

A Model Comprehensive MSME Policy for Indian States



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Executive Summary

Small businesses are the job-creating engines of any healthy economy. Having a supportive policy environment can help high-potential businesses accelerate. Creating such an environment is a shared responsibility of both the central government and India's 28 states.

Many state governments in India have piecemeal policies and programs to support micro, small, and medium enterprises (MSMEs). About one-third of India's states have worked to craft multifaceted and supportive policies and practices to encourage MSME growth. This paper reviews the ideas already enacted in different Indian states, as well as in national and subnational governments around the world.

Developing a single comprehensive MSME policy is an effective approach for a state-level government to consider. It allows small firms to find policy incentives and programs in a single place, and perhaps most importantly, it allows a state to directly consider a range of intertwined incentives that can work together. This will maximize the positive impact to small firms that are poised for growth.

Facilitating the growth of MSMEs will have a much wider impact on India's job growth overall. The large multinational manufacturers that India hopes to lure to invest through programs like [Make in India](#) require a diverse and efficient network of suppliers. Supporting MSME growth can create a multiplier effect—driving new investment and employment generation by larger firms. The central government has affirmed a [25 percent target](#) of gross domestic product (GDP) for manufacturing, up from around [14 percent today](#).

This white paper provides leading international examples in the promotion of small businesses, while also enumerating best practices from Indian states' MSME policies. The final section lays out the 30 elements commonly utilized by Indian states to offer targeted assistance to MSMEs as a roadmap for other states that want to provide best-in-class policy interventions.

This white paper is the third in a series of four white papers focused on Indian state-level business reforms. The first paper focused on [small business procurement policies](#). The second paper looked at [cluster development policies](#).

Note: In some instances, in this paper, the term small and medium enterprise (SME) is used instead of MSME. SME removes the “micro” sized firms which often have particular needs and are too small to avail of some support programs.

Elements and Impacts of Comprehensive MSME Policies

THE IMPORTANCE OF SMALL BUSINESSES

Small business policies are considered an important part of most countries’ industrial policy due to MSMEs’ job generation capacity. The Indian government estimates the nation hosts around 60 million MSMEs, which collectively employ 111 million people—around 25 percent of total national employment. MSMEs contribute 28 percent of GDP and 40 percent of India’s exports. Of these categories, “micro” firms (less than \$600,000 in turnover) make up around [95 percent](#) of the market.

Job creation is crucial as India slowly undertakes agricultural reforms. Today, India’s agriculture sector employs around [43 percent](#) of workers, yet produces less than [17 percent](#) of GDP. While the Indian government backed down from a package of agriculture reforms in 2021, smaller reforms continue to provide space for Indian farmers to expand and improve productivity. This would likely cause further reductions in farm workers—and a widening pool of semi-skilled and unskilled laborers that must be absorbed by other parts of the economy. Some [initial reports](#) about “post-Covid-19” economic shifts indicate that seasonal workers are finding lower-paying roles than in previous off-seasons.

The world is in the middle of a substantial realignment of global supply chains. Rising labor costs, trade imbalances, and security concerns have all collided to force companies to consider supply hubs outside of China. Often, Indian officials seek to court large manufacturers to consider new investments. They note the steady liberalization of foreign direct investment (FDI) policies, India’s improved rankings in global business indices, and the growing domestic market. However, another element large manufacturers must consider is the health of the supplier ecosystem. For example, Ford Motor Company notes that they have around [1,200 Tier 1 production suppliers](#). Boeing has over [11,000 Tier 1 suppliers](#) globally. Lockheed Martin notes a network of [15,800 active suppliers](#). Procter & Gamble boasts of a network of more than [60,000 suppliers](#). For firms like these, having a network of suppliers ready to grow commensurately can improve Indian states’ overall attractiveness as a manufacturing hub.

India’s state governments should also carefully consider policies that support young MSMEs but do not create constraints to continued growth. Globally, older small firms have less impact on job creation than either young firms or larger firms, so governments should choose policy options that avoid creating a “growth trap.” Policies should be framed in a manner as to encourage continued growth instead of stagnation.

