

BUSINESS REPORT

Micro, Small & Medium Enterprise (MSME) Karnataka

A brief report on state of MSME in Karnataka, the challenges they face and strategies to promote their sustained growth.

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PREFACE



Micro, Small & Medium Enterprises (MSMEs) form a vibrant and dynamic segment of Karnataka's industrial sector. They contribute significantly to the State GDP and is one of the biggest employers in the State.

I am happy to note that FICCI and UK&Co has taken the initiative to bring out the 'MSME-Karnataka 2023' that details a range of topics including the contribution of MSMEs to the state economy, the regulatory environment, access to finance, technology upgradation, digital adoption, skill development and training, women entrepreneurship and more.

The report very well elucidates the contemporary challenges and opportunities of the sector – which is a much-needed analysis that helps in better understanding the sector and designingthe future course of action for its growth and development.

Mr. K Ullas Kamath, Chairman FICCI-Karnataka, with three decades of rich experience in business, has put forth numerous ideas in this report that are truly commendable. He has been actively involved with the state government in policy making and has played the central role in setting up India's first ever FMCG Cluster Park in Hubballi, Karnataka. This report is yet another initiative stemming from Mr. Kamath's determination to drive Karnataka to become the biggest economic powerhouse in the country!

I must once again stress that I am very impressed with the fresh ideas and pragmatic solutions highlighted in this report. I would like to extend my commitment towards taking these ideas forward and translating them into reality. Karnataka State has been a torchbearer in rolling out various first initiatives across sectors such as IT, BT, Startups, EV and more. And, as underscored in the report, we now need to collectively work towards bringing out radical andtransformational initiatives for the growth of MSMEs sector.

I sincerely hope this report would serve as a valuable resource for policymakers, industry associations, MSMEs, and other stakeholders, and contribute to the growth and development of the sector.

(Dr. Murugesh R. Nirani)

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PREFACE

Shri Subhrakant Panda
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I am delighted that the FICCI Karnataka State Council has come out with the ***MSME – Karnataka 2023*** report which is a comprehensive analysis of the Micro, Small and Medium Enterprises (MSMEs) in the State. With more than 7.6 lakh MSMEs employing over 50 lakh people, the MSME sector is one of the largest contributors to Karnataka's economy and plays a crucial role in employment generation, innovation, and overall economic growth.

The report draws on a wide range of data sources including surveys, government reports, and secondary research to provide a detailed analysis focusing on the opportunities for MSMEs in Karnataka. It also offers innovative solutions to tackle challenges relating to access to credit, measures to leverage digital technologies, effective marketing strategies, and promoting women entrepreneurship.

I would like to thank all those who have contributed to this report, and hope that it generates fruitful discussions, further leading to concrete actions for the growth and development of the MSME sector in the State.

(Subhrakant Panda)

About the Authors



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Kasaragod Ullas Kamath, M.Com., LL.B., F.C.A., A.C.S., M.Sc (LSE) was the Joint Managing Director Jyothy Labs Ltd (JLL). While at JLL for 31 years, he was responsible for business development, new projects, M&A, and financial management. He has been the driving force in transforming JLL from a single brand family-owned enterprise to a multi- brand FMCG corporate.

For his work and leadership, he has won several awards over the years including the coveted "All India CA Business Achiever Award - SME Category" instituted by the Institute of Chartered Accountants of India. He is also the recipient of the CNBC Awaaz Best CEO AWARD in FMCG Category.

Mr. Kamath has participated in the Advance Management Program at both Wharton Business School and Harvard Business School. He did his Global master's in management from London School of Economics.

Mr. Kamath is an Independent Director of V-Guard Industries Ltd., Cochin, Snapdeal ltd New Delhi, Wonderla Amusement Parks, Kochi & Veranda Learning Solutions ltd Chennai. He is also a board member of Invest Karnataka Forum a Govt of Karnataka enterprise.

He also serves as the Chairman of FICCI Karnataka State Council and member of FICCI Start Up Committee, New Delhi. He is a governing council member of Foundation for Innovation and Technology Transfer (FITT), IIT, New Delhi.

He channels his expertise in building family enterprises as the Program Chair at the K. Ullas Kamath Center for Family Managed Business at NITTE University where generations of family business come learn from stalwarts in the family business arena; and as the founder of UK&Co – a boutique management consulting collective that works on creating value for select family businesses.

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Sidharth Pai brings a wealth of experience to his roles as an operations head, management consultant, and start-up mentor with a focus on businesses operating in the Business to Business (B2B) or Business to Customer (B2C) space. With over 15 years of experience, Sidharth previously worked at Caterpillar, where he held various global roles as a supply chain specialist. During his tenure, he spearheaded the Global Supply Chain Modelling program, based out of Chicago.

After relocating to India, Sidharth shifted his focus to building family enterprises. He served as the Program Head at the K. Ullas Kamath Center for Family Managed Business at NITTE University, where generations of family business leaders come to learn from experts in the family business arena. Additionally, he is the co-founder and managing partner of UK&Co, a boutique management consulting collective that specializes in creating value for select family businesses.

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Executive Summary

The Micro, Small and Medium Enterprises (MSME) sector is a significant contributor to the Indian economy, particularly in creating jobs and promoting innovation across various industries. However, the majority of MSMEs in India belong to the micro sub-sector. Karnataka has over 7.68 lakh MSMEs, which face both legacy challenges as well as new disruptions, including demonetisation, GST implementation, the COVID-19 pandemic, competition from Multi-National Corporations (MNC) and start-ups, inability to attract talent, and technology upgradation, among others. Karnataka has been a torchbearer for many first-of-its-kind initiatives in the Information Technology (IT), Bio Technology (BT), Startups and Electrical Vehicles (EV) sectors, and can bring the same radical out-of-the-box thinking to bear to transform the MSME sector.

i. Finance/Capital: : Improving access to credit, leveraging digital technologies, creating an MSME Exchange and Fund of Funds, providing collateral-free credit, reclassifying non-performing assets, clearing MSME dues, amending the Insolvency and Bankruptcy Code, classifying MSMEs into Gold, Silver, and Bronze categories based on performance, and creating a HealthScore™ (to be trademarked) tool to assess an MSME's financial and operational health would address the challenges faced by MSMEs, improve their access to finance, and promote faster economic growth..

ii. Marketing: The government's Preferential Purchase Policy requires government departments and Public Sector Undertakings (PSUs) to prioritize purchasing goods and services from MSMEs, while the Government e-Marketplace (GeM) provides a platform for MSMEs to promote their products and reach new customers through e-commerce. Greater market access, decreased transaction costs, increased efficiency, and increased competitiveness can be achieved using the proposed Open Network for Digital Commerce (ONDC) platform. Government can help MSMEs to access new markets, enhance exposure, and learn from industry experts through export incentives and state-sponsored trade fairs and exhibitions.

iii. Technology Upgradation: The government is creating 20 hubs and 100 spokes in the form of tool rooms across the country to promote technology upgradation. The MSME Champions Scheme (Erstwhile CLCS-TUS) is being implemented to support Lean Manufacturing, Design improvement, awareness on Intellectual Property Rights, Zero Effect Zero Defect (ZED) Scheme, digital empowerment through Digital MSME, and promoting adoption of latest technologies and knowledge-based innovation through Incubation. The scheme aims to reduce wastage, promote creativity, and enhance the competitiveness of MSMEs. The Government of Karnataka has proposed deploying an Online Technology Platform and establishing a Centre of Excellence for managing the platform setup to provide strategic guidance to MSMEs, help them identify gaps in their capabilities, and equip them to adapt to changing market and business environments. The government has also proposed infrastructure support such as reserving land for MSMEs, constructing multistoried/flatted factories, and developing rural industrial areas exclusively for MSMEs.

iv. Skill Development and Training: Government has implemented various initiatives to promote skill development and training, which can benefit MSMEs. The Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE) provides funding support to startups in the agro-rural sector, can be a great way to skill the youth. The Pradhan Mantri Kaushal Vikas Yojana (PMKVY) encourages youth to enrol in skill training programs and find employment. The government plans to launch PMKVY 4.0 to skill lakhs of youth within the next three years. Vocational and part-time schools for adults offer opportunities for working adults to acquire new skills. Prime Minister's Employment Generation Programme (PMEGP) provides financial support to MSMEs. Government can generate employment opportunities by conducting job

fairs, internship programs, mentorship programs in collaboration with MSME. Government can provide financial support to MSMEs in the form of a partial reimbursement of employee wages of new employees.

v. Development of One District One Product/Clusters: The One District One Product (ODOP) initiative aims to promote traditional and indigenous products of different districts across, with a focus on micro, small, and medium enterprises (MSMEs) that operate in rural and semi-urban areas. Under ODOP, each district identifies a unique product or cluster of products. The initiative has the potential to create employment opportunities, promote entrepreneurship, and improve the socio-economic status of people living in rural and semi-urban areas. The government should give MSMEs the necessary financial and technical assistance in the form of training programmes and access to credit facilities.

vi. Regulatory Laws/Compliance: Only registered MSMEs can access benefits such as credit, financial assistance, tax benefits, and training programs. The government can offer tax concessions, tax holidays, longer periods for carrying over losses, and wider deductions to MSMEs. The government can create a single-window system at the district or zonal level to coordinate all MSME-related activities, such as connecting MSMEs with various government programmes, marketing platforms, adhering to Goods and Services Tax (GST) regulations, approving and disbursing loans, rehabilitating sick units, disseminating MSME-related information, and assisting them in becoming more digital. India has numerous labour laws that regulate factory and manufacturing establishments. It may be necessary to combine all these laws into a single labour code that would include all main areas, making it easier for businesses to comply with each monthly legal requirement.

vii. Online Think Tank Mentor/Advisor Group: Online think tank group can be a useful platform for industry leaders, experts, and mentors to connect, exchange knowledge and ideas, and network with each other. The group can have regular meetings through video conferencing platforms, moderated by a facilitator, where members can engage in productive debates and discussions on relevant topics. In addition, members can collaborate on projects and initiatives that align with the group's mission or interests. This can be an excellent opportunity for professionals to expand their network, exchange information, and contribute to the growth of their industries.

viii. Women Entrepreneurship: by providing them with access to finance and resources is crucial to creating more inclusive economies. Government can have tie-ups with banks to introduce schemes offering collateral-free loans at a debt equity ratio of 5:1, low interest rates, and long moratorium periods can help to level the playing field and encourage more women to start and grow their own businesses, ultimately driving economic growth and development.

ix. MSME Portal: Creating a MSME portal exclusively for Karnataka would be a valuable resource for entrepreneurs and business owners in the state, providing a centralized platform to access information about the MSME sector, key statistics, industry trends, government initiatives, and available resources. The portal could include a comprehensive database of MSMEs operating in each district, along with a directory of service providers who cater specifically to MSMEs.

x. Miscellaneous: Renovation and maintenance of industrial areas and parks by the government can benefit businesses by improving infrastructure and facilities. A maintenance fee system can be implemented to ensure ongoing upkeep of the park's facilities. Corporate Social Responsibility (CSR) activities by corporations can offer support to MSMEs through business development, technology access, market linkages, and supporting social enterprises. Corporates should mention CSR initiatives towards MSMEs in their annual reports. Industrial parks can foster collaboration and knowledge-sharing among businesses located in the park,

leading to innovation and increased competitiveness. They can also provide cost-effective storage and distribution solutions for businesses.

