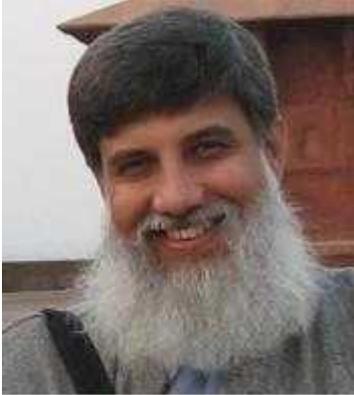


Experts Explain



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SIDBI fund welcome but big picture unclear

The budget appears sweet on the small stuff for MSMEs, but it is unclear whether the big picture is also upbeat. At first glance, the Rs. 5,000 crore India Opportunities Venture Fund by SIDBI and the 20% purchase earmarking by Ministries and CPSEs from MSMEs (with 4% for those owned by SC/ST entrepreneurs) appear to be positive steps. A deeper examination, however, dulls some of this gloss.

A venture fund, with relatively high (for MSMEs) minimum limits for investment (say even Rs. 1 crore or so, which is likely to be even higher) in equity would meet the needs of only a small fraction of the MSME sector. Furthermore, the inevitable differences over the pricing of equity between the small entrepreneur and the venture fund may make this less attractive than appears at first sight. However, the Venture Fund may provide a way out for larger MSMEs to graduate and become mid-size firms.

Similarly, the purchase earmarking can work both ways. By providing a firm core market, it can spur MSMEs to explore other opportunities, or it can lull them by providing a false sense of security. Of course, it goes without saying that payments from these Ministries and CPSEs need to be timely, if this boon is not to become a fatal curse.

The critical need for MSMEs to be competitive is to have access to markets, finance and technology. In markets, they sink and swim with the rest of the economy and here, the budget's ability to inspire confidence in the broader private sector to invest will be the test in generating growth that will create demand for MSME producers along the supply chain.

As for finance, one needs an innovative institutional response to address the banks' reluctance to lend, due to high processing costs and low ex-ante expectations of success. Such responses are also needed to go beyond the kind of in-the-market transfer of technology that occurs as a result of MSMEs' role as suppliers to larger firms. This kind of work needs careful institution building and is unlikely to be addressed by a few palliative schemes administered from Delhi.