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PROMOTING INDIA'S INTEREST
series

STRENGTHENING MSMEs FOR MANUFACTURING TAKEOFF

- Policy Recommendations -



**Democratic Outreach for Socio-Economic Transformation
(DOST)**

Policy Recommendations

‘Strengthening MSMEs for Manufacturing Takeoff’

Democratic Outreach for Socio-Economic Transformation organised its third roundtable in September 2025 under ‘Promoting India’s Interest’ series on ‘Strengthening MSMEs for Manufacturing Takeoff’. The discussion took place under the chairmanship of Shri Gopal Krishna Agarwal, and saw participation by leading economists, policy experts and promoters and top management of MSMEs from various sectors. A few representatives from large manufacturing industrial groups were also present.

The roundtable was held with the objective of discussing operational, financial, regulatory, and infrastructural challenges that hamper the productivity and competitiveness of the MSMEs, examining the effectiveness of the existing government schemes that distinguish between the needs of manufacturing, trade, and service MSMEs, exploring strategies for integrating MSMEs into regional and global value chains, and providing recommendations and designing pathways for enhancing digital adoption, innovation capacity, and workforce skilling of the Indian manufacturing MSMEs. The concept note was briefed, highlighting the challenges faced by MSMEs - operational and growth barriers, availability of skilled labour, power supply, financial constraints, high compliance costs, low formalization rate, logistics & infrastructure issue, and lack of awareness of the government schemes.

The expected outcomes of the roundtable discussion were underlined. The participants were requested to focus on actionable proposals for the government to address sector-specific challenges of manufacturing MSMEs, provide suggestions to reduce domestic uncertainties along with mechanisms to enhance the adoption of policies, and explore a set of approaches to enhance FTA benefits, addressing tariff and non-tariff barriers.

SMEs are the seeds of future Indian global brands. India must provide an environment where domestic demand becomes the foundation for Indian products to expand globally. There was a consensus that PM Modi Ji’s initiatives of Make in India, Aatmanirbhar Bharat and call for Vocal for Local and Swadeshi have shown a positive trend. But manufacturing in India is still facing challenges. A need was expressed for deep structural reforms, and it was believed that only incremental changes will not yield desired results. A common concern of the participants was the absence of creation of sufficient employment opportunities in the manufacturing sector, in the absence of which demographic dividend cannot be further leveraged.



1. Policy Level Interventions

1.1 **There is a need to create greater competition in factor markets - be it land, labour or capital.**

The positive effect of these reforms will reverberate through all the sectors of the economy and will put India on a much higher growth trajectory. Without competition in the factor markets, manufacturing in India would neither be cost effective nor competitive.

1.2 **There has to be a separate set of policies and programs for MSMEs covering establishments in manufacturing, trading and services.**

The challenges faced by these three sets of areas are very different. Currently MSMEs covers establishment in the manufacturing, trading as well as services sector. A focused legislation for the manufacturing establishments in the MSME sector is required.

1.3 **Segregate micro and small enterprises from medium enterprises and design policies suitable for each**

If one looks at the entire universe covered under the MSME Act, manufacturing units account for only 2 percent of the units. Moreover, more than 99% of MSMEs are micro enterprises. The MSME Act after the recent amendment covers a whole range of enterprises - from proprietorships operating informally to professionally run medium industries that compete with bigger industries. There is a need to segregate micro and small enterprises from medium enterprises and policies suited to each of these two groups should be designed. Lumping all MSMEs together has not been an effective strategy. Micro and small enterprises are concerned that the benefits of the MSME Act would be monopolised by the medium sector.

1.4 **Extending similar MSE benefits to medium enterprises to support them to scale up without fear of losing advantage**

Out of all MSMEs, only approximately 0.3% are medium enterprises, yet they contribute nearly 40% of total MSME exports. Medium enterprises face issues such as EMD requirements, security deposits, and price preference challenges. MSEs enjoy significant benefits in government tenders, medium enterprises (MEs) receive very limited support. Many small enterprises on the borderline avoid further growth in order to retain MSE status. This restriction limits innovation, scale, and global competitiveness. Extending similar MSE benefits to medium enterprises can reduce the fear of losing advantages, promote formal growth, and ensure policies remain aligned with enterprise size and needs.

