FOUNDATION FOR ECONOMIC DEVELOPMENT

NITI Aayog

Boosting Exports From MSMEs

March 2024

Table Of Contents

Authors

FOUNDATION FOR ECONOMIC DEVELOPMENT

Piyush Doshi
Operating Partner

Rahul Ahluwalia
Founding Director

Ronak Pol
Team Lead

Akshita Singh
Consultant

Nitya Srinath
Associate

Designed by

Ojasi
www.ojasi.net

Disclaimer

Acknowledgements

The authors of this report would like to thank industry participants, Abhishek Dalal – CEO, ArSports Equipment, Ajay Srivastava – Founder, Global Trade Research Initiative (GTRI), Anil Bhardwaj – Secretary General, FISME, Anuj Jain – CEO, Shingora Textiles, Ashish Chandra – Co-founder, GlobalFair, Ayush Jha – Tax and Customs Expert, GlobalFair, Chandrakant Salunkhe – President, SME Chamber of India, Geeta Goel – MD, India MSDF (Dell Foundation), Lokesh Kumar – General Manager, Exim Bank, Mithileshwar Thakur – Secretary General, AEPC, Prashant Seth– Joint Deputy Director General, FIEO, Rahul Taneja – Partner, Lightspeed Ventures, S Ganesh – AGM-Direct Credit, SIDBI, Sanjay Bansal – Director General, DGCIS, Sanjeev Leekha – President, EPC-Leather, Vasundhara Singh – Policy and Partnerships, Etsy, Vinod Kumar President – SME Chambers of Commerce, Amazon Team and the ECGC Team for their valuable insights in the preparation of this report.

We would also like to thank members from the ministry, Dr. Amiya Chandra – Additional DGFT, KV Tinumala – Joint DGFT, Kuldip Singh – Assistant Director, MSME, Mercy Epao – Joint Secretary, MoMSME, U. C. Shukla Director (EP) – DC MSME, R. Ananth – Director CBIC, DoR, Reema Jain – Joint Director, DPIIT, Roshan Lal – Additional Director General, CBIC (Customs) and Surjith Karthikeya – Dy Secretary, Financial Services for their grounded perspective on the subject.

डॉ. वी.के. सारस्वत
Dr. V.K. Saraswat
सदस्य
Member
Tele : 23096566, 23096567
Fax : 23096603
E-mail : vk.saraswat@gov.in

सत्यमेव जयते

भारत सरकार
नीति आयोग, संसद मार्ग
नई दिल्ली - 110 001
Government of India
National Institution for Transforming India
NITI Aayog, Parliament Street,
New Delhi - 110 001

FOREWORD

In the dynamic landscape of the Indian economy, Micro, Small, and Medium Enterprises (MSMEs) stand as the powerhouse, steering the nation towards prosperity and resilience. Acknowledged for their pivotal role in fostering employment, driving exports, and propelling overall economic growth, MSMEs embody the heartbeat of India's economic engine. This sector, encompassing over 6.4 crore enterprises, plays a paramount role, contributing more than 11 crore jobs and a staggering 27.0% to India's Gross Domestic Product (GDP).

Navigating through the intricate web of statistics, it becomes evident that MSMEs form the second-largest employer in India, surpassed only by agriculture. A testament to their significance lies in the fact that they account for 38.4% of the total manufacturing output and contribute an impressive 45.03% to the country's total exports. The relentless spirit of these enterprises resonates in their indomitable contribution to shaping the economic landscape.

This unveils a latent potential within the MSME sector—the vast opportunities in the global export market. While shouldering the weight of domestic economic contributions, these enterprises possess the capability to extend their reach globally. Yet, the path to global prominence has not been without challenges. In this era of technological evolution, the emergence of both broad and niche e-commerce marketplaces offers a transformative solution to these age-old challenges.

This study envisages a future where the MSME sector undergoes a radical metamorphosis. By embracing the limitless possibilities afforded by e-commerce platforms and addressing crucial ease-of-doing-business factors, India has the potential to catalyze the transformation of its MSME sector into a formidable growth engine. The journey towards harnessing this potential begins with a collective commitment to nurturing and empowering our MSMEs, ensuring that they continue to be the heartbeat of our nation's economic vibrancy.

VKSaraswat
(Dr VK Saraswat)

New Delhi
08.03.2024

स्वच्छ भारत
एक कदम स्वच्छता की ओर

बी. वी. आर. सुब्रह्मण्यम
B.V.R. Subrahmanyam
मुख्य कार्यकारी अधिकारी
Chief Executive Officer

सत्यमेव जयते

भारत सरकार
नीति आयोग, संसद मार्ग
नई दिल्ली - 110 001
Government of India
National Institution for Transforming India
NITI Aayog, Parliament Street,
New Delhi - 110 001
Tel. : 23096576, 23096574
E-mail : ceo-niti@gov.in

MESSAGE

MSMEs serve as the lifeblood of our business environment, contributing significantly to innovation, employment, and economic development. As we reaffirm our commitment to building a robust and resilient enterprises ecosystem, it is imperative that we recognize and harness the immense potential embedded within the MSME sector.

A key avenue where MSMEs can exert substantial influence is in the realm of exports. The international market presents unparalleled opportunities for growth, and MSMEs can act as catalysts, propelling India's vision of Viksit Bharat@2047. By venturing into global markets, MSMEs not only diversify revenue streams but also augment the competitiveness of their products and services.

Encouraging MSMEs to explore and conquer international markets is essential for several reasons. MSMEs are substantial contributors to employment generation, driving economic growth and prosperity. Diversifying our customer base by tapping into global markets helps mitigate risks associated with relying solely on domestic markets. This, in turn, enhances our resilience in the face of economic uncertainties. Furthermore, successful export ventures elevate our companies' visibility and reputation on the global stage, attracting potential customers and instilling confidence in our stakeholders and partners.

Employing a comprehensive research methodology, the study integrates secondary research and stakeholder analysis. The secondary research phase includes an extensive literature review and data collection from various sources, such as government publications and industry reports. Simultaneously, qualitative insights from stakeholder interactions are harmonized with quantitative data from secondary research, providing a well-rounded understanding of the challenges and possible solutions to boast the performance of MSMEs.

As we forge ahead, let us recommit ourselves to supporting and empowering our MSME partners. The report offers policymakers essential tools, direction, and collaborative prospects to significantly contribute to the advancement of Indian MSMEs and the overall prosperity of the economy.

[B.V.R. Subrahmanyam]

Dated: 8th March, 2024

स्वच्छ भारत
एक कदम स्वच्छता की ओर

Ishtiyaque Ahmed,IRS
Senior Adviser
Tel : 011-23096816
E-mail : ahmed.i@nic.in

सत्यमेव जयते

भारत सरकार
नीति आयोग, संसद मार्ग,
नई दिल्ली-110 001
Government of India
NATIONAL INSTITUTION FOR TRANSFORMING INDIA
NITI Aayog, Parliament Street,
New Delhi-110 001

Message

Micro, Small, and Medium Enterprises (MSMEs) are very important contributors to India's economic landscape, playing a pivotal role in fostering entrepreneurship, generating employment opportunities and driving innovation. This sector has garnered substantial attention from investors, policymakers, and entrepreneurs alike. Beyond their role in domestic economic expansion, MSMEs hold particular importance as key contributors to India's thriving export industry.

As India positions itself as an attractive destination for manufacturing companies seeking alternatives to traditional markets, MSMEs find themselves positioned at the forefront of this transformative opportunity. Their widespread presence uniquely positions them to cater to the heightened demand for ancillary products and services required by large corporations establishing operations in the country. This not only propels the growth of MSMEs but also elevates their significance in the global supply chain.

To leverage technology transfer and adopt best practices from industry leaders, MSMEs actively engage in collaborative partnerships and knowledge-sharing initiatives. This strategic approach enhances their competitive edge on the global stage, contributing to India's reputation as a hub for innovation and entrepreneurship.

Recognizing the indispensable role of MSMEs in India's economic growth and export potential, the government has implemented various initiatives to create an inclusive ecosystem. Supportive policies, financial assistance schemes, enhanced funding access, strategic partnerships, and business environment reforms all aim to empower MSMEs, enabling them to realize their full potential in both domestic and international markets.

The evolving landscape of MSMEs in India not only presents opportunities for economic prosperity but also positions them as vital players in the country's global trade scenario. As these enterprises navigate challenges and embrace digital transformation, their role in driving economic growth and contributing to India's export prowess becomes increasingly significant.

To address the challenges faced by MSMEs, the report recommends specific strategies aimed at creating a level playing field and boosting their performance in exports, aligning with India's vision of becoming a global manufacturing hub.

(Ishtiyaque Ahmed)

New Delhi
08.03.2024

स्वच्छ भारत
एक कदम स्वच्छता की ओर

1 Executive Summary

MSMEs are often called the powerhouse of the Indian economy. MSMEs contribute significantly to employment generation, exports, and overall economic growth. They reportedly account for more than 11 crore jobs[1] and contribute around 27.0% of India's GDP[2]. According to estimates, the sector consists of around 6.4 crore MSMEs[3], with 1.5 crore of them registered on the Udyam portal[1] and employs around 23.0% of the Indian labor force[4], making it the second-largest employer in India after agriculture. They account for 38.4% of the total manufacturing output[2] and contribute 45.03% of the country's total exports[5].

Exports represent an enormous and under-utilized opportunity for the MSME sector. Sectors where Indian MSMEs can participate and compete in export markets include handicrafts, handloom textiles, ayurveda and herbal supplements, leather goods, imitation jewellery and wooden products. Globally, these sectors constitute substantial markets exceeding USD 340 billion, whereas their domestic market is considerably smaller.

Over time, small firms have encountered difficulties in tapping into export markets due to the inherent obstacles posed by economies of scale. It proves more challenging for small enterprises to enter foreign markets, adhere to compliance requirements, achieve cost-effective production, and efficiently manage logistics for clients. However, the emergence of both broad and niche e-commerce marketplaces addresses many of these barriers. By modifying our business environment to facilitate seamless exports through e-commerce platforms, coupled with addressing essential ease-of-doing-business factors, we have the potential to catalyze a radical transformation of our MSME sector into a formidable growth engine.

In this report, we have six broad set of recommendations to boost MSME Exports:

1.1 Create One Stop Information Channel for Exporters

India has several portals that help exporters access information, most of which offer incomplete or outdated information. Therefore, creating a one stop information data intelligence portal using AI based interface will be essential to impart information to MSMEs. This portal shall answer all the queries of a potential exporter related to market such as tariffs, required paperwork, sources of finance, service providers, available incentives, and potential customers. This could be done under the Ministry of Commerce by enlisting a competent external vendor.

[1] Udyam Dashboard
[2] PIB Press Release: Contribution of MSMEs and Cottage Industry to GDP
[3] NSS 73rd round, Ministry of Statistics & Programme Implementation,
[4] 2015-16 Author's Calculation based on NSS 73rd round
[5] PIB Press Release: Contribution of MSMEs and Cottage Industry to GDP

1.2 Create National Trade Network (NTN) as Comprehensive Trade Portal

Currently an exporter needs to navigate multiple portals to get necessary approvals. This includes the documentation for licenses and certification to actual receipt of payment in the bank account. The entire process is extremely cumbersome and requires navigating through several interfaces including the need for physical submission of documents. This difficulty can be eliminated by creating an end-to-end national trade portal (NTN) which will provide seamless experience to exporters including answering queries and resolution of any gaps in paperwork. This will help reduce the process burden as well as delay for MSME exporters and enable them to compete effectively. The Ministry of Commerce could form a task force to review the status of previous initiatives in this regard (e.g., SWIFT) and create a timebound program to implement a national trade network on par with the best in world.

1.3 Promote E-Commerce Exports

Access to the market consistently emerges as a significant obstacle hindering MSME exports. Fortunately, a readily available solution to this issue is E-Commerce. According to Global Trade Research Initiative's (GTRI) report, in 2022 MSMEs in China are already exporting goods worth over $200 bn through E-Commerce platforms while India's e-commerce export is barely $2 bn. One key reason for this gap is the cumbersome compliance process associated with exports, especially when it comes to payment reconciliation, which is particularly challenging for a new or small exporter. To boost e-commerce exports, it is essential to create distinction between Exporter on Record (EOR) and Seller on Record (SOR), allow reduction in invoice value without any percentage ceiling for all e-commerce exports, introduce annual financial reconciliation process for e-commerce exporters, exempt import duties on rejects / returns, consider an exemption on reconciliation requirements for shipments up to $1000 until NTN is implemented and creating a green channel clearance for e-commerce exports.

1.4 Promote Ease of Merchandise Exports

While the government has placed high emphasis on improving Ease of Doing Business, it should be extended to exports processes, particularly targeted at MSME exporters. For example, MSMEs can be offered relaxation from certain compliance requirements for a period and forgiven on errors as they begin to learn requirements of export markets. On the other hand, a process must be created for time bound disbursement of incentives so that working capital is not blocked for MSMEs.

1.5 Improve Access to Export Finance

Access to finance is regularly seen as a key bottleneck for MSMEs. Towards this end, promotion of Export Credit Guarantee can help improve working capital availability for MSMEs. The current uptake of ECGC schemes is only 10% and the government must create an incentive package to increase it to 50% or more. Finally, a single marketplace can be created, like in the case of higher education loans, where all providers of export credit can compete for business and help reduce the cost to MSMEs.

1.6 Ensure Accurate Measurement

Currently, a dependable single data source for MSME exports is lacking. The existing estimates of MSME exports are likely unreliable and almost certainly inflated, given that they rely on an outdated list of reserved sectors for MSMEs. Initiating any improvement requires accurate measurement and consistent tracking of impact. Establishing a reliable depiction of MSME exports involves integrating DGFT trade data with GST and income tax data. This fusion of datasets, utilizing PAN numbers as the common identifier, will provide an accurate portrayal of MSME exports. A key issue is reluctance to share information across government departments. To resolve this, a committee could be formed with representatives from DGFT as well as the finance ministry along with the MSME ministry to create a mechanism for sharing requisite information without compromising confidential data of individual firms.

Overall, the potential of MSMEs to grow exports is enormous. This potential can be realized through some pragmatic measures which reduce the cost and friction of doing business for these firms. The measures proposed in this report can help boost MSME exports without placing any additional fiscal burden in the form of incentives or subsidies. This report employs a comprehensive research methodology combining secondary research and stakeholder analysis to achieve a thorough understanding of the subject. The secondary research phase involved an in-depth literature review and data collection from various data sources, including government publications and industry reports. Simultaneously, a stakeholder analysis was conducted, wherein relevant stakeholders were identified, and structured interviews were carried out to map their perspectives. The qualitative insights obtained from stakeholder interactions were integrated with the quantitative data derived from secondary research, to provide a holistic understanding of the subject.

2

Overview of the MSME sector in India

In 2020, the Finance Ministry decided to change the definition of Micro, Small and Medium Enterprises (MSMEs) because the low threshold limit in the old definition of MSMEs prevented them from expanding since they might lose certain benefits that MSMEs enjoy. The other change that has been introduced was to add turnover as another measure to define an MSME.

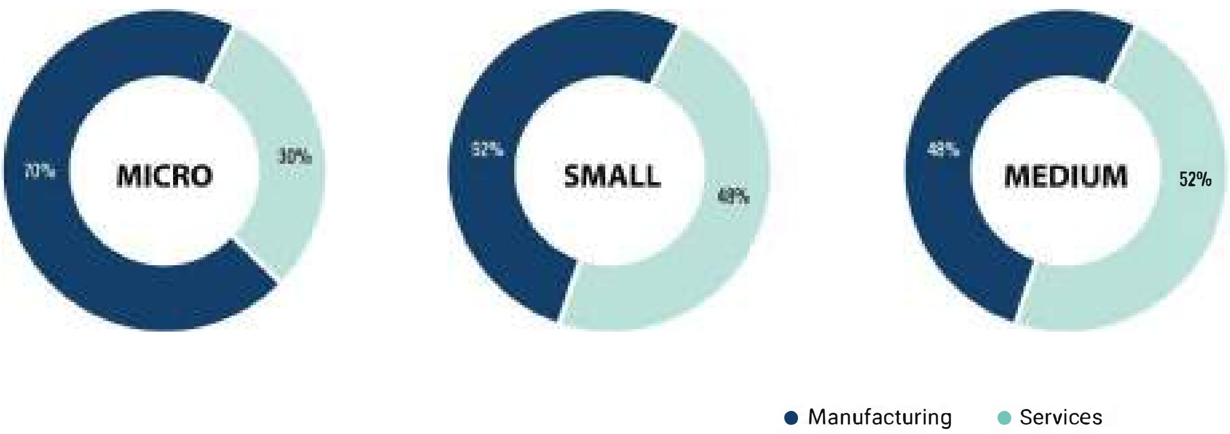
Table 2.1: Revised Definition of Micro, Small and Medium Enterprises

Parameters	Micro	Small	Medium
Investment in Plant and Machinery	< 1 Crore INR	< 10 Crore INR	< 50 Crore INR
Annual Turnover	< 5 Crore INR	< 50 Crore INR	< 250 Crore INR
No. of MSMEs (Based on NSS data)	6.3 Crore	3.3 Lakh	5 thousand
No. of MSMEs (Based on Udyam data as on 31st March 2023)	1.5 Crore	4.6 Lakh	41 thousand

Between FY 2019 and FY 2021, India witnessed a steep rise in the establishment of new MSMEs units. Around 40 lakh new Micro, Small, and Medium Enterprises (MSMEs) were established[6]. This remarkable growth can be attributed to the rising number of new micro-enterprises, which played a crucial role in driving the overall increase in the number of new MSMEs being established.