THE SPECIALIZED NEEDS OF SMALLER FIRMS

Even after 30 years of liberalization, firms of every size in India can list off a range of issues that preclude their growth to some extent. Some of these are policy issues, while others are operational issues, such as the low quality of infrastructure. While much of this list is shared with larger firms, some of these factors have a more acute impact on smaller firms.

Some key examples of the operational barriers that often have an outsized impact on smaller firms include:

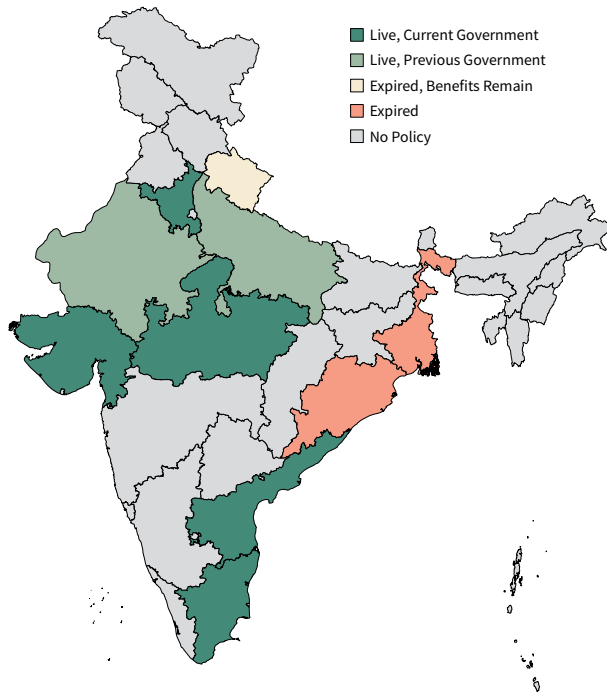
- **Weak electric power grids:** Larger firms may have the capacity to invest in redundant or independent electric power sources. Smaller firms are less likely to be able to invest in such capacity.
- **Water systems:** Many industries require purified water as part of their manufacturing processes. Larger firms may have the capacity to invest in improved water sources or in improving the quality of municipal water, while smaller firms are less likely to be able to do so. This is also true for the treatment of effluent discharge.
- **Legal restitution of business disputes:** As business disputes occur, larger firms have more negotiating clout and may be able to resolve disputes before going to court. If they do go to court, larger firms have the capacity to hire the best legal counsel and wait longer periods for decisions. For smaller firms, securing legal restitution through the courts can cause **tremendous hardship**.
- **Access to information:** Indian state policies can be difficult to find, even online. Smaller firms may not be aware of government policies and programs meant to accelerate their growth and improve operations.
- **State compliances:** Larger firms are more likely to have a focused team that can complete state compliances in areas such as taxation, labor, and environmental regulation. For smaller firms, such compliances place a **real burden on management**, distracting from other critical operational issues.
- **Access to resources or inputs:** Larger firms will have a greater capacity to negotiate with resource and input providers. Larger firms may offer advantages to a supplier such as pricing, transparency, size of supply contract, length of supply contract, and other factors.
- **Climate change mitigation:** As governments increase actions to combat the sources of climate change, firms may be asked to bear short-term expenses to reduce emissions. This could deeply impact smaller firms.

This list is far from exhaustive but provides some idea of how the business environment impacts firms of different sizes differently. Some **surveys of MSMEs** expand this list much further—studying topics such as labor unrest, availability of raw materials, and other issues where supportive government policies will need to be more creative and nuanced. Government policymakers should bear this in mind when looking for ways to boost job creation. Compared to large firms, smaller firms may not have the capacity to regularly petition the government on business affairs, so it will take greater effort to learn about the constraints smaller firms face—and how interventions can help.