1.5 **There is a need to reduce the compliance burden for manufacturing firms**

The threshold for applicability of most of the labor laws should be set much higher, maybe at 300 workers. For firms employing less than the threshold, the Government should take care of social security (PF, ESI, Bonus, Gratuity etc.) and should just charge a fixed amount per worker (as a percentage of applicable minimum wages) from the establishment.

1.6 **The Company Law should be amended to allow inter-corporate loans as MSMEs are short of capital**

MSMEs often have multiple units owned by the same promoter but the promoter cannot make inter-corporate loans among his companies due to restrictions in the Companies Act. This adversely affects the liquidity and financial viability of various units.

1.7 Requirement of GST credit for construction of their units by MSMEs

MSMEs currently cannot claim input tax credit (ITC) on GST paid for the construction of their manufacturing or service units. Allowing GST ITC on construction-related inputs would significantly reduce upfront capital costs for MSMEs. This reform would improve cash flows, ease expansion, and support faster formalisation and capacity building.

1.8 Preferential support in procurement

The 25% reservation for SMEs in public procurement needs to be implemented effectively. This reservation should include all state and central government bodies as well as government-funded institutions.

2. Land Issues

2.1 There is a serious issue for MSMEs in land use regulation

More than 90% of MSME enterprises operate from unauthorized areas, such as homes, which prevents banks from providing credit. There is a need to focus on the land use regulations for MSMEs. Zonal/cluster regulations should be adopted as they are easier to apply, reduces corruption and lowers the cost of doing business. Urban development plans are required to address these challenges.

2.2 Plug and play model on lease, for the manufacturing sector needs to be made a reality

State industrial development authorities develop industrial areas and offer land on lease which reduces the upfront cost for setting up a unit, but these industrial areas are mostly poorly developed with bad infrastructure. State industrial development corporations should explore giving up their industrial areas on long term lease to private sector who then compete with one another

to attract industries by offering better infrastructure and facilities.

2.3 Provide Ready Clearances

The industrial development sites need to come with prior government permissions on issues like pollution control, environment etc.



3. Capital and Financing Issues

3.1 Financial institutions should focus on lending based on digital collaterals of MSME units

Only about 15% of MSMEs have access to institutional finance, and the cost of institutional credit for formal loans is more than 18% and the cost of informal financing is about 36%. Data on digital collateral like GST, digital payment, e-assessment, etc. can be collected and used to analyse financial health and credit assessment of MSMEs by financial institutions. Public entities can handle these data related to ratings, such as revenue and credit.

3.2 Assurance of the Government that the financial and non-financial data used for ULI would not be used to send tax and other notices

For lending based on digital collateral, digital history is important and if small units are instilled with fear of harassment, they would be dissuaded from engaging in digital transactions, this can prove to be extremely counterproductive. The success

of Unified Lending Interface (ULI) in providing credit facilities to micro and small enterprises would largely depend on government assurance.

3.3 Retrospective taxation notices and cases act as millstones around the neck of SMEs

These notices bog down SMEs, which, unlike larger companies, do not have legal and taxation teams or the resources to defend themselves. As a policy, no retrospective taxation cases should be applied to SMEs. Tax clarification notices should take effect only on a prospective basis.



4. Production Linked Incentives (PLI)

4.1 The PLI scheme should include MSMEs and be linked to turnover to encourage enterprises to increase their production.

Currently, only large companies are benefiting from the PLI scheme. Future PLI schemes should focus more on SMEs and should also be applicable to brownfield projects. Large foreign companies enjoying the benefits of PLI might take their investment away once the scheme is over whereas the domestic MSMEs would continue to operate here even when the scheme is over.

4.2 The Ministry of Commerce should bring out schemes for SMEs in electronics with lower thresholds for investment, revenue, and incremental revenue.

There is a need to reduce the minimum threshold of the PLI scheme. Line ministries typically focus on big-ticket, large industry schemes, while the needs of SMEs are often neglected.