Over the last 8 years, the share of MSME units engaged in manufacturing has grown by ~7%. Currently, around 38% of the total 54 lakh MSME units[7] are engaged in manufacturing.

Figure 2.1 provides an insight into the distribution of activity share among the categories of MSMEs. We clearly see that the bulk of manufacturing activity which is suitable for export is distributed largely amongst small and medium enterprises.



Source: Udyam Registration Publication

Figure 2.1: Activity share of MSMEs across the three categories of MSME

According to the 2020-21 Annual Report of the Ministry of MSMEs, the top five states with the highest concentration of manufacturing MSMEs are Uttar Pradesh, Maharashtra, Tamil Nadu, Karnataka, and Gujarat.

[06]Creating Udyog Sahayak Enterprises Network (USENET) for Employment Generation and Scale-up in the MSME Sector
[07]Udyam Dashboard

A handful of firms are contributing to statistics reported from the MSME sector. According to NSS estimates in 2015, there were approximately 6.34 crore MSMEs in India. However, a closer examination of the sector's composition reveals a very skewed distribution. Out of the total 6.34 crore MSMEs, nearly 6.3 crore are in fact microenterprises which have less than 20 workers and hence are outside most formal regulation (other than ESI)[8]. Only the rest of the 12.8 lakhs which are above the 20- worker threshold are therefore part of the formal system (e.g., PF system) [9].

Among these ~13 lakh enterprises registered in the Provident Fund database, around 70,000 have revenues exceeding 5 crores, thereby crossing the threshold from the micro category to the small category. The remaining 9.3 lakhs, despite being formal enterprises with more than 20 workers, still fall under the micro segment in terms of revenue definition[10].

The current policy landscape in India incentivizes MSMEs to remain dwarfs, hindering their ability to reap the benefits of economies of scale. For instance, the Industrial Disputes Act (IDA), 1947 mandates companies to get permission from the Government before retrenchment of employees. This restriction is, however, applicable only to firms with more than 100 employees. This means that firms with less than 100 employees do not have to get permission from the government before firing their employees.

Small businesses are indeed the primary beneficiaries of various policy initiatives and economic packages, aimed at providing support and fostering their development. However, these very incentives unintentionally create a disincentive for these businesses to surpass certain thresholds and expand their operations. As a result, MSMEs face significant challenges in capitalizing on the advantages offered by economies of scale. By staying small, they miss the potential cost savings, increased efficiency, and enhanced competitiveness that come with expanding their operations. The reluctance to grow beyond their initial size limits their ability to tap into larger markets, access better resources, and attract investments for innovation and expansion.

Figure 2.2 compares India's market size to the global market size for MSME- Dominant industries. Contrary to popular belief, the domestic market size for these industries accounts for only 0-2% of the global market size 11. While India has a large population, a significant proportion of it is still economically disadvantaged, and thus has limited purchasing power. This means that the effective size of the Indian market is smaller despite its large population. High competition along with small market size isn't ideal growth environment for any manufacturing MSME.

Figure 2.2: Indian market size and global market size for the MSME dominated industries, in USD Billion

[08]Note: ESI stands for Employee State Insurance. It is a contribution made by employees as well as employers to support employees to take part in self-financed, healthcare, insurance funds.

[09]Creating Udyog Sahayak Enterprises Network (USENET) for Employment Generation and Scale-up in the MSME Sector

[10]Creating Udyog Sahayak Enterprises Network (USENET) for Employment Generation and Scale-up in the MSME Sector

[11]FED Analysis based on Market Reports

Therefore, exporting is crucial for Indian MSMEs to break away from dwarfism and unlock their true growth potential. Exporting can allow 54 lakh manufacturing MSMEs to tap into new markets and expand their customer base, leading to an increased revenue and profit. Additionally, it helps businesses diversify their customer base and increase their revenues. Moreover, exporting can enhance a producer's reputation as a global player and a credible business partner, leading to increased visibility and marketability.

Theoretically, India has a competitive advantage in exporting low skilled manufacturing products, but the country consistently underperformed. India's market size is on average less than 1% of the Global market size for low skilled manufacturing exports even though Indian MSMEs are characterized by low skilled and labor-intensive manufacturing[12]. These manufacturing units employ approximately 10% of entire the Indian labor force[13]. Despite India's large working-age population (20% of the global working-age population[14]) and significant employment in manufacturing MSMEs, its share of global exports of low-skilled manufacturing products is only 5%[15].

Figure 2.3 is a scatter plot of non-high income countries which plots the share of low skilled manufacturing on the x axis and share of working age population on the y axis. Compared to India, Vietnam, Bangladesh, and China have a more disproportionate share of low-skilled goods exports given the size of their working age population. By unlocking MSMEs, we can boost our export share in low-skilled goods export.

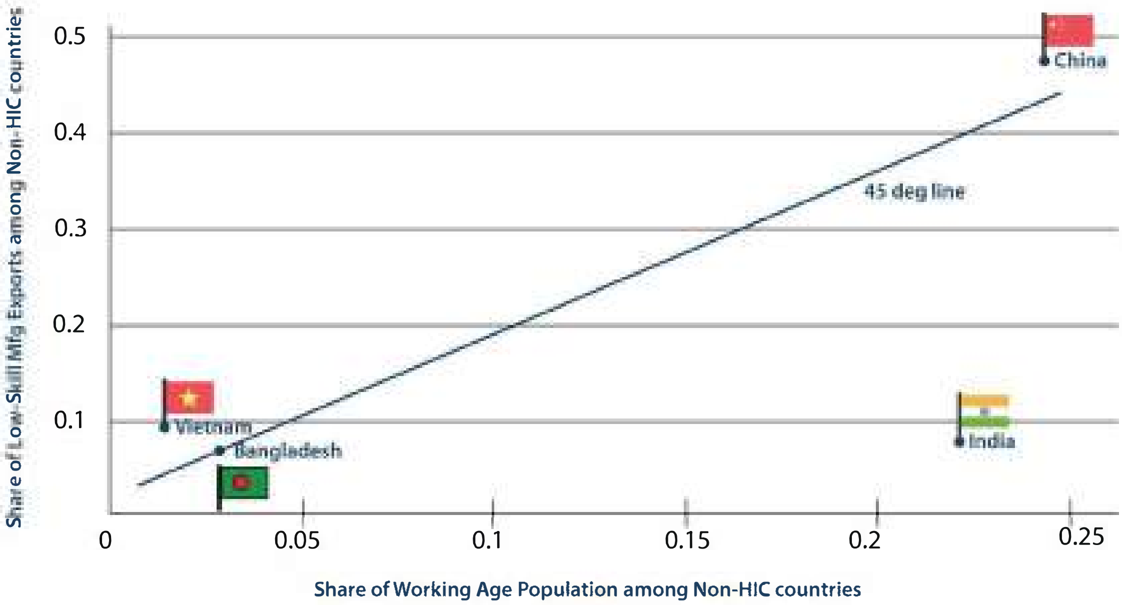


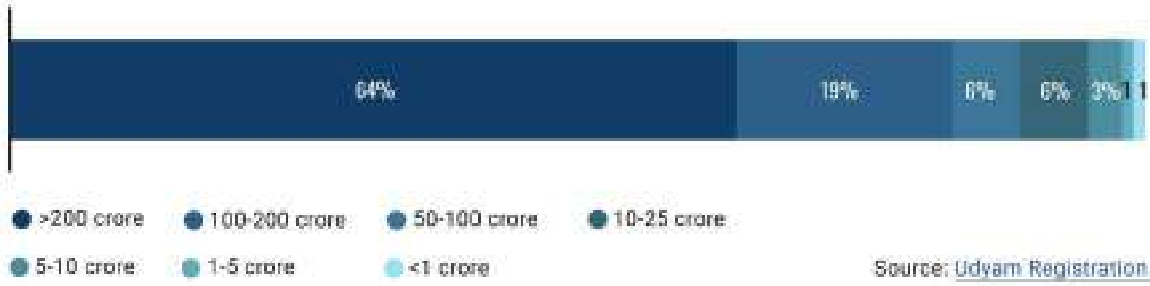
Figure 2.3: Labor endowment and low skill manufacturing export performance of non- high-income countries

Source: India's Export-Led Growth: Exemplar and Exception, Shoumitro Chatterjee and Arvind Subramanian, 2018

Despite the opportunity for MSMEs to pursue exports, only 0.95% of MSME engage in it[16]. Over 1.5 lakh units out of 1.58 crore registered MSMEs on the portal claimed to export their goods and services[17].

Figure 2.4 showcases the distribution of MSMEs by annual turnover. It is worth noting that for a significant number of MSMEs, the annual turnover from exports is less than INR 1 crore.

[12] KLEMS,2019-20,FED Analysis
[13] Udyam Dashboard
[14] World Bank Estimate of Population ages 15-64
[15] India's Export-Led Growth: Exemplar and Exception, Shoumitro Chatterjee and Arvind Subramanian, 2018
[16] Udyam Registration Publication
[17] Udyam Dashboard



Source: Udyam Registration Publication

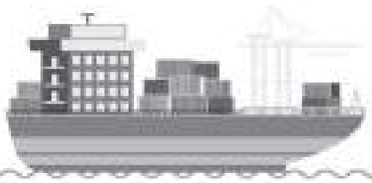
Figure 2.4: Distribution of exporting MSMEs by annual export turnover, in IN

There is a dissonance between different of the contribution of MSME exports to the total exports of India. The estimation of exports originating from MSMEs is currently based on an outdated list known as the 'List of Items Reserved for Purchase from Small Scale Industries.' This list mandated by the Government of India required certain products to be procured exclusively from MSMEs.

With the nullification of the protected goods category, it has become imperative to revise the estimation procedure for MSME exports. This necessity arises due to various factors, including the notable disparity between self-reported data (Udyam) and the government's official estimates, which result in significantly inflated figures for MSME exports. This discrepancy underscores the importance of updating the estimation methodology to ensure accurate and reliable data. A robust and transparent estimation process is crucial for assessing the true magnitude and impact of MSME exports, enabling policymakers and stakeholders to make informed decisions and implement effective strategies to support this vital sector.

In conclusion, the analysis suggests that for Indian MSMEs to unlock their true growth potential, exporting is crucial. Exporting can open new markets, diversify customer bases, increase revenue and profit, and enhance global visibility. Despite India's large working-age population and significant employment in MSMEs, its share of global exports in low-skilled manufacturing remains comparatively low. While the opportunity for MSMEs to engage in exports exists, only a small percentage currently participates.

The estimation of MSME exports faces challenges due to outdated lists and discrepancies between self-reported data and official government estimates. A transparent and accurate estimation process is crucial for understanding the true impact of MSME exports and formulating effective policies to support this vital sector. Addressing regulatory barriers, fostering a growth-oriented environment, and improving export capabilities are essential for unleashing the full potential of Indian MSMEs.



3 Opportunity for MSME Exports

Exports in low skilled manufacturing products offer a unique window of opportunity for MSMEs

While the previous section emphasizes the importance of exporting to unlock MSME potential, this section delves into aligning MSME exports with the country's manufacturing characteristics and leveraging its strengths in customization and labor-intensive production methods.

Both exports of manufacturing and services are skill intensive. India's specialization has become more skilled intensive in exports of auto and auto parts, electronics, machinery, pharmaceuticals in contrast to opposite belief. Moreover, it is noted that India has not fully exploited the Lewis curve for low–skill manufacturing compared with more skill intensive exports. Low/ Un-skilled exports include apparel, textiles, leather, and footwear. Since the nation has a comparative advantage in low skilled exports, it must boost its manufacturing capacity to further exploit this opportunity. India lags behind to tap on existing market potential in contrast with Vietnam, Bangladesh and China, which continue to lead exports in this category.

Box 3.1: Export Preparedness Index Report, NITI Aayog, 2021

Given the characteristics of Indian manufacturing with respect to resources and scale, they are better suited for producing low-skilled products that require a high degree of customization (scale of production becomes a moot point) and are more suitable for labor-intensive production methods. Pursuing exports in low-skilled products has a dual advantage - first, it is beneficial for the country as it will increase the share of merchandise exports without competing for the resources (human and capital) from skilled manufacturing exports, and second, it will provide an opportunity for MSMEs to play to their strengths and give them a boost to graduate from their respective categories (micro/small/medium) to a higher one, which is critical for their sustained growth.

Certain industries are a natural fit for exports from MSMEs.

Figure 3.1 is a scatter plot of manufacturing industries in India. The x axis plots investment required which is defined as the amount of capital stock per worker (INR lakhs). The y axis plots labour intensity which is defined as the number of workers needed to create one unit of output. Industries dealing in wood products manufacturing, ayurveda and herbal supplements, handloom textiles, handicrafts, leather products, and jewelry, among others, are a natural fit for MSME exports. They use traditional techniques of manufacturing and craftsmanship. These industries are distinguished by their high labor intensity and low investment requirements because of the use of handcrafted techniques. They capitalize on the strengths of Indian manufacturing and leverage a high degree of product customization or India's heritage value as their key differentiator in international markets.

Source: KLEMS,2019-20 and FED Analysis

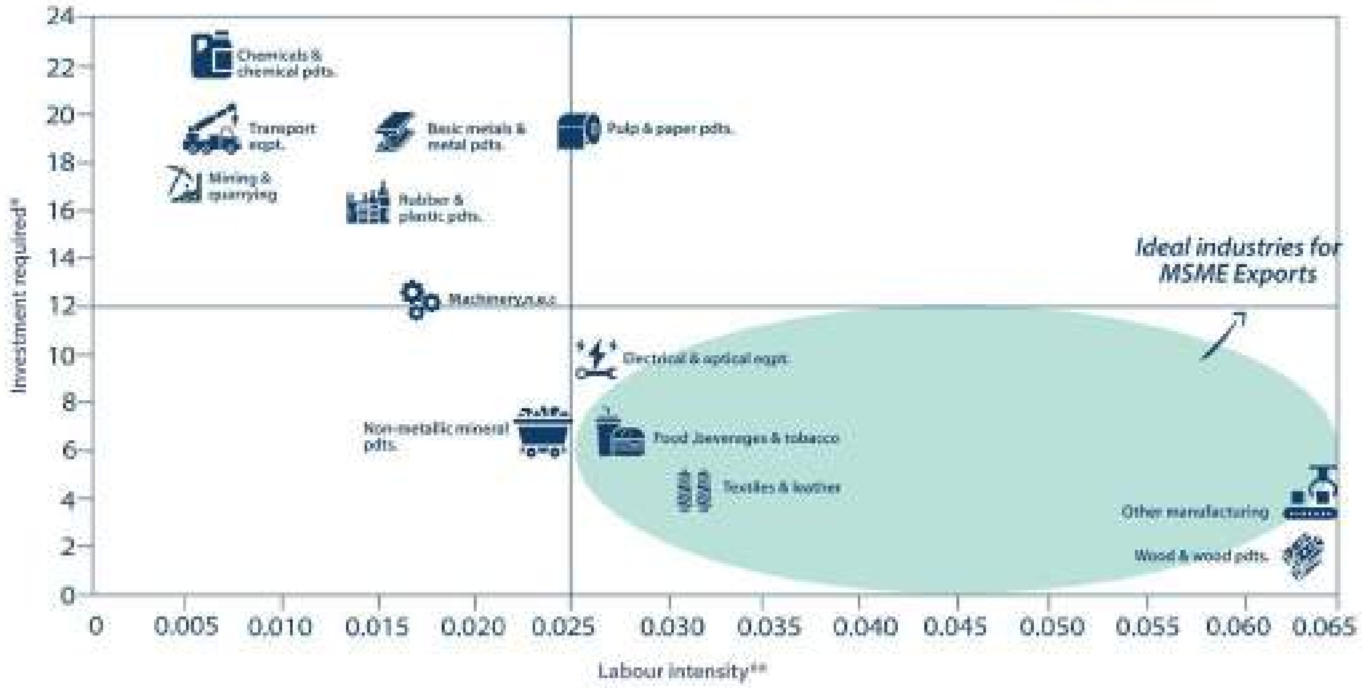


Figure 3.1: Distribution of manufacturing industries in India

Table 3.1 provides an overview of the sectors and product categories that are the best suited for MSMEs. We have excluded the food processing sector because it requires extensive certification not just at the processed food/end product level, but it also requires rigorous certification at the food origin (agriculture farm level) which is often not in the hand of MSME food processing manufacturer control.

Manufacturing Industry	Product Categories
Wood and wood products	• Manufacture of products of wood, cork, straw and plaiting materials • Wooden frames for paintings, photographs, mirrors or similar objects • Wood marquetry and inlaid wood; caskets and cases for jewellery or cutlery, and similar articles • Wooden furniture for offices and homes • Furniture of bamboo
Textiles and Leather	• Woven fabrics of silk, combed wool of handloom • Cotton durries of handloom • Gloves, mittens, and mitts; Of handloom • Bed sheets and bed covers, of cotton, Handloom • Other bed linen, printed: of cotton: Handloom • Carpets, rugs and mats of handloom • Embroidery on a textile fabric ground, in the piece, in strips or in motifs • Dress materials hand printed: - Of cotton and of various other fabrics • Handbags, whether with shoulder strap, including those without handle • Articles of a kind normally carried in the pocket or in the handbag: Wallets • Articles of apparel and clothing accessories, of leather or composition leather

Source: FED Analysis

Manufacturing Industry	Product Categories
Other Manufacturing	• Imitation jewelry • Candles and the like • Agarbatti and other odoriferous preparations which operate by burning • Handbags of other materials excluding wickerwork or basket work • Parts of domestic decorative articles used as tableware and kitchenware • Handmade paper and paperboard of any size or shape • Essential oils, whether terpene less, incl. concretes and absolutes; resinoids • Herbal Supplements • Toys

Table 3.1: Product categories well suited for exports from MSMEs

The suitability of the identified product categories for exports is further reinforced by data on top earners from e-commerce exports in India. Around 100,000 Indian exporters are utilizing e-commerce platforms to sell their products, generating a cumulative export revenue of over USD 5 billion. Notably, at least one thousand of these exporters achieved a turnover of at least one crore in 2021[18].