Some recent surveys of small businesses in various geographies point to the difficulties faced by small firms and the effectiveness of various government interventions. Naturally, recent surveys must take into account the unusual factor of the Covid-19 pandemic. But across geographies and national income levels, it is striking—despite different types of questions, firms, and more—that similar issues are prioritized by MSMEs.

Global MSME Surveys

Country	Background	Challenges/Impediments Raised by MSMEs via Survey, in Percentage of Surveyed Firms
United States	Goldman Sachs survey of 1,533 firms from 48 U.S. states and 2 U.S. territories	32% - Inflation 13% - Supply chain issues 45% - Difficulty finding and retaining qualified employees 71% - Lack of qualified workers 63% - High labor costs
United States	Capital One survey of 1,200 small businesses (defined as those with total annual revenue under USD 20 million)	48% - Inflation 28% - Supply chain 26% - Taxes 20% - Competition from large businesses
United States	National Federation of Independent Business survey of 2,553 U.S. firms	50.6% - Cost of health insurance 30.5% - Locating qualified employees 20.1% - Federal taxes on business income 16.2% - Tax complexity
47 LDCs	UN Capital Development Fund, International Chamber of Commerce, and consortium survey of 2,245 SMEs across 47 Least Developed Countries (LDCs)	83.1% - Access to customers 45.6% - Access to suppliers 24% - Reduction in availability and/or increase in prices of main inputs 17% - Access to finance
India	Dun & Bradstreet survey of 250 MSMEs with annual revenue of INR 1 billion to INR 3 billion across seven big cities in India	42% - Market access 59% - Better credit facility 48% - Better marketing support 37% - Improving overall productivity 35% - Adoption of technologies 34% - Access to more finance 29% - Compliance challenges
Bangladesh	International Finance Corporation survey of 500 MSMEs in Bangladesh	67% - Affected by shocks 91% - Decrease of cash flow 88% - Decrease in demand 86% - Decrease in hours worked per week 78% - Decrease in supply of inputs 67% - Decrease in financial services
Europe	EU survey of 16,365 firms conducted in 27 EU and 12 additional non-EU countries and territories	57% - Administrative burden 35% - Payment delays 29% - Access to finance 23% - Skills, including managerial 14% - Difficulties with digitalization



Source: CSIS research and analysis.

Existing Policy Interventions of Indian States

Ten of India's 28 states have overarching MSME policies, either as standalone policies or as a focus section in the state's larger industrial policy framework. Of these 10, four are expired and others were drafted by previous governments. The five states with "live" policies drafted by the incumbent governments are **Andhra Pradesh, Gujarat, Haryana, Madhya Pradesh, and Tamil Nadu**. The Andhra Pradesh and Gujarat MSME policy incentives are included in these states' wider industrial policies.

Of course, every Indian state offers programmatic and policy support to nurture MSMEs, but such policies are rarely developed as part of an overarching MSME policy.

Five common themes are commonly found in existing states' MSME policies:

- **Financial Support:** Assisting with MSME finances through funding support, reimbursements, and financial incentives.
- **Compliance and Regulatory Support:** Offering measures to reduce the burden and cost of compliance. This often takes the forms of reduced paperwork or subsidies related to costs like registrations, certifications, power charges, state taxes, and more.
- **Infrastructure Support:** Improving MSME infrastructure access through MSME cluster or park development. Also, offering concessions for availing infrastructure or providing a seat in existing state infrastructure.
- **Marketing Support:** Improving MSME's marketing efforts through state procurement and market linkages.
- **Boosting Central Government MSME Programs:** Strengthening MSME development institutes and facilitating central MSME schemes, including funding schemes and distressed asset schemes specifically. Also includes establishing or strengthening MSME facilitation councils in the state.