Conclusion: By addressing the critical issues faced by MSMEs and providing timely support in areas such as finance, marketing, technology, skilling, training, and infrastructure, the MSME sector can contribute significantly to the economy of Karnataka and India as a whole. The measures can lead to increased employment opportunities, competitiveness, productivity, efficiency, and ease of access to finance, ultimately helping MSMEs thrive and compete effectively in the market. Karnataka's vision is to achieve $1Trillion Gross State Domestic Product (GSDP) by 2032.



01

MSMEs in India



1. MSMEs in India

The Micro, Small & Medium Enterprises have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are expanding their sphere of influence across economic sectors and creating a variety of goods and services to satisfy the needs of both domestic and international markets. The MSMEs in India are playing a crucial role by, among other things, industrialising rural and backward areas, reducing regional imbalances, and ensuring a more equitable distribution of national income and wealth. They also provide significant employment opportunities at comparatively lower capital costs than large industries.

As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.65 lakh in Manufacturing, 0.03 lakh in Non-Captive Electricity Generation and Transmission , 230.35 lakh in Trade and 206.85 lakh in Other Services) excluding those MSMEs registered under (a)Sections 2m(i) and 2m(ii) of the Factories Act, 1948, (b)Companies Act, 1956 and (c)construction activities falling under Section F of National Industrial Classification (NIC) 2008.

The micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and medium sector with 0.05 lakh estimated MSMEs accounted for 0.52% and 0.01% of total estimated MSMEs, respectively. Out of 633.88 estimated number of MSMEs, 324.88 lakh MSMEs (51.25%) are in rural area and 309 lakh MSMEs (48.75%) are in the urban areas.[1]

The report's emphasis and suggestions are on small and medium-sized businesses.

[1] Source: MSME Annual Report 2021-22.



02



MSMEs in Karnataka

2. MSMEs in Karnataka

As per Karnataka Economic Survey 2022-23, Karnataka has 7.38 lakh MSME's. MSMEs promote entrepreneurship and create a significant amount of employment possibilities, which contribute significantly to economic growth. MSMEs provide support to large firms as suppliers of input goods and services, thereby contributing to industrial development. There are numerous regulations, initiatives, incentives, and concessions in place to support MSMEs.[2]

Table 1: NUMBER OF MSME UNITS REGISTERED AND EMPLOYMENT GENERATED

Month	No. of units	Employment	Month	No. of units	Employment	Month	No. of units	Employment
Apr-20			Apr-21	9,495	83,998	Apr-22	20,160	1,66,069
May-20			May-21	13,985	1,71,147	May-22	27,506	1,94,661
Jun-20			Jun-21	25,507	2,78,180	Jun-22	30,796	2,94,494
Jul-20	8,030	1,13,526	Jul-21	28,368	3,47,187	Jul-22	33,379	3,44,331
Aug-20	12,964	1,68,050	Aug-21	26,297	2,59,909	Aug-22	32,855	3,10,655
Sep-20	18,488	2,36,842	Sep-21	29,087	4,25,848	Sep-22	37,048	2,77,735
Oct-20	17,879	2,31,218	Oct-21	24,468	2,05,376	Oct-22	32,154	2,64,724
Nov-20	15,093	1,73,942	Nov-21	22,112	2,21,744	Nov-22	42,435	3,00,218
Dec-20	16,668	2,12,521	Dec-21	31,746	2,83,367	Dec-22	45,495	3,04,507
Jan-21	17,590	2,06,558	Jan-22	26,152	1,96,939	Jan-23	40,852	3,77,183
Feb-21	19,449	2,42,779	Feb-22	34,775	2,82,059	Feb-23		
Mar-21	26,772	3,78,418	Mar-22	38,224	3,11,623	Mar-23		
TOTAL	1,52,933	19,63,854	TOTAL	3,10,216	30,67,377	TOTAL	3,42,680	28,34,577

(Source: Department of MSME, GOK)

The state's many industries are still feeling the effects of the lockdown and stalled exports brought on by the outbreak of COVID-19 two years ago. Some industries no longer exist. The state and federal governments have offered some aid in the interim. However, it will take time for these industries to reach their former level. Karnataka's major industries are food processing, engineering, ready-made garments manufacturing, foundry, automobiles, and chemicals. In addition, Karnataka has lineage industries such as handicrafts, and small-scale industries such as khadi.

Bengaluru's Peenya Industrial Area is one of Asia's largest industrial areas and is home to many MSMEs. The products produced here are internationally renowned.

The state of Karnataka has numerous monikers, including: the aerospace capital of India; the apparel and silk hub of India; the automobile hub of India; the biotech capital of India; Silicon Valley of the East; the start-up capital of India; and the renewable energy hub of India.

Categorisation of MSMEs

[2] Source : Karnataka Economic Survey 2021-22

As the definition of MSME is amended since 01/07/2020, Under the amended Act, Micro, Small and Medium Enterprises (MSMEs) are classified based on two factors - investment and annual turnover as shown below:

Table 2: Categorisation of MSMEs

Category	Manufacturing and Service	
	Investment on Plant and Machinery	Annual Turnover
Micro	Up to Rs 1Crore	Up to Rs 5 Crore
Small	Up to Rs 10 Crore	Up to Rs 50 Crore
Medium	Up to Rs 50 Crore	Up to Rs 250 Crore



03

Challenges Faced by MSME

3. Challenges faced by MSME's in recent times

MSMEs in India have faced various challenges during demonetization, Goods and Services Tax implementation and the COVID-19 pandemic. Let's take a closer look at each of these perils:

3.1. Demonetization: In November 2016, the Indian government announced the demonetization of high-value currency notes, which had a significant short-term impact on the economy. MSMEs, which largely operate on cash transactions, were hit hard by the demonetization as it led to a severe liquidity crunch. Many MSMEs had to shut down their operations or reduce their workforce due to the liquidity issues.

3.2. Goods and Services Tax: The GST was introduced in India in July 2017 to replace various indirect taxes, such as excise duty, service tax, and Value Added Tax (VAT). While the GST has streamlined the tax system, it has also posed several challenges for MSMEs. One of the main challenges is the complexity of the GST compliance process, which has led to increased costs and administrative burden for MSMEs. In addition, many MSMEs have faced liquidity issues due to the delayed refund process and high Input Tax Credit (ITC) accumulation.

3.3. COVID-19 Pandemic: The COVID-19 pandemic has been one of the biggest challenges faced by MSMEs in recent times. The pandemic has disrupted supply chains, reduced demand, and led to a cash flow crisis for many MSMEs. The lockdowns and restrictions imposed by the government to contain the spread of the virus have also led to a decline in production and revenue for MSMEs. Many MSMEs have struggled to pay their employees and meet their financial obligations, leading to job losses and closures. Cancellation of export orders added to their financial stress.

3.4 Competition from Multinational Corporations and Large Domestic Companies: Multinational corporations typically have more resources, economies of scale, and established brand recognition, which can make it difficult for MSMEs to compete on price and visibility. These global giants may also have established relationships with key suppliers and customers, making it difficult for MSMEs to access these networks.

3.5. Competition from Startups: Startups may be able to compete more effectively with MSMEs in terms of innovation, agility, and adaptability. Startups can also disrupt the marketplace in both the B2B and B2C segments. Startups often have a strong focus on technology and digital marketing, which can give them a competitive advantage in certain markets. New age startups generally focus on customer acquisition and revenue rather on profits during the initial phase which hurt MSMEs.

3.6. Lack of Professionalization: Lack of succession planning in MSMEs can hinder efforts to professionalize the organization. Professionalization refers to the process of making an organization more structured, efficient, and focused on achieving its goals using best practices and standardized procedures. Professionalization can lead to increased competitiveness, improved performance, and greater long-term sustainability.

A lack of clear succession planning can make it difficult to professionalize MSME because it creates uncertainty about the future direction of the company. Without a clear plan for how the business will continue to operate and grow in the future, employees may feel less motivated to adopt best practices and standardized procedures, and the company may struggle to attract and retain top talent.

3.7 Consolidation – Mergers and Acquisitions: The consolidation of MSMEs through mergers and acquisitions can be challenging. MSMEs are often characterised by limited resources and lack of access to financing, which can make consolidation a daunting task. However, there are several

potential benefits to MSME consolidation, such as increased efficiency, improved market penetration, and access to new markets. One of the main challenges of MSME consolidation is the lack of information available on potential targets. MSMEs often operate in niche markets, making it difficult to find suitable partners for consolidation. Additionally, many lack the necessary expertise to conduct due diligence and negotiate deals. Cultural differences can also be a challenge in MSME consolidation.

Overall, MSMEs face several challenges relating to operational efficiency, making it difficult for them to sustain their operations and grow their businesses. These challenges can be addressed using the measures suggested in this report.



04

Forging the Path Ahead

4. Forging the Path Ahead

MSMEs play an important role in economic growth by fostering entrepreneurship and generating large employment opportunities. MSMEs provide support to large firms as suppliers of input goods and services, thereby contributing to industrial development. MSMEs face many challenges that can be addressed through the following measures.

4.1. Finance/Capital

In the Indian economy, access to finance has always been an issue for smaller firms and businesses. This is a significant barrier for both enterprises and the MSME sector. The fact that just 16% of Small Medium Enterprises (SMEs) have timely access to financing is what is most concerning, as this forces small and medium-sized businesses to rely on their own resources.[3]

The ratio of India's bank credit to Gross Domestic Product (GDP) increased from 25% in FY 92 to 58% in FY 21, but in contrast, Karnataka's bank credit to GSDP was only 40.5% in FY 21. Despite being a state with high deposits and savings, its savings are being utilized in other parts of the country. Therefore, there is a need to examine this situation and take measures to boost bank lending within the state to promote faster economic growth.

Due to the credit constraints faced by many MSMEs, businesses in Karnataka receive less proportion of bank credit than would be expected given the size of the economy. Karnataka's share of loans sanctioned under Credit Guarantee Trust Fund for MSE's (CGTMSE) during FY 2020- 21 is 9.2%, which is greater than its share of GDP. This demonstrates that banks are willing to extend loans to limited businesses if the government assumes some of the credit risk. Karnataka's share of credit provided under Emergency Credit Line Guarantee Scheme (ECLGS), however, is less than its share of GDP. Through State Level Bankers' Committee (SLBCs), the State Government should encourage banks and Non-Banking Financial Companies (NBFCs) to extend credit to companies impacted by Covid under the ECLGS. The state government can also create a credit-linked subsidy programme to promote borrowing by small and medium-sized firms in particular industries that have been recognised as having a severe lack of credit.[4]

Non-Performing Assets (NPA) Rate by MSME Segment:

The figures were extrapolated from data pertaining to all India level.