Figure 3.2 provides a list of top e-commerce categories. These categories collectively account for USD 340 billion worth of the global exports market. India's share in the product categories is meagre 2.25% of the global exports and worth USD 7.6 Billion[19].

Figure 3.2: Top e-commerce product categories with high growth and Indian "Heritage" products

Source: Amazon Exports Digest, 2022

Across the categories mentioned, India has a huge unrealized potential that it can leverage upon, especially on wood products and handloom textile. India's major contribution in exports, in terms of value comes primary from wood products followed by handloom textile. Table 3.2 below denotes India's share in global exports, based on product categories as stated earlier.

[18] Amazon Exports Digest, 2023
[19] ITC Trade Data, 2021

Product Category	India's Share (in $bn.)	Global Exports (in $bn.)
Herbal Supplements and Ayurveda Products	1.1	13.2
Wood Products	2.3	152.9
Handicrafts	1.1	109.3
Leather Products	1.4	28.9
Handloom Textiles	1.6	13.8
Jewellery	0.2	8.2
TOTAL	**7.6**	**326.2**

*Table 3.2: Global Market and India's Contribution in Exports of Products Categories suitable for MSMEs**

Source: ITC Trade Data, 2021 * Further Disaggregated data in appendix

Based on the above table, figure 3.3 provides the share of India's exports for product categories suitable for MSMEs.

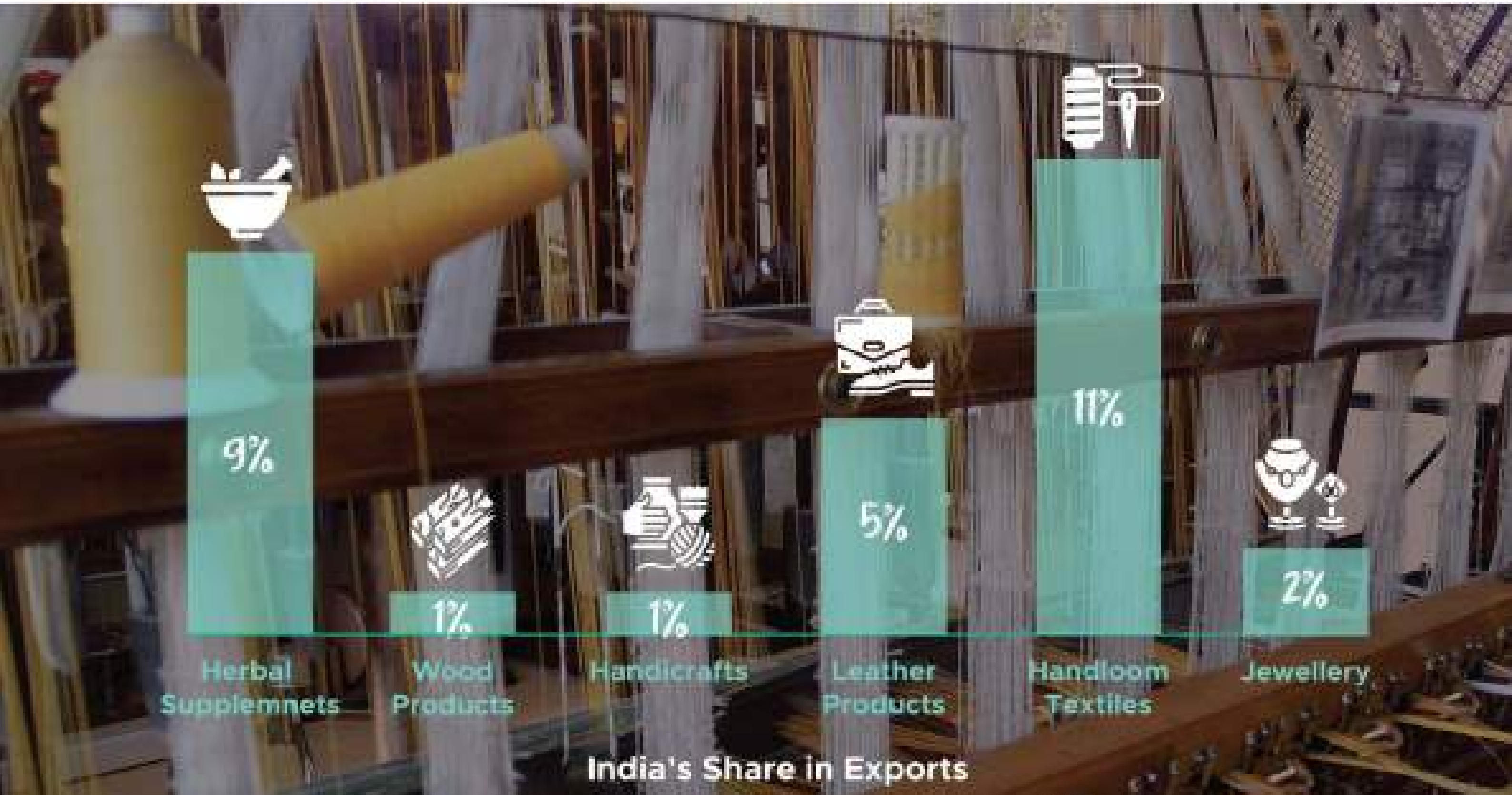


Figure 3.3: India's Share in Exports, compared to the Market

- Source: FED Analysis based on ITC Trade Data, 2021

Apart from the labor-capital requirements that make these products suitable for exports from MSMEs, there are two other reasons to promote exports in wood products, Ayurveda and herbal supplements, handloom textiles, and handicrafts. First, these products are deeply rooted in Indian culture and have a unique aesthetic that appeals to consumers in other countries. This can give Indian manufacturers a competitive advantage over products from other countries. Secondly, there is a growing demand for natural and sustainable products, and India has a long tradition of producing such products. This presents an ideal opportunity for Indian manufacturers to expand their market reach.

For Indian MSME manufacturers to maintain a sustainable profit margin in exports, they need to operate at a sufficiently large scale. Given that majority of Indian exporters are still generating a revenue of INR 1 crore[20], it would be more feasible for them to utilize channels such as e-commerce that can lower their customer acquisition costs, among other things. Figure 3.4 shows India's current share of cross border e-commerce trade in total goods export. Our e-commerce exports stands at a modest USD 2 billion, accounting for a mere 0.5% of our total merchandise exports and only 0.25% of global B2C e-commerce exports[21]. This minimal share in the global B2C e-commerce market can be primarily attributed to the lack of awareness, understanding regarding this export channel, and regulatory policies that do not adequately support the nature of business on e-commerce platforms. However, there is immense potential for India to significantly enhance its e-commerce exports in the coming years.

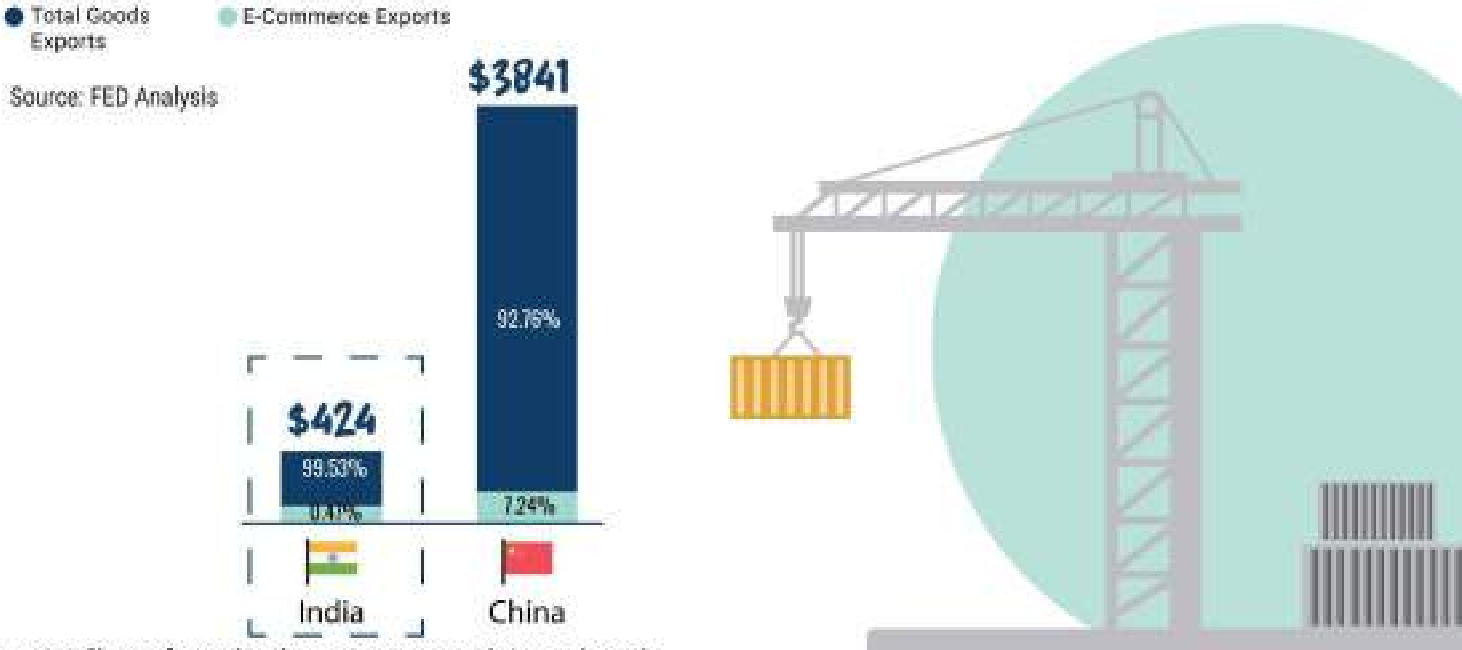


Figure 3.4: Share of cross border e-commerce trade in total goods export (%, in USD billions, 2022)[22]

Projections indicate that by the end of the decade, e-commerce exports from India could expand to a remarkable size of USD 350 billion (one third of its total export), while the global B2C e-commerce market is expected to reach a staggering USD 8 trillion[23]. These figures highlight the tremendous growth opportunities that lie ahead for India in the e-commerce export sector.

In conclusion, the export of low-skilled manufacturing products offers a strategic avenue for Indian MSMEs to grow sustainably. Industries such as wood products, handloom textiles, and handicrafts align with India's strengths and cultural appeal, providing a competitive edge. To enhance their global presence, MSMEs should consider scaling operations and tapping into the expanding e-commerce market. Despite the current minimal share, projections indicate significant growth potential. Addressing awareness, understanding, and regulatory challenges is essential for MSMEs to capitalize on this promising opportunity.

[20] Udyam Registration Publication
[21] GTRI Report, 2023
[22] FED Analysis
[23] GTRI Report, 2023

4

Challenges in Boosting Exports from MSMEs

Having established the importance of exports low skilled manufacturing exports, this section explores aspects that act as barriers for Indian manufacturers to do so. Manufacturing enterprises in India encounter numerous challenges that impede their growth and competitiveness. Inadequate infrastructure, such as transportation networks, power shortages, and limited access to quality industrial facilities, disrupt smooth operations. Additionally, the prohibitive cost of capital and scarce affordable financing options hinders investment and expansion. Complex regulations, red tape, and inconsistent policy implementation create an unfavorable business environment, impacting operational efficiency and long-term planning. Furthermore, the skill gap and shortage of trained workforce in specialized areas obstruct achieving high-quality production standards. Moreover, fierce competition from domestic and international players necessitates constant innovation and technological advancement, yet limited access to advanced technologies and research and development support hampers progress.

The lack of economies of scale poses a significant challenge for Micro, Small, and Medium Enterprises (MSMEs) pursuing exports. This challenge underlines most of the obstacles faced by MSMEs in their export endeavors. Exporting necessitates substantial investments in infrastructure, marketing, logistics, and compliance with international standards and regulations. However, due to their smaller size and limited production capacity, MSMEs often struggle to attain the cost efficiencies and competitiveness required to enter and sustain their presence in international markets successfully. The relatively smaller production volumes of MSMEs result in higher per- unit costs, making it difficult for them to compete with larger enterprises in terms of pricing and profitability. Furthermore, MSMEs may encounter difficulties in negotiating favorable terms with suppliers, accessing finance and credit facilities, and meeting the demands of international buyers.

While these challenges impact all manufacturers, they can be particularly debilitating for MSMEs. Small and medium enterprises engaged in manufacturing and pursuing export opportunities often encounter additional hurdles due to their inherent resource constraints.

4.1 Challenges in Business Environment

i. Overwhelming resource burden of numerous regulatory compliances imposed upon manufacturers.

Manufacturing companies in India must comply with disproportionately cumbersome regulatory requirements, including business registration, taxation, environmental compliances, labor and factory codes, and intellectual property rights. Obtaining multiple no-objection certificates from different authorities and paying government-mandated fees for each process is necessary to meet these compliance requirements, making it resource-intensive and time-consuming. Mistakes in compliance not only incur financial cost to the company, but it also leads to personal liability for the promoters of these enterprises.

Figure 4.1 provides the cost of starting a business in India as measured by the value of number of person-days required (% of income per capita). Cost of business startup records all procedures officially required, or commonly done in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete these procedures and the paid-in minimum capital requirement. These procedures include the processes entrepreneurs undergo when obtaining all necessary approvals, licenses, permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities.

Source: World Bank, Doing Business Project, 2019

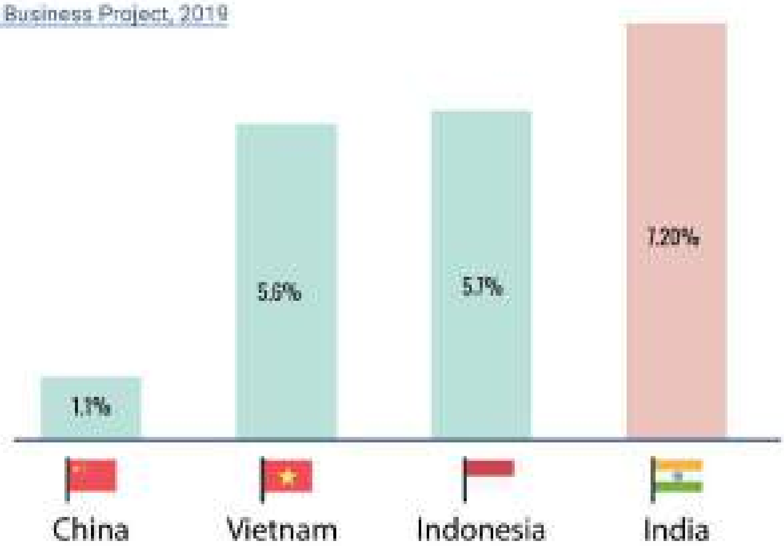


Figure 4.1: Cost of starting a business in India

ii. Dissonance between policies and its on-ground implementation.

Often unforeseen hurdles arise for manufacturers during the export process because of lack of harmonization of policies and laws with their practical implementation. Certain officials/offices operate with their own distinct interpretation (risk-averse interpretation) of the policies and laws leading to an unnecessary increase in the compliance burden of the exporter.

As per the Income Tax Law of India, it is clear that Form 15CA or 15 CB is not required when payment is made for purchase of goods from foreign vendors by an Indian entity. However, in many instances, banks have asked us for the forms at the time of processing the payment leading to delay in payment to the vendors, thereby delaying the delivery to customers. This has a direct business impact.

CFO & COO of an export-oriented enterprise

Box 3.2: Payment to foreign vendors in USD for purchase of goods by Indian entity

iii. Shortage of credible and internationally accredited testing labs leads to delays in the generation of quality certificates needed for customs clearance.

In addition to preparing the necessary shipping documents, most products require exporters to provide certification or quality certificates, or both. One of the obstacles exporters encounter when obtaining certifications is the time-consuming nature of the process. This is mainly due to the scarcity of laboratories equipped to conduct the necessary tests. With a limited number of specialized labs available, exporters often face delays as they wait for their turn to have their products tested and certified. This prolonged waiting period can hinder the timely shipment of goods, potentially causing financial losses and customer dissatisfaction.

In addition to the time constraints, the cost associated with obtaining certifications can pose a

In addition to the time constraints, the cost associated with obtaining certifications can pose a significant barrier for MSMEs looking to embark on their exporting journey. The expenses incurred during the testing and certification phase can be prohibitively high for these businesses with limited financial resources. As a result, MSMEs may find it challenging to meet the certification requirements, limiting their ability to access international markets and compete on a global scale.

iv. Import duties are imposed on samples and e-commerce rejects.

When samples are imported for evaluation or demonstration purposes, customs authorities apply duties based on the declared value of the samples (in case of FOC (Free of Charge) - they calculate the imputed value of sample). These duties can increase the cost of conducting market research or showcasing products to potential buyers, creating a financial burden for businesses. Similarly, e-commerce rejects, which are returned or unsold goods from online sales, may also be subject to import duties when re-imported. The additional import duties further reduce the profitability of these goods and add complexity to the reverse logistics process.