Highlights of Select Indian States' MSME Policies

Andhra Pradesh Industrial Development Policy (IDP) 2020–2023

Financial Support	<ul style="list-style-type: none">▪ No fees for initial Udyam registration, which is the registering of a business with the government▪ Up to 15% subsidy for cost of new investments (35% for investments by women and backward caste entrepreneurs)▪ Up to 100% rebate on stamp duty, transfer duty, mortgage, and hypothecation fees▪ Up to 3% reimbursement on interest costs▪ Up to 100% reimbursement of state GST
Compliance and Regulatory Support	<ul style="list-style-type: none">▪ Self-declarations without the requirement to submit documents▪ Micro enterprises receiving incentives under the IDP have reduced annual business reporting
Infrastructure Support	<ul style="list-style-type: none">▪ Reimbursement of INR 1 to INR 1.25 per unit on electricity costs.▪ 50% rebate on land cost for women entrepreneurs of micro and small businesses▪ 25% reimbursement on land conversion costs
Marketing Support	<ul style="list-style-type: none">▪ No targeted interventions for MSMEs
Boosting Central Government MSME Programs	<ul style="list-style-type: none">▪ No targeted interventions for MSMEs

Source: The Government of Andhra Pradesh, Industries and Commerce Department, "Government of Andhra Pradesh Abstract [Andhra Pradesh Industrial Development Policy (IDP) 2020–23]," 2020, <https://apindustries.gov.in/APIndus/Data/GO/IDP%202020-23-%20Operational%20guidelines.pdf>.

Gujarat Industrial Policy 2020

Financial Support	<ul style="list-style-type: none">▪ Up to 25% subsidy on MSME capital investments▪ Up to 7% subsidy on MSME interest payments▪ A range of direct financial assistance tools for startups
Compliance and Regulatory Support	<ul style="list-style-type: none">▪ Allows MSMEs to start operations by notifying a "Declaration of Intent"▪ MSMEs exempted from approvals for the first three years of operations▪ Up to 50% subsidy on fees MSMEs pay recognized international certification authorities for products▪ Up to 50% subsidy on the cost for MSMEs to acquire testing equipment and machinery▪ Up to 75% subsidy of the cost for MSMEs to file domestic and international patent applications

Infrastructure Support	<ul style="list-style-type: none"> ▪ Up to 65% subsidy on the cost for MSMEs to adopt information and communications technology (ICT) platforms ▪ Up to 75% subsidy on the costs MSMEs pay for energy and water audits, and 25% of the cost of recommended equipment post-audit ▪ Up to 35% subsidy on the cost for power connections ▪ Higher costs payable to MSMEs with rooftop solar that sell excess power back into the grid
Marketing Support	<ul style="list-style-type: none"> ▪ Up to 75% subsidy on the cost for an MSME to rent a stall at a trade show or exhibition ▪ Up to 60% subsidy on the cost of electricity for a business exhibition in Gujarat
Boosting Central Government MSME Programs	<ul style="list-style-type: none"> ▪ Cover up to 25% of the costs to list on SME exchanges

Source: The Government of Gujarat, Gujarat Industries Commissionerate, Industries and Mines Department, *Gujarat Industrial Policy 2020* (Government of Gujarat, 2020), <https://static.investindia.gov.in/s3fs-public/2020-08/Gujarat%20Industrial%20Policy%202020.pdf>.

Haryana MSME Policy 2019

Financial Support	<ul style="list-style-type: none"> ▪ Establishing a “mandatory procurement preference” for MSMEs ▪ Note: The state already offers a range of fiscal incentives per the Haryana Enterprise Promotion Policy 2015
Compliance and Regulatory Support	<ul style="list-style-type: none"> ▪ Incentives for quality certification and patent or design adoption
Infrastructure Support	<ul style="list-style-type: none"> ▪ Up to 75% subsidy on the cost of creating electronics manufacturing clusters ▪ Guaranteed power availability 24 hours a day, seven days a week, with reduced rates for electricity ▪ Prioritized upgrades to infrastructure servicing MSMEs
Marketing Support	<ul style="list-style-type: none"> ▪ Support programs for getting MSMEs online ▪ Create “Made in Haryana” brand ▪ Creation of a “global market intelligence cell” in the Department of Industries and Commerce ▪ State will organize annual buyer-seller meetings.
Boosting Central Government MSME Programs	<ul style="list-style-type: none"> ▪ Creating a team to boost awareness of central government incentives to MSMEs in areas like credit, lean manufacturing, and more ▪ Helping MSMEs in the state list on new SME exchanges, including covering part of the listing cost

