



## Reforms in MSME Sector

*This editorial is based on [“MSMEs have shown resilience in the face of steep challenges”](#) which was published in Livemint on 31/10/2022. It talks about the current state of MSME development in India and related challenges.*

**For Prelims:** UDYAM Platform, Raising and Accelerating MSME Performance (RAMP) Scheme, Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE), Interest Subsidy Eligibility Certificate (ISEC), A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE), Zero Defect & Zero Effect (ZED).

**For Mains:** Significance of MSME Sector for India, Current Challenges Related to MSME Sector, Recent Government Initiatives Related to MSMEs.

The [Micro, Small and Medium Enterprises \(MSMEs\)](#) sector is an important pillar of the Indian economy as it contributes greatly to growth of the Indian economy with a vast network contributing about **45% to manufacturing output**.

MSMEs provide about **110 million jobs** which is **22-23% of the total employment** in India. It is next highest to Agriculture. However, this sector still faces several challenges. Barely **15% of MSME units have registered with the UDYAM Platform**. **Heterogeneity**, fragmentation and informalization highlight the need for reforms in this sector.

**Formulation of targeted policies** in the areas of **infrastructure development, technology adoption, backward and forward linkage**, can help MSMEs to achieve their full potential and propel the Indian economy in a higher growth trajectory.

### What is the Significance of MSME Sector for India?

- **Boon for Rural Development:** Compared with large-scale companies, **MSMEs aided in the industrialisation of rural areas at minimal capital cost**. The sector has made significant contributions to the country's **rural socio-economic growth** and **complemented major industries as well**.
- **Front Runner in Make in India Mission:** As India aims that the **products that are 'Make in India' are also 'Made for the World,'** adhering to global standards of quality. **MSME is acquiring the centre stage in the mission**. It is taken as a backbone in making this dream a possibility.
- **Simple Management Structure for Enterprises:** Considering India's middle-class economy, MSME offers a flexibility that it **can start with limited resources within the control of the owner**. From this decision making gets easy and efficient.
  - On the contrary, a large corporation requires a specialist for every departmental functioning as it has a complex organisational structure.
- **Economic Growth and Leverage Exports:** It is the most significant driver in India contributing to the tune of **8% to GDP**.
- Nowadays, **Multi National Companies** are buying **semi-finished, and auxiliary products**

**from small enterprises.** It offers immense potential in creating a linkage between **India's MSME base and big companies.**

## What are the Current Challenges Related to MSME Sector in India?

- **Financial Constraint:** In the [Indian economy](#), access to finance has always been an issue for smaller firms and businesses. This is a major hindrance for businesses as well as the MSME sector.
  - However, the most disturbing fact about it is that **only 16% of SMEs get access to timely finance**, resulting in small and medium firms being forced to rely on their own resources.
- **Lack of Innovation:** Indian MSMEs lack innovation, and the **majority of the products that they produce are based on outdated technologies**. There is a severe [lack of entrepreneurs](#) in this sector, which has prevented it from adopting new technologies and tools.
  - As a result, MSMEs have had to struggle with outdated technology as well as low levels of productivity, especially when compared with larger firms.
- **Majority of Small Firms:** Micro and small businesses account for more than 80% of MSMEs. Therefore, due to communication gap and awareness, they cannot take advantage of the **government's emergency line of credit**, stressed asset relief, equity participation, and fund of funds operation.
- **Lack of Formalisation Amongst MSMEs:** MSMEs lack formalisation and this contributes to the credit gap.
  - Almost **86% of manufacturing MSMEs in the country are unregistered**. Even today, only about 1.1 crore MSMEs are registered with the [Goods and Services Tax](#).

What are the Recent Government Initiatives Related to MSMEs?

- [Raising and Accelerating MSME Performance \(RAMP\) Scheme](#)
- [Credit Guarantee Trust Fund for Micro & Small Enterprises \(CGTMSE\)](#)
- [Interest Subsidy Eligibility Certificate \(ISEC\)](#)
- [A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship \(ASPIRE\)](#)
- [Credit Linked Capital Subsidy for Technology Upgradation \(CLCSS\)](#)

## What Should be the Way Forward?

- **Regulatory Mechanism:** The growing importance of the [data economy](#) necessitates the government creating an **independent body to advise and offer consultancy to MSMEs** and establish **regulatory measures to protect them from economic shocks**.
- **Supply Chain Finance:** It can help MSMEs **meet urgent working capital requirements** and **allow them to make early payments** or have quicker access to funds that they are owed and to inculcate [Zero Defect & Zero Effect \(ZED\) practices](#) in manufacturing done by Indian MSMEs.
  - **Technology-enabled platforms to automate transactions** can be created making it **easier for MSMEs to track payments**.
    - With such seamless and quick funding, MSMEs can easily invest in business expansion, procure new raw materials, or update their inventories.
- **Linking Government Projects with Local MSME:** The government can play a crucial role in **creating domestic manufacturing capabilities** by the leverage of proposed public procurements and projects.
  - For instance, **public projects such as [Sagarmala](#), [Bharatmala](#)**, and industrial corridors **can be linked with the MSME sector**.
- **Industry-Academia Channel:** A greater connection between government industry-academia is required to **identify the evolving requirements in manufacturing and prepare an employable workforce**, contributing to [Industrial Revolution 4.0](#).
- **Dedicated MSME Portal:** A portal can be created for MSME **formalisation and registration**. It will not only bring **transparency** but also help in **reducing frauds and misappropriation of data**.
  - And it can also be developed as a **full-fledged marketplace for MSMEs** through which

**sellers can develop forward and backward linkages.**

- **Aadhaar or PAN can be used as a unique identifier** for all compliance purposes and **annual registration process as a vendor must be simplified** or can be done with this identifier.
- **E-Courts for Dispute Resolution:** Often the [National Company Law Tribunal \(NCLT\)](#) proceedings lead to drainage of precious financial resources for MSME sector.
  - To push for faster resolution of cases, **there is a need to strengthen the NCLT framework** with introduction of alternate methods of debt resolution, such as via [e-courts](#).
- **Incentivising Digital Adoption Within the Sector:** By **incentivizing digital adoption** within this sector, particularly disruptive technologies such as [artificial intelligence](#) and [quantum technology](#), the industry can experience a technological boom.

***Drishiti Mains Question:***

Highlight major challenges related to MSME sector in India and suggest reforms in order to maximise their potential and propel the Indian economy forward.

**UPSC Civil Services Examination, Previous Year Question:**

*Prelims:*

**Q.1** What is/are the recent policy initiative(s) of Government of India to promote the growth of the manufacturing sector? (2012)

1. Setting up of National Investment and Manufacturing Zones
2. Providing the benefit of 'single window clearance'
3. Establishing the Technology Acquisition and Development Fund

Select the correct answer using the codes given below:

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

**Ans: (d)**

**Q.2.** Which of the following can aid in furthering the Government's objective of inclusive growth? (2011)

1. Promoting Self-Help Groups
2. Promoting Micro, Small and Medium Enterprises
3. Implementing the Right to Education Act

Select the correct answer using the codes given below:

- (a) 1 only
- (b) 1 and 2 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

**Ans: (d)**

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