We import samples in India from the USA and Vietnam. Said samples are provided free of cost to us by parties in both the countries. However, Customs Authorities at ports in India are reluctant to accept this fact and add high notional values to the imported goods leading to 30-40% duty plus tax payment which is a blockage of working capital for us. Bringing samples helps us in generating export business from India and due to such duty plus tax on high notional values, we are reluctant to bring samples into India. Also, the limit provided under the Customs Law for exemption is very less and is not very helpful.

CFO & COO of an export-oriented enterprise

Box 3.3: Excerpt from a stakeholder consultation

v. E-commerce exporters face difficulty in claiming export incentives.

Unfortunately, the existing duty remission and export incentive processes primarily recognize cargo mode of shipping as the standard for exports. As a result, many e-commerce exporters using courier mode find it difficult to claim export promotion incentives such as RoDTEP (Remission of Duties and Taxes on Exported Products) and Advance Authorisation, among others. This disparity in recognition creates a barrier for e-commerce exporters, limiting their access to these valuable incentives and hindering their ability to fully benefit from government support programs.

4.2 Taxing Merchandise Export Procedure

i. Duplication of efforts.

Exporters in India currently face a daunting task of coordinating with five different government authorities: DGFT (Directorate General of Foreign Trade), Customs, GST (Goods and Services Tax), Banks, and later the RBI (Reserve Bank of India). Each of these authorities requires exporters to provide specific information and documentation to obtain clearances related to various export regulations and compliances. However, this fragmented process proves to be highly inefficient for exporters. They find themselves repeatedly filing similar sets of documents and providing details separately to each authority through their respective portals. This not only places an increased burden on the exporters' resources but also result in considerable time wastage. Keeping track of the entire compliance process becomes extremely taxing, adding additional challenges for exporters in navigating the complex bureaucratic landscape.

One of the classic examples wherein we need to visit two departments are obtaining advance authorization from DGFT and registering the same with Customs at the port of import. Surprising part is that the maximum port in India has the EDI facility, however, importers still need to communicate separately with DGFT and Customs. This increases compliance burden.

CFO & COO of an export-oriented enterprise

Box 3.4: Excerpt from a stakeholder consultation

ii. High volume of paperwork required for exports.

Exporters face the challenge of complying with extensive documentation requirements for their products, along with standard documents such as export licenses, invoices, and packing lists, among others. Figure 4.3 provides an overview of this documentation process which can be time-consuming and complex, especially for inexperienced exporters. Each step of the process demands meticulous attention to detail from the exporter to avoid complications that may result in the withholding of shipments at the port.

Figure 4.3: Compliance procedure in India

Source: FED Analysis

While business owners tend to be comfortable with the initial step of fulfilling requirements before commencing export, thanks to the abundance of accessible information and step-by-step procedures available, things become increasingly tedious when it comes to providing pre-shipment and post-shipment documents to the relevant authorities. A sizeable portion of the pre- shipment requirements is focused on customs clearance, adding to the intricacy of the overall process.

Figure 4.4 mentions a list of documents that represent the minimum set of documents required by an exporter to obtain customs clearance. However, there are additional product-specific document requirements that exporters must produce to successfully export their goods.

Quality Check	Pro Forma Invoice	Customs packing List	
Mandatory Requirement	Customs Invoice Bill	Shipping Bill	Export License
Shipping Requirement	Country of Origin	Bill of Landing	Bill of Sight
Payment Requiremnet	Bill of Exchange	Letter of Credit	
If ICD is Involved	Warehouse Receipt		

Figure 4.4: Basic list of required documents for exports customs clearance from India

Source: FED Analysis

iii. Delay in shipment due to random sampling by Customs.

One of the factors that can lead to delays in shipments is the random sampling process conducted by customs authorities. As part of their efforts to ensure compliance with regulations and standards, customs officials often select shipments for random sampling to verify the quality and adherence to relevant requirements. While this process is essential for maintaining product integrity, it can result in significant delays for exporters. The time taken for the sampling, examination, and subsequent clearance can extend the shipping timeline, impacting the timely delivery of goods and potentially causing logistical challenges for businesses.

iv. In-person resolution mechanism in case of withholding of shipment by customs at ports.

Figure 4.5 shows the time taken to complete documentary compliances. Any issues with the documentation during customs clearance can result in shipment delays and resolving them may require the physical presence of an MSME representative at the customs office, which can take weeks to resolve. As shown below, India takes 17 days to clear exports through customs even though exporters take only 2 days to fill documentary compliances.

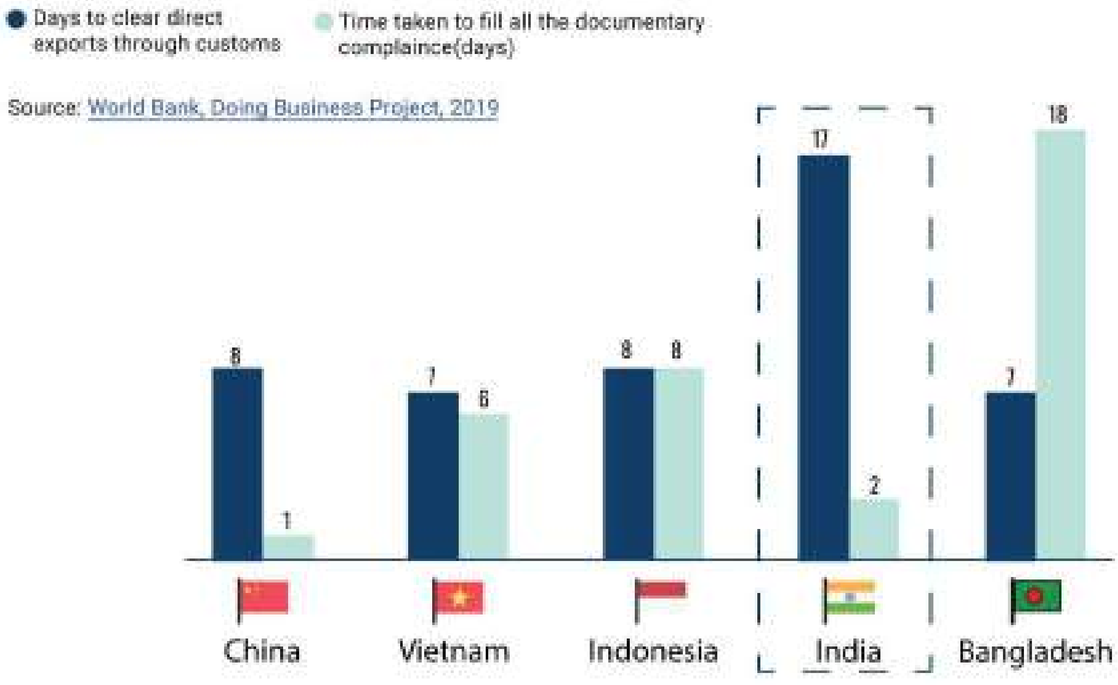


Figure 4.5: Number of days it takes to complete export related documentary compliances and get custom clearance at ports

v. Tedious payment reconciliation procedure.

Payment reconciliation process for imports and exports remains a major pain point for all export-oriented businesses. It is primarily because of stringent criteria for settlement of each shipping bill against the receipt of export proceeds. The entire process is resource intensive because it is detail oriented and does not have any room for error or provides any flexibility. Any failure of payment reconciliation of a particular shipping bill causes a fine of INR 2000 and physical verification of the receipt of exports proceeds and shipping bill at the bank.

The EDPMS settlement process requires 1 to 1 mapping of receipts of exports proceeds with the shipping bills. The one to one knock off requires matching the exact name of the parties mentioned in the shipping bill with the name of the party from whom export proceeds are received. This creates a concern when the customer operates multiple companies and pays up through those different entities. The recourse to get this corrected involves multiple applications to RBI and at least 6 months for redressal and sometimes more than a year.

CFO & COO of an export-oriented enterprise

Box 3.5: Excerpt from a stakeholder consultation

4.3 Limited Access to Finance

MSMEs face limited access to finance due to various reasons, including high risk perception, lack of collateral/guarantees, and limited awareness.

i. Current supply of credit via commercial banks, NBFCs and FinTech fulfills only 16% of the total credit demand of the MSME sector in India.

Access to capital is essential for MSMEs to sustain their daily operations and drive business growth. Figure 4.6 provides an overview of the demand supply gap in debt finance for MSMEs. Out of 6.34 crore MSME units, only 14% have access to credit compared to 30%+ in the developed nations[24]. Based on their market research, Avendus Capital Private Limited, one of India's leading wealth management companies have estimated MSME's total finance demand to be USD 1,955 Bn, met with a 3.8x ratio of debt : equity. Thus, their total debt demand comes to USD 1,544 Bn. Out of this, they estimate 47% of the demand to be unaddressable. This refers to demand from enterprises which are not financially viable or prefer financing from informal sources, still leaving us with an enormous Total Addressable Market (TAM) of USD 819 Mn.

*Figure 4.6: Demand supply gap in debt finance for MSMEs (in USD billions) **

[24] Avendus: MSME Lending Report, April 2023

The above figure excludes enterprises seeking informal finance or those ineligible for near-term formal credit due to limited operational track record or imminent closure risk.

The International Finance Corporation (IFC), the SME Finance Forum and the World Bank Group estimate the entire MSME finance gap to be close to US$ 5 trillion, hindering the ability of MSMEs to grow. Of particular concern is the trade finance gap, which disproportionately affects MSMEs. Despite the low-risk nature of short-term trade finance, the trade finance gap alone is estimated at upwards of US$ 1.5 trillion. The rejection rate of MSME proposals for trade finance is 45%. According to the Asian Development Bank (ADB), "among MSMEs initially rejected that sought alternative financing, 47% were unable to find anything appropriate"; this does not include those firms that do not even apply for financing in the first place.

Key reasons behind this are a *greater risk profile combined with MSMEs' lack of additional collateral and of the formal documentation required for financing, as well as more complexities for MSMEs when financing cross-border activities, a lack of awareness of financing opportunities among MSMEs, and proportionally high costs of services, due, in part, to a lack of digitalization.* When it comes to trade finance, some issues are related to working capital issues and others to trade finance products, with each creating different challenges.

Box 3.6: Trade Finance for MSMEs – An Unmet Need Globally

ii. The credit deficit is more pronounced for micro enterprises who borrow in small ticket sizes, of INR 10 lakh and less.

The micro-enterprise category continues to be the most underserved sector, with only 11% of enterprises having access to credit. The inability of these enterprises to provide collateral or guarantees, coupled with the perception that they are high-risk borrowers, has made banks and other financial institutions hesitant to lend to them. On average 40% of micro enterprises were denied loans due to lack of collateral between 2020-21[25].

iii. Access to working capital finance is a challenge for MSMEs.

Almost 70% of the total debt demand in the SME sector is composed of working capital demand[26]. In small manufacturing businesses, working capital is required at every step of production starting from procurement of raw materials or inventory to disbursement of finished goods. Lack of access to working capital credit negatively impacts the growth of the small manufacturers. Table 4.1 provides insights into access to banking facilities and credit to Indian manufacturers.

[25] MSME Lending: Unlocking potential, Realizing dreams, Avendus, April 2023
[26] International Finance Corporation Report, 2018

Parameters	% of Manufacturing firms
Firms with a checking/saving account	89.0%
Firms using banks to finance investments	56.1%
Proportion of investment financed by banks	24.2%
Firms using banks to finance working capital	36.2%
Proportion of working capital financed by bank	13.5%

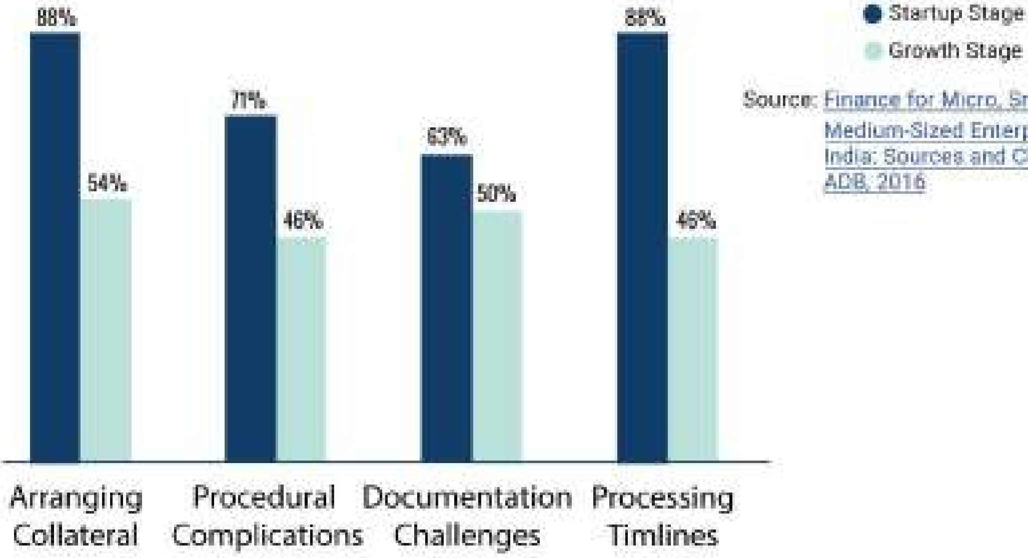
Table 4.1: Manufacturing firms access to working capital credit

Source: Enterprise Survey, World Bank, 2022

iv. Low awareness of different financial instruments and processes to secure funding from banks among MSME promoters.

Most of the small business promoters do not comprehend the range of financial instruments available to them – factoring, receivables financing, guarantees, etc., as well as the necessary prerequisites for obtaining credit, including credit scores, the drafting of business plans/proposals, collateral, and repayment terms. Adding to that are government regulations mandating the submission of audited financial statements, income tax returns, and other documents can be both time-consuming and expensive to prepare, further increasing the difficulties in securing debt finance from formal sources.

Figure 4.8 provides an overview of the different difficulties in accessing finance from formal sources for manufacturing enterprises across their growth journey.



Source: Finance for Micro, Small, and Medium-Sized Enterprises in India: Sources and Challenges ADB, 2016

Figure 4.8: Issues faced by MSMEs in accessing finance from formal sources

MSMEs do not possess the same magnitude of knowledge as funders. This affects both their ability to identify potential sources of funding and their level of comfort when pursuing innovative financing methods. One of the bank respondents noted that in most cases, "MSMEs are not fully aware of the various government grants and other initiatives to support their type of business" and that they "are not taking advantage of various innovative solutions geared towards supporting MSME business". Beyond this, even when MSMEs are aware of the options available to them, many still struggle with a lack of understanding of the processes and criteria for acquisition. A fintech respondent relates one discussion during which "the MSME actually drew attention to the fact that, had they known the process upfront in terms of what would impact the decision-making process, they could have addressed these requirements and secured the funding".

4.4 Limited Market Access

i. MSMEs often have limited exposure to the global exports market, which can result in a lack of awareness about the demand for their products and the necessary quality standards.

Additionally, the absence of market intelligence leads to limited awareness of target markets, including consumer preferences, market trends, and competitors. Conducting market research and developing effective marketing strategies can be particularly challenging for MSMEs due to their limited resources and expertise.

> **We organized a trade fair for apparel manufacturers with buyers from Japan. Majority of Indian manufactures came with products that they sell in Europe and US. They completely missed out on the taste and preferences of Japanese customer which is completely different from a US or European customer.**
>
> ***Secretary General, Apparel Export Promotion Council***

Box 3.8: Excerpt from a stakeholder consultation

ii. New exporters often encounter difficulties in locating and attracting buyers in the international market.

This is due to their lack of established networks or relationships in foreign markets, making it challenging for them to identify potential buyers. In addition, first-time MSME promoters may struggle to understand foreign markets, particularly in accessing export distribution channels and connecting with overseas customers. They may not be aware of the various distribution channels available to them, such as trade fairs organized by export promotion councils, export houses, and e-commerce platforms like Amazon, Etsy, and Alibaba. As a result, this lack of knowledge can impede their ability to effectively reach potential buyers and expand their customer base.

iii. To gain access to foreign markets, MSMEs need to meet the requirements of international buyers.

However, lack of resources and awareness of existing resources pose a significant challenge. MSMEs often lack the necessary technology, infrastructure, and skilled labor to produce goods that meet the quality standards and specifications of international buyers. This limits their ability to compete effectively in the global market and reduces their chances of success.

iv. In addition, MSMEs face various non-tariff barriers, such as technical regulations, standards, and certification requirements, which can make it difficult for them to access foreign markets. These regulations and requirements can be complex and costly to comply with, particularly for small businesses with limited resources.

As an individual attempting to sell my products in the international market, I find it exceedingly frustrating to reach out to potential buyers. The process of emailing potential buyers from various countries can be time-consuming, often resulting in limited or no responses. Additionally, even if there is a response, potential buyers are hesitant to pay upfront for the products, opting instead to pay after the products are sold.

Entrepreneur working in sustainable product category

Box 3.9: Excerpt from a stakeholder consultation

4.5 Difficulty in Access to Information Related to Exports

Difficulty in accessing basic information related to merchandise exports and conducting market research is the biggest challenge that Indian MSME exporters face.

i. Promoters of manufacturing MSMEs in India often struggle leveraging the existing information available in public domain related to exports because of relative high effort in accessing that information.

This is primarily because of two reasons-

- First, the lack of a verified and consolidated source of information on the entire export value chain is a major challenge for exporters. This includes information about overarching procedures related to export such as obtaining licenses and certifications, managing shipping and logistics, clearing customs, reconciling payments, accessing export incentives, and obtaining duty remission. Currently, all this information is scattered across different government department websites, making it difficult for exporters to access. Exporters must have a basic understanding of the relevant information and the department responsible for it, to navigate the website efficiently.