Table 3: NPA rate by MSME Segments

YEARS	MICRO	SMALL	MEDIUM	LARGE
FY16-17Q1	8.40%	10.30%	14.50%	12.10%
FY16-17Q2	8.60%	10.60%	15.20%	12.90%
FY16-17Q3	9.20%	11.30%	15.80%	14.70%
FY16-17Q4	8.90%	11.40%	16.30%	15.30%
FY17-18Q1	8.90%	11.20%	15.90%	16.40%
FY17-18Q2	8.70%	11.20%	16.70%	16.90%
FY17-18Q3	8.70%	11.50%	16.50%	18.00%
FY17-18Q4	8.40%	11.10%	16.60%	19.90%
FY18-19Q1	8.70%	11.50%	16.60%	19.50%

(Source: TransUnion CIBIL, MSME Pulse, Sep 2018)

[3] Source : Lendingkart, "Major Challenges Faced By The Msme Sector & Their Impacts" Dated :28 Feb 2022
[4] Source : Karnataka Economic Survey 2021-22

NPA rates for large enterprises has been on an increasing trend as mentioned in the above tables, Post covid NPA rates for large enterprises has increased substantially. However, NPA rates for FY 21-22 have been on an average 16.5%[5] for MSME in line with earlier trends.

However, despite the lower levels of NPAs in MSME lending, access to finance for MSMEs can still be limited. This is because banks and other financial institutions often view MSME lending as riskier than lending to larger, more established businesses. This makes it more difficult for MSMEs to obtain financing, even if they have a strong business.

To address this issue, it is important for bankers and other lenders to take a more nuanced view of MSME lending. Rather than simply viewing it as a high-risk category, they should consider factors such as the size of the business, its market niche, and its customer relationships. To finance MSMEs the Government of Karnataka (GoK) could consider paying the processing cost for MSME loans to banks. By doing so, they may be able to give preferential lending to MSMEs that may have been overlooked in the past.

Setting up a separate bank in each district with the sole purpose of lending to MSMEs could have several benefits. A dedicated bank for MSME lending in each district could improve access to finance for these businesses. A district-level bank could have a better understanding of the local economy, market conditions, and the needs of MSMEs in the region. This could result in more informed and localized decision-making on lending. A dedicated bank for MSME lending could provide targeted support to these businesses through specialized loan products, customized repayment schedules, and tailored financial advice.

4.1.1. Ease of access to credit[6]:

i. The Reserve Bank of India (RBI) has set a time restriction of 15 days for term loans or working capital to be approved or enhanced.
ii. MSMEs with a solid payback history should be given interest rate breaks.
iii. MSMEs with no defaults should gradually get discounts on the “Regular” margin requirements, similar to the "No claim bonus" insurance discounts.
iv. There should be a separate credit rating system for MSMEs.

4.1.2. Leveraging Digital Technologies:

Government should create a digital platform for MSME where an option is offered to discount invoices and raise short-term credit from banks to support their delayed payment issue temporarily. MSMEs should be nudged to go digital and raise all invoices in digital platform to ease liquidity pressure on their working capital.

The Trade Receivables Discounting System (TReDS) is an electronic platform created by the Reserve Bank of India to make it easier for numerous financiers to finance or discount the trade receivables of MSMEs. There are three platforms: M1xchange, Receivable Exchange of India Limited (RXIL) and Invoicemart. The receivables may pertain to the public sector, the commercial sector, or even specific government agencies. MSEMs can sign up on the platform if they have a 500-crore annual revenue. The facility needs to be made more widely known.

Under section (18) of the MSMED act of 2006, the Indian government has made provisions to help micro and small businesses receive their overdue payments from their customers. Four Micro and Small Businesses Facilitation Councils (MSEFCs) have been established by the Karnataka government which are located in Bengaluru, Mysore, Belagavi, and Kalaburagi. There are around 6000 petitions pending before these Councils and the cases are due from Jan 2022. Hence Government of Karnataka has set up councils in all districts.

We need to setup independent MSEFCs by availing the services of retired judges and other officers to faster the disposal of petitions.

[5] Source: TransUnion CIBIL, MSME Pulse, Aug 2022)
[6] Source : TaxGuru, “Suggestions to Strengthen Eco-system of MSME’s”, Dated : 11 Jan 2019

4.1.3. Resourcing from Capital Market: The lack of access to capital markets by MSMEs is a major challenge for these entities. Despite the need for capital, to remain competitive, many MSMEs are discouraged by the rules, regulations, and formalities of the capital market. To address this challenge, the government should create an MSME Exchange and a Fund of Funds, worth INR 1,000 crores to start with, to buy up to 15% equity in MSMEs with high credit ratings that want to raise capital from the capital market. Additionally, the government may consider increasing the corpus of this fund in the future, to support more MSMEs, subject to a review of the scheme's efficacy. Furthermore, the proposal to buy 10% of the bonds issued by export oriented MSMEs can be expanded and the limit of 10% can be raised. The government may also consider creating a corpus of MSME Benefit Fund through various options like tax-saving MSME bonds, to provide various forms of assistance to the sector[7].

4.1.4. Credit Guarantee Trust Fund for MSE's (CGTMSE) - Provision of Collateral Free Credit for MSMEs: This is a scheme that provides collateral-free credit to micro and small enterprises in India. The credit facility offered under the scheme can be in the form of term loans or working capital and can be up to INR 200 lakh per borrowing unit. The guaranteed cover provided by the scheme varies between 50% to 85% depending on the loan amount and the type of beneficiary. An annual guaranteed fee of up to 1.80% p.a. is charged on the outstanding loan amount, with a minimum of 1% p.a. The fund allocation for this scheme is INR 9,000 crore for the whole country and INR 900 crore for Karnataka.[8]
The central government in its 2023 budget has announced infusion of additional collateral-free guaranteed credit of Rs 2 lakh crore and reduce cost of credit by 1%.

4.1.5. Reclassification of Non-Performing Assets: It is suggested that RBI can develop new NPA classification standards because many MSMEs will not be able to satisfy repayment commitments for no fault of their own. It is suggested that the current NPA criteria for overdue principal or interest payments be increased from 90 days to 180 days for a set period of time, with the option of progressively restoring it to its prior position when the situation improves.[6]

4.1.6. Clearing MSME dues, incentives on urgent basis: The MSME ministry has emphasized the urgent need to clear pending dues owed to MSMEs by various government departments, units, and agencies. This includes payments for goods and services supplied to PSUs, GST refunds, and various state and central government incentives for MSMEs. The blocking of legitimate payments to MSMEs by PSUs and other corporates is a common problem that creates significant liquidity issues for MSMEs and contributes to the liquidation of many of these entities. To address this, the government should issue strict guidelines for the repayment of all dues within 15 days and form a monitoring cell under the MSME ministry to ensure compliance. This cell can also be responsible for addressing various complaints raised by MSMEs and ensuring prompt resolution. The government has already acknowledged the importance of this issue, as demonstrated by the Honourable Union Finance Minister's statement in October 2019 that the government would ask big corporates to expedite the clearance of dues worth INR 40,000 crore to MSMEs.[5]

4.1.7. Amendment of Insolvency and Bankruptcy Code[7]: It has been observed that a significant number of MSME players have suffered from the aftershock of unpaid bills, bad debts, and NPAs because of insolvency processes of numerous corporates coupled with upheaval in the banking and finance sector. Since the issue may worsen over the coming years, we recommend that efforts be made to further simplify the code and make it more MSME-friendly.[5]

[7]Source : The Institute of Cost Accountants of India, "Suggestions to assist rehabilitation of MSME sector seriously impacted due to onslaught of COVID-19", Dated: April 2020
[8]Source : Ministry of Micro, Small and Medium Enterprises, "Annual Report 2021-22"

4.1.8. Classification of MSME into Gold, Silver and Bronze category based on performance:

The following are some possible categories that could be used for this purpose:

A. Gold-High performing: MSMEs that have consistently demonstrated strong financial performance, such as high profitability and growth rates.

B. Silver–Average performing: MSMEs that have stable financial performance and have not experienced significant growth or decline in recent years.

C. Bronze–Underperforming: MSMEs that have consistently demonstrated weak financial performance, such as low profitability and growth rates.

Specific schemes and support system can be devised based on above categories for example, high-performing MSMEs may be eligible for more advanced or specialized support, such as access to capital, mentorship programs, or opportunities to participate in global trade shows. Average-performing MSMEs may be eligible for more general support, such as access to training programs, business advice, or low-interest loans. Under-performing MSMEs may be eligible for support to address specific challenges or weaknesses, such as technical assistance, marketing support, or financial management training. It is estimated that, from collective experience, out of the above, 20% might fall in Gold Category, 40% in Silver Category and 40% in Bronze Category. This classification needs a detailed study. Financial assessments based on HealthScore (elaborated below) may be useful in identifying categories of MSME.

Table 4: HealthScore Categories

Category	Criteria	%
Gold	High performing – MSME's having good profits and regularly repay the loan.	20%
Silver	Average-performing - MSME's having Less profits but regular in repaying loan.	40%
Bronze	Under-performing - MSME's having losses and defaulting to loan repayment.	40%

BIG IDEA

4.2. Critical Lens For MSME

4.2.1. HealthScore™ for MSME: The concept of a HealthScore™ for MSMEs (Micro, Small, and Medium Enterprises) is a tool to assess the overall financial and operational health of an MSME. The proposed system, which involves a collegium of District Commissioner, Chamber of commerce, District MSME Director, Local Institute of Chartered Accountant of India (ICAI) Branch, a representative from an educational institution and a lead bank, aims to provide a comprehensive and reliable evaluation of the MSME.

The first step in the process would be for the local ICAI branch to engage a local Chartered Accountant (CA) to audit the MSME. The CA would review the MSME's financial statements, operations, and other relevant factors to provide a detailed analysis of its current financial and operational status. Based on this audit report, the MSME's HealthScore would be issued, which would provide a summary of the MSME's performance and creditworthiness.

A scoring system out of 10 can also be implemented to assess the creditworthiness and overall health of the MSME. The scoring system will be based on the above audit.

- If an MSME receives a score of less than 5, it may not be eligible for financial support from the government or other financial institutions. The MSME may need to take corrective measures to improve its financial and operational health before being considered for financial support.

- If an MSME receives a score between five and seven, it may be eligible for some financial support, such as loans or grants, to help it address its challenges and improve its financial health.

- If an MSME receives a score above seven, it may be eligible for not only financial support but also marketing support, such as assistance with branding, marketing, and sales. This additional support can help the MSME grow and expand its operations.

The appointment of a lead bank for MSME loan disbursement and the use of the HealthScore™ by lead bank are both measures aimed at improving the effectiveness and efficiency of MSME loan disbursement in Karnataka. The government's Strategic Investment Plan exercise is part of a broader programme, Raising and Accelerating MSME Performance (RAMP), which aims to support the development of MSMEs in the state through evidence-based and holistic approaches. By coordinating and aligning these efforts, the government, banks, and other stakeholders can better support the growth and success of MSMEs in Karnataka.

The HealthScore™ can also be used by investors, and other stakeholders to assess the MSME's creditworthiness and make informed decisions. It can also help MSMEs identify areas for improvement and take corrective measures to strengthen their financial and operational health.
Overall, the HealthScore™ for MSMEs can be a valuable tool to promote transparency and accountability in the sector and facilitate access to credit and investment opportunities.

