



## Micro in MSME

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This article is based on "**Micro enterprises need exclusive treatment**" which was published in The Hindu business line on 23/04/2021. It talks about the significance and associated issues with the micro-industries in the MSME sector.

The micro small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development.

The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports.

However, micro enterprises represent the most vulnerable segment in the whole MSME sector. These were the major victims of both demonetisation and the sudden lockdown to contain Covid-19.

Further, there exist the huge heterogeneity, characteristics, constraints and other attributes, which are critically important for policy design associated with the micro industries. Thus, the umbrella policy for the MSMEs has little relevance for micro enterprises.

### Significance of Micro Industries in MSME

- Latest available NSSO data show that manufacturing-based micro enterprises constitute 99.7 per cent of the MSMEs while supporting 97.5 percent of employees. Further, the micro units account for 90.1 percent of the MSME output and 91.9 percent of income.
- A craftsman, weaver, food processor, fisherman, carpenter, shoe-maker/cobbler, tutor, tailor, plumber, electrician, street side food shop, ice-cream parlour, beauty salon, motor (repair) garage, transport agency, advertising entity are just a few examples.
- Their presence in high numbers makes them the most diffused segment in our socio-economic system.

- Micro-enterprises are distinct in the variety of activities and characteristics, but low in economic contribution.  
Nevertheless, these enterprises are hugely consequential for the marginalised sections bypassed by the development process.

## Associated Issues With Micro Industries

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- **Heterogeneity:** Heterogeneity in the form of greater use of hired assets under the micro segment.
  - The ability to own capital is low in micro industries. This implies that rental expenses constitute a higher share in total costs.
  - Since, the asset ownership pattern has implications for technology upgradation. The capital loans have little relevance for the micro-enterprises to stimulate growth of the micro industries.
  - It could be the case that a micro-enterprise is unwilling to invest in view of the risks associated with market uncertainties.
- **Fragmented Structure:** Despite supporting a large proportion of the workforce, they lack a lobby to voice their concerns simply because of a fragmented structure.  
Due to a limited understanding of the procedures and low volumes, these units are disproportionately disadvantaged when it comes to participating in public procurements.
- **One-Size-Fits-All Approach:** For most part of the policy and stimulus package, the incentives and relief are designed as common across MSMEs bringing them under one umbrella.  
This tends to bypass micro enterprises even if they are overwhelmingly predominant in the collective group of MSMEs.

## Way Forward

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- **Dedicated Policy:** There is a need to acknowledge that serving micro-enterprises and SMEs through a common policy does not meet the needs of micro units.
  - In fact, the RBI expert committee report on MSMEs documents that micro (and small) enterprises have limited bargaining capacity.
  - Thus, there is a need for a focussed approach towards micro-enterprises for gathering and capturing specific information is an inevitable consideration for the New Industrial Policy.
- **Co-operative Model:** More efforts in the form of higher investment in advanced technology, usage of digital and technology enabled platforms, transfer of technology, more investment in human resources, improved access to finance, etc. are required.  
Promotion of co-operative models (on the lines of farmer producer organisations) can help micro-industries in this regard.

## Conclusion

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With a greater role envisioned for MSMEs in the \$5 trillion economy by 2024-25, it is important that the micro segment is not left behind. Their inclusion is contingent upon recognition of the uniqueness for policy design.

***Drishti Mains Question***

A thoughtfully crafted and focussed approach towards micro-enterprises for gathering and capturing specific information is an inevitable consideration for the New Industrial Policy. Discuss.