- Secondly, the complex presentation of information on the website/brochures regarding export-related activities pose a challenge. MSME promoters face issues with the complex presentation of information on government websites related to international trade. These sources often contain technical terms and jargon without explanations in simple, layperson terms. Furthermore, the necessary information may be spread out across several back references, making it challenging to understand. This complexity can also lead to confusion and misinterpretation of information, resulting in type I and type II errors.

Most of the export related circulars from customs have back references where you have to refer to older circulars in-order to gain a wholistic understanding of the items mentioned in the present circular, which is a pain point for any exporter.

Secretary General, Apparel Export Promotion Council

Box 3.10: Excerpt from a stakeholder consultation

ii. **Currently, there are no tools or channels that help Indian businesses to do product and country specific market research.**

To export successfully, SME promoters need to conduct extensive desk research to assess the viability of exporting and identify potential markets. This requires information on the target market's demand, competition, regulations, logistics, shipping options, market trends, pricing strategies, and consumer behavior. Unfortunately, the scarcity of readily available data and resources for conducting market research can discourage aspiring MSME exporters from exploring export opportunities as a viable business option.

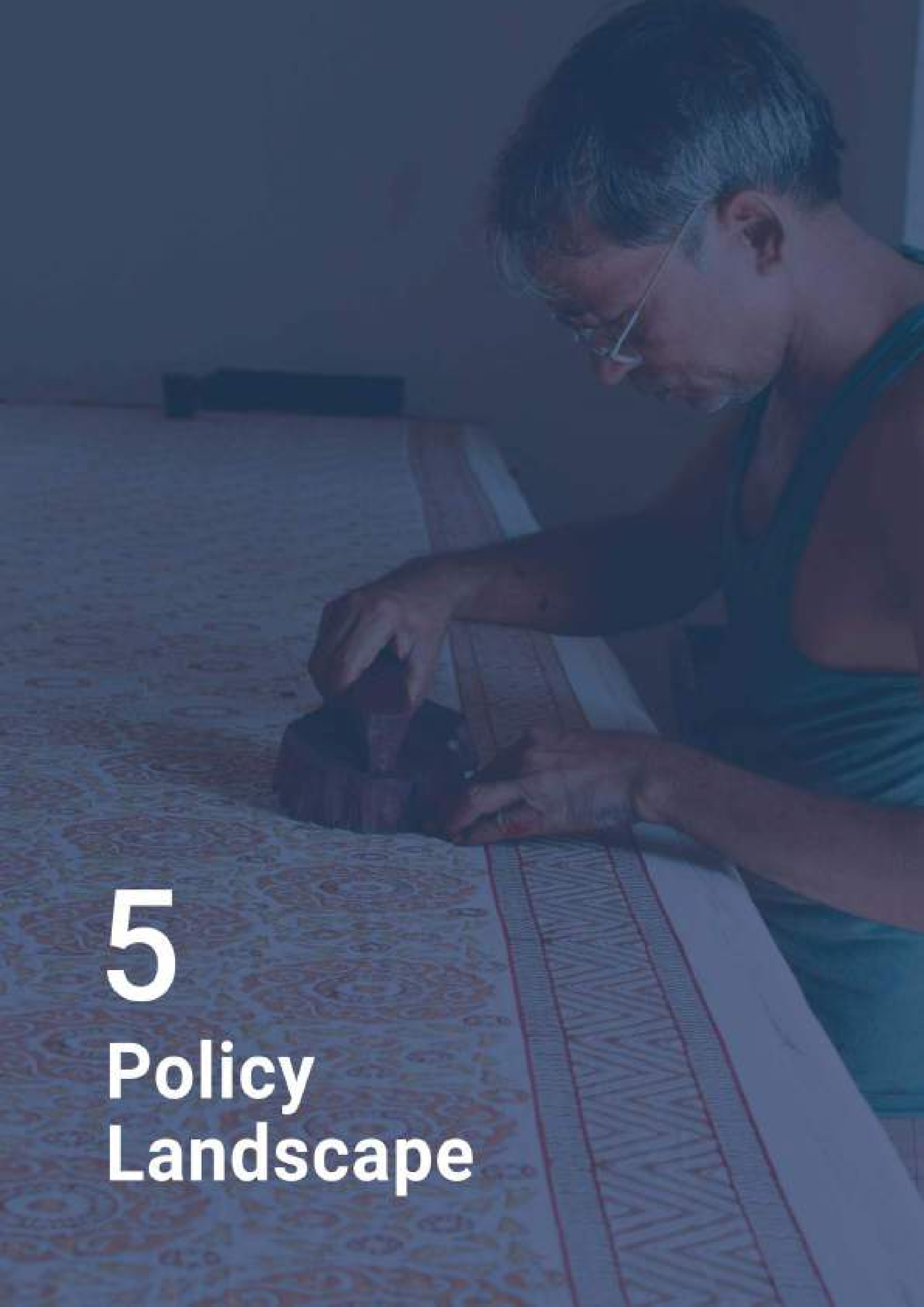
iii. **Dearth of information available in the public domain regarding post- shipment procedures.**

The intricacies of processes such as payment reconciliation, documentation requirements, and dispute resolution after the product has been shipped remain largely obscure to many MSMEs. This lack of accessible information can result in delays, uncertainties, and potential financial setbacks for these businesses.

iv. **Scattered information about government support schemes for exporters.**

The details of the government support schemes are dispersed across various government websites, scheme guidelines, reports, and PIB announcements. This fragmented presentation makes it difficult for exporters to access the information they need. Moreover, the scheme documents are often unclear as they undergo multiple rounds of revision and amendments.

Indian manufacturing, particularly MSMEs, face multiple obstacles —from infrastructure deficits to regulatory complexities. The challenges of limited economies of scale hinder MSMEs in export pursuits, compounded by regulatory burdens, policy dissonance, and a shortage of testing labs. The intricate and redundant export procedures, coupled with limited access to finance, particularly for micro-enterprises, further exacerbate the hurdles. Additionally, constrained market access, both globally and domestically, along with a dearth of accessible information, underscores the need for holistic reforms to foster sustainable growth and competitiveness in the Indian manufacturing landscape. Addressing these challenges requires comprehensive initiatives spanning infrastructure, regulations, financial accessibility, market exposure, and information dissemination.



5 Policy Landscape

In order to address various challenges faced by the businesses and support manufacturing and exports, the Central government has launched 20+ schemes.

5.1 Overview of the Government Initiatives

Exporters in India currently face a daunting task of coordinating with five different government authorities: DGFT (Directorate General of Foreign Trade), Customs, GST (Goods and Services Tax), Banks, and later the RBI (Reserve Bank of India). Each of these authorities requires exporters to provide specific information and documentation to obtain clearances related to various export regulations and compliances. However, this fragmented process proves to be highly inefficient for exporters. They find themselves repeatedly filing similar sets of documents and providing details separately to each authority through their respective portals. This not only places an increased burden on the exporters' resources but also result in considerable time wastage. Keeping track of the entire compliance process becomes extremely taxing, adding additional challenges for exporters in navigating the complex bureaucratic landscape.

The support provided by central government can be categorised as addressing one of the following:

Access to finance

Access and fulfilment of credit pose significant challenges for manufacturing businesses. Governments and financial institutions have introduced various schemes and initiatives to address these challenges. These schemes are designed to facilitate access to finance by offering a range of benefits, such as credit guarantees, interest subsidies, and relaxation of collateral and documentary requirements.

Limited market access

Government has introduced multiple schemes to provide opportunities for MSMEs to reach global markets that would otherwise be financially out of their reach. MSMEs receive assistance in enhancing their branding capabilities, receiving reimbursements for participation expenses, and organizing trade fairs and exhibitions.

Challenges in business environment

The government has launched schemes to develop exports and manufacturing clusters - streamlining processes, authorizations, and addressing technological upgradation challenges. Additionally, it supports businesses by reducing duty and taxation burdens, making Indian exports more competitive.

Taxing export procedures

MSMEs face significant obstacles when it comes to participating in exports due to procedural challenges. Numerous programs and strategies have been implemented to alleviate these hurdles by providing incentives such as streamlined customs clearances, reduced paperwork, deferred duty payments, and additional support such as bank guarantees and relationship managers to facilitate better understanding of the procedures involved.

Detailed outline of all the schemes, as stated above are given in the Appendix

5.2 Commentary on Existing Initiatives

Lack of "clear" consolidated information related to govt. initiatives.

i. **There is no consolidated list available in the public domain that outlines the incentives manufacturers are eligible for when engaging in exporting goods.** It is worth noting that during the desk research, it was discovered that information regarding export promotion schemes is scattered across various government websites, appearing in the form of scheme guidelines, reports, PIB announcements, and more. This scattered distribution makes it challenging for exporters to access the necessary information.

ii. **The scheme-related documents often lack clarity** as many schemes have undergone several rounds of revisions and amendments. This lack of clarity further complicates the understanding and application process for exporters. Moreover, finding the schemes or brochures related to them on government department websites remains challenging. Furthermore, the scheme descriptions often lack clear information on the specific activities covered under them.

iii. **The information provided on government websites regarding these schemes is not regularly updated.** As a result, old and inactive schemes are sometimes included alongside active ones, causing confusion for users who struggle to determine which schemes are still applicable. *For instance – Focus Product Scheme is still reported as an active export promotion scheme*[27] *in 2021-22 while FPS is merged to MEIS in 2015.*

iv. **Eligibility design hinders the uptake of the government schemes**

There are three types of schemes basis the eligibility criteria-

- Schemes with eligibility criteria defined upfront
- Schemes wherein eligibility depends on the business proposal,
- And lastly schemes that require achieving certain performance benchmarks to avail the benefits

In cases where schemes lack upfront defined eligibility criteria, it becomes necessary for business promoters to invest effort before receiving the benefits. Often, these efforts require significant resources, both in terms of time and effort, and even monetary investments. This approach can be discouraging if the expected outcome does not align with the initial expectations of the businesses. Unfortunately, MSMEs often find themselves caught up in administrative processes, which adds

[27] MIS on Export Promotion Incentives, DGFT, 2022

another layer of uncertainty to the process of availing the said benefits.

v. **Benefits\Mandates\Remit of several schemes overlap**

Schemes covering MSME exports are primarily issued by three government departments: the Ministry of MSME, the Ministry of Commerce and Industry, and the Ministry of Finance. As a result, there are significant overlaps in the benefits\mandates\remit of some of the schemes. While each scheme may differ in terms of beneficiary or the mode of benefit transfer; cursory research by an MSME promoter might make these schemes appear similar on the surface, leading to confusion. It is only upon closer examination that the distinct differences between the schemes become apparent.

For instance, the Market Access Initiative, under the purview of the Ministry of Commerce and Industry, and the International Cooperation (IC) Scheme, managed by the Ministry of MSME, are two schemes that aim to facilitate export promotion through participation in foreign events. However, upon closer examination, it becomes evident that the IC Scheme focuses on market access through diplomatic treaties, allowing only a limited representation of a few MSMEs. In contrast, the Market Access Initiative takes a broader approach in promoting export opportunities by partial reimbursing all the MSMEs participating in the trade fairs.

Another example can be seen in the Advancement Authorization Scheme (AAS) and the Duty Drawback Scheme (DDS), both of which address the same problem but offer different solutions. The AAS allows exporters to completely avoid upfront duty payments, whereas the DDS enables exporters to seek reimbursement for import duties they have already paid. Thus, while both schemes aim to provide relief, they do so through different approaches.

5.3 Gaps in the Policy Ecosystem

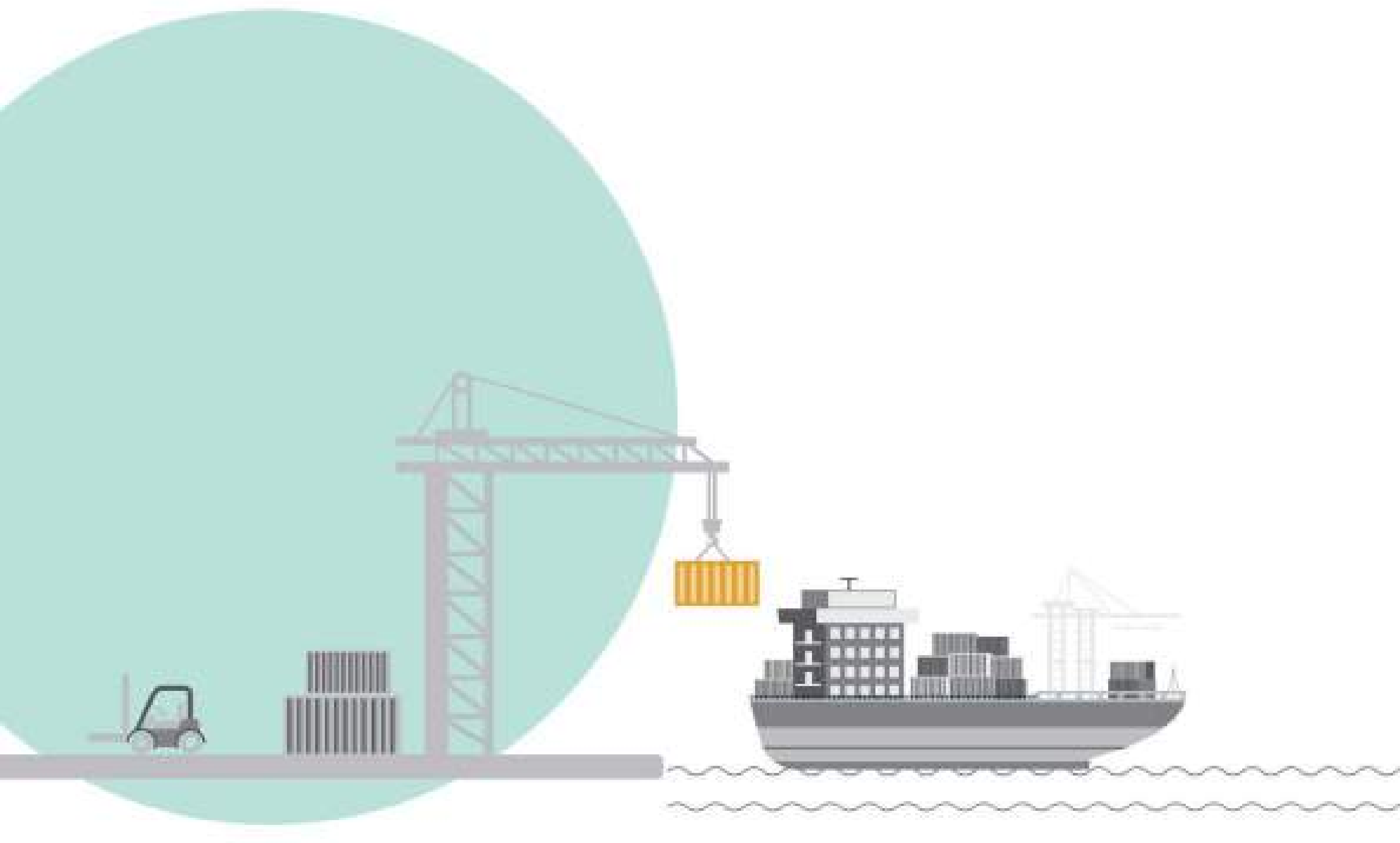
i. **Initiatives facilitating integration of MSMEs into GVC.** To enhance the export potential of Indian MSMEs, facilitating their integration into global value chains is imperative. However, one of the major hurdles faced by these enterprises is the difficulty in meeting international product quality standards. Regrettably, there is currently no policy or government initiative in place that provides fiscal or non-fiscal incentives to manufacturing enterprises for upgrading to international quality standards or provides any assistance to do so.

ii. **Initiatives facilitating establishment of more testing and certification labs and supporting MSMEs in obtaining such certificates.** Buyers in developed countries in the North /American and European geography impose requirements for the certification and testing of exported goods. It is necessary to enhance the testing and certification ecosystem by establishing additional laboratories, providing reimbursements to MSMEs that obtain these certifications, and offering incentives to international quality testing and certification companies to establish their laboratories in India.

iii. **E-commerce policy for addressing e-commerce exporters challenges.** India is home to a substantial number of e-commerce exporters, totalling 1 lakh, who face unique challenges in accessing existing government policies. Since these policies were primarily formulated based on benchmarks for Business-to- Business (B2B) direct exports, such as cargo mode of shipment, there is a pressing need for a comprehensive e-commerce policy to address these specific challenges.

iv. **Initiatives to support new/ infant exporters.** Policies should be implemented to alleviate the compliance burden for exporters or, at the very least, waive non- compliance fines for the first 10 shipments from new exporters. This initial phase is crucial for exporters to familiarize themselves with the intricacies of the export process. Therefore, no non-compliance fines should be imposed on the first 10 export shipments, allowing exporters to gain experience and adapt to the requirements.

A favourable trade policy is indispensable for both large-scale enterprises and MSMEs to gain a strategic advantage in the global market. As mentioned above, the central government has launched many schemes to support manufacturing and exports, addressing challenges in access to finance, limited market access, business environment complexities, and taxing export procedures. However, the existing initiatives face critical challenges, such as a lack of clear consolidated information, eligibility design hindrances, and overlaps in benefits among schemes. Gaps in the policy ecosystem include the need for initiatives to integrate MSMEs into global value chains, establish more testing and certification labs, formulate an e-commerce policy, and support new exporters by easing compliance burdens for the initial shipments. These aspects highlight the imperative for a more cohesive and targeted approach to foster a



6 Recommendations

As discussed in the previously, the challenging ecosystem and cumbersome processes for Indian manufacturing result in only a small fraction of MSMEs having the necessary capabilities to engage in direct exports (B2B). Together, they account for less than 1% of all MSME units [28]. These select units, which possess the requisite product, resources, and technology, are already involved in exporting. Consequently, the responsibility to increase exports from MSMEs rests on two pillars. Firstly, to attract non-exporters into the fold, and secondly, by optimizing the business and regulatory environment to promote more exports from existing exporters.

