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Q- The MSME sector is considered the backbone of India's economy, yet its growth remains constrained due to multiple challenges. Discuss the major bottlenecks faced by MSMEs in India and critically evaluate the recent budgetary provisions aimed at addressing the issues.

Ans. MSME sector is considered the backbone of Indian economy as it contributes 36% in total manufacturing output, 45% in exports and provides more than 30% employment. In India there are 6.3 crore MSMEs out of which 99% are small and micro enterprises. But the sector faces multiple challenges like lack of access to formal credit, low investment in innovation and research & development, market access, compliance burden etc. The Union budget 2023-24 attempts to address these challenges through targeted measures.

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Main Bottlenecks faced by MSMEs —

① Voluntary Dwarfism —

- MSMEs limit their growth so that they continue to get the incentives and tax benefits
- Due to this they do not get benefits of economies of scale and their profit is reduced.

As per India Small Business Economic Report, 2023 65% small business owners in India do not expand their business after a particular limit.

② Inadequate Access to Credit —

- High cost of credit and collateral requirements limit their ability to take loans.
- They depend upon informal credit which charges exorbitant rates.

As per RBI 2023 report 70% MSMEs in India do not have access to loan from formal banking system.

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③ Technological gap —

- ↪ Lack of modern technology affects their competitiveness.
- ↪ As per India Innovation Index, India R&D research & development expenses is 0.64% of GDP whereas the world average stands at around 1.8%.

④ Infrastructure gap —

- ↪ India lacks in cold chain facility and food processing infrastructure.
- ↪ As per FAO report, India expences 30% post-harvest losses of total agriculture produce and 40% fruits and vegetables are damaged.
- ↪ India is not able to convert its agricultural produce into high value food products.

⑤ Lack of Market access —

- ↪ MSMEs face export barriers and food safety standards.
- ↪ They face difficulty in entering

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European Union and US markets due to stricter safety regulations and sanitary and phytosanitary measures.

- ↳ They also face difficulty in integrating with global value chains due to limited branding support.

(6) Complex compliance framework —

- ↳ Complex regulations increase the cost of compliance and hinders growth.
- ↳ Multiple approvals, difficult environmental and tax regulations make their entry difficult.

(7) Lack of funds —

- ↳ India's domestic startup ecosystem market is weak limiting the ability of startups to raise funds.

- ↳ As per NASSCOM report 2023, 90% of startups fail in initial five years and 60% of them fail mainly because of lack of capital. The startup mortality rate of our country is quite high.

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Budgetary provisions to deal with various challenges

① Changed definition of MSMEs —

There is revision in classification criteria
to deal with voluntary dwarfism.

Enterprise category	Investment limit	Turnover limit
Micro Enterprise	₹ 2.5 cr	₹ 10 cr
Small Enterprise	₹ 25 cr	₹ 100 cr
Medium Enterprise	₹ 125 cr	₹ 500 cr

2.5 x ↑ 2 x ↑

② Enhancement of credit availability with guarantee cover

Credit guarantee cover is increased so that they can get easy and institutional loans at reasonable rates.

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	Credit guarantee cover	
	Current	Revised
Micro Small Enterprises	5 Cr	10 Cr
Startups	10 Cr	20 Cr
Reportee MSMEs	Term Loans upto 20 Cr	

③ MSME Credit Card scheme —

MSMEs registered on UDYAM portal will get credit limit upto 5 lakhs. It will solve their short term liquidity crisis

④ Fund of funds for startups —

Govt will give 10,000 cr to daughter funds to invest in startup ecosystem so that they can get funds at ~~stages~~ seed and growth stage.

⑤ Promote labour intensive sector —

- ↳ Promote labour intensive sector like footwear, leather, toys and handicrafts
- ↳ Aimed to generate 22 L new jobs especially for skilled & semi-skilled workers.

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⑥ Support for food processing —

National Institute of food Technology to be setup in Bihar leading to increase in processed food exports and integrating farmers in sustainable value chain.

⑦ Clean Tech Manufacturing —

↳ focus on production of solar photovoltaics, EV batteries, wind turbines etc to reduce import dependency and promote domestic green manufacturing.

↳ National Manufacturing Mission to strengthen Make in India, custom duty exemption on critical minerals like cobalt, lithium etc.

