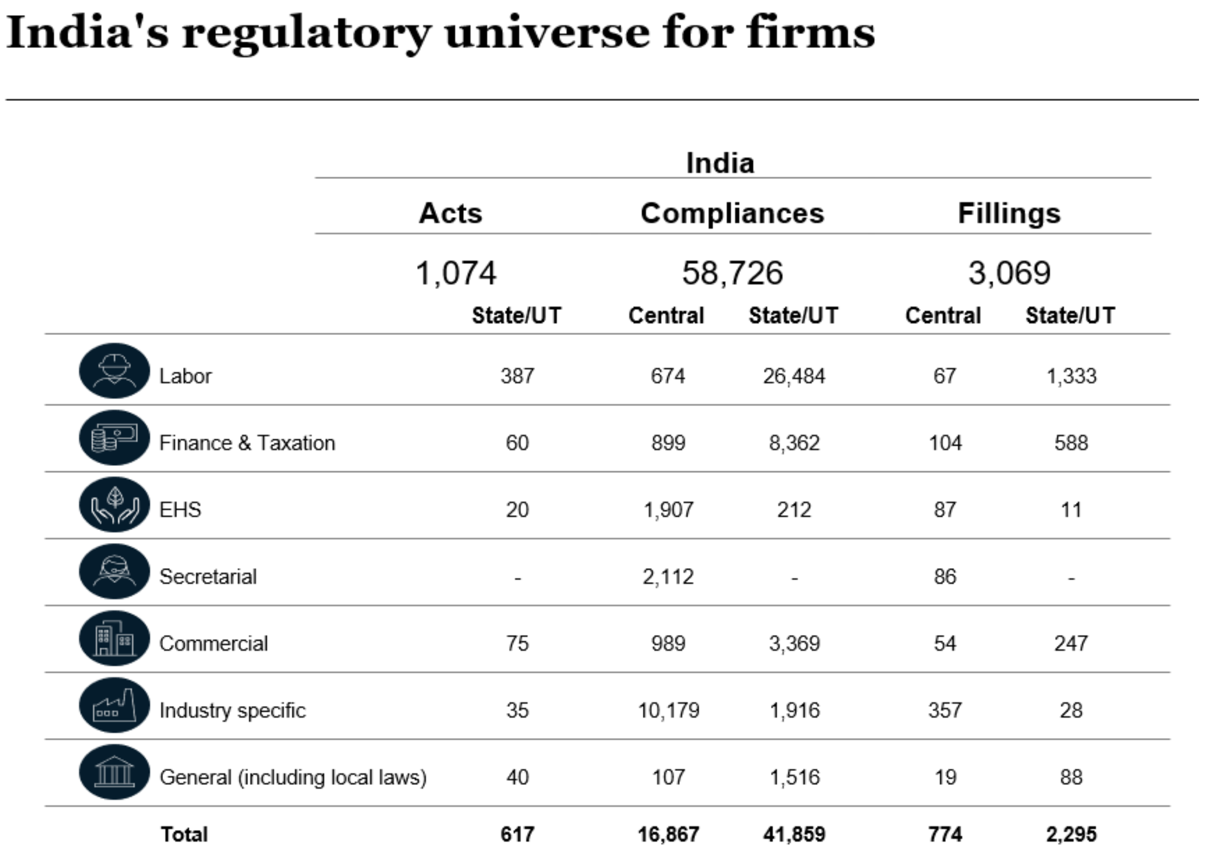
[16] Avantis database and website

[17] In line with Avantis and FICCI report; Additionally e.g., of specific laws to be relooked at forming the basis of many compliances are air and water act, civil aviation clearance, Indian boiler act etc.

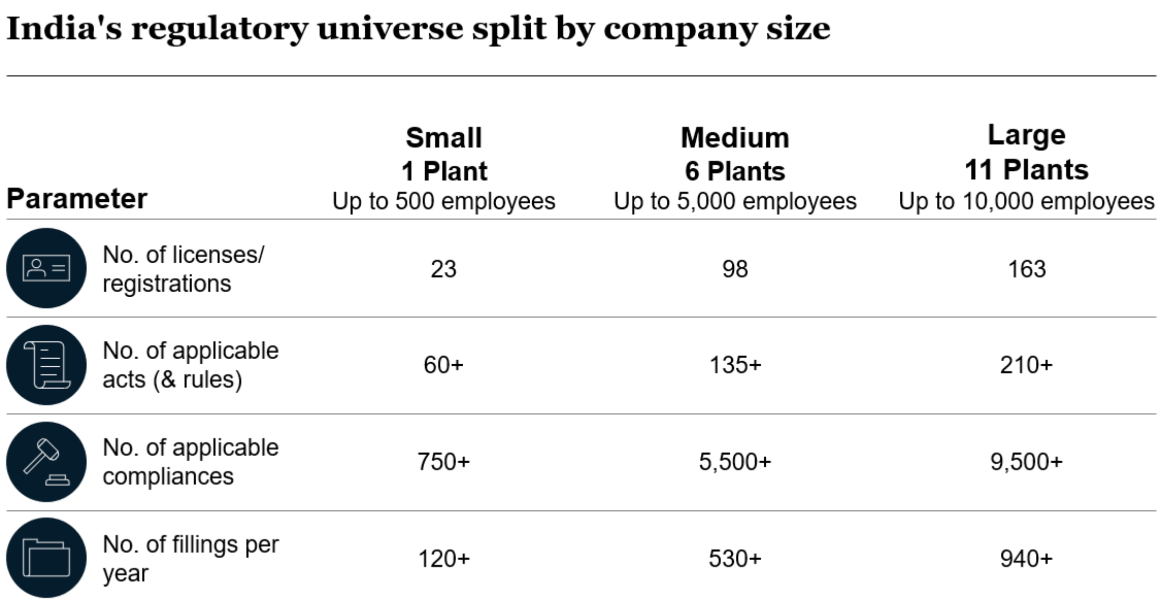
Exhibit 1



India's regulatory universe for firms

	India				
	Acts	Compliances		Fillings	
	1,074	58,726		3,069	
	State/UT	Central	State/UT	Central	State/UT
Labor	387	674	26,484	67	1,333
Finance & Taxation	60	899	8,362	104	588
EHS	20	1,907	212	87	11
Secretarial	-	2,112	-	86	-
Commercial	75	989	3,369	54	247
Industry specific	35	10,179	1,916	357	28
General (including local laws)	40	107	1,516	19	88
Total	**617**	**16,867**	**41,859**	**774**	**2,295**

Exhibit 2



India's regulatory universe split by company size

Parameter	**Small** **1 Plant** Up to 500 employees	**Medium** **6 Plants** Up to 5,000 employees	**Large** **11 Plants** Up to 10,000 employees
No. of licenses/ registrations	23	98	163
No. of applicable acts (& rules)	60+	135+	210+
No. of applicable compliances	750+	5,500+	9,500+
No. of fillings per year	120+	530+	940+

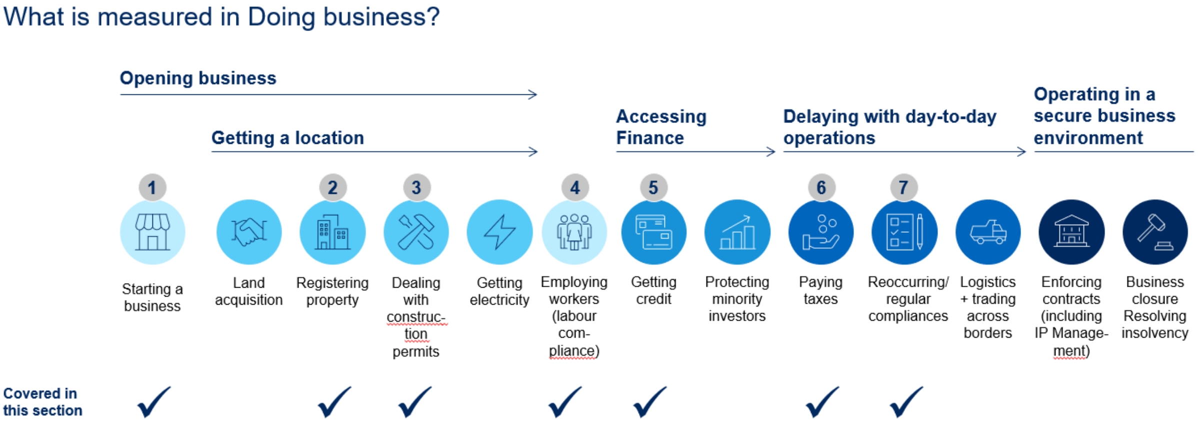
1. & 2. Simplify and digitize

(across pillar 1 and 2 for key processes)

Key processes across both starting and running a business have been prioritized for simplification based on process complexities and criticality. The levers across these processes include process simplification, through rationalization of steps as well as instituting digital solutions to decrease entrepreneur's time and cost.

Image of key prioritized processes covered in this section[18]

Exhibit 3



What is measured in Doing business?

Note -

- *Structural changes due to high costs such as getting land, power, logistics, and systemic issues such as enforcing contracts and resolving insolvency are all covered in the Enablers section under Thrive given longer time frame for implementation*

A. Existing Initiatives

BRAP reforms (Business Reforms Action Plan)

The 80 BRAP reforms designed by the DPIIT (Department of Industrial Policy and Promotion) in tandem with state departments and the World Bank are aimed at making all the existing processes of doing business simple, predictable and consistent. These reforms are thorough and well-thought out guidelines to state governments on process improvements however, they do not reduce the compliances or associated laws.

Key challenges with the reforms

- **Implementation** of reforms on ground given these are not enforced
- **Clear quantifiable and trackable metrics** for success are not defined for each reform
- **Implementation plans** not very detailed or actionable for states
- Onus only on **states despite many can be created at a national level and then rolled out** E.g.., single window for starting a new business should be consistent across states.