4.2.2. Role of Chamber of Commerce:

Chambers of commerce can play a vital role as the voice of the industry, policymaker, trouble-shooter, and intermediary between industry, government, banks, and rating agencies.
Here are some ways that chambers of commerce can engage proactively with MSMEs and promote their growth:

- Advocacy and Representation: Chambers of commerce can advocate for policies and regulations that benefit the MSME sector. They can also represent the interests of the MSME sector in various forums, including with government, banks, rating agencies, and other stakeholders.

- Support and Facilitation: Chambers of commerce can provide support and facilitation services to MSMEs, such as providing market intelligence, access to finance, mentoring, training, and networking opportunities.

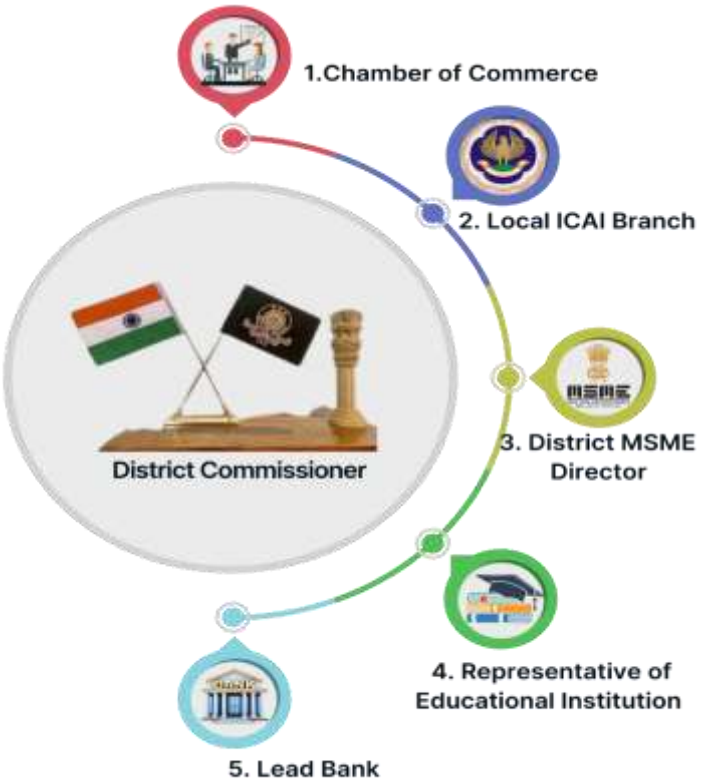
- Information Dissemination: Chambers of commerce can disseminate information to MSMEs on various topics, such as best practices, new technologies, industry trends, and government policies and schemes.

- Funding: The government can provide funding to the functioning of chambers of commerce, including nominal grants for infrastructure and hiring talented professionals. This can help to enhance the capacity and effectiveness of chambers of commerce in supporting the MSME sector.

Chambers of commerce work closely with MSMEs in their region to understand their needs and concerns. They could provide district-wise management and assistance to ensure that MSMEs are able to operate in a conducive environment, which includes aiding with regulatory compliance, access to finance, and business development services. They can also monitor the performance of MSMEs within their jurisdiction to identify potential challenges and opportunities. Chambers of

commerce provide regular reports to the government on the performance of MSMEs in their region. This helps the government to understand the challenges faced by MSMEs and design policies and programs that are responsive to their needs.

Diagram 1: Representation of the Collegium



4.2.3. Pilot Project for HealthScore™:

To test the effectiveness of the HealthScore and scoring system for MSMEs, a pilot project can be implemented in three centres for two years. The first centre can be in Mysore, with the participation of the District Commissioner, District MSME Director, Local ICAI Branch, a representative from an educational institution like JSS Management Institute, Mysore Chamber of Commerce and Industry, and Lead Bank. The Federation of Indian Chambers of Commerce and Industry (FICCI) can play an important role in supporting the pilot project by providing technical assistance and handholding.

The second centre can be in Mangalore, with the participation of the District Commissioner, District MSME Director, Local ICAI Branch, a representative from an educational institution like Justice K S Hegde Institute of Management NITTE, Kanara Chamber of Commerce, and Lead Bank.

The third centre can be in Hubballi, with the participation of the District Commissioner, District MSME Director, Local ICAI Branch, a representative from an educational institution like KLE Society's College of Education, Karnataka Chamber of Commerce & Industry Hubballi and Lead Bank.

During the pilot project, the HealthScore system can be implemented to assess the financial and operational health of MSMEs in each centre. The data collected can be analysed to determine the effectiveness of the system in improving the creditworthiness and financial health of MSMEs.

The pilot project can also help identify any challenges or issues that need to be addressed to implement the HealthScore system effectively. The results of the pilot project can be used to refine and improve the system before it is rolled out on a larger scale.

4.3. Marketing

Marketing is a major challenge for MSMEs in the global arena. Due to limited resources and lack of exposure, they often struggle to develop effective marketing strategies and reach their target customers.

4.3.1. Preferential Purchase from Government and Public Sector Undertakings (PSUs) is a policy aimed at promoting the growth of MSMEs by providing them with a larger market for their products and services. This policy requires government departments and PSUs to prioritize the purchase of goods and services from MSMEs. By providing MSMEs with a stable and reliable source of income, this policy can help them to grow and create jobs.[9]

To be eligible for preferential purchase from the government, a vendor must be registered and meet certain criteria set by the government. This is typically done to ensure that the products and services being provided meet certain standards of quality and safety. The goal of preferential purchase programs is to support small businesses and encourage diversity in government procurement, while also ensuring that high-quality products and services are being provided to the government and its citizens. In addition, it is important to have systems in place to assess the quality of the products and services being provided. This helps to ensure that all transactions are transparent and fair, and that vendors are held accountable for meeting the standards set by the government.

We put forward a scheme, to place MSMEs under a separate category for assigning tenders for vendor selection. The rationale behind such scheme is that MSMEs face several challenges while competing with larger enterprises in procurement processes, such as lack of access to finance, limited technology, and inadequate infrastructure. Making them a separate category and offering them price preference can help level the playing field and enable them to participate in procurement processes.

A higher margin of at least 5% of the cost of the project assigned when compared to large enterprises. The criteria for margin would depend on various factors, such as the nature of the project, the market conditions, and the financial capabilities of the procuring entity.

While providing higher margins to MSMEs can incentivize them to participate in procurement processes. A balance between the interests of both parties should be struck, keeping in mind the objective of promoting MSMEs and ensuring value for money for the procuring entity. MSME should work towards reducing gap with larger enterprises.

Government of Karnataka as per the New Industrial Policy 2020-25 has offered 15% price preference to MSME in public procurement arena. Government of India is insisting MSMEs to produce quality products and there by obtain “Zero Effect Zero Defect” certificate, Government of Karnataka can give preference to MSMEs having ZED certificates to participate in the tenders.

4.3.2. An Innovative Platform for Marketing: Government eMarketplace (GeM) is another tool that can help MSMEs to promote their products and reach new customers. This can take many forms, such as an e-commerce platform that allows MSMEs to sell their products online, a B2B marketplace that connects MSMEs with buyers, or a marketing and advertising platform that helps MSMEs to reach potential customers. By providing MSMEs with a cost-effective and efficient way to market their products, these platforms can help them to grow and become more competitive. As our Hon’ble Prime Minister emphasized during Annual Plenary Session 2020 of Indian Chamber Commerce, it should be reviewed whether all public sector undertakings of the Union Government have been a part of GeM and whether they also get their vendors registered on GeM. Here we like

[9] Source : The Institute of Cost Accountants of India, “Suggestions to assist rehabilitation of MSME sector seriously impacted due to onslaught of COVID-19”, Dated: April 2020

to highlight the idea of creating MSME marketing platform like Alibaba or Amazon conceived by MSME ministry to give a worldwide coverage of our MSME products.[10]

ONDC has the potential to be a gamechanger for MSMEs in India. Here are some potential benefits of ONDC for MSMEs:

- Increased market access: ONDC can provide MSMEs with access to a wider customer base, both within India and internationally, through its digital platform. This can help MSMEs expand their businesses and increase their revenue.

- Reduced transaction costs: ONDC can reduce transaction costs for MSMEs by eliminating the need for intermediaries and providing a more efficient and streamlined process for e-commerce transactions.

- Improved efficiency: ONDC can help MSMEs improve their efficiency by providing access to advanced technology and data analytics tools. This can help them make better decisions, optimize their supply chain, and improve their overall business operations.

- Enhanced competitiveness: ONDC can help MSMEs improve their competitiveness by providing access to a wider range of customers and markets, reducing transaction costs, and improving efficiency.

Government of Kerala has developed its own website, which will provide e-market for the products produced by the MSMEs located in the Kerala. Government of Karnataka can develop a website to provide market for the products produced by the MSMEs of Karnataka.

4.3.3. Export Incentive: Export incentives are financial or non-financial benefits provided by the government to encourage the export of goods and services by MSMEs. The objective of these incentives is to help MSMEs overcome the challenges they face in the global market, such as high competition and high costs.

"Without boosting exports especially from MSMEs, the idea of MSMEs powering India is half-hearted," says Sahai of Federation of Indian Export Organisations (FIEO). The government has set a goal of increasing the MSME sector's contribution to exports from its current level of over 40% to 60%. But there are many obstacles in the way of reaching this goal.
Aside from China's rivalry, we are gradually losing market share to rivals like Vietnam and Bangladesh in the apparel industry and Sri Lanka and Kenya in the tea industry. The incapacity of enterprises to promote their products in foreign markets is the main issue afflicting the MSME industry. In light of this, tax breaks for MSMEs' should be made available.[11]

State government should sponsor both inward and outward trade fairs and exhibitions every year for MSMEs, this can have several potential benefits. Here are some of them:

- Increased Visibility and Networking Opportunities: MSMEs can showcase their products and services at trade fairs and exhibitions, which can help them gain visibility and connect with potential customers, partners, and investors.

- Access to New Markets: By participating in trade fairs and exhibitions, MSMEs can explore new markets and expand their customer base. Outward trade fairs can help MSMEs tap into foreign markets, while inward trade fairs can attract buyers from other regions of the country.

[10] Source : The Institute of Cost Accountants of India, "Suggestions to assist rehabilitation of MSME sector seriously impacted due to onslaught of COVID-19", Dated: April 2020
[11] Source: Business Today, "What Needs to Be Done to Strengthen MSMEs, the Economy's 'Backbone'" Dated: 20 Feb 2022

- Learning Opportunities: Trade fairs and exhibitions can provide MSMEs with the opportunity to learn about industry trends, best practices, and new technologies. This can help them improve their products and services and stay competitive.

Government of Karnataka, as per the New Industrial Policy 2020-25 is offering incentives viz., Electricity tax exemption, performance subsidy, reimbursement of Bank charges, reimbursement of ECGC charges, Certification charges, Training charges to the Export oriented units. Visvesvaraya Trade Promotion Centre (VTPC) has been conducting awareness programmes by conducting trade fairs, promoting micro and small enterprises to participate in trade fairs.

