



## Mains Practice Question

**Q.** The MSME sector acts as a factory for entrepreneurship and self-employment opportunities as well as a tool for poverty eradication. In this context highlight the challenges and solutions for MSME sector? (250 words)

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### Approach

- Introduce by mentioning the importance of MSME sector in India.
- Mention the challenges faced by MSME sector and suggest their solutions.
- Conclude by giving the key policy areas which need concerted efforts for the revival of MSME sector.

### Introduction

- Small and Medium Enterprises (SMEs) play a vital role for the growth of Indian economy by contributing 45% of industrial output, 40% of exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets.

### Body

According to NITI Aayog's strategy document India@75, it envisages doubling the current growth rate of the manufacturing sector by 2022. However, the following are some of the several **challenges faced by the MSME sector**:

- **Investment:** There has been a cyclical slowdown in fresh investment since 2011-12.
- **Availability of timely credit** to MSMEs is still a major challenge.
- **Technology adoption:** The adoption of new technologies like artificial intelligence, robotics, termed as "Industry 4.0", is a bigger challenge for SMEs than for organized large-scale manufacturing.
- **Exports and insufficient domestic demand:** India's economic growth is not export-driven industrial growth. Also, domestic demand alone may not be adequate for sustained, high-value manufacturing.
- **Challenges to doing business:** Despite recent improvements in our global Ease of doing business rank, parameters like getting construction permits, enforcing contracts, paying taxes, starting a business and trading across borders, continue to constrain the ease of doing business.
- **Lack of training and skill development program:** The training and development programs for MSME workforce are not adequate. So, skilled manpower is not available to the MSMEs.

### Way Forward

- **UK Sinha Committee recommendation** to create a ₹ 5000 crore **Distressed Asset Fund** for reviving MSMEs hurt by demonetization and GST is the need of the hour.
- The Budget 2019-20 announcement of the **extension of the 59-minute loan scheme** to new entrepreneurs and raising the limit for collateral-free loans to ₹20 lakh from ₹10 lakh is a welcome

step.

- **Institutional changes in SIDBI** should be done so that it can be elevated as a market maker for funding of MSMEs.
  - SIDBI should be involved in linking potential borrowers with micro-finance institutions (MFIs), NBFCs and venture capital funds to finance MSMEs.
- To make lending effective, **credit guarantee of loans to MSMEs is important**. The UK Sinha panel stated that all credit guarantee schemes should be regulated and brought under the RBI.
- **Industrial corridors** should address the lack of infrastructure and logistics.
- **Disruptive technology (Industry 4.0) can be encouraged** which, while leading to job losses in traditional areas, also presents new job opportunities.
  - **A greater connect between government-industry-academia** is required to identify the changing requirements in manufacturing and prepare an employable workforce.
- **Indian quality standards should be harmonized with global standards**. Lack of harmonization has affected Indian exports and prevented the leveraging of trade agreements adequately.

## Conclusion

- MSME sector acts as a factory for entrepreneurship and self-employment opportunities as well as a tool for poverty eradication. It plays a dominant role in the development of the economy. Therefore, the government should continue to put concerted efforts for holistic development of MSMEs in key areas like human capacity development, knowledge services, access to finance, technology, infrastructure, market access, and ease of doing business.

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