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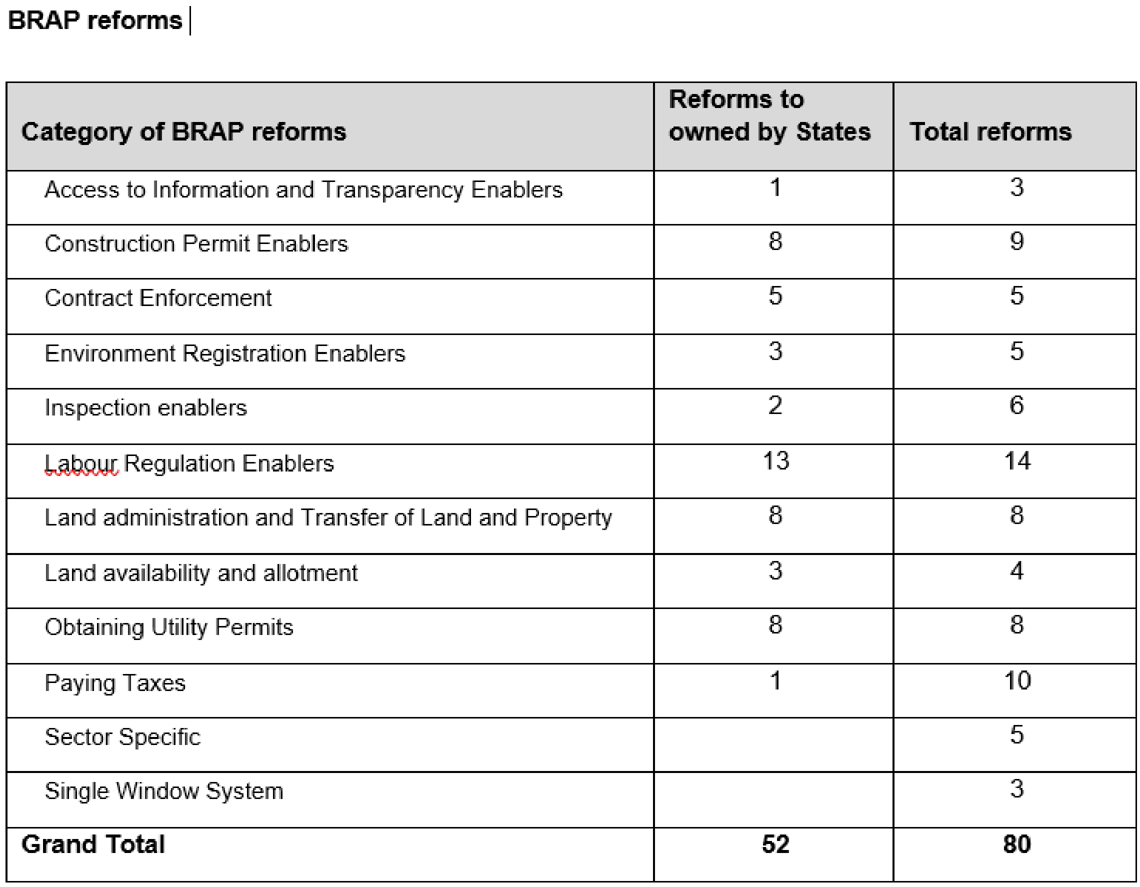
[18] World Bank report - "Doing Business 2020"

- **Monitoring of implementation is done by states** themselves filling out their own progress that feeds into a scorecard

Recommendations to ensure effective implementation of the 80 BRAP reforms

- Build clear metrics for tracking success for states, for existing 80 BRAP
- Build clear implementation plans for states, for each of the 80 BRAP
- Bifurcation of BRAP reforms for center and state; **Ensuring central responsibility across similar reforms across states** (28 of 80 reforms to be moved to center – TBC)
- For digital solutions this would ensure consistency, accessibility of data, cost-effectiveness and faster implementation on ground at a pan India level

Below we have classified the 80 BRAP recommendations between central and state owners. Reforms that are similar across states have been moved to central ownership for creation of digital solutions while roll-out will be through states.



BRAP reforms

Category of BRAP reforms	Reforms to owned by States	Total reforms
Access to Information and Transparency Enablers	1	3
Construction Permit Enablers	8	9
Contract Enforcement	5	5
Environment Registration Enablers	3	5
Inspection enablers	2	6
Labour Regulation Enablers	13	14
Land administration and Transfer of Land and Property	8	8
Land availability and allotment	3	4
Obtaining Utility Permits	8	8
Paying Taxes	1	10
Sector Specific		5
Single Window System		3
Grand Total	**52**	**80**

B. Processes detailed below

1. Starting and registering a business

Current process has 8-14 steps and can take as long as 90 days in India

Challenges	**Recommendations**[19]
● No clear list of forms to be filled ● Time consuming process ● Duplicate information requested across forms (~70% information) e.g., GST, FSSAI, Udyog Aadhar all are to be filled on different portals despite significant information overlap ● Forms requested by different central and state authorities increasing the point of contacts for queries (and leading to confusion) ● Parallelization of process (only after 1 registration can you get the next)[20] ● Complex legal language ● Different terms and conditions in each form ● Tracking required from multiple departments	● One online registration platform in line with BRAP reforms - single place/window to apply for all the compliances, and to submit all the information and documentation. *(potential to extend SPICE form detailed below)* ● Centralization and ensuring uniformity across key compliances – e.g., Shop Act currently has a different registration process across states (some online and some offline) despite similar information ● Robust flagging and escalation mechanism when slow-down in application movement *(in addition to current SPICE and BRAP)* ● Information on the status of the application can be tracked through one department which would be responsible for this registration. Hence, no need to visit multiple departments. Tracking facility to be also available to entrepreneur. ● For queries and assistance, the applicant will have to interact with that single department implementing the One registration. ● This will also be helpful to government authorities in following ways — A single place will reduce efforts and resources for website management — A master place to collect and store all documents and information, — It will be easy to track the compliance status of the businesses, — Updating the amendments, notifications, rules etc. on a single place will be easy rather than managing multiple websites, — Time required to scrutinize the applications can also be reduced as businesses will file a single form instead of multiple application forms. — Time reduction to 7– 15 days

Leading examples[21]**:** China and South Korea both integrated functions of various government bodies into a single system for business incorporation in under 10 days. China now issues a single business license that combines the Business License, the Organization Code Certification, the Tax registration, the Statistics Registration and the Social Welfare Insurance Registration[22]. South Korea unified its Internet Register Office, the Local Tax Payment System, the Electronic Notarization System, the National Tax Information System,

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[19] deAsra document on "Simplification of compliances to start NME"

[20] For a food business first compliance required is FSSAI then applying the Shop Act. It takes around 30 to 45 days to receive the FSSAI registration/license certificate, post which the rest of the applications can start delaying business set up.

[21] Document on "Draft strategy for India's industrial growth" DPIIT

[22] Starting a business in Shanghai - Procedure, Time & Cost, Doing Business 2020, World Bank

the Financial Common Network, and the Social Insurance Information System into the 'Start Biz Online' system that allows companies process the entire incorporation process online[23].

SPICe From

Introduction of the common SPICe (Simplified Proforma for Incorporating a Company Electronically) form that established a single application for obtaining Certificate of Incorporation, DIN, PAN and TAN along with automatic registration with Employees' Provident Fund Organization & Employees' State Insurance Corporation

Limitations of the SPICe form

- Applicable only for public and private companies (not LLPs, partnerships etc.)
- Does not include all the forms to start a business, potential to also include Shop Act, FSSAI, sector specific licenses given information overlap

2. Registering property

Process typically is 7 – 8 steps takes ~2 months

Current process	Challenges	Recommendations
In-person process Number of steps - typically 7-8 Time taken - 2 months [24] Key steps – ● Sub-registrar signing of stamp duty has to be done in person with 2 witnesses (and collection of receipt typically 7 days later) ● Additional Title mutation at the Land & Survey office takes over 20 days ● Additional Property name change at municipality	● Time consuming process ● Coordination required between different authorities increasing the point of contacts for queries (and leading to confusion) and extension of timelines. ● Tracking required from multiple departments	Single window for registering property to be created (should be the same portal as new business registration) to include - Digitization of land records, cadastral maps and surveys, which can usher in efficiency and transparency in property registration. This is the basis of the digitized system including: ● Online and instant title search, pending tax check etc. ● Online stamping of sale deed & stamp duty payment ● Online application to land and survey office for title mutation with automatic name change at municipality upon mutation Adoption of automated case load management system at land & survey offices with automatic queuing system, case assignment, workflow management etc. to improve efficiency

Leading examples[25] **-** Malaysia made a vast improvement in property registration, reducing the time required from over 55 days in 2011 to less than 12 days in 2019, riding on the back of digitized land records. The country began digitizing its land records from early 2000s

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[23] Starting a business in Korea, Rep - Procedure, Time & Cost, Doing Business 2020, World Bank

[24] Doing Business 2020, World Bank

[25] Document on "Draft strategy for India's industrial growth" DPIIT

onwards and introduced several reforms thereafter including online stamping and online platform for property searches.

Note on rent registration – simple process that has been successfully digitized in Maharashtra (1 day process in Maharashtra but longer for other states). Potential to scale up the Maharashtra streamlined, digital solution across other states as part of single window.

3. Construction permits

Process typically requires over 20 documents and takes up to 6 months

Current process	Challenges	Recommendations
In-person process Number of registrations/ steps - ~20 documents Time taken - 6 months Key steps – ● Land use conversion, i.e., from agricultural to residential or commercial ● Obtain property register cards - Revenue department ● Obtain title survey plan from Collector's Office	● Lack of clear demarcated process from one source ● Time consuming process ● Coordination required between different authorities increasing the point of contacts for queries (and leading to confusion) and extension of timelines. ● Tracking required from multiple departments	Online single window system (extension of BRAP reforms) that integrates functions of the state revenue department, collector's office and the complete municipal corporation. This system would include: ● Online, time-bound land use conversion system with simplified document requirements ● Instant availability of property register cards and latest authenticated city title survey plan after online application and payment ● System of ongoing inspections vs current tiered, sequential process, through both government authorities as well as certified, independent inspectors, through an online scheduling system ● Building plan approval and provision of No-Objection Certificate, Occupancy Certificate, Completion Certificate done online, as is implemented in several states already

Leading examples –

- In 2019, Karnataka implemented an affidavit based online system for end-to-end land use conversion process targeting to reduce timelines from 6-8 months to under 60 days. The system mandates relevant departments to provide inputs/ objection within 30 days without which the request gets auto-approved.
- South Korea mandates hiring of an independent, certified inspector to conduct inspections throughout the period of construction with at least 2 inspections are mandatory during the construction period[26]

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[26] Dealing with construction permits in Korea, Rep. - Procedure, Time & Cost, Doing Business 2020, World Bank

4. Employing workers - Labor regulations

There are 44 central labor acts and 387 state acts leading to ~30k compliances across state and center (50% of the total compliances)[27]. Studies have found that per worker costs for firms increase by 35% after hiring the 10th worker due to additional compliances[28]. The heavy compliance burden and costs are one of the primary reasons disincentivizing firms from scaling up. In 2009, firms with <49 workers accounted for 84% of manufacturing employment[29].