4.4. Technology Upgradation

Soon, technology will have the most impact on whether MSME can dominate the market. It is learnt that the government is, for this purpose, in the process of creating 20 hubs and 100 spokes in the form of tool rooms across the country. We have a pool of skilled engineers, several outstanding educational institutions with high accreditation, and plenty of underutilised resources.[12]

4.4.1. Scheme for Technology Upgradation and Competitiveness at Ministry Level

MSME Champions Scheme (Erstwhile CLCS-TUS) [12]: Ministry of MSME has been implementing credit Linked Capital Subsidy and Technology Upgradation Scheme (CLCS-TUS) for promoting competitiveness amongst Micro, Small and Medium Enterprises (MSMEs) by the way of wastage reduction through Lean Manufacturing, support for Design improvement, building awareness on Intellectual Property Rights (IPR), Zero Defect Zero Effect (ZED) Scheme, digitally empowerment of MSME through Digital MSME and to promote & support untapped creativity of individual and to promote adoption of latest technologies in manufacturing as well as knowledge based innovation MSMEs through Incubation across India.

There are 3 components under the new MSME Champions scheme:

1. MSME-Sustainable (ZED)
2. MSME-Competitive (Lean)
3. MSME-Innovative (for Incubation, IPR, Design and Digital MSME)

1. MSME-Sustainable (ZED): MSME Sustainable (ZED) Certification is an initiative to raise awareness of Zero Defect Zero Effect (ZED) practises among MSMEs and to encourage and urge them to pursue ZED Certification. MSMEs can significantly reduce waste, boost productivity, raise environmental awareness, conserve energy, make the best use of natural resources, gain market share, etc. through the ZED Certification process. The ZED Certification aims at enhancing the competitiveness of an MSME by assessment, modification through guidance, handholding, managerial and technological intervention. The fund allocation for this scheme is Rs. 16 crores for the whole country and at least Rs.1.6 crore for Karnataka.

2. MSME-Competitive (Lean): The Ministry of MSMEs is making a significant effort to improve the competitiveness of MSME Sectors through the application of Lean Tools and Techniques. This effort is known as the MSME Competitive (Lean) Scheme. Lean Tools and Techniques are a tried-and-true way for raising MSME sector competitiveness. The fund allocation for this scheme is Rs. 19.43 crore for the whole country and at least Rs.2 crore for Karnataka.

3. MSME-Innovative (for Incubation, IPR, Design and Digital MSME): The scheme's primary goals are to encourage and assist individuals' latent creativity, the adoption of cutting-edge manufacturing technology, and knowledge-based innovative MSMEs that are looking for proof-of-concept validation for their ideas. The programme encourages interaction with enablers who can help MSMEs grow their businesses by assisting with design, strategy, and execution. The fund

[12] Source : Ministry of Micro, Small and Medium Enterprises, "Annual Report 2021-22"

allocation for this scheme is Rs. 23.16 crore for the whole country and at least Rs.2.3 crore for Karnataka.

4.4.2. The Govt of Karnataka has proposed the following in its Industrial Policy 2020-25 which has to be extended till 2030:

A. Deploying an Online Technology Platform:

Under the ambit of the scheme, it is proposed to develop an online technology portal which will have modules targeted at addressing issues faced in specific areas by the MSME sector in Karnataka. The platform is proposed to be equipped with modular mechanisms and structures around Information, Facilitation, Regulatory, and Ease of Doing Business areas, which can help MSMEs efficiently bring their products to the market. The MSMEs will be free to take help of any module they like. Instead of creating new structures, the platform will plug onto the existing ones. Key activities that the platform is expected to perform are:

i. Provide an integrated platform for raw material suppliers: The platform will provide a one-stop-shop for accessing quality raw material at an affordable price with linkages to e-Mandis, APMC, National Commodity and Derivative Exchange, Rashtriya e-Market Services, market-place aggregators like Udaan, and the elements of the logistic supply chain like warehouses, cold storage facilities, etc.
ii. Improve market access: The platform will provide MSMEs with access to the retail market by on-boarding major brick & mortar and online marketplaces, public sector undertakings, government departments, wholesalers and retailers. This will help provide a one stop gateway to MSMEs for discovering a market for their products, generating supply chain efficiencies for the sector.
iii. Disseminate information on Quality Control standards and certifications: The platform will provide MSMEs with updated and in-depth information on globally prevalent quality standards and certifications. The platform will leverage existing informational repositories of Food Safety and Standards Authority of India, AGMARK, Organic Certification, etc.
iv. Enhance access to Credit: The platform will integrate the conventional (Banks, NBFCs, MUDRA, etc.) and non-conventional (TReDS, PE/VCs, Funds of Funds etc.) sources of credit supply to MSMEs. The module will also integrate credit enhancement schemes with the financing agencies to provide access to low-cost funds for MSMEs.
v. Access to Data: Access to analytics, market research, intelligence, CRM and other IT technology that helps to bring efficiency in operations would be created on the platform.
vi. Skill Development Programs: The platform will have modules for dissemination of information pertaining to new-age skills emerging in different domains required by the MSMEs and will facilitate them in getting trained by collaborating with the public and private agencies delivering the skill development programs. Vide this module, Entrepreneurial Development Programs and domain- specific training would be provided to entrepreneurs in partnership with reputed institutes and trainers.
vii. Technology Adoption and Knowledge Transfer: The platform will have modules for supporting MSMEs with the technicalities of transfer & adoption of new & emerging technology. Further, the platform will also build a repository of case studies, domain related best practices, etc. which may be adopted by MSMEs in their operations.
viii. Support MSMEs in Branding and Advertisement: The platform will have modules which will support MSMEs in branding, marketing, and advertising related activities.

B. Establishing a Centre of Excellence for managing the platform setup

As its second lever, the scheme proposes to establish a dedicated institutional structure to manage the technology platform and provide strategic guidance to MSMEs in aspects such as technical know-how, managerial skill, filling up of the knowledge gap, etc. The Centre of Excellence will identify gaps in the capabilities of the MSMEs and work with them in bridging the gaps, equipping them to adapt to the changing market & business environments. Further, the institutional mechanism will be equipped to assist rural enterprises in addressing issues faced in areas of GST,

IT, UAM registration, PAN application, loan document preparation, etc. The mandated activities for the Centre of Excellence are proposed to be aligned along following broad categories:

i. Technology Acceleration Programs and Practice: This includes activities like promoting technology adoption by firms, providing business advisory services to firms aimed at improving their manufacturing techniques & processes, supporting transfer of technology, performing R&D related services, and facilitate access to technology through inter-firm partnerships.
ii. Connecting Firms: Provide platforms for aggregation of firms from both ends of the supply chain – suppliers and consumers and act as an intermediary to provide support services, host best practice events to facilitate dissemination of information.
iii. Funding Assistance: Providing firms with information on latest funding available for different functions - R&D, loans to scale business, fund joint pre-competitive research programs, funding for capital and operating infrastructure etc.
iv. Next Generation Manufacturing Technical Assistance: Teach innovation and new product development skills to MSMEs, provide export assistance and training, provide energy efficient manufacturing skills, etc.

C. Infrastructure Support:

i. Karnataka Industrial Area Development Board (KIADB) will earmark a minimum 30% of allottable land in all their industrial areas for MSMEs. Out of which, KIADB will reserve 22.65% for SC/ST entrepreneurs, 10% for Minorities / Physically Challenged / Backward Classes (Category1 and 2A only) / Ex-Servicemen entrepreneurs and 5% for women belonging to all categories in industrial areas. KIADB will indicate 15% of the allottable land in industrial areas for MSMEs to be allotted by District Level Single Window Clearance Committee (DLSWCC). The maximum extent of land to be allotted by DLSWCC would be two acres per project. The minimum size of plot to be developed by KIADB will be 0.5 acre for MSMEs.
ii. KIADB will construct multistoried / flatted factories with plug and produce facilities (wherever feasible) near Bengaluru, Mysuru, Hubballi-Dharwad, Mangaluru, Belagavi, Tumakuru and Kalaburagi. KIADB will provide these flats on a monthly rental / lease basis.
iii. Karnataka State Small Industries Development Corporation (KSSIDC) will earmark entire allottable land in their industrial areas for MSMEs. Out of which, KSSIDC will reserve 22.65% for SC/ST entrepreneurs, 10% for Minorities / Physically Challenged / Backward Classes (Category 1 and 2A only) / Ex-Servicemen entrepreneurs and 5% for women belonging to all categories in industrial estates.
iv. KSSIDC will be allotted land in KIADB industrial area, upon request for making industrial plots and sheds of smaller sizes for MSME sector. KIADB shall provide land to KSSIDC on absolute sale deed as per KIADB norms to enable KSSIDC to allot plots/sheds to the industry on lease-cum-sale deed.
v. KSSIDC shall develop industrial estates exclusively for micro and small enterprises. The area to be procured will not be less than 50 acres. 20% of the allottable area will be reserved preferably for plug and play sheds out of which 10% of the area will be earmarked for multi-storied sheds with plug and play facilities (wherever feasible) near Bengaluru, Mysuru, Hubballi-Dharwad, Mangaluru, Belagavi, Tumakuru and Kalaburagi. KSSIDC will provide these flats on lease / rental basis. Liberal Floor Area Ratio (FAR) would be considered for flatted development/ industrial sheds/multi-storied industrial units.
vi. Development of Rural Industrial Areas exclusively for MSMEs in the impact area of industrial corridors will be undertaken along with infrastructure, like road connectivity, drainage system, street lighting, and water supply by KSSIDC. Rural industrial areas and estates will have minimum 100 to 150 plots measuring 2,000sq. ft. to 10,000 sq., ft. and will be developed in potential areas.
vii. The maximum contract demand for Low Tension consumers will be increased from present 67 HP(Horse Power) to 100 HP.
viii. Additionally, Government of Karnataka has announced the "SARTHAK" scheme in the New Industrial Policy-2020-25, which now, unfortunately has been withdrawn. Competent agencies can consider taking it up for implementation which would be a significant online support system for the MSMEs.

4.5. Skill Development and Training

4.5.1. A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE)[13]

Establish a framework for Start-up promotion through creating a Fund of Funds with Small Industries Development Bank of India (SIDBI), thereby providing funding support to early-stage enterprises and startups in agro-rural sector to convert these into commercial enterprises.
The funds allocated on a national basis is Rs 15 crore, of which Karnataka has been allocated around1.5 crore.

4.5.2. Pradhan Mantri Kaushal Vikas Yojana (PMKVY)[14]

It is the Ministry of Skill Development & Entrepreneurship's premier programme for developing skills that are based on results. This skill certification and incentive program's goal is to encourage and empower a significant number of Indian adolescents to enrol in outcome-based skill training so they may find employment and support themselves. A robust framework for registering training providers would be followed, and awareness-raising and mobilisation efforts would be carried out with the support of the local State and district governments. The monetary compensation for different employment responsibilities within a sector would likewise vary. MSMES may employ skilled local youngsters.

In the last three years, the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) has trained 41.3 lakh people. A placement rate of merely 15% means that only 6.15 lakh of them have work.