5. Quality Standards and IPR Issues

5.1 Bureau of Indian Standards (BIS) needs to be overhauled

- Quality is often compromised, and BIS standards are designed more for convenience than as a true mark of quality. BIS is completely lacking in the context of quality assurance. It is slow, outdated and a source of corruption. BIS/ Government can continue to set quality standards, but certification of products should be opened to the private sector laboratories. It will lead to competition and better certification services.
- Currently, separate BIS approvals are required for each product, even if the same product is supplied to four different industries, resulting in four separate approvals. This system increases investment in BIS compliance, making it expensive for MSMEs. This regulation needs to be removed.

5.2 Quality Control Orders (QCOs)

The government has increased the use of QCOs across sectors to prevent substandard imports. It has disrupted the import of critical intermediate products by MSMEs that go into their final output. The entire approach to QCOs must be revisited in a general-equilibrium framework.

5.3 Absence of Hi-Tech Laboratories

India lacks standard testing labs to test the products and know if they comply with international standards. For example, the Japan Toys Association has nominated agencies to test and certify toys before making them available in the Japanese market. But there exist no agencies or labs

in India to carry out such tests. Due to this, Indian toy manufacturers have to send their entire consignments to Japan for lab testing and certification. This results in delays and high additional costs due to the chances of rejection.

5.4 Focusing on R&D and Innovation

For improving MSMEs focus on unique production in India and not just import substitution, research and innovation need to be promoted within MSMEs. SMEs need support to access technology-CAD tools, Test Labs, COE, Subject matter experts. Many Centre of Excellence (COE) exist but they are not accountable for support and service provided to SMEs.

6. The China Challenge

6.1 MSMEs are unable to face the influx of Chinese products. Existing laws and policies/ schemes to regulate imports are being implemented poorly

Organized retailers in India are observed to be responsible for rising imports of Chinese products, and policies may be designed to create pressure on them to double the exports of MSME products to match the amount of products they import. The implementation of anti-dumping laws in India has not been successful and is being gamed by some large industries for their benefits. In some cases businesses are importing prohibited products by mis-declaring them without any serious consequences.

6.2 Comprehensive support to firms for manufacturing, including buildings, land, approvals, and other necessary facilities.

It is not possible to produce a complete product in India unless MSMEs manufacture the smaller components that make up the larger product, and for this, they will require adequate support. The Chinese government provides

comprehensive support to firms for manufacturing. Since Indian companies have to compete with Chinese products, they too will need strong government support.



7. Swadeshi Focus

7.1 MSMEs produce many high-quality products but often lack the budget for patents, IPR registration, and related processes; government and industry support is essential in this regard.

7.2 Standards are used as a non-tariff barrier by countries. Getting products certified is a challenge for MSMEs. The amortized cost per unit for SMEs is higher, due to lower volumes. SMEs must be provided government support to get products certified for export markets.

7.3 For many large companies, the sub-assemblies and raw materials come from SMEs. Today the preference is to source these from suppliers abroad, as that is the existing supply chain. To enable India based SMEs to become suppliers to these large companies, they must invest in developing the Indian SME supply chain by setting up Indian vendor development teams.

8. Miscellaneous

8.1 Trade surplus with the US is critical for the Indian economy. We need to secure a trade agreement with the US but not at the cost of the country's self-respect.

8.2 The Phased Manufacturing Program (PMP) needs to be promoted. PMP should be implemented in other forms instead of raising the criteria for MSMEs.

8.3 There is a demand and skill supply mismatch in the labor market. There is a need for revamping the vocational education system for labour to bridge the existing gaps.

8.4 People lack awareness of government schemes- approximately 30–35 government support schemes are unknown to them. Massive awareness for central and state level assistance schemes to MSMEs is required.

8.5 Toy Industry

The total global toys market size is ₹7 lakh crore, but India's share is only ₹4,000 crore, which is less than 1 percent. There is a high possibility of a tenfold increase in employment in the toys industry if better policies are framed and implemented. The National Toy Policy needs to be effectively implemented.

8.6 Pharmaceutical Industry

- India needs to adopt the approach of economies of scale, particularly in sectors like bulk drugs. There is also a need to encourage green and fermentation-based products.
- A dedicated scheme should be created for the pharmaceutical sector under the theme 'Promotion of Research & Innovation.'
- APIs cannot be produced without chemicals. A dedicated scheme for chemicals and solvents is needed to reduce dependency on China.

