Public Private Partnership model in MSME

Why in news?

\n\n

\n
- Ministry of State for Commerce recently announced that the review of foreign trade policy will be completed prior to July 1 when GST will be rolled out.
\n
- A PPP approach that focuses on skill-building at the MSME level is called for.
\n

\n\n

What is the background of the issue?

\n\n

\n
- This review is important, since it is being done in an environment where India is under some pressure to move away from post-export incentives that are increasingly not compatible with WTO rules.
\n
- Logically, investment in developing firm or sector level competitiveness requires support at the pre-export stage.
\n
- Pre export production related subsidies and government support measures are more compatible with WTO rules and extensively used across the world.
\n
- However, production level support or incentives are expensive since benefits cannot be limited to just successful exporters like in the current schemes, but are potentially open to all manufacturers and service providers.
\n
- Thus, the burden on the exchequer due to either tax foregone or direct financial support can be substantive.
\n

\n\n

What are issues with Indian export development?

\n\n

\n

- An export development programme reliant on production-based subsidies helps develop competitiveness, but the scheme is not open to all.
\n
- Designing such programmes would require institutional capacity to develop the right criteria, and close cooperation with industry associations and sectoral export promotion councils.
\n
- The current administrative machinery is insufficiently prepared for such an exercise.
\n
- But radical overhaul is necessary not just to make our incentives more compatible with WTO rules, but also to address the serious challenge posed to Indian industry by industrialisation 4.0 and automation.
\n
- India will not be able to replicate the low-wage-middle-skill manufacturing boom that worked for China and other SE Asian countries, given the current shifts in technology and consumer preferences.
\n
- Some reports show that over 235 million jobs in India are at risk from such changing dynamics.
\n

\n\n

How the issue can be addressed?

\n\n

Public-private venture capital to fund innovation and productivity:

\n\n

\n

- Exporters, especially small and medium exporters find it difficult to find right kind of financing for new projects.
\n
- Private venture capital is not interested in smaller projects, In many cases the risk is seen as too high.
\n
- The Indian government can create a Professionalism in venture capital funds for a few critical sectors with potential for future growth and employment generation.
\n

\n\n

Funding performance pay based business development:

\n\n

\n
- Larger firms benefit from professional help of consultants.
\n
- In industrialised countries, highly evolved clusters provide hand-holding services to exporters on product development, marketing, and sourcing of inputs.
\n
- The Indian export eco-system is largely benefit of such a focused professional business development ecosystem.
\n
- The government can run a special programme, in partnership with export promotion councils, to engage such professionals.
\n
- The recruitment process should be through transparent global tenders, and the contract should be designed in a way that professionals get paid a majority of their fees based on their actual performance, i.e. export growth or export volumes.
\n

\n\n

Supporting recruitment and training of new skill sets:

\n\n

\n
- The right way to handle technological transition would be for the government to bear a portion of the cost of hiring such skill-sets for SMEs and start-ups.
\n
- Many countries provide indirect incentives for acquisition of skills that allow the firms to adopt new technologies and increase productivity.
\n
- A simple scheme is to give a certain percentage of salaries hired by MSME for such advanced talent as an incentive.
\n
- Allowing a certain portion of such salaries paid as a deductible from net income would be another way, using the tax foregone method.
\n

\n\n

What is the way forward?

\n\n

\n

- Starting from this current round of foreign trade policy making cycle, policy makers need to give serious consideration to completely over-hauling the way exports are incentivised in India.
\n
- One way to lower the risk and increase the appetite for the private sector is to create a public private partnership (PPP) venture capital fund with the government infusing about 25 per cent of the seed capital and private sector players the rest.
\n
- The key is for government to start considering the range of possibilities available and develop the institutional framework within the bureaucracy and industry.
\n
- The country has no options but to incentivise competitiveness and productivity in line with the new industrial future.
\n
- Hopefully, the foreign trade policy announced in June would provide the first step in that direction.
\n

\n\n

\n\n

Source: The Business Line

\n