Recommendations

- Implementation of BRAP reforms to enable digitization of lengthy labor compliance filling process (Recommendations 33 to 46) key features such as **#46 -** Mandate online filing of single integrated return under the 16 key Labor Laws, **#42** - Eliminate the requirement of Renewal of registration under Shops and establishment act
- **Additional linkage** of PF, ESI etc. to integrated labor compliance portal will further reduce labor compliance burden

5. Availing credit –

Section focuses on improvements that can be made for availing government schemes

Current process	**Challenges**	**Recommendations**[30]
Mainly through the informal sector Process and complexity dependent on lender Lack of information on number, type, eligibility, process of govt schemes	● Lack of awareness of various government schemes such as Mudra, (Micro Units Development Refinance Agency) and the Stand Up India scheme ● Dedicated manpower used to assess various credit schemes in large corps not available for MSMEs ● Borrowers don't maintain books of accounts making it difficult to get loans ● For schemes such as MUDRA and Stand up India, banker's exposure is covered by CGTSME guarantee. When these proposals become irrecoverable or doubtful, bankers can put a settlement claim for recovery under CGTSME. Many a times these settlements get rejected and hence, bankers hesitate to sanction proposals under MUDRA and Stand up India.	● One portal with visibility across all the government schemes (to be part of BRAP information wizard) — Functionality for borrower to enter their details (state and sector) and receive a list of applicable schemes to ensure less time spent on navigation ● Education portals and tutorial videos on procedure to avail of the various government schemes to be created as part

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[27] TeamLease report on India's Road to a $5 trillion economy (reducing regulatory cholesterol)

[28] Labor Regulations and the Cost of Corruption: Evidence from the Indian Firm Size Distribution, Amrit Amirapu & Michael Gechter, February 15, 2017

[29] From poverty to empowerment: India's imperative for jobs, growth, and effective basic services, ,February 2014

[30] deAsra document "Nano and micro entrepreneur – access to funds"

Current process	Challenges	Recommendations[30]
	- Sanctioning of loans under PMEGP and State Government schemes is largely dependent on release of funds to DICs (District Industries Center). If DIC does not receive funds in time, then they cannot sanction borrower's subsidy proposals.	of the information portal - Clarity on rejections in Mudra and Stand up India schemes to ensure no hesitation from banks

6. Paying taxes

Typically takes up to 250 hours annually for an MSME with 10 different types of payments. Taxation and finance compliance landscape includes ~9K compliances (majority state compliances)

Current process	Challenges	Recommendations
Number of steps - ~10 types of payments Number of hours – 250 hours annually[31] GST compliance continues to be onerous, requiring over 140 hours across over 40 compliances for CGST and 50 compliances for SGST[32]. **The recent introduction of the e-invoicing system is a significant step to ease compliance burden.**	● Time consuming process ● Multiple different payments to different authorities ● Multiple different compliances available on different portals ● Dedicated manpower used in large corporations only for Taxation not possible to replicate in MSME	**For simplifying compliances –** ● Extension of the BRAP reforms (#55 – 64) on online tax compliance applications (for state excise, profession tax and property tax). Process to also include coordination across departments of direct & indirect taxation to streamline compliance further. ● Information with links to all tax compliances to be through one portal across state and center. **For simplifying payments –** ● Simplification of GST payment process

7. Reoccurring/ regular compliances

(Overall compliance landscape covered in the Simplify section – 2 prioritized regular compliances to be covered are labor and EHS. Labor covered under point 5. of simplify, digitize section and EHS covered below. Additionally Inspector Raj system addressed)

A. **Environmental, Health and Safety compliances -** EHS compliance landscape includes ~2k compliances (majority central compliances). A number of business-friendly reforms have reduced the time for environmental clearances significantly, which is further expected to fall with use of the single window PARIVESH portal.

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[31] Doing Business 2020, World Bank

[32] FICCI analysis

Recommendations (currently guidelines yet to be implemented)

Implementation of recommendations 19 to 23, in BRAP reforms which include –

- Online compliances for Consent to Establish and Authorization under the Hazardous wastes.
- Notification of white category industries exempted from taking clearances
- Issues consent to operate with a validity period of 5 years or above and allows for auto renewal based on self-certification for few categories of industries

Additional recommendation –

- Incentivizing firms who go beyond mandatory regulatory requirements with public recognition and reduced inspections can free up regulatory capacity to monitor violations more effectively.
- Ensuring adequate judicial capacity at NGTs can ensure quick & effective dispute resolution and prevent long delays for businesses.

B. **Inspector Raj - The process of reoccurring/ regular compliances leads to the creation of the Inspector Raj system** The complex compliance landscape riddled with criminalization and monetary repercussions deters MSMEs from formalization. **Despite inspections increasing overall, adherence to compliances is not improving.**[33]

Recommendations – Implementation of BRAP reforms 65 and 70 on **Central Inspection Framework.** Centre to take on building digital platform while states to drive implementation

Recommendation 65 – Institutionalize a Central Inspection System (CIS) responsible for undertaking compliance inspections of the departments concerned and

i. Define risk criteria (such as High, Medium and Low risk) to classify industries which undergo inspections conducted by Departments under the CIS

ii. Differentiate compliance inspection requirements based on risk profile of industries

iii. Publish a well-defined inspection procedure, checklist on the Department's/ CIS web site

iv. Identifying establishments that need to be inspected based on computerized risk assessment

v. Computerized allocation of inspectors

vi. Mandate that inspections (except in case of complaint based inspections) shall be limited to the checklist

vii. Mandate online submission of inspection report within 48 hours to the Department/ CIS

viii. Mandate that the same inspector will not inspect the same establishment twice consecutively

Recommendation 66 – Surprise inspections only in complaints; **Recommendation 67** – Joint inspections across departments; **Recommendation 68 to 70** – transparency to entrepreneur on no. of inspections and timelines; online submissions of reports; information of inspection procedures and checklists etc.

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[33] Doing Business in Delhi report, Centre for civil society and Atlas

2. Digitize

Recommendations - Digitize compliance processes on one portal through private partnerships

- **Implementation of the digital solutions under the BRAP[34] guidelines** - creation of digital systems to enable process simplification including online system for filling labor compliances (incl. ESI, PF etc.) , EHS, tax filling (compliances and payments), Information Wizard , Central inspection system, Single Window system through extension of SPICE (e.gs detailed below)
- Maintenance of transparency in tracking available for entrepreneur as per BRAP guidelines in each of the digital initiatives

Additional to existing BRAP reforms

- Key digital systems to be moved under central government mandate for creation, while implementation through states (part of the BRAP reforms) Specifically for processes with uniformity across states for processes for registrations with same information. For instance partnership registration is different across states and often within the same state (based on registrar office), additionally there is a mix of online and offline within the same state, potential to bring these into the single window with uniformity across different states
- Institution of robust flagging and escalation mechanism when slow-down in application movement to central government and local bodies
- For registrations where there is delay beyond stipulated time for approval, registrations should be deemed approved
- Digital platforms to be created from the entrepreneur view point. For instance entrepreneur should be able to filter for sector and state to easily navigate relevant compliances, inspection protocols, licenses, credit schemes etc.

Guidelines from DPIIT have been given to states to create the below platforms. **Below key digital solutions that will bolster EoDB –**

1. Labor system to digitize lengthy compliance filling process (# 33 to 46 in BRAP document)–
    - For e.g., #46 - Mandate online filing of single integrated return under the 16 key Labor Laws, #42 - Eliminate the requirement of Renewal of registration under Shops and establishment act
    - **Additional inclusion** of PF, ESI etc. to integrated labor compliance portal will further reduce compliance burden
2. Central Inspection System (CIS) *(# 65-70 on BRAP document)* Solution designs frequency of compliance inspections across all departments to optimize entrepreneur cost and time. Key features to include -
    - System to differentiate inspection requirements based on defined risk criteria (such as High, Medium and Low risk) to classify industries

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[34] DPIIT BRAP 2019 reforms

- Publishing of a well-defined inspection procedure, checklist on the Department's/ CIS web site
- Identifying establishments that need to be inspected based on computerized risk assessment
- Computerized allocation of inspectors across multiple departments to ensure transparency, optimized inspection and accountability
    - Same inspector will not inspect the same establishment twice consecutively
    - Visits of different departments to be coordinated
    - Online submission of inspection report within 48 hours of the inspection