Reasons for lower placements

- A surplus of training partners, however many lack the necessary competence.
- Poor Employment Linkage, the training partner's connections and resources are scarce. They don't carry out detailed market research or requirement assessments.
- Ineffective use of Franchise Model. Only a few training partners utilise the franchise model.
- Insufficient trainers, India needs over 20,000 trained trainers annually, though available trainers are 50% of the need.

PMKVY 4.0 will be launched to skill lakhs of youth within the next three years. It will cover courses for Industry 4.0, Covid, Artificial Intelligence (AI), robotics, mechatronics, IoT and drones. To help 47 lakh stipend recipients, a pan-India National Apprenticeship Promotion Plan called Direct Benefit Transfer would be implemented. The 30 international Skill India centres, which are centred on developing technologies and strongly emphasise on-the-job training, will add to the nation's growing knowledge capital, putting India in a good position to compete in the digital sphere. With the introduction of a single Skill India Digital portal, the digital ecosystem for skilling will further develop. This platform will enable demand-based formal skilling, connect with employers, including MSMEs, and make access to entrepreneurship programmes easier.

4.5.3. Vocational/Part time schools for adults

The National Institute of Open Schooling (NIOS), which offers instruction to adults, is an example of a vocational school in India. A nationwide network of adult education facilities is managed by the Directorate of Adult Education.

Vocational/Part time schools give working adults a significant chance to further their education and enhance their employment prospects. They can assist people in developing new abilities and

[13] Source : Ministry of Micro, Small and Medium Enterprises, “Annual Report 2021-22”
[14] Source : TaxGuru, “Suggestions to Strengthen Eco-system of MSME’s”, Dated : 11 Jan 2019

information, advancing in their jobs, and pursuing their objectives both personally and professionally. MSME can collaborate with such schools to create additional skilling opportunities.

4.5.4. Employment generation[15]

Stop Job Losses-Create New Jobs

MSMEs have a significant role to play in creating new jobs and preventing job losses, especially in local communities. By leveraging their resources, collaborating with other businesses, investing in employee development, and embracing technology, MSMEs can create new job opportunities and promote economic growth.

Currently Prime Minister's Employment Generation Programme (PMEGP) is a State Level Scheme The scheme is implemented through State Khadi and Village Industries Commission (KVIC) Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs), Coir Board (for coir units) and banks.

MSME can have maximum cost of the project/ unit admissible under manufacturing sector amounting to Rs.25 lakh and under business/service sector amounting to Rs.10 Lakh.

Allocation of fund for this scheme 2,500 crore and Karnataka gets a share of 250 crore.

We recommend some additional approaches that can complement existing schemes and initiatives to support job creation and prevent job losses.

New jobs can be created by connecting job seekers to job creators through proactive engagement between MSMEs, local colleges, and chambers.

i. Job Fairs: Local colleges and chambers can organize job fairs where MSMEs can showcase their job openings and connect with job seekers. This will provide an opportunity for job seekers to meet potential employers and learn about available job opportunities.

ii. Internship Programs: MSMEs can collaborate with local colleges to offer internships to students. The NEP 2020 emphasizes the need for experiential learning, including internships and apprenticeships, to provide practical skills to students. The government can provide financial incentives to MSMEs by contributing 50% of stipends in the initial years, 25% of stipends in subsequent years and 10% in later years. Internships with stipends can create a sense of commitment for both MSMEs and college students. The stipend can motivate the students to take the internship seriously and to perform their best.

iii. Guest Lectures: MSMEs can engage with local colleges by organizing guest lectures or workshops for students. This will provide an opportunity for MSMEs to showcase their work and share industry-specific knowledge with the students.

iv. Mentorship Programs: MSMEs can collaborate with local colleges to offer mentorship programs to students. This will provide an opportunity for students to learn from experienced professionals and gain industry-specific knowledge.

v. Online Platforms: MSMEs can use online platforms like LinkedIn and Facebook to connect with local colleges and job seekers. They can post job openings, share industry-specific knowledge, and engage with potential candidates.

[15] Source : Ministry of Micro, Small and Medium Enterprises, "Annual Report 2021-22"

Employment and Financial Support of Government

Governments can provide financial support to MSMEs in several ways, including contributing to employee compensation. One way to do this is through a subsidy program that provides financial support to MSMEs in the form of a partial reimbursement of employee wages. The government could contribute up to 50% of the compensation paid to employees in the initial years of the MSME's operations, 25% in the subsequent years, and reduce it further to 10% depending on the financial stability of the MSME.

However, it is important to note that such programs require careful implementation and monitoring to ensure that the funds are used effectively and efficiently. Additionally, the government must consider the long-term financial sustainability of such programs.

Conducting periodic meetings with industry experts, academicians, and chambers of commerce can be an effective way to facilitate interaction which shall be unlike anything done in past. By defining the agenda, inviting the participants, facilitating the meeting, following up, and planning future meetings, you can create a platform for meaningful engagement and collaboration.

Table 5: Higher Education Enrolment Data for Year 2019-20

District Name	2019-20			
	Male	Female	Total	No. of colleges
Bagalkot	27,860	25,285	53,145	151
Ballari	33,419	27,350	60,769	154
Belagavi	65,285	59,572	1,24,857	369
Bengaluru Rural	13,555	16,835	30,390	152
Bengaluru Urban	3,24,208	2,98,182	6,22,390	1,397
Bidar	21,521	24,104	45,625	269
Chamarajanagar	5,560	6,826	12,386	47
Chikballapur	13,260	13,111	26,371	74
Chikkamagaluru	8,864	10,815	19,679	53
Chitradurga	15,152	17,903	33,055	135
Dakshina Kannada	67,633	83,495	1,51,128	335
Davangere	23,189	26,943	50,132	143
Dharwad	40,034	38,805	78,839	246
Gadag	13,470	13,704	27,174	103
Hassan	19,784	28,450	48,234	121
Haveri	12,855	14,631	27,486	87
Kalaburagi	42,675	40,693	83,368	389
Kodagu	4,745	5,317	10,062	33
Kolar	16,639	21,025	37,664	160
Koppal	11,061	10,721	21,782	82
Mandya	19,594	22,627	42,221	108
Mysuru	67,129	78,126	1,45,255	221
Raichur	23,981	19,128	43,109	197
Ramanagara	18,623	15,903	34,526	64
Shivamogga	24,627	34,103	58,730	122
Tumakuru	36,417	41,361	77,778	183
Udupi	41,730	40,874	82,604	107
Uttara Kannada	14,546	18,512	33,058	97
Vijayapura	39,408	27,233	66,641	230
Yadgiri	13,219	8,123	21,342	130
Total	10,80,043	10,89,757	21,69,800	5,959

(Source: Department of Higher Education, GOK)

As per article dated 10th Jan 2020 of Deccan Herald, around 5.5 lakh students graduate every year. The government has brought together various departments offering youth and student services on a single platform. MSME can tap the huge potential of youth in Karnataka.

MSMEs have faced challenges like finance, limited market access, competition, and regulations, but have shown resilience and adaptability, becoming critical for national economies. They create jobs through expansion, diversification, and collaboration, and contribute to youth skilling through training. However, achieving goals takes time, effort, and dedication with setbacks and lessons learned. Around a decade of sustained progress is required, along with a willingness to persist through challenges and maintain a long-term perspective despite short-term obstacles.

4.6. Development of One District One Product/Clusters (ODOP)

- ODOP is an initiative by the Government of India to promote traditional and indigenous products of different districts across the country. The aim is to identify a product or a cluster of products that are unique to each district and support their development and marketing to create employment opportunities and boost the local economy.

- The initiative is particularly relevant for MSMEs as they form the backbone of the Indian economy and often operate in rural and semi-urban areas. By promoting the production and marketing of traditional products, ODOP can help these MSMEs to scale up and become more competitive.

- Under ODOP, each district is expected to identify a product or a cluster of products that have a unique identity and are in demand in the local, national, or international market. The government provides financial and technical assistance to develop the infrastructure and capacity of MSMEs to produce, market and export these products.

- The ODOP initiative has the potential to create employment opportunities, increase the income of MSMEs, promote entrepreneurship, and improve the socio-economic status of the people living in rural and semi-urban areas. It can also help to preserve and promote the rich cultural heritage of different regions in India.

- Identifying the best district for the ODOP initiative would require a thorough analysis of various factors, including the availability of resources, market demand, potential for growth, existing infrastructure, and the level of government support.

Some of the key factors to consider in identifying the best district for ODOP are:

- Availability of Resources: The district should have access to the resources required to produce the identified product. This includes raw materials, skilled labour, and necessary infrastructure.

- Market Demand: The product should have a significant demand in the local, national, or international market. A market assessment should be conducted to understand the potential demand for the product and the competition in the market.

- Potential for Growth: The product should have the potential for growth and scalability. The district should have the capacity to produce the product in larger quantities and expand its market reach.

- Existing Infrastructure: The district should have the necessary infrastructure such as roads, transportation, electricity, and water supply to support the production and marketing of the product.

- Government Support: The government should provide the necessary financial and technical support to the MSMEs to develop the product and market it effectively. This includes providing incentives, training programs, and access to credit facilities.

Based on these factors, the best district for ODOP could be one that has a unique product with high market demand, a supportive government, access to resources, and potential for growth. It is important to note that each district has its own strengths and opportunities, and a thorough analysis is required to identify the most suitable district for the ODOP initiative.

Clusters of MSME

Table 6: Number of MSME Clusters in India and Project cost

Details	Number	Project Cost (Rs. In Lakhs)
Clusters Implemented	11	9810.93
Clusters finally approved by GoI	01	1994.09
Clusters to be approved by GoI	02	3494.00
Cluster proposals in pipeline	11	12987.00

(Source: Karnataka Economic Survey 2021-22, Chapter 10)

Scheme of Fund for Regeneration of Traditional Industries (SFURTI)[16]

The objective of the scheme is to organize traditional industries and artisans into clusters to make them competitive and provide support for their long-term sustainability, sustained employment, to enhance marketability of products of such clusters.

Table 7: Types of MSME Clusters

Type of Cluster	Per Cluster Budget Limit
Regular Cluster (upto 500 artisans)	Rs. 2.50 Crore
Major Cluster (more than 500 artisans)	Rs. 5.00 Crore

Funds Allocated under SFURTI is 170 crores on a national level, state allocation is about 17 crores.

Table 8: Clusters under MSE-CDP Scheme

	State	Common Facility Centres			Infrastructure Projects			Total
		Approved	Ongoing	Completed	Approved	Ongoing	Completed	
1	Tamilnadu	45	19	26	51	16	35	96
2	Haryana	10	7	3	28	-	28	38
3	Rajasthan	2	1	1	35	6	29	37
4	Maharashtra	29	15	14	5	-	5	34
5	Karnataka	24	13	11	5	1	4	29
6	Uttar Pradesh	11	7	4	18	10	8	29
7	Kerala	16	4	12	12	4	8	28
8	Madhya Pradesh	3	3	-	25	11	14	28

(Source: Department of MSME, Government of India)

[16] Source : Karnataka Economic Survey 2021-22, Chapter 10

4.7. Regulatory Laws/Compliance

4.7.1. Registration

Registration helps the government keep track of the number of MSMEs operating in the country, their location, and their activities. This information is crucial for formulating policies and programs that support the growth and development of MSMEs.