Other	<ul style="list-style-type: none"> ▪ Calls for a three-year review cycle to study success of the policy ▪ Subsidy of 50% of the cost of skills education for workers ▪ Establishing a grievance redressal cell to help MSMEs with issues like delayed payments, registrations, approvals, and more
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Source: Government of Haryana, Industries and Commerce Department, “Government of Haryana Industries & Commerce Department Notification [Haryana Micro Small and Medium (MSME) Enterprise Policy-2019],” 2019, <https://cdnbbsr.s3waas.gov.in/s3f48c04f-fab49ff0e5d1176244fdb65c/uploads/2020/08/2020081089.pdf>.

Madhya Pradesh MSME Policy 2021

Financial Support	<ul style="list-style-type: none"> ▪ A 40% reimbursement on the cost of plants, machinery, and buildings ▪ Additional subsidies for projects established by women, scheduled castes, and scheduled tribes ▪ Additional subsidies for industrial units that export more than 25% of their production
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Compliance and Regulatory Support	<ul style="list-style-type: none"> ▪ Up to 100% subsidy of the cost for MSMEs to get ISO/BIS/BEE certification ▪ Up to 50% subsidy for MSMEs of the cost for quality certification to export to developed nations ▪ Up to 100% reimbursement of costs for domestic and foreign patent applications ▪ Up to 50% subsidy of the cost of conducting an energy audit to reduce costs, and other subsidies for additional equipment
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Infrastructure Support	<ul style="list-style-type: none"> ▪ Up to 50% subsidy of the cost of building infrastructure, including effluent treatment plants ▪ Expanding “land bank” available for MSMEs by the state
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Marketing Support	<ul style="list-style-type: none"> ▪ No targeted interventions for MSMEs
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Boosting Central MSME Programs	<ul style="list-style-type: none"> ▪ Co-funding for central government programs related to Zero Defect and Zero Effect (ZED) certification ▪ Working with the National Skills Development Corporation (NSDC) to expand worker skills ▪ Working with the National Small Industries Corporation (NSIC) to market Madhya Pradesh MSMEs
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Other	<ul style="list-style-type: none"> ▪ Providing 70% of employment to residents of Madhya Pradesh provided by beneficiaries ▪ Existing industrial units that expand can be eligible for these benefits ▪ Special packages of additional incentives for the power loom, pharmaceutical, and apparel industries
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Source: Government of Madhya Pradesh, Department of Micro, Small & Medium Enterprises, *Madhya Pradesh MSME Development Policy 2021* (Government of Madhya Pradesh, 2021), https://eximmitra.in/images/pdf/Madhya_Pradesh_MSME_Policy_2021_Booklet_English.pdf.

