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Going Beyond The Credit Requirements of MSMEs

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(This editorial is based on the article “Going Beyond the Credit Requirements of MSMEs” which appears in The Livemint on 6th November 2018. It analyses the problem of MSMEs in India.)

The recent announcement of support to micro, small and medium enterprises (MSME) by Prime Minister last week provided the platform for discussing the other issues related to MSMEs in general.

MSMEs can now get in-principle approval for loans of up to ₹1 crore in 59 minutes. Additionally, goods and services tax (GST)-registered MSMEs will get an interest subvention on fresh or incremental loans. Interest rate rebates have also been announced for exporters. But some other aspects are still unanswered.

What are MSMEs?

In India, the ‘village and small industries sector’ consists of both ‘traditional’ and ‘modern’ small industries. This sector has eight subgroups. They are handlooms, handicrafts, coir, sericulture, khadi and village industries, small scale industries and powerlooms. The last two come under the modern small industries, while the others come under traditional industries.

In India, the enterprises have been classified broadly into two categories:

- Manufacturing.
- Those engaged in providing/rendering of services.

Both categories of enterprises have been further classified into micro, small and medium enterprises **based on their investment in plant and machinery** (for manufacturing enterprises) **or on equipment** (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

| Classification | Manufacturing Enterprises | Services Enterprises |
|----------------|----------------------------------|---------------------------------|
| Micro | Up to Rs.25 lakh | Upto Rs.10 lakh |
| Small | Above rs.25 lakh & upto 5 crore | Above Rs.10 lakh & upto 2 crore |
| Medium | AboverRs.5 crore & upto 10 crore | Above Rs.2 core & upto 5 crore |

Characteristics of MSMEs

- These are organised by individuals, with private resources;
- Normally use family labour and locally available talent;
- The equipment used is simple;
- Capital investment is small;
- Production of goods using indigenous technology.

Role of MSMEs

- Small industries in India **account for 95% of the industrial units in the country**. They contribute almost **40% of the gross industrial value added and 45% of the total exports** (direct and indirect exports) from India.
- MSME has played a prominent role in the development of the country in terms of creating employment opportunities-MSME has **employed more than 50 million people**, scaling manufacturing capabilities, curtailing regional disparities, balancing the distribution of wealth, and contributing to the GDP-MSME sector forms 8% of GDP.
- The share of MSMEs in the country's gross value added is estimated to be about 32%. It also contributes **45% to manufacturing** output.
- These small industries reduce poverty, provide more employment at lesser capital costs compared to large enterprises and facilitate learning across the sectors as well as geographically.

Issues Related with MSMEs

- At a broader level, since most firms are very small, **besides non-availability of formal finance**, they are also not in a position to adopt technology to improve productivity. Further, most firms in the informal sector are unlikely to attract skilled labour.
- India has a large number of tiny firms that work in the informal sector and do not scale up. This has not only affected growth and output, particularly in the manufacturing sector, but also employment generation.

- **Lack of sustainable work:** The biggest problem most businesses have is they do not have enough customers and enough work to cover their fixed costs and earn an income.
- **Lack of Capital:** Since most service MSMEs do not have hard assets, they do not qualify for sizable credit lines to invest for growth.
- **The absence of Affordable and Accountable Marketing Channels:** Most mainstream media are best-suited for large corporate brands and are not accessible for MSMEs.
- **Excessive regulation for starting, running and closing a business:** India, has a large number of complex regulations.
- **Lack of investment** in small industries has become a point of worry to both the policymakers and the entrepreneurs.

Way Forward

- It is likely that with increasing digitization and the implementation of the GST, more firms will join the formal sector. Although government intervention will help the sector, the actual impact for a large number of small firms will remain limited. So, more focus should be on implementation.
- Providing developed sites for construction of sheds, provision of training facilities, supply of machinery on hire purchase terms, assistance for domestic and export marketing, technical and financial assistance for technological upgradation, special incentives for setting up of enterprises in backward areas can help the sector to grow.
- With their dynamism, flexibility and innovative entrepreneurial spirit, small businesses have to adapt themselves to the fast changing needs of the market driven economy.
- The government should reorient its assistance to the small business sector by acting as a facilitator and promoter and not as a regulator. New strategies have to be evolved to foster partnership between large and small industries, adopt cluster approach, develop creative marketing, improve technological skills by upgradation, building export competitiveness by identifying the core competencies of the small businesses.
- The small business sector should view globalisation as an opportunity for its active participation as suppliers of specialised component and parts.

Institutional Support for MSMEs

- National Bank for Agriculture and Rural Development (NABARD) adopting a multi-pronged, multi-purpose strategy for the promotion of rural business enterprises in the country.
- The Rural Small Business Development Centre (RSBDC) It works for the benefit of socially and economically disadvantaged individuals and groups.

- National Small Industries Corporation (NSIC) set up with a view to promote, aid and foster the growth of small business units in the country. This focuses on the commercial aspects.
- Small Industries Development Bank of India (SIDBI) to provide direct/indirect financial assistance under different schemes, to meet the credit needs of small business organisations.