Some of the benefits that MSMEs can avail of by registering with the government include access to credit and financial assistance, tax benefits, training and skill development programs, and priority in government procurement contracts. In addition, registered MSMEs may be eligible for various subsidies and grants that can help them expand their business operations and invest in new technologies and equipment. Governments should provide adequate support and guidance to MSMEs during the registration process, such as providing training and assistance in filling out application forms and other required documentation.

4.7.2. Tax Mechanism[17]

- Concession and postponement of payment of statutory dues: MSMEs are burdened with a significant number of statutory dues that must be paid on time to prevent penal interest and required prosecution. Thousands of sole proprietorship and partnership businesses, which make up the majority of MSMEs in India, are not allowed to take advantage of them.
- The government may reward them by lowering their tax rates, tax holidays, carrying over losses for longer periods of time, expanding the range of deductions, etc.
- All payments to MSMEs may be exempt from Tax Deducted at Source (TDS) deduction; the government should take enabling measures to ease/relieve the burden of demurrages charged by Railways/Ports/Airlines/Customs etc. for timely non-release of goods. The limit of pending Income Tax Refund Order for MSMEs may be increased from Rs. 5 lakhs to Rs. 15 lakhs.

4.7.3. Concept of Single Window System[16]

The government should consider making sure that all the organisations in charge of putting these stimulus plans continue to work in perfect harmony with one another. Additionally, it needs to be made sure that all these programmes' advantages are effectively and rapidly communicated to the general public.

The government might consider creating a single-window system at the district or zonal level to coordinate all MSME-related activities, such as connecting MSMEs with various government programmes, connecting small businesses with various marketing platforms, adhering to GST regulations, approving, and disbursing loans, rehabilitating sick units, disseminating various MSME-related information, assisting them in becoming more digital, and so forth.

4.7.4. Ease of doing of Business[16]

In 2019, Karnataka's position on the ease of doing business index dropped to 17. A business-friendly climate would be made possible by lowering regulatory load and compliance costs. The application of strict labour rules to enterprises that grow to be medium-sized is another barrier to the expansion of small businesses. The Government of Karnataka can change the 300-worker threshold for labour regulations, just as other states like Rajasthan and Gujarat.

[17] Source : The Institute of Cost Accountants of India, "Suggestions to assist rehabilitation of MSME sector seriously impacted due to onslaught of COVID-19", Dated: April 2020

4.7.5. Pradhan Mantri Jeevan Jyoti Bima Yojana and Social Security Schemes[16]

The programme is run by enrolling each account holder individually through their own savings account and paying the annual premium. There should be a clause in the plan that allows businesses to sign up their employees for the benefit of the plan by paying the premium amount if it is to be extended to workers of MSMEs. This will be excellent for workers' social security. Through the "Auto Debit" feature, the premium will be taken out of the account holder's savings bank account in one payment.

The finance ministry's initiative to establish a mission focused at helping MSME employees obtain Jan Dhan Accounts, Provident Funds (PF), and Insurance needs to pick up the necessary steam right away. In this regard, we can bring up the PF obligations of thousands of MSMEs employees, which most businesses with little resources are unable to cover. Here, the government should ostensibly step up and take on the responsibility of PF payment for a predetermined period.

4.7.6. Unified Labour Code: [18]

India, there are numerous labour laws that regulate factory and manufacturing establishments. Many of these laws overlap, making it challenging for businesses to comply with each monthly legal requirement. Additionally, many of these laws' requirements need to be updated in order to keep up with emerging technologies and business models. In this situation, it may be necessary to combine all these laws into a single labour code that would include all main areas.

4.7.7. Alternate Dispute Resolution (ADR) District wise

Alternate Dispute Resolution, refers to a range of processes used to resolve disputes outside of the traditional court system, including mediation, negotiation, and arbitration. The use of ADR is a practical and effective approach to resolving issues in a timely and cost-effective manner.

We suggest creating a single window resolution mechanism at the district level would make the ADR process more accessible and convenient for individuals and businesses seeking resolution. This mechanism would allow people to submit their disputes through a single point of contact, and the process could be streamlined to ensure that disputes are resolved efficiently.

ADR is that it can be faster and less expensive than traditional litigation. ADR is that it allows for more flexible solutions to disputes. This can help to preserve relationships and avoid the adversarial nature of litigation.

4.8. Online Think Tank Group: (Mentor/Advisor)

An online think tank group can be a great platform for connecting mentors, experts, and industry leaders from various fields. It can serve as a forum for networking and exchanging ideas and knowledge among members.

Professors and industry leaders who are interested in volunteering their time and expertise can play a crucial role in shaping the discussions and contributing to the knowledge base of the group. They can act as mentors and guides to younger members who are seeking to learn from their experiences and insights.

[18] Source : The Institute of Cost Accountants of India, "Suggestions to assist rehabilitation of MSME sector seriously impacted due to onslaught of COVID-19", Dated: April 2020

The group can have regular meetings or discussions through video conferencing platforms, where members can share their opinions, present their ideas, and engage in healthy debates on relevant topics. These discussions can be moderated by a facilitator to ensure that everyone gets a chance to speak and that the conversations stay focused and productive.

Additionally, members can collaborate on projects or initiatives that align with the group's mission or interests. This can help members to apply the knowledge they have gained through the discussions and contribute to the advancement of their respective fields.

Overall, an online think tank group can be an excellent opportunity for professionals to expand their network, exchange information and knowledge, and contribute to the growth of their industries.

4.9. Women Entrepreneurship

Women entrepreneurship in MSMEs is an important driver of economic growth and development. Empowering women entrepreneurs by providing them with access to finance and other resources is crucial to creating more inclusive and equitable economies.

To support women entrepreneurship, it is suggested to offer collateral-free loans at a debt equity ratio of 5:1. This means that women entrepreneurs can access loans without having to provide collateral, which is often a major barrier to entry for women-owned businesses. Additionally, these loans may come with a low rate of interest, making them more affordable and accessible to women entrepreneurs.

To further support women entrepreneurs, they should be offered long moratorium periods. This means that women entrepreneurs can defer their loan payments for a certain period, allowing them to focus on growing their businesses without worrying about immediate repayment obligations.

Overall, these measures can help to level the playing field for women entrepreneurs and encourage more women to start and grow their own businesses. By supporting women entrepreneurship, we can create more inclusive and equitable economies that benefit everyone.

4.10. MSME Portal

We would suggest creating a MSME portal exclusively for Karnataka, which would be a valuable resource for entrepreneurs and business owners in the state. Such a portal would provide a centralized platform to access information about the MSME sector in Karnataka, including key statistics, industry trends, government initiatives, and available resources.

The portal could be designed to include a comprehensive database of MSMEs operating in each district, along with their respective industry sectors. This information could be updated quarterly to ensure accuracy and relevance. In addition, the portal could feature a directory of service providers, such as business consultants, financing institutions, and legal advisors, who cater specifically to MSMEs.

4.11. Miscellaneous:

i. Renovation and maintenance of industrial areas and parks by the government can be a beneficial strategy for improving the infrastructure and facilities available to businesses operating within these areas. A one-time spending of Rs 10 lakh per acre can go a long way in upgrading the facilities and ensuring that the park is attractive to businesses and their customers.

ii. In addition, implementing a maintenance fee system for enterprises operating within the park can help ensure ongoing upkeep and maintenance of the park's facilities. This could be done through a variety of mechanisms, such as charging a flat fee per acre of land, or by calculating a fee based on the amount of space occupied by each business.

iii. Harmonization of property taxes is another key measure to ensure ease of doing and maintaining businesses. Currently, the MSMEs are required to make payments to government agencies such as KIADB, KSIDC (the bodies responsible for development and maintenance of industrial areas/estates) in the form of maintenance charges and also to the local administrative bodies of the government in the form of property tax. This system of double payment is unfavourable and dissuading the growth of MSMEs and needs to be rectified. Setting up of industrial townships that follow the Electronics City Industrial Township Authority (ELCITA) model can have significant positive impact on the growth and development of MSME's. As announced in its 2017-18 budget, the Industrial Township Authorities need to set up townships in Peenya (Bengaluru), Veerasandra (Bengaluru) Hebbal (Mysore), Tarihal (Dharwad) and other industrial areas.

iv. Providing ambulance and other safety facilities at industrial areas and parks is an important aspect of ensuring the safety and well-being of workers and visitors within these areas. Industrial activities can often be hazardous, and accidents or emergencies can occur at any time. Having access to emergency medical services and other safety facilities can help ensure that any incidents are handled quickly and effectively, minimizing the risk of injury or loss of life.

v. In addition to emergency medical services, other safety facilities that may be useful within industrial areas and parks could include fire stations, police stations, and other emergency response facilities. These facilities can help ensure a rapid response to any incidents or emergencies that may occur within the park, helping to minimize the risk of damage to property or loss of life.

vi. Providing ambulance and other safety facilities at industrial areas and parks is an important aspect of ensuring the safety and well-being of workers and visitors within these areas. By partnering with local emergency services providers to establish dedicated response teams or stations within the park, governments can help ensure that emergency incidents are handled quickly and effectively, minimizing the risk of injury or loss of life.

vii. Subsidized bus passes can be provided through a variety of mechanisms, such as partnering with local transit authorities or private bus companies to provide discounted passes to employees of businesses located within the industrial park. The government could also subsidize the cost of public transit for residents living near the park.

viii. In addition to reducing traffic congestion, encouraging the use of public transportation can also have a positive impact on the environment by reducing emissions from cars and other vehicles. It can also help promote a more sustainable and equitable transportation system that is accessible to all members of the community, regardless of their income level.

ix. CSR activities by corporations can support MSME in following ways.

- Offering business development support: Corporations can offer MSMEs access to training, mentoring, and networking opportunities to help them build their business skills and connect with potential customers and partners.
- Providing access to technology: Many MSMEs lack access to the latest technologies, which can limit their ability to compete in the marketplace. Corporations can help by providing access to technology and training on how to use it effectively.

- Creating market linkages: MSMEs often struggle to access markets, especially larger corporate supply chains. Corporations can help by creating linkages between MSMEs and their own supply chains or by providing access to new markets.
- Supporting social enterprises: Social enterprises are businesses that have a social or environmental mission as well as a profit-making goal. Corporations can support social enterprises by providing funding, mentorship, and other forms of support.
- Corporates should mention CSR initiatives taken by them towards MSME in their annual reports.

x. Industrial parks are designed to attract businesses and promote economic growth by providing infrastructure, services, and amenities that support the needs of the industries located within them.

xi. Common areas such as parks, restaurants, and meeting spaces can create a sense of community among businesses located in the park, which can foster collaboration and knowledge-sharing. This can lead to innovation and increased competitiveness among businesses, which can ultimately benefit the local economy.

xii. Industrial areas and warehouses can provide cost-effective storage and distribution solutions for businesses located in the park, which can help reduce operating costs and improve supply chain efficiencies. Additionally, centralized lab facilities and quality control departments can help businesses ensure that their products meet high quality standards, which can improve customer satisfaction and increase brand reputation.

xiii. Public-private partnerships can be particularly effective in the development and management of industrial parks, as they can leverage the expertise and resources of both the public and private sectors. This can help ensure that the park meets the needs of both businesses and the community and can lead to more sustainable and equitable economic growth.

xiv. Logistics cost is a significant expense for many enterprises, particularly those that rely on the transportation of goods and services. Sharing logistics services among different enterprises in a business park can help to reduce costs and improve efficiency.

xv. Common Transportation: By pooling transportation resources, businesses can reduce their transportation costs. For example, a shared fleet of trucks can be used to transport goods for multiple enterprises in the park, which can help to reduce transportation costs and improve efficiency.

xvi. Shared Labour: Enterprises can share labour resources for transportation and logistics operations. This can include sharing drivers, warehouse workers, and other staff. Sharing labour resources can help to reduce labour costs and improve efficiency.

xvii. Unified IT Systems: Enterprises can share IT systems, such as warehouse management systems and transportation management systems. This can help to reduce the cost of implementing and maintaining these systems.

xviii. Collaborative Planning: Enterprises can collaborate on planning and scheduling transportation and logistics operations. This can help to optimize routes, reduce empty miles, and improve efficiency.