Participants at the Round Table Discussion

1. Shri Gopal Krishna Agarwal- National Spokesperson of BJP on Economic Affairs (Chairperson)
2. Prof. Ram Singh- Director, Delhi School of Economics
3. Shri Nagesh Kumar- Director and Chief Executive, Institute for Studies in Industrial Development
4. Shri Anil Sharma- Swadeshi Jagran Manch
5. Shri Subhash Aggarwal- Managing Director, SMC Group
6. Shri Sambhrant Krishna- Honorary Director, Democratic Outreach for Socio-Economic Transformation
7. Mr. Ajay Aggarwal- President, Toy Association of India; Ankit Toys Mfg Co.
8. Mr. Sharad Kapoor - Secretary General, The Toy Association of India; Kreative Kids International
9. Mr. PK Agarwal- Founder and CEO, PPS International Pvt Ltd
10. Shri BR Sikri- Next Wave India, BR Organics
11. Mr. Saurabh Gupta- Capital Meters Ltd.
12. Shri Mahesh Gupta- Chairman, Kent RO
13. Mr. Vijay Kumar- Director General, World Association for Small and Medium Enterprises (WASME)
14. Mr. George Paul- EX- CEO of MAIT; Director Corporate Strategy and Government Relations, Sahasra Electronics
15. Mr. Anil Bhardwaj- Secretary General, Federation of Indian Micro and Small & Medium Enterprises (FISME)
16. Shri Anil Bhushan- CEO, Portronics System India Private Limited
17. Shri Ritesh Suneja- LAVA, Rits Capital
18. Smt. Aayushi Ketkar- Assistant Professor, JNU
19. Smt. Archana Sharma- Director Planning and Development, WASME

Annexure One Roundtable Background Paper

Promoting India's Interest Strengthening MSMEs for Manufacturing Takeoff

Indian Manufacturing Sector

The sectoral composition of India's GDP has been an outlier when compared to other economies with similar per capita income. It leapfrogged from a primary sector-led economy to a services-led one without going through the intermediate stage of being a manufacturing-led economy.

The reasons for the poor performance of the manufacturing sector are manifold, and its share in GDP has remained virtually stagnant despite multiple efforts by the government. In India millions of young people join the workforce each year and there are other tens of millions who need to be pulled out from agriculture and be productively employed. These factors make manufacturing a *sine qua non* for India's economic growth and social stability.

Accepting the importance of the manufacturing sector, the Modi government launched the 'Make in India' initiative in 2014 to increase the GDP share of the manufacturing sector. Import tariffs were increased in some sectors to protect infant industries; corporate tax rates were brought down from 35% to just 22% and 15% for new companies in 2019-20. In 2021, the government launched the Multi-modal Connectivity Master Plan and Gati Shakti to improve logistics manufacturing. India's position in the World Bank's EODB ranking was 142 in 2014, which had reached 63 in 2019, showing a remarkable improvement.

To boost the manufacturing sector, the government announced a production-linked incentive scheme (PLI) for new industries in the Aatmanirbhar

package in 2020. Through the Make in India initiative, the government is committed to bolstering the prospects of India's manufacturing sector. In the Union budget 2025, FM has announced the 'National Manufacturing Mission' to boost 'Make in India' by providing support to all sizes of industries focusing on MSMEs, with policy frameworks. However, despite all the efforts, the percentage share of gross value added by the manufacturing sector in 2024-25 was only 17.15%.

India is now seeing initial success from the steps taken by the Modi government to boost the manufacturing sector including defense & space manufacturing. India has become a net exporter from a net importer of mobile handsets and toys. Apple, Samsung, Google, and Nokia are assembling their mobiles in India, creating job opportunities. Recently the government has taken an initiative to design, manufacture, and export semiconductor chips, attracting investment proposals from Micron, Tatas, Renesas, and others, while reducing imports.

Currently, global companies are moving towards industrial reconstruction with the China +1 policy to de-risk strategies. India enjoys a geopolitical sweet spot in this reconstruction based on its friendly ties with major industrialized countries such as Japan, South Korea, Australia, ASEAN, the UAE, and EFTA. India also has a demographic advantage with a valuable share in the younger population. The working-age population of India is expected to be around 68.9% by 2030 (ISID).