But still there are challenges —

① As per FICCI report 2023 if MSMEs benefits framework is not monitored properly then large industries will take the benefits and real beneficiaries will get reduced credit facilities.

② Of all loans given in 2019 under Credit Guarantee Scheme, 15% turned out to be NPAs (Non Performing Assets).

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- (3) If loans are provided without monitoring and tracking it will reach to unqualified borrowers.
- (4) As per Startup India Mission 2022 report 80% venture capital investment is mainly in consumer driven, tech driven or in fintech sectors.
- (5) Lack of cold chain and food processing infrastructure leading to post-harvest losses.
- (6) Lack of mining capacity for cobalt, lithium and other rare elements at commercial level
- (7) Technology transfer and lack of investment in R&D sector as India invest only around \$2 bn annually while other countries invest around \$10 bn.

WAY FORWARD

- (1) MSME growth is not possible only with policy framework. It depends upon how much benefits they are getting. This idea is to align with book "Organisation Evolving"

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- ② focus on entrepreneurship and financial innovation as they are key drivers for sustainable growth of any economy.
- ③ Govt should strategically invest in startup ecosystem as it boost innovation and reduce dependence on private sector.
- ④ India should equally invest in R&D and product innovation if it wants to become a global leader in manufacturing.
- ⑤ India should strengthen its rare earth minerals sector and battery supply chain for a sustainable economy.

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Q- The Indian state follows the principle of 'principled distance' from religion unlike the absolute separation ~~of~~ seen in some western democracies. Analyse how this model influences public policy decisions, such as minority rights, religious freedom and state intervention in religious institutions.

Ans. Article 25 - 28 of Indian constitution deals with right to freedom of religion. Indian secularism is dynamic secularism as it engages or disengages depending upon the situation. It follows a principle of principled distance from religion which means that state maintains a flexible relationship with the religion. It engages or disengages to uphold justice, liberty, equality and fraternity.

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Influence of this model —

① Minority rights —

- ↳ Minority rights are provided not to give certain sections undue privilege but rather putting minority community at par with majority community
- ↳ Article 29 and 30 of Indian constitution protects cultural and educational rights of minorities.
e.g., Aligarh Muslim University

② Religious freedom —

- ↳ The Indian constitution provides freedom of religion and also ensures public order, morality and health.
- ↳ Every person is guaranteed freedom of conscience and freedom to profess, practice and propagate any religion. But this freedom cannot be used for forced conversion by means of fraud, force, allurement etc.

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- ↳ There is no state religion and state shall not compel any citizen to pay taxes for promotion of any religion.
- ↳ There shall be no religious instruction in govt funded educational institutions.
- ↳ The state intervenes in religious practices that may disrupt public order such as regulating noise level during festivals or performing tandava in public place.
- ↳ ~~State~~ SC also intervened in Shayara Banu case as ~~it was a~~ triple talaq was declared unconstitutional ensuring equality within religious practice.
- ⑩ ↳ The Sabarmala case is also an example of state intervention to ensure religious practices must align with constitutional morality.

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③ State intervention in religious institutions -

- ↳ The state follows principle of distance but also intervenes to regulate religious practices, superstitions, corruption etc.
- ↳ The state takes control of religious institutions to prevent mismanagement, and safeguard assets.
- ↳ The Waqf Act established Waqf Boards to manage religious properties and prevent illegal encroachments. But in 2021 new changes are made by state to bring transparency, accountability and efficiency.
- ↳ Earlier there were caste based restrictions to enter in temples. State abolished those restrictions to ensure equality, dignity of people.

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Challenges —

- This principled distance is converted into opportunistic distance
- ↳ Many right wing groups create challenges of engineered communalism and engineered riots
- ↳ Religious communities resist changes in their traditions, leading to conflicts and prolonged legal battles.

WAY FORWARD —

- ① The state must maintain a balance between religious autonomy and accountability, and rights of others.
- ② Religious practices must align with constitutional morality.
- ③ Our education system should develop critical thinking regarding religious philosophical tradition of society.

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↳ Encourage dialogue between state and religious communities to promote social reforms without cultural alienation.

Indian secularism is a living example for the world to accommodate religious diversity with mutual respect. State intervention aims to balance constitutional principles with religious freedom.