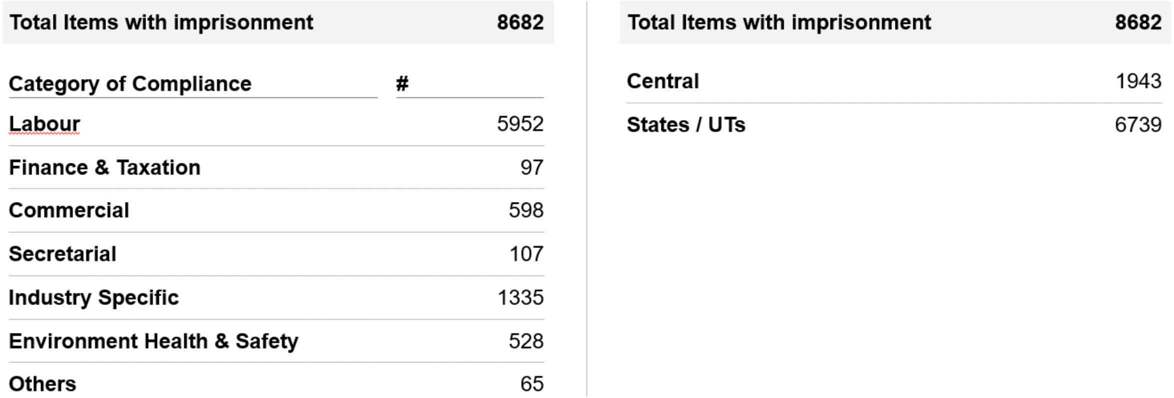
3. Information Wizard (# 1 on BRAP document)
    - System encompassing a comprehensive list of licenses and registrations required for undertaking a specific business
    - To provide details such as time taken, procedures, comprehensive list of documents required, departments involved
    - To include services such as property registration, environmental registrations, construction permit requirements, registration under labor laws, utility permits requirements, incentives provided etc.
    - **Additional inclusion of real-time compliances by region and sector** (with daily compliance changes potential to leverage Avantis work given ~3500 annual compliance changes)
4. Single Window System (#s 4 – 6 in BRAP document)
    - Includes implementation of an online single window system without the need to submit physical copies of the application for starting a business
    - Includes all processes of starting a new business such as registration under profession tax, environmental compliances, change of land use, utility connections registration under relevant Shops and Establishments Act etc.
    - Key features of the recommendation include tracking application status, SMS/email notification systems and quick service approval escalation mechanisms to deliver responses within 7 days of application date
        - Allows applicant to track status of application online
        - Ensures the applicant receives an SMS/e-mail notification as and when the application is submitted/ query is raised/ application is approved/rejected
        - Service wise approvals are granted as and when received from the Department concerned
        - Mandates that all queries/clarifications related to investors' application are sought in one go and within 7 days of receipt of the application
    - Potential to extend SPICE form to create single window with immediate changes to include to LLPs, partnerships and include all the forms required to start a business, such as Shop Act, FSSAI, sector specific licenses given information overlap
        - Currently SPICE is only for companies across the following forms: certificate of Incorporation, DIN, PAN, TAN & GSTN

3. Decriminalize

There are **8682 (~14%)**[35] **compliances** with imprisonment. The range of imprisonment is from 3 months to 10 years. (Very few compliances beyond 10 years)

Exhibit 4

Profile of compliances with criminalization



Total Items with imprisonment	**8682**
Category of Compliance	**#**
Labour	5952
Finance & Taxation	97
Commercial	598
Secretarial	107
Industry Specific	1335
Environment Health & Safety	528
Others	65

Total Items with imprisonment	**8682**
Central	1943
States / UTs	6739

In light of COVID'19, many MSMEs are struggling with renewals of the various compliances due to lack of manpower, time spent in various other on ground challenges such as business revival, safety issues, supply chain management etc. (short-term problem)

Recommendation

- Criminalized compliances and associated laws to be screened and reassessed for decriminalization
- Blanket extension / de-criminalization / removal of penalty for compliances not renewed during stipulated time period of COVID

4. Evaluate states based on performance on MSME EoDB scorecard

1. Scorecard to be created through partnerships with third-party such as Quality Council of India/ Crisil / India Today / including balance of clear trackable metrics as well as perception survey
2. Incentivise through credit and funding allocation to states made in light of performance on EoDB scale
3. Publicize by publishing a monthly performance of states against EoDB scorecard (similar to Swachh Bharat)
4. States to assess key districts against MSME EoDB.

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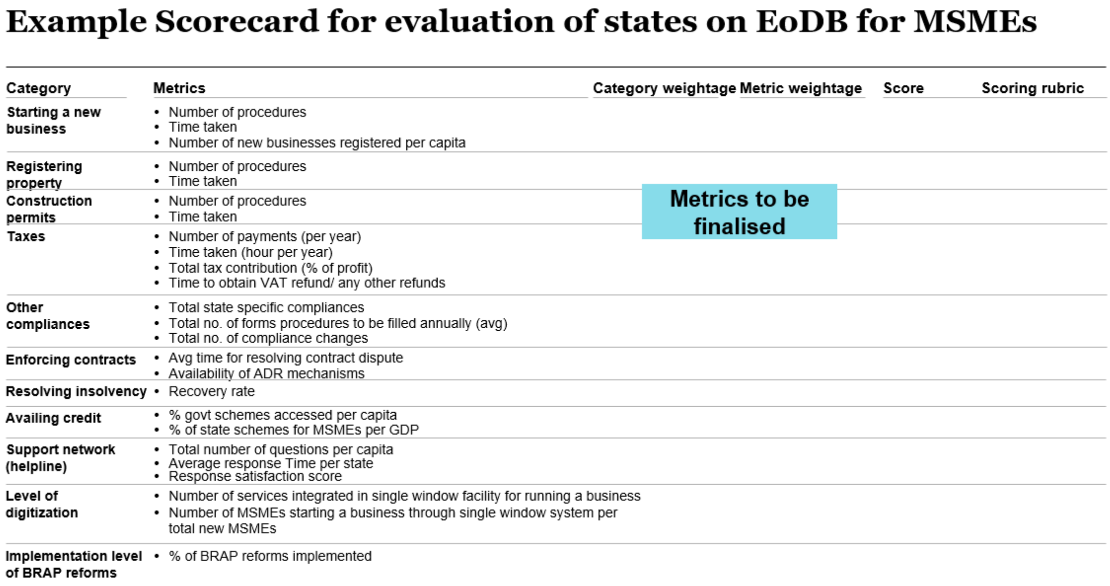
[35] Avantis database and website

Scorecard - Metrics to create an MSME EODB scorecard across states

Key metrics[36] – modelled around World Bank report, Niti Aayog "Good Governance Index" used to benchmark countries and states respectively. Extensive list of metrics have been prioritized to ensure easily quantifiable metrics with clear relation to Ease of Doing Business, with states having the ability to improve on these. Finalization of metrics will in-turn affect frequency taking into account complexity of data gathering and scoring.

Scoring system and weightage across these key metrics will be critical to ensure transparency and robustness.

Exhibit 5



Example Scorecard for evaluation of states on EoDB for MSMEs

Category	Metrics	Category weightage	Metric weightage	Score	Scoring rubric
Starting a new business	• Number of procedures • Time taken • Number of new businesses registered per capita				
Registering property	• Number of procedures • Time taken				
Construction permits	• Number of procedures • Time taken	Metrics to be finalised			
Taxes	• Number of payments (per year) • Time taken (hour per year) • Total tax contribution (% of profit) • Time to obtain VAT refund/ any other refunds				
Other compliances	• Total state specific compliances • Total no. of forms procedures to be filled annually (avg) • Total no. of compliance changes				
Enforcing contracts	• Avg time for resolving contract dispute • Availability of ADR mechanisms				
Resolving insolvency	• Recovery rate				
Availing credit	• % govt schemes accessed per capita • % of state schemes for MSMEs per GDP				
Support network (helpline)	• Total number of questions per capita • Average response Time per state • Response satisfaction score				
Level of digitization	• Number of services integrated in single window facility for running a business • Number of MSMEs starting a business through single window system per total new MSMEs				
Implementation level of BRAP reforms	• % of BRAP reforms implemented				

5. Support through public and social partnerships

- **Strengthen effectiveness of MSME industry bodies**
- **MSME payables**
- **SME support network (helpline for resolving concerns / issues for SMEs)**
- **Creation of a social charter leveraging FICCI / CII on best practices** (e.g., labor laws, paying MSMEs on time etc.) to demand their moral obligation

1. Strengthen effectiveness of MSME industry bodies

Key challenges – 3.5k[37] MSME industry bodies all India with significant overlapping mandates and members leading to lack of effective collection and representation of grievances from grass roots to state and center. This also leads to a lack of clarity for entrepreneurs on MSMEs to join. Additionally, These industry bodies have poor funding leading to dearth of full-time staff and low effectiveness.

Recommendations

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[36] World Bank report - "Doing Business 2020"

[37] Expert discussions

- Plan for rationalization to ensure adequate representation and clarity for MSMEs on ground, proposed framework such as a hierarchy such that clusters reporting into district bodies, in turn reporting into state and then central bodies could ensure effective escalation of grievances.
  - Ministry of MSME (with SIDBI) to chart out 3.5k of district+ sector, state and central bodies including sectors, nature of work, member strength etc. to enable rationalization
  - Convene industry bodies to discuss governing framework
- Set up of pan India strategic partner for coordinated recommendations to industry bodies
- Enable sustainable government funding to set up a strong secretariat for state, central bodies
- Ministry of MSME to initiate discussions with leading private players, state govts to enable funding for MSME industry bodies
- Leverage industry bodies as self-regulatory organization (SRO)– leading to decrease in inspector raj phenomenon

This framework apart from addressing the challenges would help with credit availability to MSMEs. Banks at the time of loan sanction will check for credibility of MSMEs with these associations. This will increase their visibility of performance allowing for more MSMEs to avail of credit

2. MSME payables

To ensure clear procedures and timely payments, there is a need to address systemic processes that tend to cause delays – such as lack of rules for payment clearance timelines, a cash-based accounting system (as opposed to accrual based) and rigidly scoped contracts which lead to cancellations or stalled payments for deviations, even if deviations are acceptable.

Recommendation - Ministry of Corporate Affairs / SEBI to mandate clearance of majority of invoices within 45 days of receipt of invoice. Threshold guidelines to be set e.g., minimum clearance target - as least 80% of invoice value to be cleared; Other criteria to be value of contract under stipulated value and turnover in stipulated range. Potential to mandate annual reporting of status and timeliness of payment clearances as part of the quarterly audit process

Leading examples - The United States Prompt Payment rule mandates all Federal agencies to clear payments within 30 days of receipt of correct invoice, beyond which the agency becomes liable to pay interest to its supplier

3. SME support networks

Create a pan-India platform tied to local bodies to optimize manpower and improve reach.

Existing initiatives by the MSME ministry: Champions[38] - Grievance registration and management system abbreviated "Champions" (Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength) portal is one-stop-shop

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[38] https://champions.gov.in/MyMsme/grievance/COM_Grievance_Welcome.aspx

solution for issues, complaints, suggestions or information around schemes, compliances, processes, permissions etc. Grievances registered by MSMEs either on the government's Centralized Public Grievance Redress and Monitoring System (CPGRAMS) or other portals of the MSME Ministry to be automatically pulled into the Champions portal.

The grievances will be diverted subject-wise to concerned branch/bureau/office heads under the MSME Ministry to attend them within three days. The Ministry has discussed keeping that senior leadership will address them post this to ensure matters are addressed in <7 days.