Indian MSME Sector

The Micro, Small, and Medium Enterprises (MSMEs), the backbone of the Indian economy, play a crucial role in driving economic growth, employment, inclusive development, and exports. Contributing 30.1% to India's GDP (2022-23), 36% to manufacturing output (2022-23), and 45.73% to exports (2023-24), the sector has emerged as an important driver of the Indian economy. The sector has experienced a remarkable rise in exports from Rs. 3.95 lakh crore in 2020-21 to Rs. 12.39 lakh crore in 2024-25.

With a broader MSME ecosystem, as of December 31, 2024, out of all MSMEs, 20% are manufacturing enterprises, 35% are services, and 45% are trading. The manufacturing MSMEs contribute significantly to the industrial output and exports. From textiles, food processing, and engineering goods to traditional crafts like carpets and pottery, these industries create job opportunities, enhance grassroots innovation, and promote regional and inclusive development. However, despite the implementation of the assistance schemes by the government for the MSMEs and the sector experiencing significant growth, the MSME sector is facing multiple challenges. From limited access to credit to inadequate access to domestic and international markets, manufacturing MSMEs operate in a constrained environment. Understanding these challenges is important not only for improving the ease of doing business for MSMEs but also for ensuring equitable economic growth.

The following sections outline key challenges or barriers that continue to impact the productivity, competitiveness, ability to scale, and integration of manufacturing MSMEs in regional and global value chains.

Roundtable Objectives

1. To discuss operational, financial, regulatory, and infrastructural challenges that hamper the productivity and competitiveness of the MSMEs.
2. To examine the effectiveness of the existing government schemes that distinguish between the needs of manufacturing, trade, and service MSMEs.
3. To explore strategies for integrating MSMEs into regional and global value chains.
4. To provide recommendations and design pathways for enhancing digital adoption, innovation capacity, and workforce skilling of the Indian manufacturing MSMEs.

Operational and Growth Barriers

1. Limited Land Availability

- MSMEs find it difficult to secure land at a suitable location that offers necessary facilities and resources for the operation.
- The high cost of the land acts as a major hurdle in the expansion of these industries, particularly in urban areas.
- Infrastructure gaps such as reliable transportation, power supply, and communication networks in the region, add up to the problem.
- Besides land cost, the industries have to go through a complex and lengthy process to acquire a construction permit, reducing investment in the project and hindering its timely execution.

2. Lack of Skilled Labor

- There exists a persistent mismatch between the quantity and caliber of the available skills and the skills required. The available workforce is largely unskilled or low-skilled,

with limited exposure to industry operations.

- There are implementational gaps in the government training programs on advanced technical skills and industry-specific knowledge.
- Minimum wage rates are at variance in different states and are very low.
- Working conditions are not conducive to labor due to the larger number of MSMEs in the informal segment.

3. Availability of Power

- Unreliable and high cost of power supply and lack of alternative power source during power outages.

4. Financial Constraints

- Even if the credit availability to MSMEs is rising, the credit gap in the sector still persists. The gap widened during the 2020 economic slowdown. In 2025, the estimated credit gap of MSMEs is Rs. 20-25 lakh crore, where only about 20% of the firms have access to the formal financing and the credit gap is fulfilled by the informal sources with 30% to 60% interest rates.
- There are multiple reasons the bank hesitates to provide assistance to the MSMEs, such as their inability to provide collateral, high transaction costs, and difficulties in verifying the creditworthiness of applicants.
- The government introduced clause 'h' in Section 43B of the Income-tax Act 1961 to ensure 45 days timely payment by the buyers to MSMEs, but the corporates usually work on a 90-120 day credit cycle, and therefore most of the buyers started to shift to non-MSME suppliers to avoid restrictions.

5. Regulatory Hurdles

- Higher compliance costs due to various regulatory requirements across central, state, and local levels is a big challenge for MSMEs due to low scale of operations.

6. Low Formalisation Rate

- In India, 99.7% of the enterprises are in the unorganized sector, of which two-thirds are not registered anywhere. A significant percentage of these unorganized firms falls in the 'micro MSME' category.
- The firms are unable to enter the formal space due to high entry barriers. Stringent labor laws, tax burdens, complex regulations, and extensive costs deter MSME formalization.
- The firms are unable to integrate into global value chains (GVCs) as GVCs are dominated by competitiveness and connectivity.

