



## Mains Practice Question

Q. “MSMEs sector is referred to as the growth engine of the Indian economy”. In light of this statement discuss the challenges and solution pertaining to the MSMEs sector in India. (250 words)

20 May, 2020 GS Paper 3 Economy

**References:** [Role of MSMEs in Indian Economy](#), [Micro, Small and Medium Enterprises \(MSME\)](#)

### Approach

- **Introduction:** Briefly explain why MSMEs are the engine of economic growth by highlighting its importance.
- **Body:** Discuss the issues and challenges faced by MSMEs under various dimensions like access to credit and markets etc. Also, discuss the solutions of the challenges faced by the MSME sector highlighting the government schemes and initiatives for the same.
- **Conclusion:** Summarize your answer and write a way forward suggesting what more needs to be done to improve the MSMEs.

### Introduction

The Micro, Small and Medium Enterprises (MSME) sector is the second largest employment generating sector (after agriculture) and accounts for 45% of output in India. This sector plays a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries.

They also help in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

### Body

#### Significance of MSMEs for Indian Economy

- **Contribution to GDP:** With around 36.1 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities.
- **Exports:** It contributes around 45% of the overall exports from India.
- **Inclusive growth:** MSMEs promote inclusive growth by providing employment opportunities in rural areas especially to people belonging to weaker sections of the society.
- **Financial inclusion:** Small industries and retail businesses in tier-II and tier-III cities create opportunities for people to use banking services and products.
- **Promote innovation:** It provides opportunity for budding entrepreneurs to build creative products boosting business competition and fuels growth.

#### Issues and Challenges faced by MSMEs and steps taken to improve their condition:

Issues and Challenges	Steps Taken
Access to credit	▪ Launch of the <b>59 minute loan portal</b> to enable easy access to credit for MSMEs.

<ul style="list-style-type: none"> <li>▪ 90% of the MSMEs are dependent on informal sources for funding</li> <li>▪ Lack of sufficient collateral and high working capital needs</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2 percent interest subvention for all GST registered MSMEs, on fresh or incremental loans.</li> <li>▪ <b>Trade Receivables e-Discounting System (TReDS)</b> to enable access to credit from banks, based on their upcoming trade receivables from corporate and other buyers.</li> </ul>
<p><b>Access to Markets</b></p> <ul style="list-style-type: none"> <li>▪ Low outreach and non availability of new markets.</li> <li>▪ Lack of skilled manpower and ineffective marketing strategy.</li> <li>▪ Difficult for MSMEs to sell products to government agencies.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Union government announced the launch of an e-commerce platform on the lines of private e-commerce companies to sell products from MSMEs.</li> <li>▪ Public sector companies now compulsorily procure 25%, instead of 20% of their total purchases, from MSMEs.</li> <li>▪ <b>Government e-Marketplace (GeM) portal:</b> It provides transparency in procurement and facilitates MSMEs to directly reach out to the buyers.</li> </ul>
<p><b>Technology Access</b></p> <ul style="list-style-type: none"> <li>▪ Limited human resources and weak financial standing.</li> <li>▪ MSMEs, particularly in the unorganised sector, show lower adaptability of new technology and innovation.</li> </ul>	<ul style="list-style-type: none"> <li>▪ 20 hubs and 100 spokes in the form of tool rooms will be established across the country. This will facilitate product design and easy access to latest technology to MSMEs.</li> <li>▪ Financial assistance is provided for implementation of lean manufacturing techniques to enhance the manufacturing competitiveness of MSMEs.</li> </ul>
<p><b>Quality and Export Issues</b></p> <ul style="list-style-type: none"> <li>▪ Low quality products impact export competitiveness.</li> <li>▪ Inadequate access to quality raw materials.</li> <li>▪ Use of traditional machines causes low productivity.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial support to MSMEs in ZED(Zero Defect Zero Effect) certification to improve quality of products.</li> <li>▪ Government provides subsidies towards the expenditure incurred by enterprises to obtain the product certification licenses from national and international bodies.</li> </ul>
<p><b>E- Governance</b></p> <ul style="list-style-type: none"> <li>▪ Issues such as online access to credit</li> <li>▪ Online resolution of disputes</li> <li>▪ Access to robust IT infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Udyami Mitra Portal</b> : launched by SIDBI to improve accessibility of credit and handholding services to MSMEs.</li> <li>▪ <b>MSME Sambandh</b> : To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.</li> <li>▪ <b>MSME Samadhaan-</b> MSME Delayed Payment Portal— will empower Micro and Small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments/CPSEs/State Governments.</li> <li>▪ <b>Digital MSME Scheme</b> : It involves usage of Cloud Computing where MSMEs use the internet to access common as well as tailor-made IT infrastructure</li> </ul>
<p><b>Ease of Doing Business</b></p> <ul style="list-style-type: none"> <li>▪ Cumbersome government procedures and rules for establishing new units.</li> <li>▪ Red Tapism</li> </ul>	<ul style="list-style-type: none"> <li>▪ The return under 8 labour laws and 10 Union regulations now to be filed only once a year.</li> <li>▪ Computerised random allotment for inspector visits to the establishment.</li> <li>▪ Environmental Clearance under air pollution</li> </ul>

<ul style="list-style-type: none"> <li>▪ Poor litigation system in the country.</li> </ul>	<p>and water pollution laws, have been merged into one. Also, the return to be accepted through self-certification.</p> <ul style="list-style-type: none"> <li>▪ For minor violations under the Companies Act, enabling the entrepreneur to litigate through simplification of government procedures and instilling confidence among entrepreneurs.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Lack of buoyancy</b> to adjust to reforms such as 'demonetisation' and GST.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Creation of a corpus of ₹5,000 crore <b>distressed asset fund</b> for MSMEs as suggested by a RBI Committee</li> <li>▪ Doubling the cap on collateral-free loans to Rs 20 lakh from the current Rs 10 lakh extended to borrowers falling under the Mudra scheme, self-help groups, and MSMEs.</li> </ul>

## Way Forward

- The government can play a crucial role in **creating domestic manufacturing capabilities** by leveraging proposed public procurement and projects.
  - For example, Mega public projects such as Sagarmala, Bharatmala, industrial corridors, and the Pradhan Mantri Awas Yojana (PMAY) can stimulate domestic manufacturing activities.
- Efforts should be made to **develop self-sufficient clusters** of manufacturing competence, with Cluster Administrative Authorities, empowered to provide single window clearances to entrepreneurs and investors.
- **Leveraging Industrial Revolution 4.0:** Disruptive technology, 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.
  - Also, the Industrial Revolution 4.0 will boost the Industrial supply chains in India.

The recent stimulus package of Rs 3-lakh crore collateral-free assistance to the MSMEs under **Atmanirbhar Bharat Abhiyan**, is the step in the right direction. However, providing a stimulus package may not be effective, until adequate reforms are carried out to solve its pressing problems and to utilize its potential.