Ideas Portal – ideas.msme.gov.in — to share their ideas, innovation, and research in respective sectors for public review for vetting before launching them within the Champions portal. Moreover, it has also added the information and knowledge bank for MSMEs such as steps taken by the government for MSMEs to fight COVID, RBI's relief measures, delayed payments monitoring, all MSME schemes, list of government notifications, the support provided by SIDBI and more.

Recommendation

- Institute pan India MSME support network by leveraging existing govt portals (E.g., Champions), with tie ups with on ground industry bodies, MSME clusters and NGO's to address queries/ grievances/ information requests. This would entail redirecting queries from this central government portals to state portals / local bodies based on region and functional expertise

Advantages

- Decrease in use of existing government bandwidth where local NGO's and bodies can help with queries, grievances etc.
- Expansion of government MSME network through targeted awareness of platform via these credible touch-points entrenched in the ecosystem
- Business model/compensation per query based on specifics of public social partnership

  E.g., Social partner - deAsra foundation has an existing network of 70k+ entrepreneurs and have expertise in guiding them through various processes of starting a business, acquitting credit etc. thus they would be equipped to answer MSME queries.

4. Social charter

Key challenges – Given the current COVID'19 crisis many MSMEs are struggling to make ends meet despite being linked to private sector giants. Key issues being faced include private sector players not paying MSMEs due to working capital crunch, in turn MSMEs are forced to let-go of labor, extend working hours without excess payment etc.

Recommendation - Private sector companies to sign a charter, created and endorsed by industry bodies such as FICCI. Potential to link charter signing to incentives such as preferential credit etc.

E.g., Reference charter - The UN Global compact (attached below)[39]

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[39] UN Compact website

Sample social charter: UN Global Compact 10 principles

Human Rights	
Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights;
Principle 2	Make sure that they are not complicit in human rights abuses.
Labor	
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4	The elimination of all forms of forced and compulsory labor;
Principle 5	Effective abolition of child labor‘
Principle 6	Elimination of discrimination in respect of employment and occupation.
Environment	
Principle 7	Businesses should support a precautionary approach to environmental challenges;
Principle 8	Undertake initiatives to promote greater environmental responsibility;
Principle 9	Encourage development and diffusion of environmentally friendly technologies
Anti-Corruption	
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

Appendix 3 – Thrive

Appendix 3.1: Enablers (Climate)

Additional recommendations

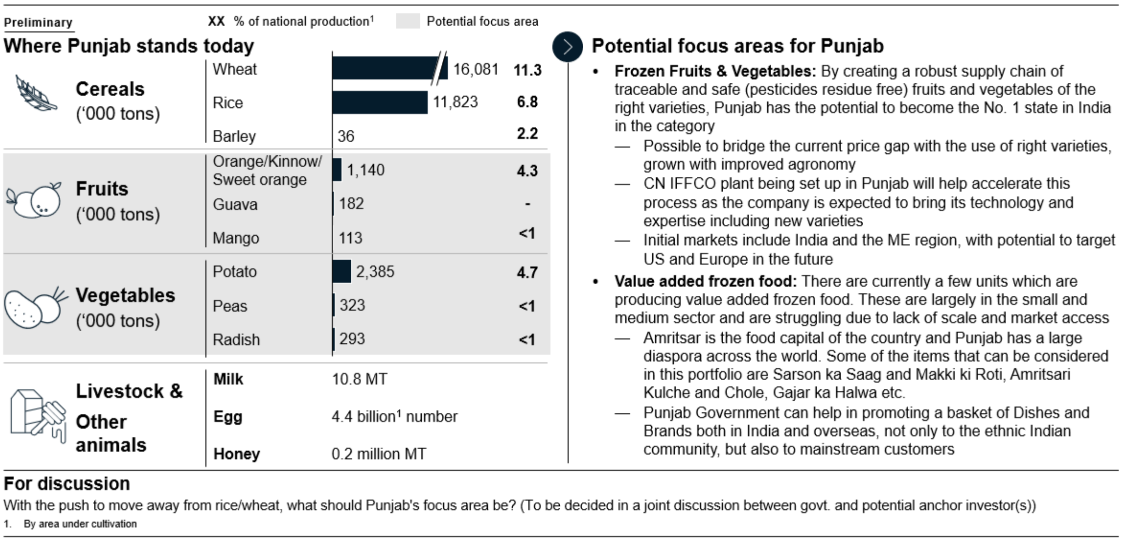
Category	Recommendation
Land	● **Accelerate digitization of land records and automation of acquisition** process (part of BRAP reforms)
Power	● Reduce AT&C losses to <10% through revenue collection improvement (domestic power consumers under “SAUBHAGYA” Scheme), operational efficiency improvements - smart metering, upgradation of transformers, etc. and energy efficient measure – LED bulbs, etc. ● Explore franchising out DISCOMs to private sector to improve efficiency and reduce AT&C losses further ● Increasing the share of renewable production e.g., actual implementation of center’s renewable and hybrid energy measures in states can significantly impact industrial power cost and increase through net metering
Logistics	● Create **independent regulator for railways** – responsible to set guidelines on freight & passenger fare, and create enabling environment for PPP
Labor	● Disburse financial benefits and monitor worker health through integration of UPI and Arogya Setu
Enforcing contracts Time taken – ~4 years for commercial disputes In India.	● Digital infrastructure of courts can be enhanced with the implementation of an automated case management system with features including electronic service of process, automatic assignment of cases to judges & optimized scheduling ● Encouraging arbitration as a dispute settlement mechanism

Appendix 3.2: Sector specific (Soil)

A. Food processing

Exhibit 6

A: Value chain selection: There are multiple value chains that Punjab could potentially focus on



Preliminary

XX % of national production[1]

▨ Potential focus area

Where Punjab stands today

Cereals ('000 tons)	Wheat	16,081	**11.3**
	Rice	11,823	**6.8**
	Barley	36	**2.2**
Fruits ('000 tons)	Orange/Kinnow/ Sweet orange	1,140	**4.3**
	Guava	182	**-**
	Mango	113	**<1**
Vegetables ('000 tons)	Potato	2,385	**4.7**
	Peas	323	**<1**
	Radish	293	**<1**
Livestock & Other animals	**Milk**	10.8 MT	
	Egg	4.4 billion[1] number	
	Honey	0.2 million MT	

Potential focus areas for Punjab

- **Frozen Fruits & Vegetables:** By creating a robust supply chain of traceable and safe (pesticides residue free) fruits and vegetables of the right varieties, Punjab has the potential to become the No. 1 state in India in the category
  - — Possible to bridge the current price gap with the use of right varieties, grown with improved agronomy
  - — CN IFFCO plant being set up in Punjab will help accelerate this process as the company is expected to bring its technology and expertise including new varieties
  - — Initial markets include India and the ME region, with potential to target US and Europe in the future
- **Value added frozen food:** There are currently a few units which are producing value added frozen food. These are largely in the small and medium sector and are struggling due to lack of scale and market access
  - — Amritsar is the food capital of the country and Punjab has a large diaspora across the world. Some of the items that can be considered in this portfolio are Sarson ka Saag and Makki ki Roti, Amritsari Kulche and Chole, Gajar ka Halwa etc.
  - — Punjab Government can help in promoting a basket of Dishes and Brands both in India and overseas, not only to the ethnic Indian community, but also to mainstream customers

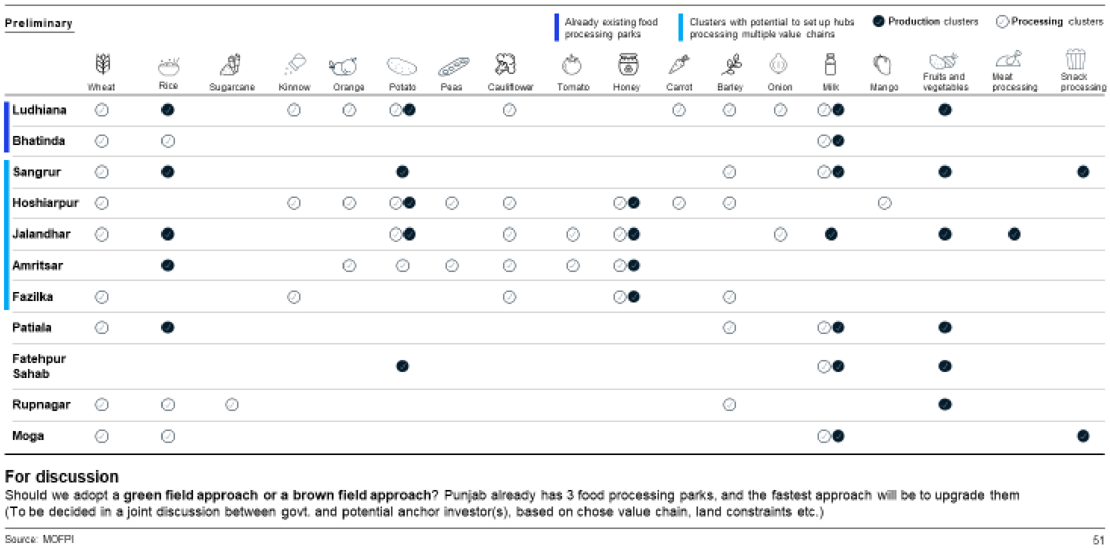
For discussion

With the push to move away from rice/wheat, what should Punjab's focus area be? (To be decided in a joint discussion between govt. and potential anchor investor(s))

1. By area under cultivation

Exhibit 7

A: Hub location: Punjab's production and processing is concentrated at a few hubs, which can potentially be developed