7. Logistics and Infrastructure Issues

- Logistics costs of MSMEs go up to 20-25% of the total product cost due to small volume of shipment, lack of scale, and inefficient routing.
- Industries in the remote areas are not well connected to the ports, highways, or rail networks, leading to delays in sourcing raw materials. Also, due to lack of connectivity and warehousing, last-mile delivery becomes inefficient and inexpensive.
- MSMEs mostly rely on road transport, which is expensive for long routes. They are not integrated into railway freight corridors and lack coordination with inland waterways and coastal shipping services.
- There is a shortage of grade A and B warehouses in the tier 2 and 3 towns and industrial clusters, making storing of goods

for MSMEs difficult. Also, the absence of shared warehouses increases the costs. MSMEs in food processing, floriculture, pharma, seafood, and dairy incur approximately 30-40% food loss due to inadequate cold chain infrastructure.

8. Limited Innovation and Technological Knowledge

- Many MSMEs have adopted basic digital tools like e-commerce websites and online payment modes, but only a few are able to scale beyond the setup due to lack of resources and technical know-how.
- Smaller firms have limited access to updated technology due to high cost.
- Lack of adequate cybersecurity infrastructure and access to digital assets and onboarding to e-commerce platforms including GEM and ONDC.

Policy Scheme-Level Challenges

1. Recent Changes in Turnover/ Investment Criteria

- Investment and turnover criteria were reclassified in 2025 in the belief that it would help businesses to scale operations, access capital more easily, and contribute to employment generation. However, with this reclassification, medium enterprises that constitute 0.01% of MSMEs might monopolize benefits meant for the 99.99% micro and small units. With the majority of the medium enterprises now falling under the micro enterprise criteria, competition for public contracts under the mandated 25% procurement quota may become more complex.
- The government has made it mandatory for the banks to lend 8% of the total priority sector to micro enterprises, but in reality,

larger enterprises can access loans more easily due to lower risks and high ticket sizes. Bringing more firms in the categories might lead to uneven resource allocation.

2. Consideration of Manufacturing, Services, and Trade-MSMEs Similar

- The uniform policies are implemented for services, manufacturing, and trade-centered MSMEs. However, there is a need to bring reforms according to the requirements of each sector.
- Many government schemes, such as Udyam, PMEGP, and MUDRA, are not limited to any sector, making the benefits flow disproportionately among the service, manufacturing, and trade sectors. The trade and service sector can formalize quickly and meet the borrowing criteria, but the manufacturing sector requires longer production cycles and has higher entry costs to meet the performance-linked incentives and slower documentation approval process.
- The manufacturing sector has to face labor laws, factory licenses, fire, environmental safety, excise duty, GST, etc., due to physical operations. Manufacturing MSMEs face at least 40–50 statutory compliance requirements that a service MSME or trader never deals with.
- Input tax credit (ITC) rules, GST slabs, and compliance are tilted against manufacturers, who have multiple input-output linkages, unlike traders or service providers.

3. Limited MSME Participation in PLI

- As of March 2025, with an investment of over Rs. 1.76 lakh crore, PLI scheme focuses on 14 critical sectors, and 764

applications were approved under the scheme, out of which 176 were MSMEs.

- PLI scheme favors the large firms that are capable of meeting the investment threshold and the production target. Most MSMEs operate with limited capital and thin margins, which disqualifies them from accessing the benefits of the scheme.
- MSMEs continued to face challenges such as lack of awareness about the PLI eligibility, limited advisory support, and the absence of digital infrastructure. Due to these challenges, only 10-15% of the MSMEs have applied under the scheme.

4. Challenges in TReDS Adoption

- The platform is playing a crucial role in facilitating credit access to MSMEs; however, there still exists a credit demand-supply gap. The platform meets only 5% of the credit demands of the MSMEs.
- There is a lack of coverage of the corporate buyers and there is a need to find solutions to their concerns related to data privacy.
- There is a need for awareness about the fast and collateral-free working capital fulfillment by TReDS in the rural and semi-urban areas.

