

Mastering Mains Answer Writing (Ep-3)

Economic Development, GS Paper-III

Question

Micro, Small and Medium Enterprises (MSMEs) are key drivers of economic growth and employment generation in Indian economy. Examine.

Command Word

'Examine' – Analyse what is being asked about the theme of the question in close detail and support the answer by giving facts and issues surrounding the topic.

Answer Structure

- **Introduction** – Brief description of MSMEs - comprising its definition and significance in India.
- **Body of the Answer** – It will be divided into two parts:
 - Highlighting facts and figures in support of the argument that MSMEs are key drivers of economic growth and
 - Throwing light on how MSMEs act as key drivers of employment generation in the Indian Economy.
- **Conclusion** – Mention the **challenges** faced by MSMEs in India and conclude by providing **solutions** and giving **way forward** for overall development of this sector.

Representative Answer

Introduction

The classification of an enterprise as Micro, Small or Medium (MSME) is based on its annual turnover. The industries which have less than 5 crore turnover are defined as Micro enterprises. The industries having turnovers of 5 crore to 75 crore and 75 crore to 250 crore are known as small and medium enterprises respectively.

Although large industries help country in overall economic growth, the MSMEs are important in employment generation, export growth and inclusive development.

MSMEs comprise industries such as khadi and village, coir industries, handloom, sericulture and retail business.

MSMEs as Drivers of Economic Growth

- **Share in GDP** – The MSME sector's share to the total Gross Domestic Product (GDP) is about 37% and they also contribute to 43% of exports based on Ministry of Commerce data.
- **Ancillary Role** – MSMEs provide a strong forward and backward linkages with other sectors. For example, they complement large industries as ancillary and play an important role in manufacturing value chain.
- **Inclusive Growth** – MSMEs support industrialization of backward and rural areas and assure a more equitable distribution of national income and wealth. In this way, they play a key role in assurance of inclusive growth in the country.
- **Push to Domestic Economic Growth** – The MSME sector has sustained an annual growth rate of over 10% for the past few years and therefore it helped India to record an overall high growth rate in these years.

MSMEs as Drivers of Employment Generation

- **Share in Total Workforce** – MSMEs employ about 40 % of the workforce across the country.
- MSMEs can generate more number of employment opportunities per unit of capital invested compared to large industries.
- **Impetus for Entrepreneurs** – They inspire employment generation at the local level by using local resources. That is why, they play a significant role in augmentation of entrepreneurial skill at the village and backward areas.
- **Accommodate Surplus Labour** – MSMEs provide employment to the surplus labour force that arises as and when the economy grows and the share of the agriculture in economy declines - by absorbing this surplus labour force from agriculture sector.

From the above analysis, it is clear that MSMEs have a large potential in economic growth and employment generation in the Indian Economy. However they are not able to grow at their potential because of certain challenges.

Challenges

- Poor Availability of adequate and timely credit, high cost of credit
- Complicated procedure of clearances of required permits leads to delays.
- Multiplicity of labour laws
- Competition with large industries which have all the industrial development requisites such as use of skilled labor, availability of state of the art entrepreneurial and market strategies
- Poor conditions of infrastructure especially in rural India, e.g. power, water, road etc.
- Low technology levels and lack of access to technology

Following are some of the initiatives undertaken by the Government to overcome the above as well as other challenges:

- **Pradhan Mantri MUDRA Yojana (PMMY)** was launched in 2015 for providing loans to the non-corporate, non-farm small/ micro enterprises.
- Introduction of initiatives like **59 minute loan portal** to enable easy access to credit for MSMEs and **mandatory 25 percent procurement from MSMEs by CPSEs**.
- MSME entrepreneurs can instantly get a unique **“Udyog Aadhaar Number”** (under MSMED Act 2006) - helping in ease of doing business for MSMEs.
- Setting up of **Technology Acquisition and Development Fund (TADF)** to provide funding support to MSMEs for the acquisition and development of clean and green technology.
- **A Scheme for Promoting Innovation and Rural Entrepreneurs (ASPIRE)** to promote networks for start ups in rural and agriculture based industries.

Need of the hour is to implement the above initiatives effectively, so that our MSMEs can realise their potential of becoming economic growth and employment generators.



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