Preliminary

Already existing food processing parks

Clusters with potential to set up hubs processing multiple value chains

● Production clusters

○ Processing clusters

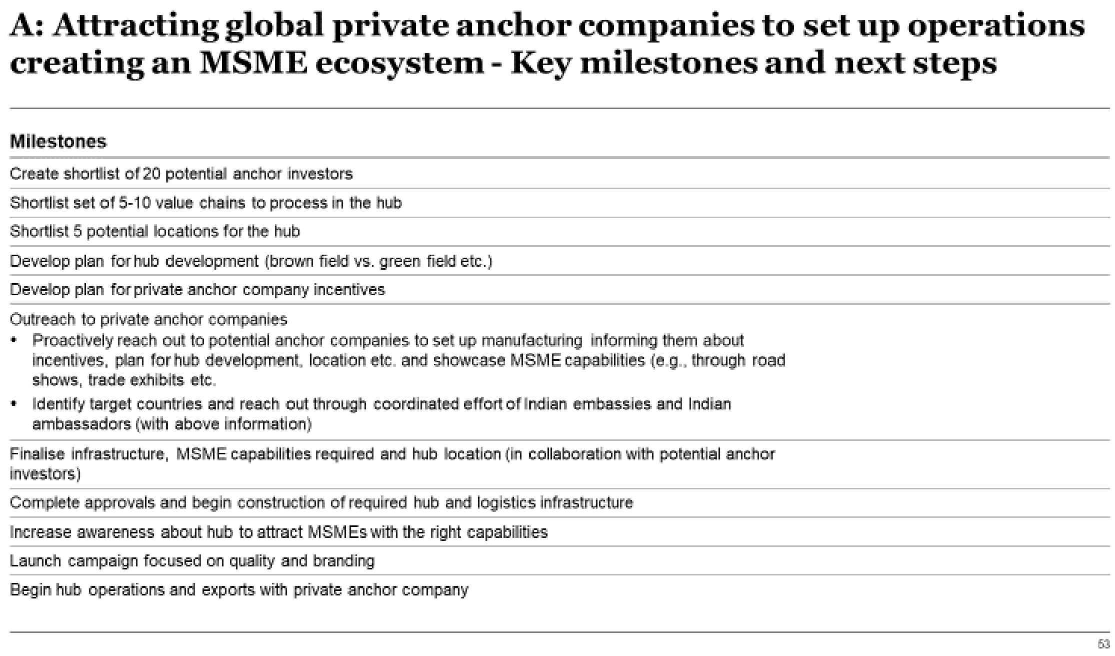
	Wheat	Rice	Sugarcane	Kinnow	Orange	Potato	Peas	Cauliflower	Tomato	Honey	Carrot	Barley	Onion	Milk	Mango	Fruits and vegetables	Meat processing	Snack processing
Ludhiana	○	●		○	○	○●		○			○	○	○	○●		●		
Bhatinda	○	○												○●				
Sangrur	○	●				●						○		○●		●		●
Hoshiarpur	○			○	○	○●	○	○		○●	○	○			○			
Jalandhar	○	●				○●		○	○	○●			○	●		●	●	
Amritsar		●			○	○	○	○	○	○●								
Fazilka	○			○				○		○●		○						
Patiala	○	●										○		○●		●		
Fatehpur Sahab						●								○●		●		
Rupnagar	○	○	○									○				●		
Moga	○	○												○●				●

For discussion

Should we adopt a **green field approach** or a **brown field approach**? Punjab already has 3 food processing parks, and the fastest approach will be to upgrade them (To be decided in a joint discussion between govt. and potential anchor investor(s), based on chose value chain, land constraints etc.)

Source: MOFPI

Exhibit 8



A: Attracting global private anchor companies to set up operations creating an MSME ecosystem - Key milestones and next steps

Milestones

Create shortlist of 20 potential anchor investors

Shortlist set of 5-10 value chains to process in the hub

Shortlist 5 potential locations for the hub

Develop plan for hub development (brown field vs. green field etc.)

Develop plan for private anchor company incentives

Outreach to private anchor companies
- Proactively reach out to potential anchor companies to set up manufacturing informing them about incentives, plan for hub development, location etc. and showcase MSME capabilities (e.g., through road shows, trade exhibits etc.
- Identify target countries and reach out through coordinated effort of Indian embassies and Indian ambassadors (with above information)

Finalise infrastructure, MSME capabilities required and hub location (in collaboration with potential anchor investors)

Complete approvals and begin construction of required hub and logistics infrastructure

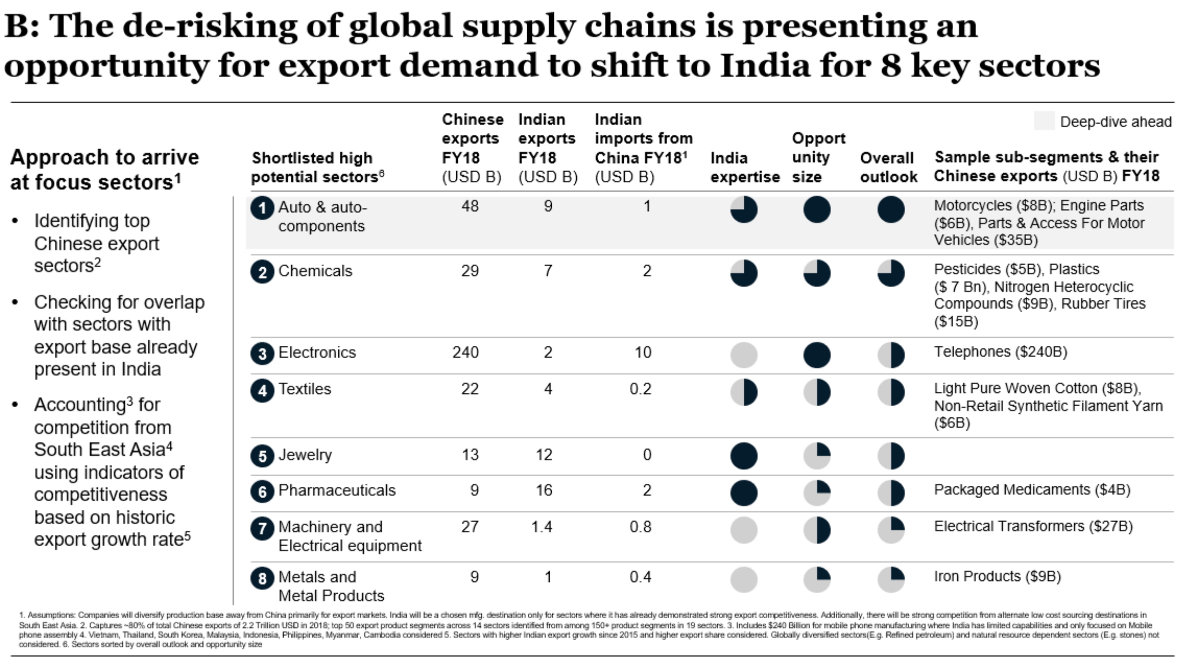
Increase awareness about hub to attract MSMEs with the right capabilities

Launch campaign focused on quality and branding

Begin hub operations and exports with private anchor company

B. Auto components

Exhibit 9



B: The de-risking of global supply chains is presenting an opportunity for export demand to shift to India for 8 key sectors

Approach to arrive at focus sectors[1]

- Identifying top Chinese export sectors[2]
- Checking for overlap with sectors with export base already present in India
- Accounting[3] for competition from South East Asia[4] using indicators of competitiveness based on historic export growth rate[5]

▨ Deep-dive ahead

Shortlisted high potential sectors[6]	**Chinese exports FY18** (USD B)	**Indian exports FY18** (USD B)	**Indian imports from China FY18[1]** (USD B)	**India expertise**	**Opport unity size**	**Overall outlook**	**Sample sub-segments & their Chinese exports** (USD B) **FY18**
① Auto & auto-components	48	9	1	◕	●	●	Motorcycles ($8B); Engine Parts ($6B), Parts & Access For Motor Vehicles ($35B)
② Chemicals	29	7	2	◕	◕	◕	Pesticides ($5B), Plastics ($ 7 Bn), Nitrogen Heterocyclic Compounds ($9B), Rubber Tires ($15B)
③ Electronics	240	2	10	○	●	◑	Telephones ($240B)
④ Textiles	22	4	0.2	◑	◑	◑	Light Pure Woven Cotton ($8B), Non-Retail Synthetic Filament Yarn ($6B)
⑤ Jewelry	13	12	0	●	◔	◑	
⑥ Pharmaceuticals	9	16	2	●	◔	◑	Packaged Medicaments ($4B)
⑦ Machinery and Electrical equipment	27	1.4	0.8	○	◑	◔	Electrical Transformers ($27B)
⑧ Metals and Metal Products	9	1	0.4	○	◔	◔	Iron Products ($9B)

1. Assumptions: Companies will diversify production base away from China primarily for export markets. India will be a chosen mfg. destination only for sectors where it has already demonstrated strong export competitiveness. Additionally, there will be strong competition from alternate low cost sourcing destinations in South East Asia. 2. Captures ~80% of total Chinese exports of 2.2 Trillion USD in 2018; top 50 export product segments across 14 sectors identified from among 150+ product segments in 19 sectors. 3. Includes $240 Billion for mobile phone manufacturing where India has limited capabilities and only focused on Mobile phone assembly 4. Vietnam, Thailand, South Korea, Malaysia, Indonesia, Philippines, Myanmar, Cambodia considered 5. Sectors with higher Indian export growth since 2015 and higher export share considered. Globally diversified sectors(E.g. Refined petroleum) and natural resource dependent sectors (E.g. stones) not considered. 6. Sectors sorted by overall outlook and opportunity size

Exhibit 10

B: States should prioritize key sectors by assessing inherent capabilities and attractiveness for government and investors

Potential focus sectors

Narrow down sectors taking lens of existing capabilities in state and constraints

Leverage prioritization matrix to zero in on the opportunity

Strategic bets

Prioritized plays

De-prioritized

Opportunistic plays

Attractiveness to the Government

How attractive is the industry for the state, e.g., in terms of GDP, employment, wages impact, and/or spillovers and other externalities?

Attractiveness for Investors

How attractive is it for investors to invest in this industry in the state, based on cost drivers and strategic advantages?