Tamil Nadu MSME Policy 2021

Financial Support	<ul style="list-style-type: none">▪ Rs 1,000 crores (INR 10 billion) to the Tamil Nadu Industrial Investment Corporation (TIIC) to ensure access to capital for MSMEs▪ Up to 25% subsidy on plants and machinery (geographical limitations for small and medium enterprises)▪ Reimbursement of employers' contributions to the Employee Provident Fund (EPF) for three years for micro enterprises or other targeted geographies and sectors▪ Plant and machinery subsidies for businesses owned by women, scheduled castes and tribes, people with disabilities, and transgender people▪ A 25% minimum procurement preference from micro and small enterprises
Compliance and Regulatory Support	<ul style="list-style-type: none">▪ A three-year exemption for new MSMEs, which can rely on self-certification for required approvals▪ 75% reimbursement of costs for domestic and foreign patent applications. 50% reimbursement for cost of trademark and geographical indicator applications▪ Stamp duty exemption on mortgaged and pledged documents for micro enterprises▪ Stamp duty and registration charge rebates for industrial estate development▪ Up to 75% subsidy on the cost of conducting an energy audit to reduce costs, as well as other subsidies for additional equipment▪ Up to 100% subsidy on the cost for quality certification to export to developed nations
Infrastructure Support	<ul style="list-style-type: none">▪ Up to 20% subsidy on electricity for 36 months▪ Up to 25% subsidy on the cost of a generator▪ Land reservations for MSMEs in SIPCOT and TANSIDCO industrial estates▪ Up to 70% subsidy on the project cost of building a micro industry cluster
Marketing Support	<ul style="list-style-type: none">▪ Organizing an annual MSME summit to highlight small businesses.▪ 50% reimbursement of hall rental costs by MSME associations for conducting exhibitions▪ Coverage of up to 50% of the cost for stall or space charges to showcase at an international trade fair
Boosting Central MSME Programs	<ul style="list-style-type: none">▪ Helping MSMEs in the state list on new SME exchanges, including covering part of the listing cost
Other	<ul style="list-style-type: none">▪ Up to 25% subsidy on the cost of a program under Unemployed Youth Employment Generation Program (UYEGP)▪ Reimbursement of INR 2,000 per month for skilling under Amma Skill Training and Employment Scheme, for a maximum of six months

Source: Government of Tamil Nadu, Micro, Small and Medium Enterprises Department, *Micro, Small and Medium Enterprises Policy – 2021* (Government of Tamil Nadu, 20210, https://cms.tn.gov.in/sites/default/files/documents/MSME_Policy_2021_0.pdf).

Rajasthan MSME Policy 2015

Financial Support	<ul style="list-style-type: none">▪ Up to INR 50 million will be made available to entrepreneurs under the age of 45 to set up a new enterprise▪ A 30% subsidy on Value Added Tax and Central Sales Tax (VAT and CST) for new, expanding, and “sick” enterprises. Expanded tax benefits for investments in “backward areas” of the state▪ A 50% exemption on electricity duties▪ Fees for loans under the MSME program will be reimbursed for businesses owned by women, scheduled castes or tribes, and disabled entrepreneurs
Compliance & Regulatory Support	<ul style="list-style-type: none">▪ Establish district-level MSME facilitation centers to help firms through the process of approval, documentation, assisting with delayed payments, and more▪ Coverage of half the cost (up to Rs 3 lakhs, or INR 300,000) for quality certifications▪ Coverage of half the cost (up to Rs 5 lakhs, or INR 500,000) for certification and testing equipment
Infrastructure Support	<ul style="list-style-type: none">▪ A subsidy of 30% on space costs in industrial parks built by the Rajasthan State Industrial Development & Investment Corporation Limited (RIICO) are reserved for MSMEs▪ Coverage of 50% of the cost for common effluent treatment in industrial areas and clusters
Marketing Support	<ul style="list-style-type: none">▪ Organization of fairs, expositions, and buyer-seller meetings▪ Coaching for MSMEs on how to sell to public sector undertakings
Boosting Central MSME Programs	<ul style="list-style-type: none">▪ A subsidy of 10% of the cost of listing on a Small and Medium Enterprise (SME) exchange
Other	<ul style="list-style-type: none">▪ Creation of a database of skilled labor available to enterprises▪ A new awards program for the state’s best performing enterprises and artisans

Source: Government of Rajasthan, *Rajasthan MSME Policy 2015* (Government of Rajasthan, 2015), <https://industries.rajasthan.gov.in/content/dam/industries/pdf/bip/home/downloads/policies%26schemes/Rajasthan%20MSME%20Policy%202015.pdf>.

Existing Policy Interventions: Global Examples

Creating policies to support small firms is not unique to India. Many national and subnational governments around the world have targeted support programs to help smaller firms accelerate growth.