6.1 Creating 'one stop' information channel for exporters

To effectively serve as a knowledge base for export procedures, compliances, and product specific regulations in both India and importing countries, there is a need for a single channel of information.

One of the most significant challenges faced by existing exporters and business promoters considering exports is the difficulty in accessing information related to the export procedure and subsequent documentation requirements, market information, and various government support schemes for manufacturers pursuing exports. There is a need for a user-friendly, regularly updated, and credible platform that provides comprehensive insight into the entire exports market. However, most platforms, only offer a brief outline of the process with outdated information.

Table 6.1 provides an analysis drawing a **comparison between IndiaXports, India Trade Portal with the US ITA portal** suggests that there is a need to update India's export promotion platforms, making it more user-friendly, regularly updated, and preparing a credible platform that provides a comprehensive insight into the entire exports market.

Parameters	IndiaXports	India Trade Portal	US ITA Portal
Product wise Trade and Tariff Intelligence	No	Yes	Yes
Comprehensive Market Research	No	No	Yes
Historical data on imports and exports	No	No	Yes
Export procedures and documentations	Yes	Yes	Yes
Information on financing options for exports	Yes	No	Yes
Compliance and Risk Management Support	No	No	Yes
Overview of export regulations and agreements	Yes	Yes	Yes
Contact details of top exporters	No	No	No

Details of potential shipping and logistics partners	No	No	No
Facilitate access to networking events	No	No	Yes
Support for grievance redressal	No	Yes	Yes

Table 6.1: Comparison between Trade-Information Portals in India (IndiaXports and India Trade Portal) and US ITA Portal

Source: FED Analysis

Considering the comparison, we propose the creation of an intelligence portal with Generative AI (Artificial Intelligence) capabilities.

A portal equipped with a generative AI chatbot, trained on all government information regarding exports, can offer a comprehensive solution to the initial information related challenges faced by exporters. The chatbot shall provide users with information on export regulations and compliance and guides them through obtaining finance, accessing various market channels, and availing government initiatives and schemes for exporters. Additionally, it can aid in the capacity building of first-time exporters.

The information will be divided across 2 constructs –

"Basic Information" Module

This module will provide a platform for new exporters to draw understanding, or even to old exporters who want to understand the economic prospects based on prior year data, Total Addressable Market (TAM), Top products exported country-wise, which provides the exporters with a learned advantage, and making them aware of the benefits and support at their disposal. EXIM Bank[29] has created a similar portal called "Exim Mitra" with some of the basic structures in place which can be revamped to provide the kind of information outlined in Figure 6.2.

Learn How to Export/Import

-HS Codes
-Export Procedure
-Document Requiremnet
-Regulatory complainces of top export destinations from India

Where to find buyers/sellers

-E-Commerce
-Direct B2B exports
-Deemed exports / Indirect exports
-Global value chains

Trade Statistics and Reports

-Country reports
-Top export destinations
-Top products exported
-Top MSME product categories and export destinations

Obtain financing

-Financial instruement for exporters
-Trade finance products from Banks/NBFCs/Fintechs/ECGCs

Government Support

-Incentives for exporters
-Incentives /Schemes for first time exporters
-Major govt. initiatives to boost exports

Capacity Building

-Self paced modules on 'how to ship your product'
-Self paced modules on ' how to do market research,

Figure 6.2: Information required in "basic information" module

[29] EXIM Mitra Portal

The portal should be able to provide comprehensive market information – market size and opportunity, product specific regulatory compliances (domestic + importer country), channels for market access, tariff and non-tariff barriers, potential shipping and logistics partners, applicable govt. support and trade financing options.

"Market Research" Module

This module will be based on the information available, based on country and product- wise queries. The International Trade Centre (ITC)[30] have also developed a similar online tools to make global trade more transparent and to facilitate access to markets. A similar, yet advanced portal can be created which covers the range of information as outlined in Figure 6.3.

Export Perfume to Germany

Product related complainces in Sweden and India	HS Codes and trade barriers (tariff and non-tariff)	Top competitor nations and their export volume
Shipping and Logistics companies that operate between India and Sweden	Financial Institutions providing trade finance	Eligibility for different duty remissions/export incentives

Figure 6.3: Information required in "market-research" module

Such market intelligence tools are in existence in the USA and in Korea, and we can draw learnings out of it, and present a solution to exporters to support their export initiation process.

The U.S. Department of Commerce's International Trade Administration (ITA) provides a wealth of information and resources for exporters on their website, including market research, trade events, and industry analysis.
Some of the stand-out features of this portal-

- **Comprehensive Resources: The ITA website provides a wide range of resources and tools for businesses looking to export goods and services. These resources include export process, market research, trade data and statistics, industry analysis, and information on trade agreements and regulations.**

- **User-Friendly Interface: The website is designed with the user in mind, making it easy to navigate and find the information that you need. The information is presented in a clear and concise manner, with videos, helpful graphics and interactive tools.**

- **Up-to-Date Information: The ITA website is updated regularly, ensuring that businesses have access to the latest trade data, regulations, and market analysis.**

- Customizable Information: The website allows users to customize their experience based on their specific needs and interests. Users can sign up for email updates, create custom market reports, and connect with trade specialists for personalized assistance.

- Customizable Information: The website allows users to customize their experience based on their specific needs and interests. Users can sign up for email updates, create custom market reports, and connect with trade specialists for personalized assistance.

Box 6.2: USA's International Trade Administration

Figure 6.4 and Figure 6.5 below provide a snapshot of market intelligence models used by the US and Korean exporters.

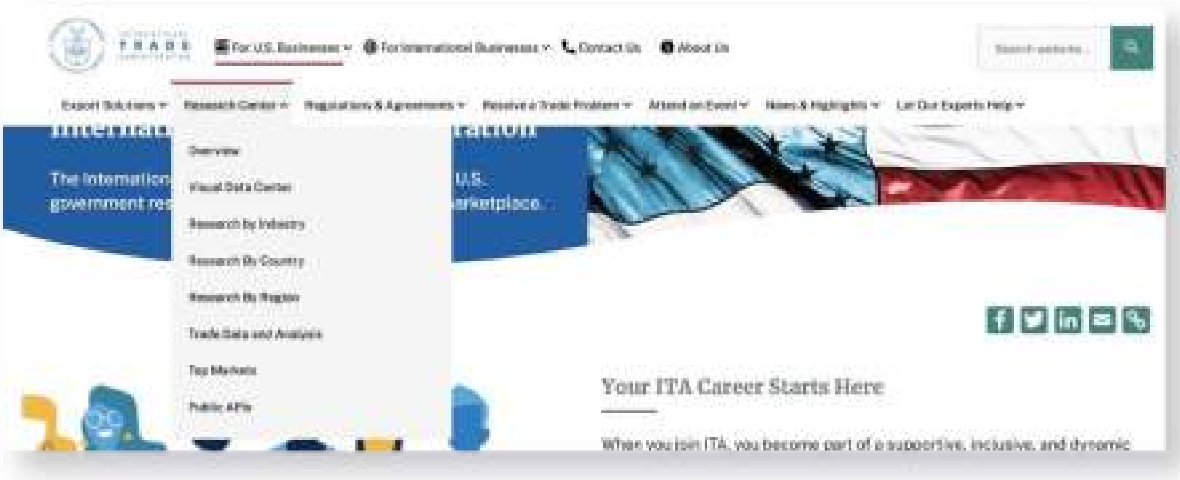


Figure 6.4: Market intelligence tool for US Exporters

Figure 6.5: Market intelligence tool for Korean Exporters by KITA

6.2 Create National Trade Network (NTN) as a comprehensive trade portal

Exporters experience several challenges[31] at each stage of the current export process as outlined below:

Pre Export

i. Exporters need memberships from sectoral EPCs as well FIEO (the apex EPC) to export one commodity.

ii. Exporters need an IEC code from the DGFT website, AD code letter from the bank in which their business has an account, and LUT from the GST portal.

iii. Compliance, documentation requirements differ for different products categories and shipping mode. These details are not provided in one single source.

iv. Information regarding credibility of buyer and freight options also not provided.

v. Information to compare various schemes in terms of cost, application procedures, and suitability is not provided.

During Export

i. Correct documentation requirements and steps to be taken for shipping goods, such as serial numbering of each box is opaque, hence issues often crop up once goods have been shipped to ports.

[31] Twitter thread – experience of an exporter

ii. Frequent bugs in the system/ lack of customer support results in completion of process manually when it should have been done online.

iii. The process for flagging issues and resolutions is largely offline and leaves scope for discretion and corruption.

Post Export

i. Exporters have to submit documents at their bank for obtaining eFIRC[32] for remittance received.

ii. Many times, the bank miscommunicates with the exporters saying that the documents were not submitted if when they were well within the required time.

iii. Because of this, there could be a situation where they are wrongly reported to the Enforcement Directorate for violation of FEMA.

Implementing National Trade Network (NTN) would prove beneficial in minimizing transaction costs and addressing the informational asymmetry. It would offer end-to-end visibility to all stakeholders involved in the export or import processes. By providing a comprehensive solution, the single portal would improve the overall efficiency of the export process, reduce costs, enhance transparency, and promote compliance with export regulations; thereby enabling Indian exporters to compete more effectively in the global market.

As shown in Figure 5.6 below, a National Trade Network (NTN) can be created, and its functionality can be comprehensive, making it a one-stop application and submission portal of all trade related compliances for all the relevant stakeholders. The scope and functionality can be expanded to: integrating duty remissions, e- payments for the buyers and payment reconciliation, logistics and shipment tracking and, financial insurance services, etc.

The portal will organically increase awareness of the entire exporting journey as well as reduce the resource burden of MSMEs by ending the instances of repeated submission of same documents, offline processes of getting licenses and quality certificates, among others. TSW will also increase their uptake of various export promotion incentives and make them more competitive in the global markets.

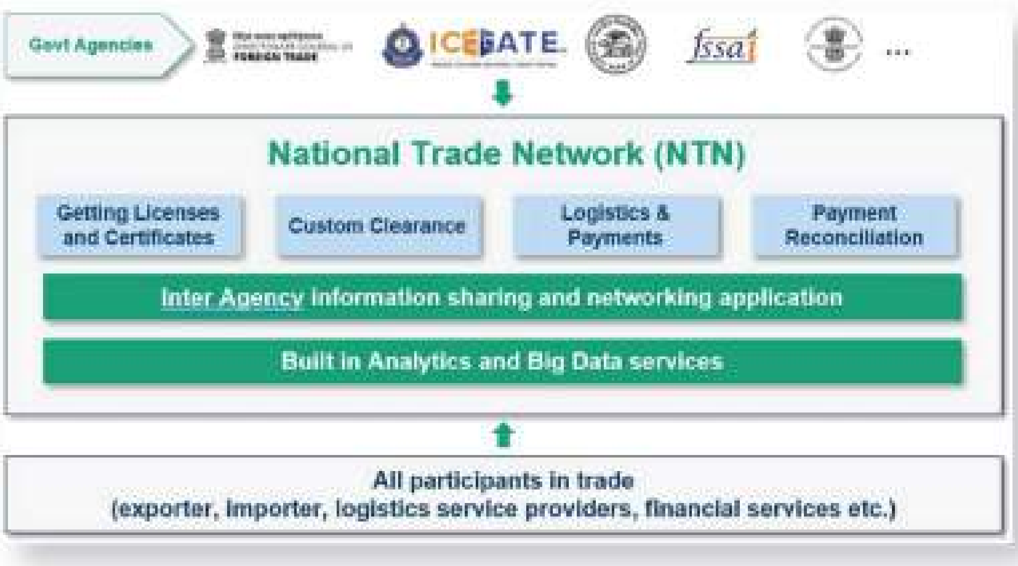


Figure 6.6: Proposed Scope of National Trade Network (NTN) for India

[32] The term is used to denote an FIRC which is issued by a bank in EDPMS. An e-FIRC is issued in EDPMS after the Inward Remittance (IRM) has been uploaded into EDPMS.

In our proposed exporting process through National Trade Network (NTN), the portal will serve as the central technology platform, eliminating the need for membership in multiple EPCs. The portal will streamline information on quality control certificates, insurance, certificate of origin etc. by consolidating them into a single, user-friendly form. In collaboration with global rating agencies, the NTN will also verify the authenticity of buyers. Exporters would be provided with options to hire the services of a freight forwarder through a service panel section. NTN will also centralize information from various financial institutions, providing users with eligibility details for different products based on their information.

The NTN will proactively guide exporters on the necessary steps for a smooth customs process, leveraging big data to intelligently select consignments for inspection rather than relying on random selection. This would take discretion out of the process. RFID tags and electronic toll system will ensure that cess and entry taxes are deducted automatically. The exporter can track the movement of containers from their factory to the port in real time.

Once the shipment is initiated, documents will flow seamlessly, and payments will be automatically credited to the exporter's bank account. Import duty drawbacks and refunds will also be directly deposited into the exporter's account. The exporter will not have to physically visit the bank unless any issues of fraud are detected.

India's current trade facilitation infrastructure	Opportunity for India
Multi-window process – For example DGFT for export documentation and regulations, customs for shipment, GST for incentives, EDPMS for payment settlement.	One-stop single window
Few processes related to customs and payments are still offline – For example when are goods held in inspection, sampling	Paperless process
Non-standard paper documents	Unified and standard e- documents
Repeated submissions – For example, the same set of documents related to exports have to be submitted to DGFT, customs and EDPMS	One time submission
Vulnerable to counterfeit and falsification	Anti counterfeit and anti- falsification

Table 6.2: Status of India's trade facilitation infrastructure and opportunities for improvement.

Source: FED Analysis

China's Single Window Trade Portal Scheme

Key Features of this portal –

- Facilitates information sharing between different agencies involved in the trade.
- One stop application and submission portal for all the trade related compliances
- Portal integrates duty remissions, e-payment for the buyers and payment reconciliation.
- Portal integrates logistics and shipment tracking and financial insurance services.
- Portal has separate module on cross border e-commerce.
- Provides big data services like customs clearance assessment and exporter profile.

Impact of the portal in improving the ecosystem of trade compliances

The implementation of the Single Window has greatly **improved port efficiency** and the business environment and enabled the deployment of port and regulatory resources. The "once-for-all" declaration for vessel entry and exit through the Single Window, together with the whole paperless operation process, **has done away with** 44 categories classifying over 70 types of goods, as well as a **total of some 150 pages of paper documents,** and has seen the **time required for procedures and formalities reduced from the original 16 hours to just 2,** with the incidence for running on-site errands also reduced from the original nine times or more to only once.

Box 6.2: Case study of China's International Trade Single Window

Source: World Customs Organisation Report

6.3 Unlock E-Commerce Exports

Micro enterprises and small (lower echelon) enterprises form a sizable portion of non- exporters within the MSME sector, representing an untapped opportunity. Unlocking the export potential of these enterprises require constant handholding support. They face significant challenges related to market access, fulfilling compliance and regulatory requirements, and organizational capabilities needed for exports, as discussed in the previous chapters. Utilizing e-commerce platforms for exporting, coupled with simplified e-commerce export regulations, emerges as a natural solution to boost exports from non-exporting MSME units.

By leveraging e-commerce platforms, MSMEs can tap into global markets and enjoy several benefits, as outlined below, enabling them to circumvent economies of scale and spur growth.

- E-commerce platforms provide opportunities for personalized marketing, allowing MSMEs to connect with customers looking for unique or specialized offerings. This flexibility enables MSMEs to focus on niche segments, differentiate their products, and build customer loyalty without solely relying on economies of scale.

- **E-commerce platforms offer MSMEs economies of scope.**

  E-commerce exports provide MSMEs with direct access to global markets, regardless of their size or location. Through online marketplaces, MSMEs can display their products to a diverse customer base worldwide, expanding their market reach and potentially increasing demand and sales. As sales grow, MSMEs can enjoy economies of scale by bulk purchasing inputs, improving production processes, and gaining better negotiation power with suppliers.

- **E-commerce platforms offer cost-effective marketing and distribution channels for MSMEs**

  They supply tools for targeted marketing, enabling MSMEs to reach specific customer segments more efficiently. Moreover, e- commerce platforms often have integrated logistics and fulfilment services, streamlining the delivery process and reducing the need for MSMEs to invest heavily in their own distribution networks. By leveraging these services, MSMEs can reach customers in a cost-effective manner, even with smaller production volumes.

Nevertheless, for MSMEs to fully reap these benefits, it is crucial to rationalize several export regulations, as listed below:

i. Enable distinction between Exporter on Record (EOR) and Seller on Record (SOR)

Presently, Indian export regulations mandate that the exporter must be the owner of the product, and export proceeds must be received in the exporter's name. Table 5.3 below outlines the benefits of differentiating between SOR with the EOR

In the context of cross-border e-commerce sales, this necessitates that the e- commerce seller (product owner) assumes the role of exporter, as export proceeds are obtained in their name. Meeting the export compliance requirements and later the payment reconciliation process poses a significant challenge for over 1 lakh MSMEs and solo entrepreneurs who use e-commerce platforms to deliver their products from India to global markets, particularly as their sales volume increases. Therefore, by distinguishing SOR (Seller on record) from EOR (Exporter on record) will free up time for sellers to focus on manufacturing most efficiently leaving selling and compliance tasks to a specialist player.

