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India plans ₹2,000-cr MSME tech upgrade to enhance exports, efficiency

Manas Pimpalkhare, Rituraj Baruah | 5 min read | 29 Dec 2025, 05:30 AM IST



India's vast MSME sector—made of over 73 million businesses—accounts for about 45%, or over ₹14 trillion, of the country's exports and contributes about 30% of the \$4 trillion economy. (Mint)

SUMMARY

The technology upgradation scheme, proposed by the Union ministry of micro, small, and medium enterprises, and currently under discussion, will cover MSMEs with annual turnover of less than ₹50 crore, offering them a 20% capital subsidy.

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NEW DELHI: India is likely to announce a ₹2,000-crore technology upgradation scheme for small businesses in the 2026-27 budget, aimed at boosting the adoption of energy-efficient machinery, two people aware of the development said.

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The technology upgradation scheme, proposed by the Union ministry of micro, small, and medium enterprises (MSME), and currently under discussion, will cover MSMEs with annual turnover of less than ₹50 crore, offering them a 20% capital subsidy for purchase of energy-efficient machinery, smart manufacturing, and automation upgrades, said the first of the two persons cited earlier, both of whom spoke on the condition of anonymity.

A micro enterprise has an annual turnover of up to ₹5 crore, a small enterprise up to ₹50 crore, and a medium enterprise up to ₹500 crore.

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The plan comes amid several countries introducing their own carbon taxes on imports from nations with weaker climate regulations. The European Union's Carbon Border Adjustment Mechanism (CBAM) **comes into effect** from 1 January. The UK and Norway plan to introduce their own CBAM-like mechanisms in 2027. Canada and Australia are also in early stages of CBAM development, while Taiwan intends to impose CBAM regulations and taxes in 2026.

These carbon taxes will put Indian MSME manufacturers and their exports at a disadvantage amid rising global tariff barriers. While the US has already imposed a steep 50% tariff on Indian exports, which is hurting these small businesses, Mexico **also has announced** a 50% tariff on select Indian goods starting 1 January 2026.

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The second person said that the ongoing MSE-GIFT (Micro and Small Enterprises Green Investment and Financing for Transformation) scheme may be integrated with the new scheme. Launched in December 2023 as part of a World Bank-backed Raising and Accelerating MSME Performance (RAMP) project, the scheme provides interest subvention on loans and risk-sharing facilities to micro and small enterprises on loans for cleaner and greener operations. The total corpus of the MSE-GIFT scheme is ₹478 crore.

Queries emailed to the Union ministries of MSME and finance remained unanswered till press time.

The focus is also on modernizing MSME equipment and machinery, essential for keeping Indian manufacturers globally competitive and boosting export potential, the second person added.

India's vast MSME sector—made of over 73 million businesses—accounts for about 45%, or over ₹14 trillion, of the country's exports and contributes about 30% of the \$4 trillion economy.

Experts said the scheme is likely to reduce operating expenses for businesses.

Veeramani C., professor and director of Thiruvananthapuram-based Centre for Development Studies, said: "While the scheme proposes a 20% subsidy, businesses themselves have to furnish the remaining 80% of the investment, which leads to the question of whether this investment will contribute to profitability."

"This profitability is also linked to scale. If you have economies of scale in production, the profitability achieved from using energy-efficient technology and automation is much higher than for smaller businesses, which may not always have that much scale to operate," he added.

Further, industries play a significant role in the economy's overall emissions. Direct and indirect emissions from industry in India make up 30.6% and 18.7% of energy-related CO2 emissions, respectively. The move is important as the government aims to reduce emissions intensity of its GDP (gross domestic product) by 45% till 2030. Between 2020 and 2025, the intensity reduced by 36%, according to government estimates.

"For small scale industries, it is a tough challenge to install emission control equipment, as most of them are expensive and unaffordable for their scale of operation. Even if they manage to install it, it becomes difficult for them to maintain it, leading to it being non-operative most of the time. Technology-based upgradation or standard is a far better approach towards controlling emissions from small scale industries," said Parth Kumar, program manager, sustainable industrialization unit with the Centre for Science and Environment (CSE).

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He said that a large segment of these industries are not registered and not located in designated industrial areas,

resulting in lack of access to government schemes and financial support.

"There is a very large section of this sector, which is not on paper. So, bringing them in the legal fold and providing them access to schemes and finance remains a huge challenge," Parth said.

Vinod Kumar, president, INDIA SME Forum, an industry lobby representing nearly 100,000 small and medium enterprises, noted that several businesses continue operating outdated machinery, which lowers their efficiency and productivity.

"If these small businesses need to compete globally, their equipment and machinery need to be modern, backed with new-age technologies. Given that these businesses are not deep-pocketed, incentives from the government on this would be helpful," he said.

According to a Niti Aayog report on competitiveness of MSMEs, participation of India in the global value chain (GVC) lags behind several economies like Malaysia and South Korea, apart from the developed countries of the US and Japan.

"Efficient supply chains enable MSMEs to integrate into GVCs, facilitating their involvement in international trade. Despite progress, India's GVC participation (40.3% of gross trade in 2022) lags behind not only major economies like the USA (43.7%) and Japan (46.6%) but also regional competitors like South Korea (56.2%) and Malaysia (60%)," it said citing the Economic Survey of 2024.

The Niti Aayog noted that strengthening supply chain linkages can boost economic growth and global competitiveness. Investments in supply chain technology, such as electronic linkages in the textile sector, can improve quality control, product management, and process innovation, enhancing GVA (gross value added) and operational efficiency.

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