Selected National-Level MSME Interventions

Country	MSME Policy/Program Interventions
Argentina	<ul style="list-style-type: none">▪ The government offers funding to allow business professionals and technicians from small and medium firms to cover the costs of overseas technical visits and training programs.
Brazil	<ul style="list-style-type: none">▪ The government offers simplified taxation systems for smaller firms under two programs: Simples Nacional and the Micro Empreendedor Individual (MEI).
Canada	<ul style="list-style-type: none">▪ The Canadian government sponsors the CanExport program which funds up to CAD 50,000 (Rs. 300 lakhs, or INR 30,000,000) to small firms to assist with international market development activities.
Indonesia	<ul style="list-style-type: none">▪ The government offers a simplified online licensing using a risk-based approach to reduce the paperwork burden through the “Online Single Submission” program.
Ireland	<ul style="list-style-type: none">▪ The Irish government has a searchable online toolkit that consolidates most of the various types of government support programs for smaller firms, from business planning to training and much more.
Mexico	<ul style="list-style-type: none">▪ The Ministry of Economy created a program that provides low interest three-year loans (up to MXN 25,000, or INR 103,000) for MSMEs that maintain employment levels.
Nigeria	<ul style="list-style-type: none">▪ In collaboration with the World Bank, the Nigerian government created the “Development Bank of Nigeria,” which offers long-term financing and partial credit guarantees to MSMEs.
Singapore	<ul style="list-style-type: none">▪ The government offers Market Readiness Assistance grants equal up to 70% of the cost for small and medium enterprises to enter a new market.▪ The Enterprise Development Grant program provides financial assistance to firms that need to build out core capabilities such as business strategy development, financial management, and more.▪ The Productivity Solutions Grant offers up to 70% of the cost of adopting pre-vetted technology solutions.
United Kingdom	<ul style="list-style-type: none">▪ The UK government helpfully consolidates various financial support programs into a single searchable database.

United States

- The U.S. Small Business Administration (SBA) created a “[Small Business Digital Alliance](#)” where large technology firms can offer free counseling services and free access to tools that help MSMEs expand their ecommerce presence.
 - The SBA hosts the [Small Business Innovation Research](#) (SBIR) program which channels research grants and contracts to smaller firms.
 - The SBA offers grants to subnational governments that work with small businesses to boost exports through the [State Trade Expansion Program](#) (STEP).
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Examples of MSME Intervention Successes

Policies and programs require regular monitoring and impact assessments to ensure that they are being carried out successfully at the envisioned scale and positively impacting the desired groups. The ultimate goal is facilitating business survival, business expansion, and job creation.

The best programs and administrators ensure that monitoring mechanisms require relatively low effort beyond the initial setup. For instance, several U.S. states integrate public procurement portals with small business targeting programs so that progress dashboards are easy to track, and course-corrections can be made, such as [this program](#) in the U.S. state of California—which is made publicly available to improve accountability. Another example is the COSTARS program in the U.S. state of Pennsylvania, which connects buyers and sellers and has built-in tools to track the types of firms that are winning contracts.

Below are some country-wide examples of policy and programmatic interventions that have been linked to positive outcomes for small businesses.

BRAZIL

- SMEs receiving [credit support](#) experienced a 15 percent increase in their number of workers (three jobs per establishment on average).
- SMEs participating in a credit program observed a 2.4 percent increase in wages and an increase in the value of exports and trademark registrations. For every 1,000 firms receiving credit support, on average about two of them registered a trademark.
- SMEs receiving [export support](#) increased employees by 11 percent on average and created an average of 2.6 jobs per establishment.
- Further, export support led to six additional trademarks registered for every 1,000 establishments.

ARGENTINA

- Argentine SME support program increased employment, real wages, and the probability of exporting by 14.3 percent, 1.4 percent, and 1.8 percent respectively.

TURKEY

- SME policies on innovation found that access to capital, regional innovation programs, and institution-industry collaboration led to greater innovation.