This section contains several firsts in India that has the potential to be gamechangers for the state of Karnataka. A summary is presented below:

1

HealthScore™

- The HealthScore™ is a tool to evaluate the financial and operational health of MSMEs, involving a collegium of District Commissioner, Chamber of Commerce, District MSME Director, Local ICAI branch, a representative from an educational institution, and a lead bank. The tool will assess MSMEs based on a scoring system out of 10 and provide a summary of their performance and creditworthiness, which can be used by investors and stakeholders to make informed decisions and help MSMEs identify areas for improvement.

2

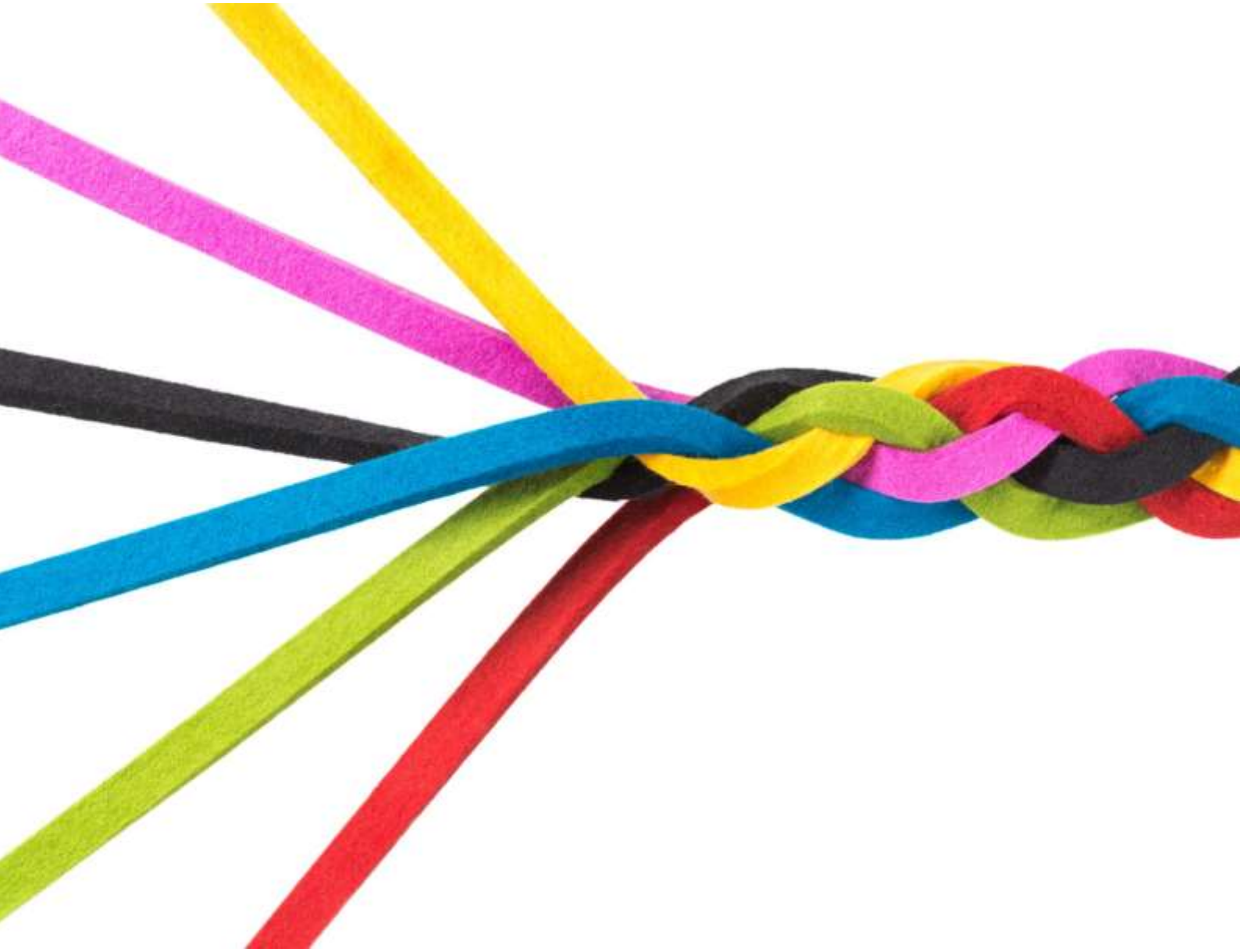
MSME Fund of Fund

- The lack of access to capital markets is a major challenge for MSMEs, but the government can address this by creating a MSME Exchange and Fund of Funds worth INR 1,000 crores to invest in high credit-rated MSMEs that want to raise capital from the capital market.

3

Online Think Tank Group

- An online think tank group is a valuable platform for professionals to network, exchange knowledge and ideas, and collaborate on projects. Industry leaders and professors can act as mentors and guides, while regular discussions and meetings ensure productive conversations moderated by a facilitator.



05

Benefits for MSME

5. Benefits from implementing the suggested changes

1. According to MSME registration and employment data, 3.5 lakh MSME have been registered, which have created around 20 lakh jobs in FY 2022-23, Karnataka has about 5.5 lakh students graduating every year. Employment generated by MSME sector can fulfil majority of job requirements of job aspirants. MSMEs have a higher propensity to innovate which in turn, can lead to the creation of additional jobs at a surging trend in the future.

Table 9: MSME category-wise estimated employment generated

Category	Jobs per unit
Micro	5-10
Small	10 - 100
Medium	Above 100

Karnataka, and especially Bangalore, is known as a major hub for IT/BT industries in India. There is a large ecosystem of startups, service providers, and support industries. Karnataka is also home to several renowned hospitals and medical colleges, making it a destination for healthcare-related jobs. Overall, Karnataka offers a diverse range of job opportunities across various sectors, and its cosmopolitan culture and pleasant climate make it a popular choice for job aspirants.

2. However, we must ensure local population have access to job opportunities in their home state, give preference to local candidates who have the necessary qualifications and skills.

3. MSME will become more efficient and competitive through a combination of strategies including improving their operations, leveraging technology, marketing effectively, and managing their finances efficiently.

4. MSME portals offer various services, including networking opportunities, knowledge sharing, and seeking support.

5. GeM portal will help MSMEs to promote their products and reach new customers and to get competitive advantage.

6. Governments may provide stipends for a period of one year to support interns, graduates, employees. Individuals can pursue educational opportunities or navigate challenging financial circumstances.

7. On-the-job skilling is becoming increasingly important in today's rapidly changing job market, where technological advancements and shifting industry trends require workers to continuously adapt and learn new skills. It can also be a cost-effective way for organizations to develop their employees' skills and improve their overall performance.

8. We should create an environment for MSME that is conducive to entrepreneurship and business growth. Barriers to entry, complex regulations, or inefficient bureaucracies make it difficult for businesses to operate and grow.



06

Conclusion



~5.85L

MSME in Karnataka

₹

~30%

Contribution to State GDP



~5.5L

of Graduates Every Year



20L

of Additional Jobs Created Every Year
(1,00,000 x 20 jobs/MSME)

6. Conclusion

Karnataka has been a torchbearer for many first initiatives such as IT/BT/Startups/EV it's time we do something radical and transformational for MSMEs sector.

MSMEs faced challenges such as lack of finance, limited market access, high competition, and regulatory hurdles. Conflicts were resolved through arbitration, mediation, and conciliation, with MSMEs implementing suggestions aimed at improving competitiveness and growth. MSMEs played a significant role in creating jobs through expansion, diversification, and collaboration, while also contributing to the skilling of youth through training and development programs. MSMEs demonstrated resilience and adaptability, becoming critical components of many national economies. However, there is still much work to be done to ensure their continued success.

MSMEs face several challenges that have been exacerbated in recent times. These challenges include the impact of demonetization, the complexity of the GST compliance process, the COVID-19 pandemic, competition from MNCs and startups, and the lack of professionalization. In addition, consolidation through mergers and acquisitions can be challenging for MSMEs due to limited resources, cultural differences, and challenges in finding suitable partners.

It is crucial to address these challenges and provide support to the MSME sector to ensure its continued growth and contribution to the Karnataka economy. By implementing the side measures the government can address the critical issue of lack of finance, marketing, technology, proper skilling training and infrastructure for the MSME sector will have several positive impacts:

1. Increased Contribution to GDP: MSMEs plays a crucial role in the Karnataka's economy, contributing significantly to the country's GDP. Addressing the critical issues which will help the state archive its target of 1$ trillion GDP by 2032.
2. Increased Employment Opportunities: MSMEs are major employers in the Karnataka's economy, and addressing the critical issues they face can lead to increased employment opportunities. With better access to finance and support for marketing, technology, and infrastructure, MSMEs can expand their operations, hire more workers, and contribute to overall economic growth.
3. Increased Competitiveness: MSMEs face intense competition, particularly from larger companies. Addressing the critical issues they face, can help MSMEs become more competitive by providing them with access to modern technology, marketing strategies, and training programs. This, in turn, can help them compete more effectively in the market.
4. Improved Productivity and Efficiency: Addressing the critical issues of lack of technology, proper skilling training, and infrastructure can help MSMEs improve their productivity and efficiency. This can help them produce goods and services at a lower cost, which can lead to higher profitability and competitiveness.
5. Improved Access to Finance: The lack of access to finance is a major challenge for MSMEs. Addressing this issue can help MSMEs obtain the necessary capital to expand their operations, invest in new technology and infrastructure, and become more competitive in the market.

Table 10: Summary of schemes proposed in document:

Schemes	India Allocation (in Cr)	Karnataka Allocation (in Cr)
Credit Guarantee Trust Fund for MSE's (CGTMSE)	9,000	900
MSME-Sustainable (ZED)	16	1.6
MSME-Competitive (Lean)	19.43	2
MSME-Innovative	23.16	2.3
A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE)	15	1.5
Prime Minister Employment Generation Programme (PMEGP)	2,500	250
Scheme of Fund for Regeneration of Traditional Industries (SFURTI)	170	17
MSME Fund of Fund		1,000 (to start with)



07

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