



Mains Practice Question

Q. Evaluate how Micro, Small and Medium Enterprises are the backbone of the Indian economy. Also, suggest measures to address their financial and operational constraints. **(150 words)**

26 Jun, 2024 GS Paper 3 Economy

Approach

- Introduce by highlighting MSMEs as catalyst of growth
- Mention supporting arguments to MSMEs as the Backbone of Indian Economy
- Highlight the challenges faced by MSMEs
- Suggest measures to address their financial and operational constraints
- Conclude in a balanced manner.

Introduction

Micro, Small and Medium Enterprises (MSMEs) form the cornerstone of India's economic fabric, serving as **catalysts for entrepreneurship, employment generation, and inclusive growth.**

- Their significance has been further accentuated in recent years, particularly in light of India's aspirations for self-reliance, sustainable development, and achieving a **USD 5 trillion economy.**

Body

MSMEs as the Backbone of Indian Economy:

- **Employment Generation:** This sector is one of the largest employers in India.
 - The MSME sector generates **360.41 lakh jobs out of the 11.10 crore jobs in India.**
 - The jobs mainly belong to the manufacturing sector, in the rural and urban areas.
 - Also, the handloom and handicraft sector directly employs over **7 million artisans**, preserving traditional skills.
- **Contribution to GDP and Exports:** The sector contributes about **30% to India's GDP** and accounts for 45% of overall exports.
- **Fostering Inclusive Growth:** By promoting entrepreneurship across diverse socio-economic groups, the sector helps reduce regional imbalances and ensures equitable wealth distribution.
 - It significantly empowers **women entrepreneurs**, acting as incubators for local talent and indigenous skills.
 - An example is the **Kudumbashree mission in Kerala**, which has supported a large number of women-led micro enterprises, transforming rural economies.
 - Also, 1.38 lakh projects have been set up by the women entrepreneurs under **Prime Minister's Employment Generation Programme (PMEGP) Scheme.**
- **Innovation and Adaptability:** The sector is **more flexible and adaptable to market changes** compared to large industries and often pioneers in developing indigenous technologies and products.
 - It is crucial for India's transition to a **knowledge-based economy** and serves as testing grounds for innovative business models.
 - Many successful start-ups like **Paytm and Ola** began as small enterprises, revolutionizing

their respective sectors.

- **Support to Large Industries:** Acting as ancillary units for larger industries, this sector forms a **crucial part of the supply chain** and contributes significantly to the manufacturing sector output.
 - It is essential for the success of the **Make in India** initiative and provides specialized services and niche products.
- **Balanced Regional Development:** The sector helps in the industrialization of rural and backward areas, reducing migration to urban areas by providing local employment.
 - It utilizes local resources and skills, promoting sustainable development and contributing to the development of industrial clusters.
 - The leather cluster in **Kanpur**, for instance, has transformed the local economy.
- **Social and Cultural Impact:** The sector preserves and promotes traditional arts and crafts, contributing to cultural tourism and India's soft power.
 - It supports local community development through CSR activities.
 - An example is the **Chanderi handloom cluster in Madhya Pradesh**, which not only provides livelihoods but also preserves a centuries-old weaving tradition.

Challenges Related to MSMEs:

- **Limited Access to Credit:** MSMEs often struggle with limited access to credit as banks perceive them as high-risk borrowers.
 - This is exacerbated by complex loan procedures, high interest rates, and a lack of collateral.
 - Furthermore, there is limited understanding of alternative financing options.
 - For instance, **only 16% of MSMEs have access to formal credit**, with many relying on informal sources at higher costs.
- **Technological Obsolescence:** Many MSMEs lack the funds necessary to upgrade technology, making it difficult to compete with larger, technologically advanced firms.
 - Limited access to research and development facilities and challenges in adopting **Industry 4.0 technologies** further hinder their competitiveness.
- **Marketing and Branding Challenges:** MSMEs often have limited resources for marketing and branding, making it difficult to compete with established brands.
 - For example, **many handicraft producers** find it difficult to market their products beyond local markets, missing out on global opportunities.
- **Skilled Workforce Shortage:** Attracting and retaining skilled workers is a significant challenge for MSMEs, compounded by limited resources for training and development and high employee turnover rates.
 - There is often a mismatch between industry requirements and the available skills.
 - The **auto components sector**, for instance, faces a significant skill gap, particularly in emerging technologies like **electric vehicles**.
- **Raw Material Procurement:** MSMEs face fluctuating raw material prices and difficulty in bulk purchasing due to limited financial capacity.
 - **Small textile units**, for example, often struggle with **cotton price volatility**, impacting their profit margins and competitiveness.

Measures to Address Constraints Related to MSMEs:

- **Enhancing Credit Access:** Strengthening schemes like MUDRA and the **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)**, encouraging fintech and digital lending platforms, promoting alternative financing options.
- **Technology Upgradation and Innovation Support:** Enhancing the **Credit Linked Capital Subsidy Scheme (CLCSS)**, promoting industry-academia partnerships for technology transfer, establishing more Technology Centers (Tool Rooms) across the country, and **encouraging the adoption of Industry 4.0 technologies** through subsidies and training can support technology upgradation and innovation.
- **Market Linkages and Export Promotion:** Strengthening e-commerce platforms like the **Government e-Marketplace (GeM)**, promoting participation in international trade fairs and exhibitions, providing export-specific credit and insurance support.
- **Skill Development and Capacity Building:** Expanding programs under the Skill India mission,

encouraging industry-specific skill development centers, promoting **apprenticeship programs in MSMEs**, and developing entrepreneurship training programs can enhance skill development and capacity building.

- **Ease of Doing Business:** Simplifying regulations, promoting single-window clearance systems, implementing labor reforms to allow flexibility in hiring, digitizing compliance procedures, and providing dedicated MSME facilitation cells in government departments can improve the ease of doing business.
 - The **Udyam registration process**, for example, has simplified MSME registration, and is a significant step in this direction.
- **Promoting Formalization and Digital Adoption:** Incentivizing registration and tax compliance, providing benefits for joining the formal economy, **encouraging the adoption of digital payments and accounting systems**, and developing MSME-specific cloud-based solutions can promote formalization and digital adoption.
 - The **recent change in MSME definition**, for instance, has encouraged formalization, bringing more units under the formal sector
- **Global Competitiveness and Quality Enhancement:** Promoting the adoption of quality management systems, and developing export-oriented MSME clusters can enhance global competitiveness and quality.
 - **Zero Defect Zero Effect (ZED) certification scheme**, for example, has helped MSMEs improve quality and reduce environmental impact.

Conclusion

MSMEs are the **engine of growth for the Indian economy**. By addressing their financial and operational constraints through a multi-pronged approach, the government can empower them to unleash their full potential and contribute significantly to **India's economic prosperity**.

PDF Reference URL: <https://www.drishtiias.com/mains-practice-question/question-8347/pnt>