NIGERIA

- A [2015 World Bank report](#) notes the many successes of Nigeria’s Youth Enterprise with Innovation (YouWiN) program for start-ups with a \$50,000 prize. Existing firms that have won the contest have

a 20 percent higher likelihood that the firm is still operational three years later, a 21 percent higher chance that the firm crosses the 10-employee threshold, and a 25 percent increase in profits.

SRI LANKA

- A 2012 study published in *Science* indicates one-time transfers to microenterprises in the nation is linked to higher survival rates and higher profits.

Policy Recommendations: Key Elements of a State MSME Policy

Main recommendation: The state should survey small firms to gauge the primary areas where policy reform and programmatic support will have the biggest impact. The states should further build a framework that incorporates accountability tools to track implementation and create a review mechanism to assess the impact of the policy on business survival, business growth, and job creation. The state must also consider appropriate methods for educating the public about these initiatives, so that they are taken up by small businesses.

MSME model policy constituents: The model MSME policy contains various elements emanating from the six policy pillars outlined earlier in this report. Indian states are highly encouraged to implement a comprehensive policy encompassing all 30 elements listed below, prioritizing areas that are recognized as particularly crucial in individual states. Within a state, some policies may be reserved or augmented for targeted classes of individuals or less-developed regions.

FINANCIAL SUPPORT

1. Reduce fees for initial company registration.
2. Offer direct subsidies for new investments in plants, property, and equipment.
3. Offer rebates on state taxes, such as stamp duty and State GST.
4. Provide subsidies or rebates on interest costs.
5. Establish mandatory procurement preferences for MSMEs. This can include a target percentage and other incentives outlined in an [earlier report](#).
6. Reimburse employers' contributions to the Employee Provident Fund (EPF).
7. Have state agencies prioritize payments to MSME suppliers and partners.

COMPLIANCE AND REGULATORY SUPPORT

8. Allow self-declaration to a single state agency to allow a firm to start operations.
9. Provide a “graduated system” of reporting—micro firms have the fewest document submissions, followed by small firms, medium firms, and so on.
10. Create a digital land bank with incentives for MSMEs to acquire or lease land.
11. Remove less critical compliances for the first three years of operations.
12. Provide subsidies or reimbursements for domestic and international certifications.
13. Provide subsidies or reimbursements for submitting domestic and international patent applications.
14. Provide subsidies or reimbursements for the acquisition of equipment related to required product testing.
15. Create district-level “facilitation cells” that help local MSMEs through their approval processes.

INFRASTRUCTURE SUPPORT

16. Create “clusters” with common infrastructure, especially for related industries, with key features covered in an [earlier report](#).
17. Reimburse some percentage of the cost of electricity for business operations.
18. Reimburse or subsidize costs with securing additional sources of electric power, including rooftop solar panels and generators.
19. Reimburse or subsidize land costs.
20. Reimburse or subsidize land conversion fees.
21. Provide subsidies or reimbursements for the cost of upgrading information and communications technology platforms.
22. Provide subsidies or reimbursements for energy and water audits that can help the company save costs and increase productivity.
23. Provide subsidies or reimbursements for the costs of equipment related to energy and water audits.

MARKETING SUPPORT

24. Provide subsidies or reimbursements for renting a stall at a trade fair or exhibition. This can be for both domestic and international shows.
25. Tutor MSMEs on the central government MSME procurement mandate, helping them win orders.
26. Create programs to teach MSMEs how to get online.

BOOSTING CENTRAL GOVERNMENT MSME PROGRAMS

27. Subsidize the cost for MSMEs to list on SME exchanges.
28. Create a targeted plan with the National Skills Development Corporation (NSDC) to link states’ needs with central government training.

OTHER IDEAS

29. Raw Materials: Many MSMEs highlight the lack of availability of raw materials. The state can look at information tools to help link MSMEs with available stocks of raw materials.
30. Skilling: As with Haryana, the state can cover some of the costs MSMEs incur in training and skilling employees. ■

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