



drishti

MSME Sector: Underutilised Engine of Growth

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This article is based on the editorial “Tying up the loose ends for MSMEs” which appeared in The Hindu Business Line on 13th July 2019. It talks about challenges and solution for the MSME sector.

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, creating 1.3 million jobs every year and producing more than 8000 quality products for the Indian and international markets.

Despite the importance of the MSMEs in Indian economic growth, the sector is facing several challenges and does not get the required support from the concerned government departments, financial institutions and corporates which is proving to be a hurdle in the growth of the MSMEs and subsequently Indian economy.

What are the challenges faced by MSME?

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. Also, The MSMEs are presently facing the problems of credit from the banks.
- **Technology adoption:**
 - The adoption of new technologies like artificial intelligence, data analytics, machine-to-machine communications, robotics and related technologies, collectively called “Industry 4.0”, is a bigger challenge for SMEs than for organized large-scale manufacturing.
 - Also, data security, reliability of data and stability in communication/transmission also pose challenges to technology adoption.
 - Further, in the present era of globalization, the MSMEs are facing great competition from the international manufacturing companies (which use Industry 4.0), as they are providing quality goods at the cheapest price.

- **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, it continues to be a drag on the system. Getting construction permits, enforcing contracts, paying taxes, starting a business and trading across borders, continue to constrain the ease of doing business.
 - Though MSMEs are developing rapidly, the infrastructure provided to them is very poor. With poor infrastructure, their production capacity remains low with the increasing production cost.
- **Lack of training and skill development program:** The training and development programs in respect of MSME`S development concern is very low.
So, skilled manpower is not available to the MSMEs. Also, the skill developmental schemes conducted by the government are not sufficient.
- Labour laws along with most of the laws related to manufacturing and service concerned are very complex and compliance with these laws are practically difficult. Red-tapism adds to the issues.

MSMEs

- MSMEs are **labour intensive**, have the advantage of the low cost of production and can make good use of locally available resources pushing demand and growth
- The sector **offers a wide range of employment opportunities** and absorbs most of the working age population
- Majorly consist of handlooms, handicrafts, coir, sericulture, khadi and village industries, small scale industries and powerlooms
- **Are complementary to large industries as ancillary units.**
- Contribute in the **inclusive industrial development.**
- Function as the backbone by providing the **linkage between different units within the economy**, connecting the labour skills, intermediate parts and market to the respective specific manufacturing systems.
- International MSME Day is celebrated on 27th June.

Way Forward

- The importance of MSMEs is reiterated in all policy documents and is the latest budget (2019-2020) is no different:

- The budget has attempted to fix the problem of delays in payments to MSMEs. The government has spoken of creating a payment platform for MSMEs to facilitate the billing and payments through it.
- This is in sync with the UK Sinha Committee recommendations on MSME reforms.
- The extension of the 59-minute loan scheme to new entrepreneurs will fit well with the government's emphasis on startups and MSME
- The limit for collateral-free loans has been raised to ₹20 lakh from ₹10 lakh.
- 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 getting micro-finance institutions (MFIs) and non-banking finance companies (NBFCs) to finance MSMEs, and venture capital funds would be an integral part of the system that is linked to potential borrowers.
 - MUDRA should be reinvented so that SIDBI becomes more effective in its operations as it gets into underwriting, risk management and fund-raising on its own.
- To make lending effective, credit guarantee of loans to MSMEs is important. The UK Sinha panel stated that all these schemes should be regulated and brought under the RBI.
- The issue of a potential default is relevant for MSMEs as the class of entrepreneurs is different from those in the corporate sector and the size of the loan is much smaller. Hence, using the normal 180-day rule under Insolvency and bankruptcy code should be relaxed in case of MSME.
- For demand generation, augmentation of industrial infrastructure and promotion of MSMEs
 - The government can play a crucial role in creating domestic manufacturing capabilities by **leveraging proposed public procurement and projects**.
 - **Mega public projects such as Sagarmala, Bharatmala, industrial corridors, and the Pradhan Mantri Awas Yojana (PMAY)** can stimulate domestic manufacturing activities provided the projects are suitably structured and demand is aggregated strategically.
 - This should be accompanied by a **simplification of the regulatory process**.
- **Industrial corridors** should address the lack of infrastructure and logistics.
- For India to become the world's workshop, we should **encourage further FDI in manufacturing**.
- **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.
 - In the context of employability of engineers, there is a need for a thorough

review of standards of engineering education and its linkages with industry.

- **Indian quality standards should be harmonized with global standards** in many sectors. Lack of harmonization has affected Indian exports and prevented the leveraging of trade agreements adequately

Industrialization is a progressive measure which creates social and economic change by transforming the human society from pre-industrialization to industrial era, also it plays a dominant role in the development of the economy, acts as a basic fundamental factor which is influenced on the growth prospects of the economy of a country.

In this context, the MSME sector acts as a factory for entrepreneurship and self-employment opportunities as well as a tool for poverty eradication.

Drishti Input:

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?