5. Barriers in GeM Utilisation

- Many MSMEs are not familiar with the online platforms, because of which they are unable to sell their products.
- Most of the MSMEs in the informal sector face challenges in the onboarding process, they do not have the required documents, such as PAN card or GSTIN, to register on the portal. The documentation work is lengthy and complex.
- As goods and services and large & small enterprises are on-boarded on one

platform, MSMEs have to compete with the services sector and large enterprises, which have higher margins to cut their rates, leading to difficulty in sales of products by MSMEs.

6. ONDC Operational Bottlenecks

- ONDC is facing issues onboarding kirana stores and then finding it difficult to dispatch orders even when they are placed. MSMEs do not have proper supply chain networks, due to which they have difficulty in managing logistics and fulfilling the orders on time.
- ONDC currently depends on community support and the third party's role in handling customer grievances. MSMEs lack technical expertise and resources to understand the ONDC platform.
- As various large businesses are on the platform and the customer base is low, the small businesses are unable to reach the audience and compete with them.
- The delay in the payment process impacts their cash flow and working capital. These firms find it challenging to turn the potential customers into paying customers, but most of them are trying to mark their presence at state and national level exhibitions.

7. Barriers to Access PM Vishwakarma Scheme

- As of October 2024, over 2.02 lakh accounts have been opened under the scheme, and loans of Rs 1,751.20 crore have been sanctioned.
- The scheme designed to support the artisans financially is facing loan approval challenges. The loan approval rate of PSBs is only 28%.

- Also, the scheme is facing regional disparities, with registrations particularly low in northern and eastern India.
- The traditional artisans face challenges in access to urban and international markets due to lack of branding support, logistics, marketing, and buyer networks.

Global Trade Dynamics and its Impact

1. Trade Policies and Market Access Challenges

- Trade policies can be a challenge for MSMEs: high import tariffs can raise the cost of raw materials, limiting the competitiveness of MSMEs, and export tariffs can limit their ability to sell their products overseas.
- Trade policies limiting the flow of goods will restrict MSMEs from entering the new markets, and they won't be able to establish an international supply chain. They have weak backward and forward linkages for sourcing raw materials at an effective price and selling finished goods in the market.
- Multiple MSMEs are not aware of the relevant FTAs, and if any firm has knowledge, they find it difficult to receive benefits from the agreements due to a lack of the right technical, professional, and financial resources.
- Impact of US tariffs on Indian MSMEs—
 - Indian MSMEs contribute around 45% to the total exports, and the US tariff would affect high-exposure sectors like gems and jewelry (USD 9 billion in US exports), textiles (USD 6 billion), auto parts (USD 2 billion), and electronics (USD 14 billion).
 - The firms have higher risks of losing their US market share to Vietnam and

Bangladesh, and the immediate effects include order cancellations, layoffs, and reduction of revenue. The impact could be profound, with the US absorbing USD 74 billion in goods annually—about 17% of India's export basket. The larger firms are capable of absorbing the tariff shock, but the smaller firms face difficulties.

- US tariff adjustments will bring the need for exporters to navigate a complex web of duties, documentation, and regulatory requirements, as this will directly impact pricing models, disrupt cash flows, and strain existing supply chains. They will also need to renegotiate contracts, revisit pricing strategies, and recalculate landed costs.
- Also, with the enforcement of stricter country-of-origin requirements by the US, particularly on goods with multi-jurisdictional supply chains, non-compliance might lead to delays in shipment, customs penalties, or outright rejection of consignments.
- The government expected that Indian exporters would benefit around 50% from the tariff concessions after the FTA with the UAE. But India's utilization rate of FTAs has been low due to documentation requirements, costs, and lack of awareness. The FTA utilization by developed countries is on average 70-80%, but India's utilization rate of FTAs is under 25%, which is the lowest in Asia.
- Impact of Chinese Product Imports—
 - MSMEs are already facing challenges due to the rise in import of Chinese products like artificial flowers, toys, umbrellas, glassware, and leather. The products that were once produced locally, usually by the small entrepreneurs, are now imported

from China, with their market share now being more than 50%.