China has resolved this issue for its e-commerce sellers through a system that allows the seller to maintain ownership of their products while outsourcing the compliance requirements to third-party entities such as export houses, who handle logistics, payment compliance, customs clearance, and other related obligations for a nominal fee. This system has been successfully used by approximately 20 million e-commerce sellers in China, facilitated by roughly 100,000 such third-party entities.

In India, two regulatory bodies i.e., DGFT and Customs recognize the existence of third-party exporters, apart from RBI. Currently, if an e-commerce seller uses a third- party exporter, payment reconciliation becomes infeasible.

		Current Scenario	Proposed			
Area	Activity		SOR	EOR	Benefit	Details
Basic Groundwork	Time spent understanding export requiremnents	✓		✓	Medium	Key impediment for fist time experts/ people consideing to export
Marketplace	Marketplace account creation and handling	✓	✓		NA	Account still created by SOR
	Marketplace payment to account	✓		✓	Medium	EOR can manage the account
Mandatory Licenses	Company registration and license and Export lincenses	✓		✓	Low	Process for obtaining IEC Code and AD code is fairly streamlined . This can be done by the company on iy'd own or by taking help from an agent
	Product specific lincenses	✓	✓		NA	Product specific lincenses will need to be taken by SOR
Shipping Documents	Commercial invoice ,Packing list	✓	✓		NA	Processes managed at SORs end
	Custom declaration form	✓		✓	Medium	Eleminates the need for seller to engage in any complaince related documentation
Payment and tax	Inward remittance credited to account	✓		✓	High	Payment reconcilation is a key challenge as reconcilation needs to be done on a per shipping bill basis and a variation of more than 25% between the shipping bill and the amount recieved creates a significant issues. Having this distinction clears significant time for the seller to focus on product rather than complaince
	Payment reconcilation at banks	✓		✓	High	
	Claim tax rebates/benefits	✓		✓	High	
Returns	Managing duty refunds on returns/ rejects	✓		✓	Low	Given that return rate is low in cross- boarder e -commerce this is not a binding contraint

Table 5.3: Current and proposed scenario to unlock e commerce exports

Source: FED Analysis from stakeholder consultation

ii. Allow reduction in invoice value without any percentage ceiling for all e- commerce exports

Clause C17 of the RBI Master Direction for Export of Goods and Services allows AD Banks to approve for reduction in invoice value without any percentage ceiling, provided the exporters have been in export business for more than three years. But for MSMEs who are new exporters (less than 3 years of track record), the reduction permitted cannot exceed 25% of invoice value. For MSMEs who are new exporters and are finding their footing in global markets, this 25% cap creates unnecessary difficulty. It is recommended that AD Banks be allowed to approve a reduction in invoice value without any percentage ceiling for all e-commerce exports.

iii. Digitize the payment ciliation process on NTN

Currently the entire reconciliation process is primarily manual and expensive. The government can enable a digital public good which banks can use to create simplified and automated reconciliation processes.

iv. Introduce annual financial reconciliation process for e-commerce exporters

After exporting, bills need to be reconciled on a per shipment basis. This places high burden on B2C e-commerce exporters due to a higher number of small shipments. Furthermore, in case of non-compliance, the seller must navigate through multiple offline processes to rectify the issue and clear the payment settlement on Export Data Processing and Monitoring System (EDPMS). The expensive shipment-wise closure process in the EDPMS33 must be eliminated to ease the burden on exporters.

v. Exempt import duties on rejects / returns

Frequently, items that are exported through the E-Commerce route are returned by the overseas buyer. The CBIC notifications (45/2017,46/2017)34, states that re- imported goods are exempted from customs duty subject to fulfillment of certain conditions, one of which stipulates that the re-imported goods must match the characteristics of the initially exported goods. Yet, due to the absence of standardized SOP outlining the criteria for classifying a product as the one originally exported, customs officials often classify re-imports as imports. As a result, returned products are subject to import duty, leading to increased costs. This issue is particularly pronounced for small e-commerce sellers, given the greater fluctuations in demand they encounter and the elevated cost burden of duties as a percentage of total shipment value.

To resolve this issue, alternative measures, as listed below, can be considered:

- Permitting duty-free import of consignments upto a specified value, similar to practices in other countries, could be a viable solution. For instance, the USA allows duty-free import of consignments up to a value of approx. INR 60,000.

- Additionally, a simple procedure may be prescribed by way of issuance of a circular to enable booking of re-imports through ECCS portal, which could also serve as a guide for the customs officials at the time of undertaking the re- import assessments. In this regard, it may be beneficial to formulate a SOP modeled along the lines of the one established for gems and jewelry via CBIC circular no. 09/202235, with certain tweaks to suit the requirements of e- commerce export returns.

vi. Create green channel clearance for e-commerce exports

Because e-commerce shipments are treated the same as standard shipments, it leads to delays and rejection of shipments at customs. As a result, the time taken for e- commerce exports is prolonged, and this leads to poor customer experiences, adversely impacting the seller/exporter in the long run.

Separate customs supervision codes for e-commerce exports can be created by way of amending the relevant rules within the Customs Act, 1962 to speed up the customs clearance process. The same can be accompanied by making required amendments in FEMA regulations to recognize payments received through e-commerce platforms for goods which are exported using the said customs supervision code.

6.4 Promote ease of merchandise exports

i. **Support for first time exporters and new exporters** -To support and encourage first-time or new exporters, a provision can be introduced wherein they are exempt from fines for non-compliance or errors during any part of the entire export procedure, from customs clearance to payment reconciliation, for their first 10 shipments. This initiative aims to provide a learning and adjustment period for new exporters, allowing them to gain experience and knowledge without the burden of financial penalties.

ii. **Bringing accountability to export promotion incentive disbursement** - A suggested rule could be implemented wherein the government is obligated to pay a certain fine in cases where reimbursements such as GST input, etc., are not credited to the beneficiary's account within a specified time after the exporter has completed the necessary paperwork. This policy would promote accountability, efficient disbursement of export incentives and ensure timely financial support to exporters. There is a case for extending this rule to all the export promotion incentives provided by the Government of India.

iii. **Free of charge import of samples** - Allow the import of samples valued up to INR 10 lakhs without any document requirements or import duties. This would facilitate easier access to samples for businesses, eliminating the burden of paperwork and import duties associated with importing samples. To prevent misuse of duty-free import of samples on account of increase in the consignment value, the following steps may be undertaken:

- Prior intimation and request for import of samples from Customs
- Increase in Quota/ reasonable limit on quantity of samples that can be imported duty-free tailor made to specific industries or sectors, such as requirement of submission of MSME registration certificate from issued by MSME Ministry
- Tracking systems to avoid repetitive imports of samples in smaller lots with an aim to evade Customs duty.
- Periodic post clearance reports to be submitted by importer detailing the actual use and disposal of the imported samples.
- Restriction on B2C imports of samples

This will help to easily import samples which will enable business growth.

iv. Allow Reasonable Variations in Duty Free Imports Under Advance Authorization -

- Duty free import of components/goods is allowed for exports purpose under advance authorization scheme
- Currently, even smallest variation on license and actual export attracts penalties and endless litigation
- At times, there is a reasonable explanation for variation (e.g., loss/damage/defect) which should be allowed
- Allowed 2-5% deviation will eliminate persecution in genuine cases

6.5 Improving access to export finance

Reconfiguration of the scope of current offerings by Export Credit and Guarantee Corporation (ECGC)

The primary objective of ECGC, India's apex export credit guarantee institution, is to safeguard Indian exporters against the risks of non-payment by foreign buyers arising due to commercial or political reasons. In FY22, ECGC insured 11% of all exports from India supporting USD 75 billion worth of exports. However, this figure is 12 times lower compared to Sinosure. Sinosure, which stands for China Export & Credit Insurance Corporation, is a state-owned enterprise in China that provides insurance and financing services for Chinese companies engaged in international trade. It is one of the largest credit insurance companies in the world and covers a wide range of risks, including commercial and political risks. Sinosure insured around 25% of all Chinese exports (USD 900 billion in FY22).

ECGC products specifically catered to MSME is discussed in Table 5.4.

Small Exporters Policy (ST)	Micro Exporters Policy (ST)	Export Factoring for MSME sector*
Anticipated export turnover does not exceed INR 5 crore Covers defaults up to INR 2 crore for the insurance period Minimum premium is of INR 5000 Period: 12 months	Export turnover should not exceed INR 1 crore Covers political risks, buyer related risk and letter of credit opening bank risk Minimum premium is of INR 25000 Period: 12 months Maximum loss covered – INR 15 lakh Single loss must not exceed INR 5 lakh	All MSME with three years of export track record 100% credit risk protection on buyer

Table 5.4: Finance Policy for Small and Micro Exporters

*Export factoring is a package of financial products consisting of working capital financing, credit risk protection, maintenance of sales ledger and collection of export receivables from the buyer located in overseas country.

In 2022, Sinosure provided services to over 150,000 SMEs, supporting USD 226.8 billion worth of exports from the sector, with a year-on-year growth of 15.7%. Since 2005, Sinosure has been offering two products focused on SMEs: "Comprehensive Credit Insurance for Small- and Medium-Sized Enterprises" and "Easy Credit Insurance for Small- and Micro-Sized Enterprises."

Small and Micro Enterprise Easy Credit Insurance

This product is an export proceeds insurance program tailor-made to small and micro businesses. It is characterized by zero threshold, zero restriction, all year around protection available upon a lump-sum payment of premium, simple billing method and timely indemnity payment.

Box 6.3: Products and services offered by Sinosure

Parameter	ECGC	Sinosure
Exporter served	10000	150,000
Credit Period for buyers	Not exceeding 180 days for short term credit (ideally within 4 months from due date)	Sinosure insured Chinese suppliers can offer deferred payment terms for 90, 120, or 180 days

Parameter	ECGC	Sinosure
Cost	• Insurance coverage costs an average of 0.51% to 1.05% of each invoice for 90 days of deferment. • Premium varies depending on the country and the size of the insurance policy	• SINOSURE credit insurance coverage costs an average of 0.5% to 1.5% of each invoice for 90 days of deferment. • Premium varies depending on the amount of the contract, the country of the buyer, and the size of the insurance policy.
Coverage	No uniformity in coverage and there are different coverage ceilings across MSME specific products	90% assured coverage for all exporters. Additional full coverage for small and micro enterprise.

Table 5.5: Comparison between India's ECGC and China's Sinosure

Source: FED Analysis

- **There is an opportunity for ECGC to work on its Export Factoring Scheme for MSMEs and improve its uptake.** In the last financial year, only four business proposals were supported under this scheme, with 21 transactions worth INR 6 crore. There is a need to increase awareness of this scheme among exporting SMEs and make it more attractive by including interest rate subvention as part of the package. Table 5.5 compares India's Export Credit Guarantee Corporation (E.C.G.C) with Sinosure which is China Export & Credit Insurance Corporation.

- **Make buyers insurance compulsory for exporters and mandate banks to consider this insurance as a hedge against the export credit for the shipment.** With buyer's insurance in place, banks can reduce their risk exposure by considering it as a hedge against the export credit disbursed, thereby providing an added layer of protection.

  Moreover, buyer's insurance can also help in reducing the cost of financing for exporters, as it may result in lower interest rates for export credit. Banks may view buyer's insurance as a form of security and may be willing to offer lower interest rates on export credit, thereby reducing the cost of financing for exporters.

6.6 Better Measurement of Export Originating from MSME

Accurate measurement of MSME exports is essential for understanding the sector's contribution to the economy, identifying areas for improvement, monitoring compliance, evaluating policy interventions, and facilitating international trade negotiations.

MSMEs play a crucial role in the Indian economy, and accurate measurement of their merchandise exports is essential for understanding their contribution to the country's economic growth. Accurate measurement of exports from MSMEs can help policymakers identify the sectors and regions that are driving growth and target policies accordingly, as well as evaluate the impact of policy interventions driving growth and target policies accordingly, as well as evaluate the impact of policy interventions aimed at supporting the sector, such as export incentives, trade agreements, or investment in infrastructure. Measurement will also help policymakers to identify what works and what does not and adjust policies accordingly. Additionally, accurate measurement of MSME exports is vital for negotiating trade agreements and ensuring India's interests are represented in international trade negotiations, thereby enabling the country's businesses to compete on a level playing field in global markets.

Currently, there is no single source of reliable data when it comes to MSME exports. Most estimates of MSME Exports are inaccurate and almost certainly highly exaggerated as they are based on the now obsolete list of reserved sectors for MSMEs. India should refrain from using 'List of Items Reserved for Purchase from Small Scale Industries' as a proxy for goods currently exported by MSMEs.

The easiest way to accurately measure exports from MSMEs is to use GSTN Registrations and income tax data to map MSME exports using data available in existing departments. Under GST, classification codes for all products are the same as the HSN codes, i.e., the global classification for identifying exports. Based on this GST return filing, the annual turnover of any firm can be ascertained using the GST data, and the investment in plant and machinery can be ascertained using the income tax data, allowing us to classify it into Micro, Small and Medium enterprises using the turnover and investment classification of MSME.

The Trade Statistics of Small and Medium-sized Enterprises (TSSME) in Japan is maintained by the Ministry of Economy, Trade, and Industry (METI) of Japan. The TSSME is a database that provides detailed statistics on the export and import activities of SMEs (Small and Medium Enterprises) in Japan. The database is updated annually and includes information on the number of SMEs engaged in export and import activities, their export destinations, and the types of products they export.

Box 6.1: Illustrative example of an ideal MSME database management

Once we have this data, we can create a portal like TSSME as explained in box 4.1. The information gathered from the portal can be used to **publish periodic reports on the trends of merchandise exports exclusively from MSMEs.** These reports should outline the number of exporters, top products, top destination countries, status of direct exports v/s deemed exports, e-commerce exports, among other vital details.

Figure 6.1 below represents a sample of the granular and frequent data collection by the representative MSME department in Japan. This can act as a guide for Indian exercise of capturing and publishing MSME data.

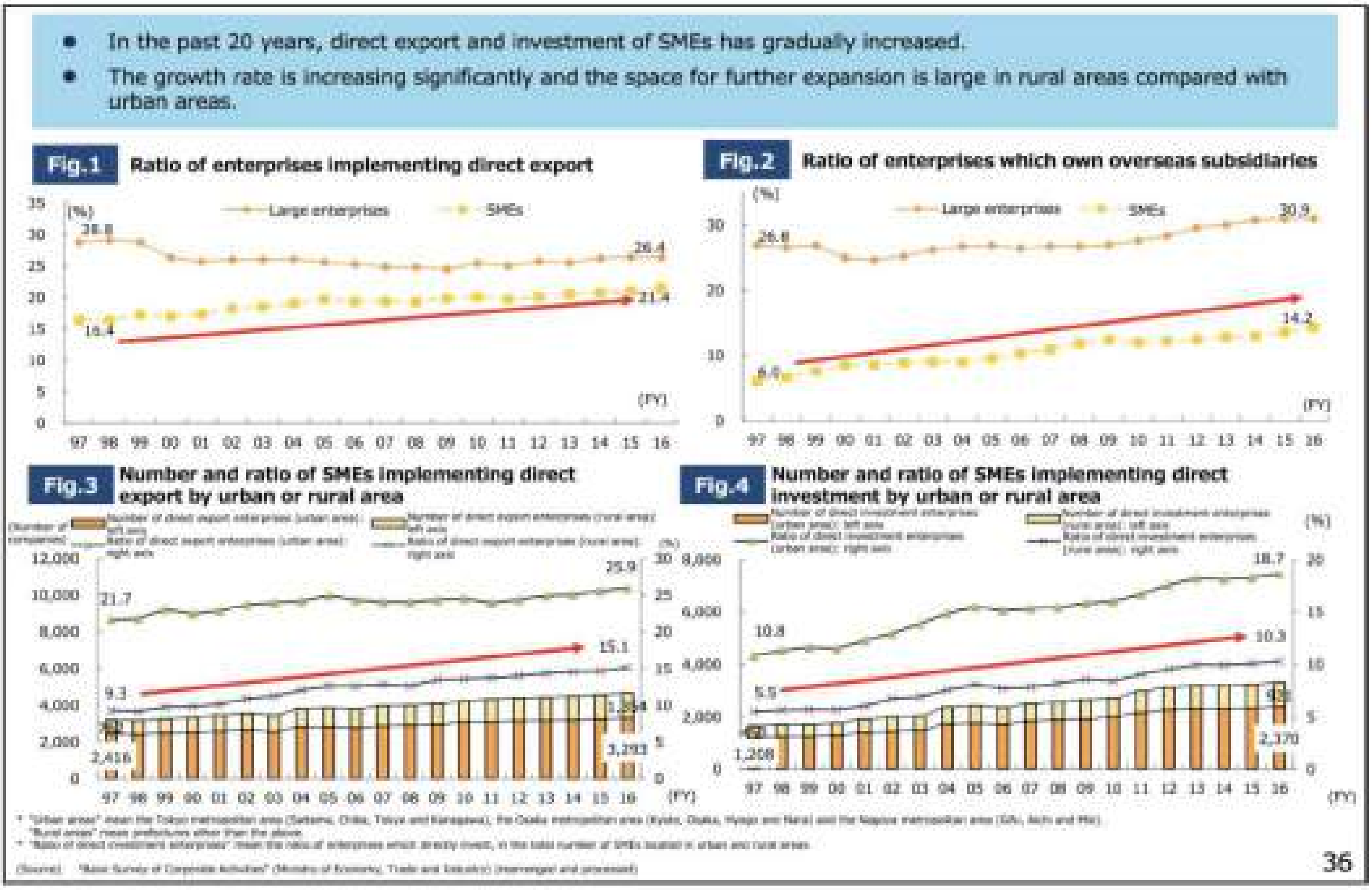


Figure 6.1: Granularity of data captured by TSSME in Japan

Conclusion

The MSME sector stands as a vital force propelling India's economic engine, contributing significantly to employment, GDP, and manufacturing output. With over 11 crore jobs and constituting around 27.0% of India's GDP, the sector boasts approximately 6.4 crore MSMEs, employing 23.0% of the Indian labor force and ranking as the second-largest employer after agriculture. Despite its potential in global markets, MSMEs face challenges in accessing and navigating export opportunities. The report proposes a strategic roadmap with six key recommendations, ranging from the creation of comprehensive trade portals and the promotion of e-commerce exports to accurate measurement through data integration. By addressing these barriers and enhancing access to export finance, the transformative power of MSMEs can be harnessed, leading to substantial growth in exports without imposing additional fiscal burdens. The proposed measures offer a pragmatic path to unlock the immense export potential of India's MSMEs and foster a more resilient and competitive economic landscape.