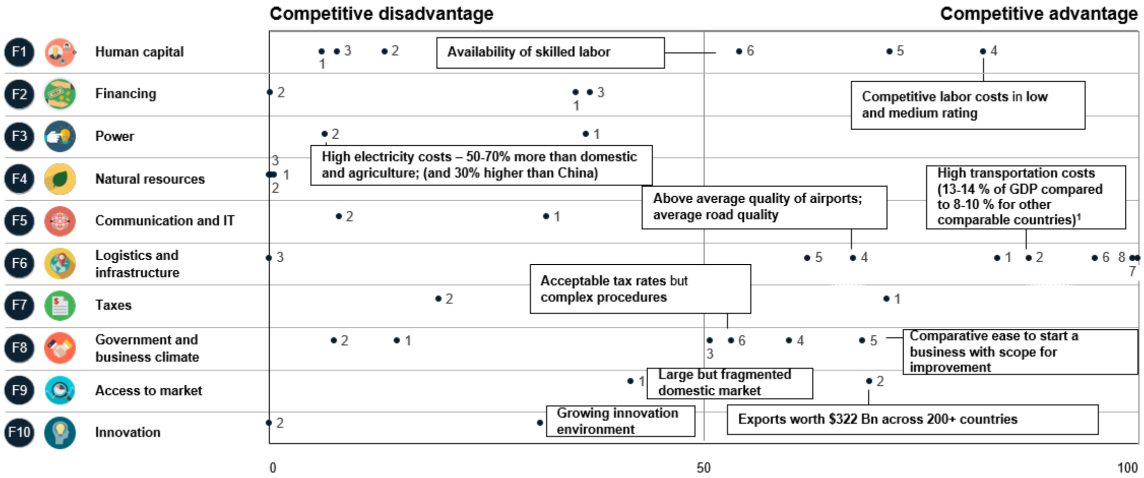
Exhibit 11

Sample output

B: Prioritization of key sectors: Illustrative example of Sector Prioritization Tool (SPT)

Numbers (1, 2, 3..) in chart refer to specific sub-drivers of index scores for each category

Illustrative



Availability of skilled labor

Competitive labor costs in low and medium rating

High electricity costs – 50-70% more than domestic and agriculture; (and 30% higher than China)

Above average quality of airports; average road quality

High transportation costs (13-14 % of GDP compared to 8-10 % for other comparable countries)[1]

Acceptable tax rates but complex procedures

Comparative ease to start a business with scope for improvement

Large but fragmented domestic market

Growing innovation environment

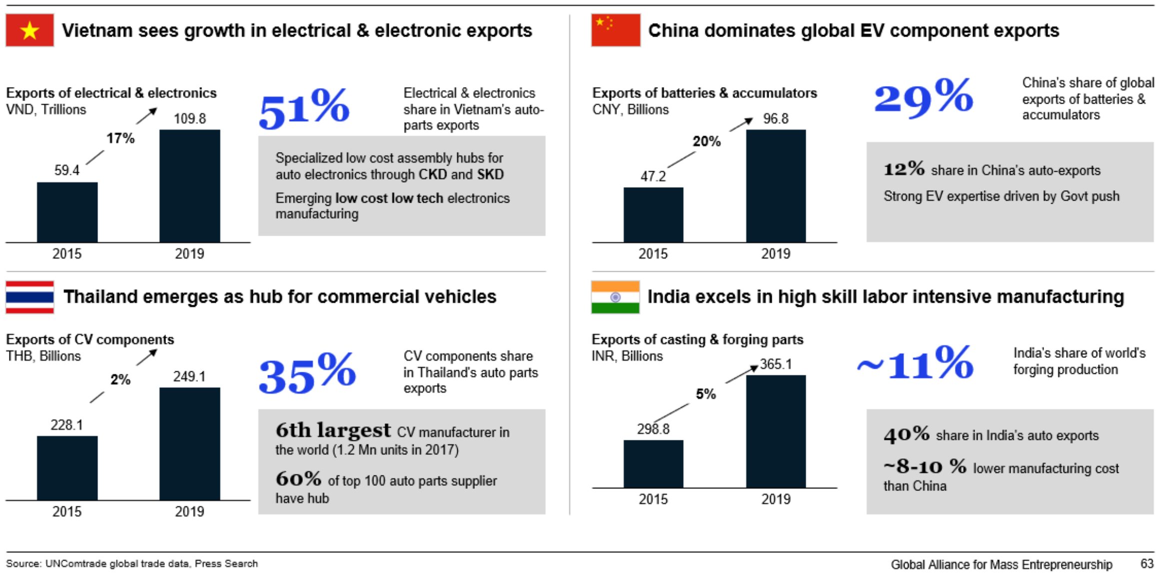
Exports worth $322 Bn across 200+ countries

1. High indirect costs - inventory carrying, theft, damage, lack of modernization of ports and rail, higher compliance burden etc.

Source: Indian Foundation for Transport Research and Training, DPIIT – strategy for industrial growth;

Exhibit 12

B: Countries have competencies on specific product archetypes



Vietnam sees growth in electrical & electronic exports

51% Electrical & electronics share in Vietnam's auto-parts exports

Specialized low cost assembly hubs for auto electronics through **CKD** and **SKD**

Emerging **low cost low tech** electronics manufacturing

China dominates global EV component exports

29% China's share of global exports of batteries & accumulators

12% share in China's auto-exports

Strong EV expertise driven by Govt push

Thailand emerges as hub for commercial vehicles

35% CV components share in Thailand's auto parts exports

6th largest CV manufacturer in the world (1.2 Mn units in 2017)

60% of top 100 auto parts supplier have hub

India excels in high skill labor intensive manufacturing

~11% India's share of world's forging production

40% share in India's auto exports

~8-10 % lower manufacturing cost than China

Source: UNComtrade global trade data, Press Search

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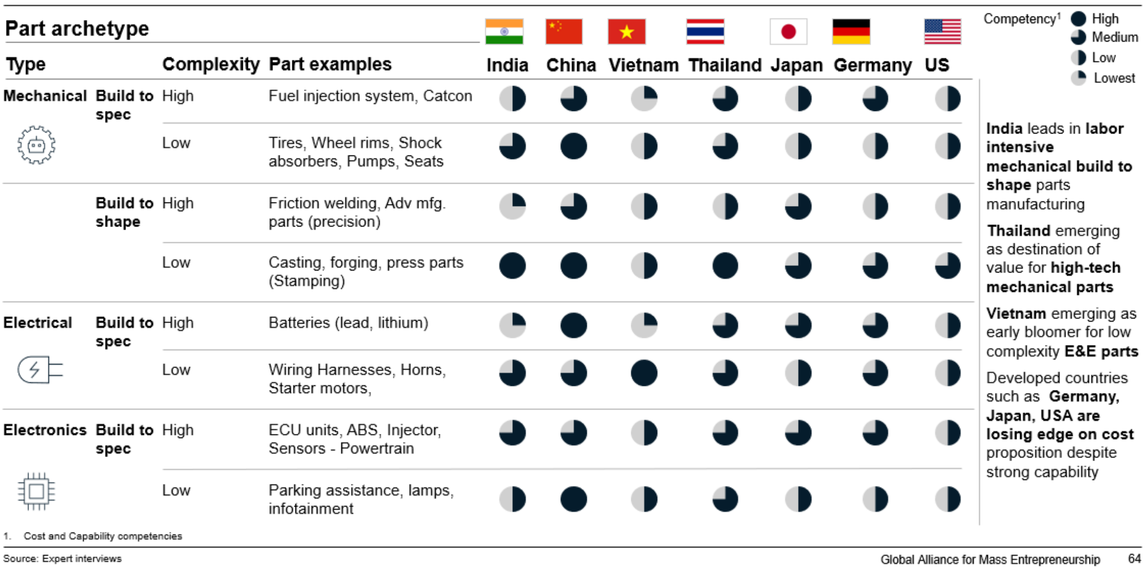
Exhibit 13

Going forward, India has the potential to improve competency in categories with high complexity



Competency[1] ● High ◕ Medium ◐ Low ◔ Lowest

Part archetype										
Type		**Complexity**	**Part examples**	**India**	**China**	**Vietnam**	**Thailand**	**Japan**	**Germany**	**US**
Mechanical	**Build to spec**	High	Fuel injection system, Catcon	◐	◕	◔	◕	◐	◕	◐
		Low	Tires, Wheel rims, Shock absorbers, Pumps, Seats	◕	●	◐	◕	◐	◐	◐
	Build to shape	High	Friction welding, Adv mfg. parts (precision)	◔	◕	◐	◐	◕	◐	◐
		Low	Casting, forging, press parts (Stamping)	●	●	◐	●	◕	◕	◕
Electrical	**Build to spec**	High	Batteries (lead, lithium)	◔	●	◔	◕	◕	◕	◐
		Low	Wiring Harnesses, Horns, Starter motors,	◕	◕	●	◕	◐	◕	◐
Electronics	**Build to spec**	High	ECU units, ABS, Injector, Sensors - Powertrain	◕	◕	◐	◕	◕	◕	◐
		Low	Parking assistance, lamps, infotainment	◐	●	◐	◕	◐	◐	◐

India leads in **labor intensive mechanical build to shape** parts manufacturing

Thailand emerging as destination of value for **high-tech mechanical parts**

Vietnam emerging as early bloomer for low complexity **E&E parts**

Developed countries such as **Germany, Japan, USA are losing edge on cost** proposition despite strong capability

[1] Cost and Capability competencies

Source: Expert interviews

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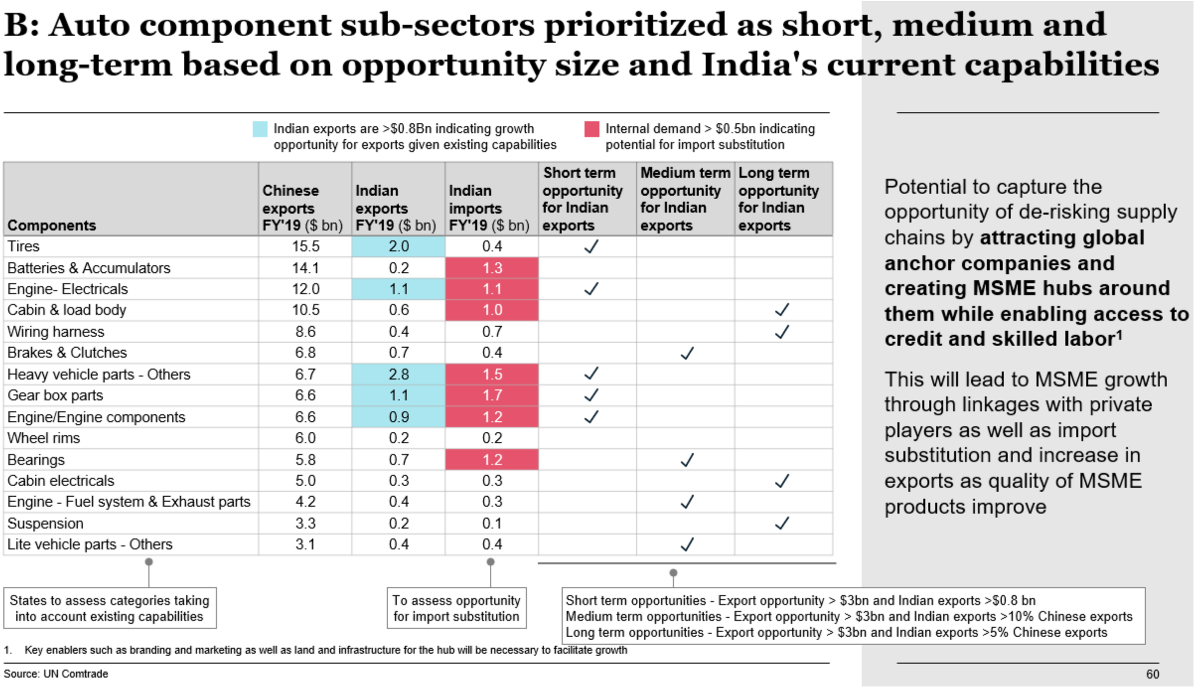
Exhibit 14