- India's small entrepreneurs struggle to maintain their market presence and compete with low-cost Chinese products. The Chinese products are more about market saturation, as India is more aligned towards traditional manufacturing methods, due to which they are unable to match the volume and technological advancements offered by Chinese factories.

2. Non-Tariff Barriers of Trade

- The government has increased the use of Quality Control Orders (QCOs) across sectors to prevent substandard imports. It has disrupted the import of critical intermediate products by MSMEs that go into their final output.
- India lacks standard testing labs to test the products and know if they comply with international standards. For example, the Japan Toys Association has nominated agencies to test and certify toys before making them available in the Japanese market. But there exist no agencies or labs in India to carry out such tests. Due to this, Indian toy manufacturers have to send their entire consignments to Japan for lab testing and certification. This results in delays and high additional costs due to chances of rejection.

Expected Outcomes

1. A consolidated set of actionable proposals for the government to address sector-specific challenges of the manufacturing MSMEs.
2. Suggestions to reduce domestic uncertainties, along with mechanisms to enhance the adoption of policies.
3. A set of approaches for enhancing FTA benefits, addressing tariff and non-tariff barriers.

The upcoming close door roundtable discussion will focus on these issues to propose a policy formulation roadmap to the government.





Democratic Outreach for Socio-Economic Transformation (DOST)

Our Actions on Ground



Policy Intervention

PROTECTING NATIONAL INTEREST

- Research reports
- Round table discussions on contemporary political & economic issues for government policy intervention

MAITRI CULTURAL ECONOMY SUMMIT

- Cultural economic governance ecosystem
- Social and economic linkages for cultural activities



Political Intervention

NOIDA DIALOGUE

- Uttar Pradesh as growth propeller for India's economy

POLITICAL CAMPAIGN

- Devolution of power - participative democracy
- Empowering RWA, promoting Self Government
- Roadmap to resolution of homebuyers issues



Socio-Economic Transformation

COVID OUTREACH:

- Distribution of 5 lakh food packets from three community kitchens during first corona wave
- One lakh homemade sanitized face covers distributed, giving employment to housewives and transgenders
- Three medical isolation centres setup during second corona wave

WELFARE OF THE PEOPLE: SUPPORTING AND PROMOTING INITIATIVES

- Surya Sansthan: Women empowerment
- Jaladhikar Foundation: Environment conservation and free water for all
- Shree Jee Gausadan: Animal welfare and cow protection

GOPAL NAMO SEVA KENDRA: CONNECTING PEOPLE TO GOVERNMENT WELFARE SCHEMES

- Free field camps and citizen outreach
- Permanent service centre



Democratic Outreach for Socio-Economic Transformation (DOST)

Indian Constitution says that political democracy is meaningless without economic democracy. Lasting democratic values can be established only through social transformation, when the lowest strata of society is economically well off. Indian society lives with contradictions, we offer equality in politics but deny it in social and economic life. The time to reconcile this disparity is now, or we risk undermining political democracy itself.

DOST embodies the philosophy—sharing power, fostering participative democracy, empowering masses through education, health, sanitation, and ensuring economic democracy.

DOST follows a multi-pronged strategy to realise its vision through policy interventions—aimed at better and well-informed law making; empowerment through direct action, by bridging the gap between various levels of government and the citizens and on ground activities for provision of education, health, sanitation etc.

Why DOST Stands Out

- **Value-Driven Mission:** Rooted in the belief that democracy only thrives when social and economic inequalities are resolved.
- **Tangible Action + Policy Engagement:** From boots-on-ground outreach to influencing public policy (white papers, discussion forums).
- **Holistic Outreach:** Combines welfare delivery, civic facilitation, leadership dialogues, and governance advocacy

DOST is a trust registered under the Indian Trusts Act, 1882. Its Key Office Bearers are; Shri Gopal Krishna Agarwal (Patron Trustee) and Shri Anil Sharma, Shri Subhash Agrawal and Shri Praveen Kant as trustees and Shri Sambhrant Krishna serves as the Honorary Director.

“DOST is our initiative for socio-economic transformation through democratic process and policy interventions”

Shri Gopal Krishna Agarwal
BJP National Spokesperson, Economics



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 Democratic Outreach for Social Transformation (DOST)