MSMEs Engines of Growth for New India

Why in news?

Recently the government has revised the definition of MSME making it as engines of growth for 'new India'.

Why MSME is important for Indian Economy?

- Contributes ~ 30% to India's GDP
- Employs ~ 11 crore people
- Constitutes ~ 40% of total exports
- More than half of them located in rural India
- Huge potential to boost self-reliance (Atmanirbhar Bharat)

What are the issues faced by MSMEs in India?

- **Regulatory limits on their assets** discourage MSMEs from scaling up their operations.
- Only after a gap of 14 years (2006 to 2020) the government revised the definition of MSMEs by factoring in inflation and depreciation.
- This made the MSMEs to operate at a low scale by creating subsidiaries/sister concerns with a view to receiving incentives from the government.
- **Inadequate and untimely credit -** 9/10 MSMEs depend on informal sources for their working capital and term loans.
- Lack of sufficient asset cover (collateral) discourages them from taking secured loans at lower interest rate.
- This dents profitability and economic viability of their businesses.
- **Other issues -**
    1. Non-registration of firms.
    2. Delayed receivables.
    3. Technological obsolescence.
    4. Negligible market linkages.
    5. Information asymmetry.
    6. Absence of exit policy.

How will the new reforms benefit MSMEs?

- **Special Credit Linked Capital Subsidy Scheme** provides 25% capital subsidy for the MSMEs in the services sector for procuring service equipment through institutional credit for advancement of their technology.
- **Revising the definition of MSMEs -** According to the new definition a firm is classified under MSME-Medium category if
    - Investment in plant and machinery does not exceed Rs50 crore
    - Turnover does not exceed Rs250 crore.
- This change in the policy gave a 'comfort zone' for the MSMEs.

- Export revenue is deducted from total sales while estimating the turnover of MSMEs
- This is a positive sign not only for MSME sector but also for exports.

What are the areas to improve in this sector?

Ease Of Doing Business –

- Better access to efficient factors of production.
- Friendly labour reforms
- Proper land acquisition policy
- Free access to capital
- Vibrant entrepreneurship culture
- Modern technology
- Enabling infrastructure.
- Simplified tax policy.

Export of Services -

- The world is moving towards a clean, green, and lean corporate regime and India has a comparative advantage in services sector
- MSMEs must be re-oriented to enhance export of services by capitalising the revised definition.
- However, balanced growth of agriculture, manufacturing, and services may be maintained by leveraging demographic dividend.

Leveraging PLI Scheme - PLI Scheme will

- Boost 13 industry sectors
- Harness Make in India and enhance our manufacturing and export potential.
- Incentivise the manufacturing of electric vehicles

Promoting Start-Ups -

- According to Nasscom India has 66 unicorns till date and is still counting.
- They should be nurtured with right incentives like market capitalisation and evolving technology.

Market Linkages -

- A virtual platform exhibiting the products and innovations of MSMEs must be created to reach out to the broader national and international markets thereby enhancing their revenue.
- Brand their products/services to promote (RURBAN) clusters.

Emulating Best Practices-

- Turkey has introduced ‘TURQUALITY’ a state sponsored scale up programme to transform MSME into global players.
- ‘Growth Driver Programme’ of Business Development Bank of Canada provides multi-disciplinary support system in terms of enterprise growth and job creation in SMEs.

Financial Literacy and Education –

- Imparting financial/digital education

- Make use of digital channels including TReDS platform for speedy realisation of their receivables.
- Train to utilise the services of SME stock exchange in order to mobilise risk capital for growth plans.

Reference

1. https://www.thehindubusinessline.com/opinion/msmes-engines-of-growth-for-new-india/article38101722.ece