B: Auto component sub-sectors prioritized as short, medium and long-term based on opportunity size and India's current capabilities

🟦 Indian exports are >$0.8Bn indicating growth opportunity for exports given existing capabilities

🟥 Internal demand > $0.5bn indicating potential for import substitution

Components	Chinese exports FY'19 ($ bn)	Indian exports FY'19 ($ bn)	Indian imports FY'19 ($ bn)	Short term opportunity for Indian exports	Medium term opportunity for Indian exports	Long term opportunity for Indian exports
Tires	15.5	🟦 2.0	0.4	✓		
Batteries & Accumulators	14.1	0.2	🟥 1.3			
Engine- Electricals	12.0	🟦 1.1	🟥 1.1	✓		
Cabin & load body	10.5	0.6	🟥 1.0			✓
Wiring harness	8.6	0.4	0.7			✓
Brakes & Clutches	6.8	0.7	0.4		✓	
Heavy vehicle parts - Others	6.7	🟦 2.8	🟥 1.5	✓		
Gear box parts	6.6	🟦 1.1	🟥 1.7	✓		
Engine/Engine components	6.6	🟦 0.9	🟥 1.2	✓		
Wheel rims	6.0	0.2	0.2			
Bearings	5.8	0.7	🟥 1.2		✓	
Cabin electricals	5.0	0.3	0.3			✓
Engine - Fuel system & Exhaust parts	4.2	0.4	0.3		✓	
Suspension	3.3	0.2	0.1			✓
Lite vehicle parts - Others	3.1	0.4	0.4		✓	

States to assess categories taking into account existing capabilities

To assess opportunity for import substitution

Short term opportunities - Export opportunity > $3bn and Indian exports >$0.8 bn
Medium term opportunities - Export opportunity > $3bn and Indian exports >10% Chinese exports
Long term opportunities - Export opportunity > $3bn and Indian exports >5% Chinese exports

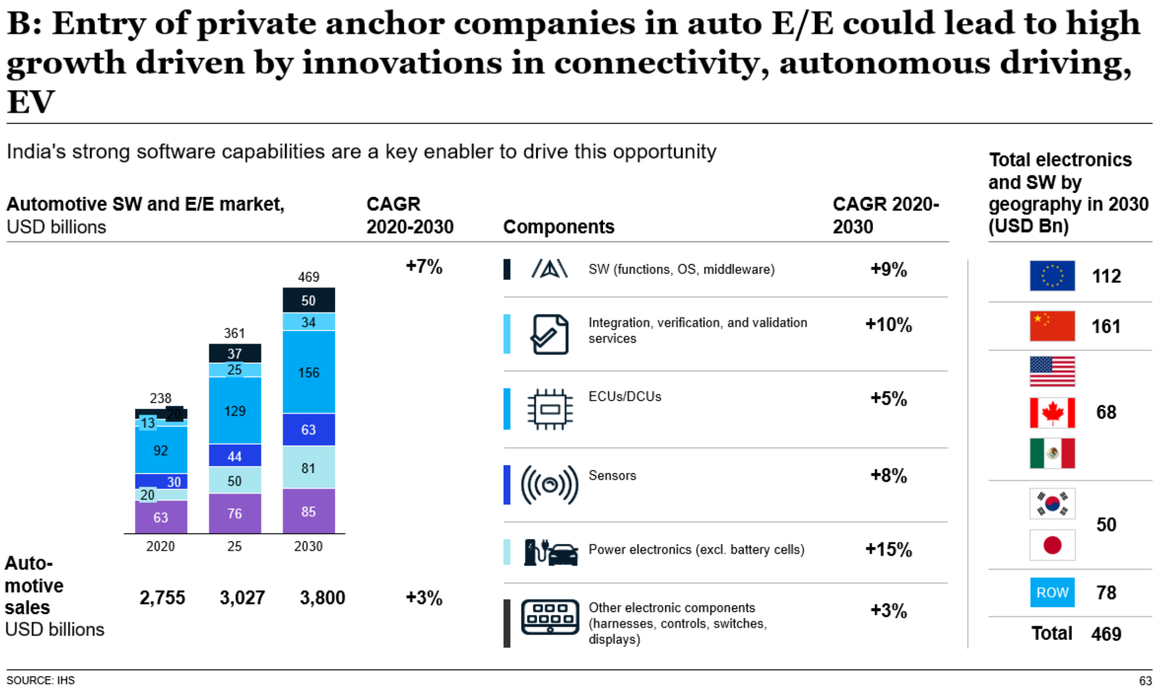
Potential to capture the opportunity of de-risking supply chains by **attracting global anchor companies and creating MSME hubs around them while enabling access to credit and skilled labor**[1]

This will lead to MSME growth through linkages with private players as well as import substitution and increase in exports as quality of MSME products improve

[1] Key enablers such as branding and marketing as well as land and infrastructure for the hub will be necessary to facilitate growth

Source: UN Comtrade

Exhibit 15



B: Entry of private anchor companies in auto E/E could lead to high growth driven by innovations in connectivity, autonomous driving, EV

India's strong software capabilities are a key enabler to drive this opportunity

Automotive SW and E/E market, USD billions

	2020	25	2030	CAGR 2020-2030
Automotive SW and E/E market, USD billions	238	361	469	+7%
Auto-motive sales USD billions	2,755	3,027	3,800	+3%

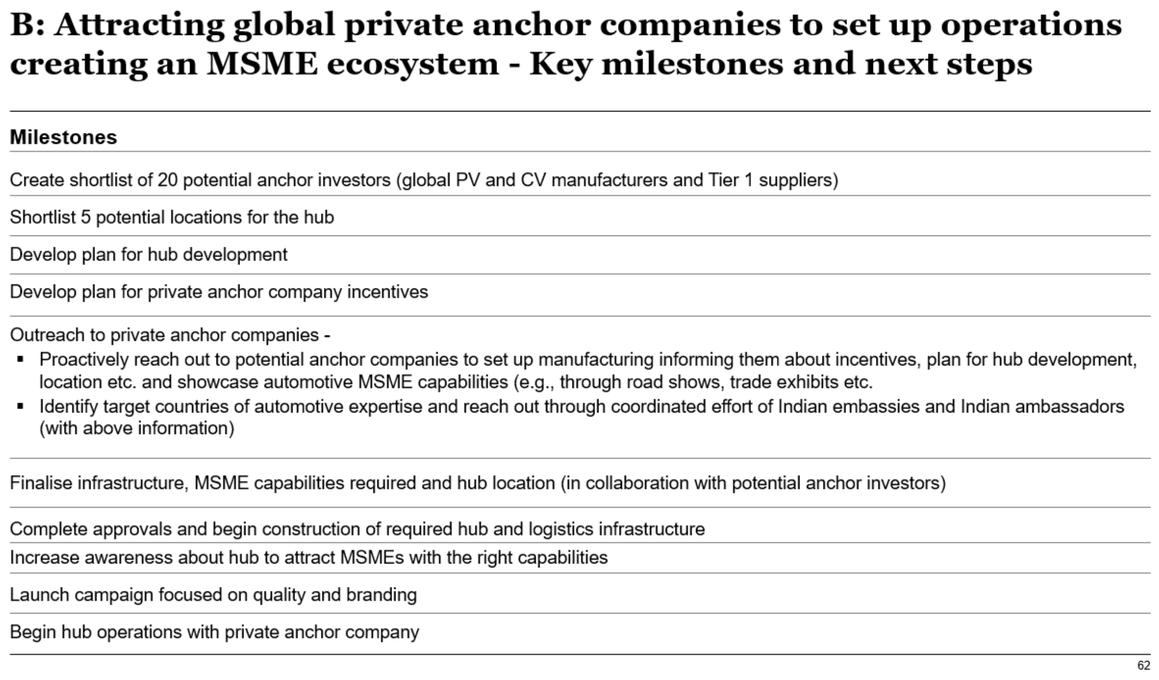
Components	**CAGR 2020-2030**
SW (functions, OS, middleware)	+9%
Integration, verification, and validation services	+10%
ECUs/DCUs	+5%
Sensors	+8%
Power electronics (excl. battery cells)	+15%
Other electronic components (harnesses, controls, switches, displays)	+3%

Total electronics and SW by geography in 2030 (USD Bn)

🇪🇺	112
🇨🇳	161
🇺🇸 🇨🇦 🇲🇽	68
🇰🇷 🇯🇵	50
ROW	78
Total	469

SOURCE: IHS

Exhibit 16



B: Attracting global private anchor companies to set up operations creating an MSME ecosystem - Key milestones and next steps

Milestones
Create shortlist of 20 potential anchor investors (global PV and CV manufacturers and Tier 1 suppliers)
Shortlist 5 potential locations for the hub
Develop plan for hub development
Develop plan for private anchor company incentives
Outreach to private anchor companies - ▪ Proactively reach out to potential anchor companies to set up manufacturing informing them about incentives, plan for hub development, location etc. and showcase automotive MSME capabilities (e.g., through road shows, trade exhibits etc. ▪ Identify target countries of automotive expertise and reach out through coordinated effort of Indian embassies and Indian ambassadors (with above information)
Finalise infrastructure, MSME capabilities required and hub location (in collaboration with potential anchor investors)
Complete approvals and begin construction of required hub and logistics infrastructure
Increase awareness about hub to attract MSMEs with the right capabilities
Launch campaign focused on quality and branding
Begin hub operations with private anchor company

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