



News Analysis (18 Aug, 2018)

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Growth in MSME credit: RBI study

The growth of the micro, small and medium enterprises (MSMEs) which declined in the aftermath of demonetisation is now growing at the pre-note ban levels as per the recent study conducted by the Reserve Bank of India (RBI).

- The study found that bank credit to the MSMEs has increased including credit to micro and small enterprises at an even healthier rate.
- The study also revealed that the implementation of GST has adversely impacted MSME exports due to delay in refund of upfront GST and input tax credit affecting cash-driven working capital requirements.

Significance of MSME in India

- The MSME sector comprises more than 63 million units and employs about 111 million people. The share of MSMEs in GDP is about 30%, with the sector accounting for about 45% of manufacturing output and about 40% of India's total exports.
- The sector plays a crucial role in providing employment opportunities to masses, fosters entrepreneurship and growth led by innovation.
- The sector also complements large businesses as ancillary units in fulfilling their business contributing to the socio-economic development and inclusive growth of the country.
- The contribution of MSME to other sectors has been immensely instrumental. It is the biggest employer after agriculture sector, despite the fact that agriculture sector's contribution to GDP is less than MSME.

Recent government initiatives

- Pradhan Mantri Mudra Yojana (PMMY): The purpose of Micro units development and Refinance Agency (MUDRA) is to provide funding to the non-corporate small business sector. The Government has also set up the MUDRA Bank.

- Udyog Aadhar Memorandum (UAM): The UAM replaces the filing of Entrepreneurs' Memorandum (EM) with the respective States/UTs. The cumbersome filing of EM has now been dispensed with and the entrepreneurs in the MSME sector just need to file online, a simple one-page to instantly get a unique Udyog Aadhaar Number (UAN).
- Prime Minister's Employment Generation Programme (PMEGP): PMEGP offers credit linked subsidy to establish new enterprises for generating continuous and sustainable employment opportunities in Rural and Urban areas of the country.
- A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE): ASPIRE has been launched with an objective to set up a network of technology centers, incubation centres to accelerate entrepreneurship and also to promote start-ups for innovation and entrepreneurship in rural and agriculture based industry.
- Scheme of Fund for Regeneration of Traditional Industries (SFURTI): The objectives SFURTI is to organize the traditional industries and artisans into clusters to make them competitive and provide support for their long term sustainability by way of enhancing the marketability of products, improving the skills of artisans, making provision for common facilities and strengthening the cluster governance systems.
- Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Upgradation: CLCSS aims at facilitating technology upgradation of Micro and Small Enterprises (MSEs) by providing 15% capital subsidy (limited to maximum Rs.15 lakhs) for purchase of Plant & Machinery.

Way Forward

- The respective state Governments should also be consulted at the policy implementation level for more effective implementation of benefits.
 - The onset of the Direct Benefit Transfer (DBT) and digital payment schemes in the process of transfer of credit and other benefits, would go a long way in ensuring transparency in benefit transfer as well as streamlining of procedures.
 - Some special thrust sectors could be identified within the gamut of the MSMEs and extensive skill development can be taken up to boost performances and increase productivity.
 - Organizing exhibitions, training workshops, trade fairs, buyer seller meets could go a long way in improving the marketing overreach of the MSMEs, without spending heavily on the budget vis-à-vis individual organizations.
 - Adoption of cluster development approach will help in addressing the problems of a large number of units, in a low budget environment.
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Centre plans to bring out city level GDP data

With urban India responsible for an increasingly large share of the national GDP, the Centre now hopes to bring out city-level GDP data.

- According to the Housing and Urban Affairs Ministry, this could help cities in generating investments and help municipal bodies to raise funds for their infrastructural needs.
- The Economist Intelligence Unit (EIU) carried out a feasibility study of various models to calculate city-level GDP and submitted its report to the Ministry.
- The EIU has recommended a top-down approach based on sectoral income data for the calculation of city-level GDP as it would balance detail and resource-effectiveness in the long term.
- However, it acknowledges that the data requirements may be too challenging and a top-down approach using household expenditure data may be more feasible in the short term.

Note:

The Economist Intelligence Unit (EIU), created in 1946, is the research and analysis division of The Economist Group and the world leader in global business intelligence.

- As per the government data, The urban sector is likely to account for 75% of India's GDP by 2020 which is an increase from 2011 when urban sector accounted for 60% of the national GDP.
- A recent study by Brookings Institution found that several Indian cities rank in the 300 global cities with the fastest GDP growth rate with Hyderabad (8.7%) and Surat (7.9%) growing at par with the fastest growing Chinese cities that dominate the list.
- The project if approved would likely to begin by the end of this year.

What is GDP?

- Gross Domestic Product (GDP) is the broadest quantitative measure of a nation's total economic activity.
 - More specifically, GDP represents the monetary value of all goods and services produced within a nation's geographic borders over a specified period of time.
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