7 Appendix

Appendix

Table 1: Product categories well suited for MSME exports and subsequent size of global exports[36]

Product Category	Product	HS Code	Global Export
Herbal Supplements and Ayurveda Products	Essential oils, whether terpene less, incl. concretes and absolutes; resinoids	3301	USD 6.06 Bn
	Ayurvedic products	30049011	USD 7.08 Bn
	Total		**USD 13.14 Bn**
Wood Products	Furniture and parts thereof		
	Wooden furniture for offices		
	Wooden furniture		
	Furniture of bamboo		
	Total		**USD 152.89 Bn**
Handicrafts	Candles and the like	34060010	USD 4.69 Bn
	Agarbatti and other odoriferous preparation which operate by burning	330741	
	Handbags of other materials excluding wicker	420229	USD 1.11 Bn

[36] ITC Trade Data, 2021

	Parts of domestic decorative articles used as tableware and kitchenware	442191	USD 0.94 Bn
	Handmade paper and paperboard of any size or shape	480210	USD 0.10 Bn
	Lamps and lighting fittings	9405	USD 74.51 Bn
	Dress materials hand printed: Of cotton and of various other fabrics	6307	USD 27.4 Bn
	Total		**USD 109.25 Bn**
Leather Products	Handbags, whether with shoulder strap, including those without handle	420221	USD 17.02 Bn
	Articles of a kind normally carried in the pocket or in the handbag: Wallets	420231	USD 4.4 Bn
	Articles of apparel and clothing accessories, of leather or composition leather	4203	USD 7.50 Bn
	Total		**USD 28.92 Bn**
Jewellery	Imitation Jewellery	7117	**USD 8.2 Bn**

Total Value of Global Exports in all categories	USD 340.17 Bn

Table 2: Share of Indian exports in the identified product categories and potential for Indian exports in these categories[37]

Product	Product	Indian Export	India's Share	Unrealised Potential
Herbal Supplements and Ayurveda Products	Essential oils, whether terpene less, incl. concretes and absolutes; resinoids	USD 0.07 Bn	16%	USD 5.08 Bn
	Ayurvedic products	USD 0.17 Bn	2.5%	USD 7.08 Bn
	Total	**USD 1.14 Bn**		**USD 12.17 Bn**
Wood Products	Furniture and parts thereof	USD 1.38 Bn	1%	USD 113.18 Bn
	Wooden furniture for offices	USD 0.06 Bn	1%	USD 4.5 Bn
	Wooden furniture	USD 0.85 Bn	3%	USD 32.74 BN
	Furniture of bamboo	USD 0.00 Bn	0%	USD 0.23 Bn
	Total	**USD 2.29 Bn**		**USD 150.6 Bn**

[37] ITC Trade Data, 2021

Handicrafts	Candles and the like	USD 0.08 Bn	2%	USD 4.61 Bn
	Agarbatti and other odoriferous preparation which operate by burning	USD 0.16 Bn	31%	USD 0.34 Bn
	Handbags of other materials excluding wicker	USD 0.01 Bn	2%	USD 1.09 Bn
	Parts of domestic decorative articles used as tableware and kitchenware	USD 0.07 Bn	8%	USD 0.84%
	Handmade paper and paperboard of any size or shape	USD 0.01 Bn	11%	USD 0.09 Bn
	Lamps and lighting fittings	USD 0.24 Nb	0%	USD 74.27Bn
	Dress materials hand printed: Of cotton and of various other fabrics	USD 0.47	2%	USD 26.93 Bn
	Total	USD 1.05 Bn		USD 108.2 Bn
Leather Products	Handbags, whether with shoulder strap, including those without handle	USD 0.35 Bn	2%	USD 16.67 Bn
	Articles of a kind normally carried in the pocket or in the handbag: Wallets	USD 0.35 Bn	8%	USD 4.11 BN

	Articles of apparel and clothing accessories, of leather or composition leather	USD 0.68 Bn	9%	USD 6.82 Bn
	Total	**USD 1.38 Bn**		**USD 27.6 Bn**
Handloom Textiles	Woven fabrics of silk or of silk waste; Of Handloom	USD 0.01 Bn	10%	USD 0.11 Bn
	Woven fabrics of combed wool or of combed fine animal hair; Of Handloom	USD 0.00 Bn	1%	USD 0.11 Bn
	Carpets, rugs and mats of handloom	USD 0.07 Bn	2%	USD 3.83 Bn
	Cotton durries of handloom (including chindi durries, cotton chenille durries, Rag Rug durries, printed durries, druggist)	USD 0.41 Bn	15%	USD 2.3 Bn
	Scarves of Silk, Handloom; Shawls, scarves, mufflers, mantillas, veils and the like; of silk and silk waste; Of Handloom	USD 0.03 Bn	5%	USD 0.58 Bn
	Gloves, mittens, and mitts; Of handloom	USD 0.04 Bn	3%	USD 1.12 Bn
	Bed sheets and bed covers, of cotton, Handloom	USD 0.7 Bn	57%	USD 0.51 Bn

	Other bed linen, printed: of cotton: Handloom	USD 0.12 Bn	6%	USD 2.04 Bn
	Embroidery on a textile fabric ground, in the piece, in strips or in motifs	USD 0.2 BN	11%	USD 1.54 Bn
	Total	**USD 1.58 Bn**		**USD 12.1 Bn**
Jewellery	Imitation Jewellery	**USD 0.16 Bn**	2%	**USD 8.2 Bn**
Total Value of Indian Exports in all the categories		**USD 7.6 Bn**		**USD 318.87 Bn**

Table 3: Initiatives to support access to finance

Initiative	Description
Credit Guarantee Scheme for MSME – I & II	• It provides **credit guarantee to MSMEs** up- to Rs. 2 crores (which was Rs. 1 crore), per borrowing unit from a single lending institution. • All proposals for sanction of guaranteed approvals for credit facilities above Rs.50 lakh and up-to Rs.200 lakh will have to be rated internally by the MLI and should be of investment grade. • **Discounted interest rate loan**. • **Guarantee cover for 5 years, against a one-time guaranteed fees and an annual service fee, depending on the loan amount and geographical region.** • The scheme provides **flexibility in repayment**, and MSMEs can choose from various repayment

	options such as monthly, quarterly, or half-yearly instalments
Interest Equalisation Scheme (IES)	• Provides **interest rate subsidy of 2-3%,** to exporters for pre- and post-shipment credit. This scheme focuses on manufacturers in certain MSME focused sector.
Credit Guarantee Scheme for Subordinate Debt	• Promoter(s) of the MSMEs are given **credit equal to 50%** of their stake (equity plus debt) or **Rs. 75 lakh whichever is lower.** • Debt - **90% guarantee coverage** would come from scheme/ Trust (CGTMSE) and remaining 10% from the concerned promoter(s). • 1.50% per annum on the guaranteed amount on outstanding basis, as guarantee fee to be borne by the exporter. • There can be a **moratorium of 7 years** (maximum) on the payment of principal. However, interest will be paid as and when applied. • **Ease in repayment**, after completion of moratorium period, principal shall be fully repaid within the tenor of loan (as per sanction) in form of Principal Equally Distributed (PED)
Export Credit Re-Financing (ECR)	• ECR is a scheme, by the Reserve Bank of India (RBI) to provide **short-term credit to banks and financial** institutions for export credit at the prevailing repo rate under the Liquidity Adjustment Facility (LAF) • Scheduled Banks extend this facility at Repo Rate and adding a Credit Risk Premium and Spread close to 3-4%.

	• The scheme aims **to increase the availability of credit to exporters** and to **support export growth**.

Table 4: Initiatives to support market access

Initiative	Description
Market Access Initiative (MAI)	• **Reimbursement regarding participation support** to the regular Director/Partner/Proprietor or a regular officer of the company on senior managerial position, except a foreign national, in terms of flight ticket reimbursement. • Provided to the maximum of three MAI events in a year, per member participant company. • **Support to conduct Market and Research Studies**, Joint Events, Reverse Buyer-Seller Meet (RBSMs). • Support to upgrade **marketing and branding ability** for the MSMEs. • **Capacity Building Support of Exports**, in terms of Standards, Regulations, etc.
International Cooperation Scheme	• Reimbursement for MSMEs in **participation in international exhibitions**, trade fairs and buyer-seller meet in foreign countries (physical and virtual) for space rent, up to 100% with the maximum of Rs. 1.00 lakh or actual rent paid, whichever is lower (for one representative from each participating enterprise). • Deputation of MSME Business Delegations to foreign countries, which includes **Air Fare, and**

	Duty Allowance of up to $150 per day on reimbursement basis, which includes export promotion organisation as well as other MSMEs.
Procurement and Marketing Support (PMS)	• **Participation** of Individual MSEs in **domestic Exhibition/ Trade Fair** • Developing capacity of MSMEs in **Development of Marketing Haats**, adoption of modern packaging technique, bar code and e-commerce platform • Organizing events like Domestic Trade Fair& Exhibition/ Awareness programs/ National & International Workshops & Seminars/ Vendor • Development Programs. Development of retail outlet

Table 5: Initiatives to create a favorable business environment

Initiative	Description
Scheme of Fund for Regeneration of Traditional Industries (SFURTI)	• The financial assistance provided for a specific project has a ceiling of Rs. 2.5 crore for Regular Cluster (up to 500 artisans) and a ceiling of Rs. 5 crores for Major Cluster (more than 500 artisans) • Aims to organize traditional industries and artisans into collectives by increasing production and value addition to make products competitive • Setting up of production facility with latest machinery. • Build general awareness, counselling, skill development and capacity building, exposure

	visits, market development initiatives, design and product development, etc. • Creation of common facility centres, raw material banks, upgradation of production infrastructure, warehousing facility, tools and technological upgradation, etc. • Marketing connects and Brand Building, e-commerce, and Exposure Visits.
Micro & Small Enterprises Cluster Development Programme (MSE-CDP)	• Creating Common Facility Centers including Plug & Play Facilities. • Support for Flatted Factory Complexes and Infrastructure Development Projects. • Assistance up to 80% of the maximum project cost of Rs. 30 crores for creation of Common Facility Centre such as common production/processing center, design center, testing facilities including plug and play facilities • Assistance up to 70% of the maximum Project cost of Rs. 15 crores for development of land, roads, drainage, power distribution etc. in new/existing industrial (multi-product) areas/estates/Flatted Factory Complex
Trade Infrastructure for Export Scheme	• The Central Government helps with infrastructure development in the form of grant-in-aid, wherein they contribute approximately 50% of the total equity in the project. However, in NE and Hill States, including the Union Territory of J&K and Ladakh, this contribution increases to 80%.

	• Furthermore, in states that have relatively poor export infrastructure and lack institutional capacity for preparing good Detailed Project Reports (DPRs), but possess positive export potential, the grant can reach up to 80% of the total equity. • The maximum limit for grant-in-aid is set at Rs. 20 crore per infrastructure project, excluding the cost of land. • Priority will be given to infrastructure projects that involve significant contributions from stakeholders and bank financing. In states with comparatively better export infrastructure and institutional capacity, Public-Private Partnership (PPP) projects will be encouraged to leverage the funds under the Trade Infrastructure for Export Scheme (TIES) optimally.
Town and Export Excellence	• Recognized associations of units in Towns of Export Excellence can avail financial assistance under Market Access Initiative (MAI) scheme, on priority basis, for export promotion projects for marketing, capacity building and technological services. • Common Service Providers in the Towns of Export Excellence are entitled for Authorisation under Export Promotion Capital Goods (EPCG) Scheme
One District One Product (ODOP) / District Export Cluster	• Aimed at decentralizing the export promotion initiative to state/UT and district level, with convergence of ongoing schemes at district level.

	• Providing Capital Investment support to existing micro-enterprises, with preference to enterprises producing ODOP products. With new units, supported only for ODOP products only. • Extending of Infrastructure support for Marketing and Branding. If marketing and branding are being conducted at the state or regional level, other products would also be supported. • Branding and Marketing support through grants of up to 50% of total expenditure, for the state or regional level ODOP product, to SHGs, co-operatives, etc. Branding and marketing are crucial for the growth of Micro Small and Medium Enterprises (MSME). • Extension of Subsidy under the Pradhan Mantri Formalisation of Micro Food Processing Enterprises (PMFME) Scheme with the ODOP approach where a credit-linked capital subsidy comprising 35% of the eligible project cost, up to Rs. 10 lakh (US$ 13,379.7) may be provided where the beneficiary may need to contribute at least 10% of the amount and the balance as a bank loan. • Providing a credit-linked grant of 35% to support groups such as self-help groups (SHGs), Producer Co-operatives, etc. for operations such as sorting, grading, storage, packaging, processing and so on. • Extension of Seed Capital fund of Rs. 40,000 (US$ 535.2) per SHG member involved in food processing, for working capital and buying small tools.

	• Providing entrepreneurship focused Training for entrepreneurship development, operations, marketing, accounting, FSSAI standards, GST registration, Udyog Aadhaar, Geographical Indication (GI) registration and so on. Furthermore, training designed for ODOP products is provided on hygiene, storage, packaging and development of new products. Such training helps the entrepreneurs conduct business operations efficiently and improve product quality.

Table 6: Schemes that reduce the cost of serving the international markets

Initiative	Description
Export Promotion Capital Goods Scheme	• The EPCG license offers financial assistance to exporters by eliminating import charges. • Under the EPCG Scheme, duty-free imports of goods are allowed if the exporter fulfils an export obligation six times the amount of duty savings on capital goods within a span of six years. • Once the EPCG License is obtained, it must be registered at the designated port of entry to be eligible for duty waivers when submitting the Bill of Entry. • For exporters with shipments valued below ₹1 crore, compliance also entails providing a bond or bank guarantee. The bond must be furnished at the customs port for exporters with exports

	exceeding ₹1 crore, while a bank guarantee is not mandatory. • Early redemption is permitted as an incentive for fast-track enterprises to boost exports. If the license holder has fulfilled 75% or more of the specific export obligation and 100% of the average export requirement, if any, in less than 50% of the original term, the remaining export obligation will be waived.
Duty Drawback Scheme	• Drawback allowed up-to two years from the date of import. • Partial redemption of the paid duty, to be a certain percentage, where the identity of the goods is clearly defined by the authorised personnel from the Customs. • Redemption percentage dependent on the time after the goods are imported.
Remission of Duties and Taxes on Exported Products (RoDTEP) Scheme	• Refund of Duties/Taxes at Central, State and Local Level. • Refund includes indirect taxes on goods and services used in the production of the exported product.

Table 7: Initiatives to simplify and fast track certain aspects of export procedure

Initiative	Description
Liberalized Indian AEO (Authorized Economic	• Internationally recognised certificate

Operator) Program for MSMEs	• Granting of AEO status within only 15 days from electronic submission of complete documents for AEO Tier T1. • Swifter Customs clearance for accredited stakeholders in the global supply chain viz. importers, exporters, logistic service providers, custodians etc. • Bank Guarantee up- to 50%, 75%, and 100% respectively for T1, T2, and T3. • The facility of Direct Port Delivery (DPD) of imported containers, Direct Port Entry (DPE) of their Export Containers, high level of facilitation in customs clearance of their consignments thereby ensuring shorter cargo release time. • Exemption from Bank guarantees, priority for refund/ rebate/ duty Drawback, as well as a Client Relationship Manager at the customs port as a single point of interaction. • Deferment of payment of Customs duty i.e., it is not required to paid before the clearance of the imported goods by Customs.
Status Holder Certification	• Authorisation and customs clearances for both imports and exports on self-declaration basis. • Bank Guarantee up-to 100%. • Allowance of Export of free-of-cost samples, without any duties, subject to certain annual limits. • Submission of paperless declaration without any supporting document.

	• Status Holder Certification is categorised across 5 categories denoted with stars, based on their export values (FOB/FOR) in 2 out of 4 years, with USD 3 million, 15 million, 50 million, 200 million, and 800 million for 1 star, 2-star, 3-star, 4 star and 5 stars, respectively. • Input-output norms are fixed on priority basis, within 60 days by the Norms Committee.
Advanced Authorisation	• No advanced duty payments at the time of import, which includes duties like Basic Custom Duty, Additional Custom Duty, Education Cess, Anti-Dumping Duty, Countervailing Duty, Safeguard Duty, and Transition Product Specific Safeguard Duty.