

## Empowering India's MSME Sector

*Arun Kumar Panda*



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**T**he Micro, Small or Medium Enterprise sector, or the MSME sector as it is called, has been recognized globally as a major contributor to Gross Domestic Product (GDP) and stimulator for economic growth. The sector plays a crucial role in providing employment opportunities to masses, fosters entrepreneurship and growth led by innovation. The sector also complements large businesses as ancillary units in fulfilling their business requirements and needs, thereby contributing to the socio-economic development and inclusive growth of the country.

### Indian Perspective

From the Indian economic perspective, the sector occupies a position of strategic importance. Nearly, 90 per cent of the industrial units belong to this sector, employing 40 per cent of India's workforce. The sector produces more than 8000 products ranging from traditional to high-tech precision items. With Indian economy on the fulcrum of the ever-rising growth curve, which is likely to become a \$5 trillion economy by 2025, the development of the sector has become all the more critical. Thus, devising innovative policies, programmes, and schemes that can strengthen the entire MSME ecosystem has become a priority for the Government. The same is apparent with

an upsurge in the budgetary allocation of Rs 6482 crore to Ministry of Micro, Small and Medium Enterprises, an all-time high as compared with previous year allocation of Rs 3465 crore.

### Strengthening MSMEs

In spite of the sector's inherent potential to grow, there exist many challenges as well. For instance, timely access to credit, infrastructural gaps, technological obsolescence, sub-optimal access to market and skilled manpower are some of the challenges which the sector faces. Moreover, with increasing competition from neighboring countries like China,



The author is Secretary, Ministry of Micro, Small and Medium Enterprises (MSME), Government of India and leads the Ministry for fulfilling the vision of employment generation, and the development of the MSME Sector. In his 32 years of service, Dr. Panda has served as an administrator, policy maker, public health strategist besides holding a wide range of assignments both at the provincial and Central level.

Indonesia, Philippines, and Thailand, it has become imperative for the sector to adopt robust strategies to become globally competitive. The Government does realize these constraints and acknowledges the urgency to rejuvenate the sector for enhanced level of economic activity. And so, a host of initiatives like 'Make in India', 'Digital India', 'Start-Up India' and 'Skill India' have been taken up for the holistic growth of the sector. Measures are also underway to enhance the overall contribution of the manufacturing sector in India's GDP to 25 per cent vis-à-vis current 16-17 per cent and to create 100 million more jobs by 2022.

### Financing SMEs

It is necessary to keep in mind that the MSME sector is not homogeneous and hence, there exist different priorities for different enterprises. And so are the challenges. For example, timely access to adequate credit is a priority for micro and small enterprises and remains a challenge. Typically, the problem is not so accentuated for medium and large enterprises. In order to address this concern, coverage under Credit Guarantee Fund Scheme has been augmented by the Government. The units falling under Micro and Small Enterprises can now avail collateral free loans upto Rs 2.00 crore from the earlier limit of Rs 1.00 crore through select financial institutions. Besides, new innovative models are also coming up in the market to address burgeoning financial complexities and credit related gaps in the sector. Various start-ups in the working capital space are trying to



make it convenient for SMEs to access credit easily. With the advent of these financing and lending players in the ecosystem, the SMEs are more likely to become financially secure.

### Prime Minister's Employment Generation Programme (PMEGP)

Prime Minister's Employment Generation Programme (PMEGP) is a flagship scheme of the Ministry, whereby Micro Enterprises are set up every year creating employment opportunities across the country. The major objective is to generate employment opportunities in rural as well as urban areas of the country through setting up of new self-employment ventures/projects/micro enterprises. The programme has tremendous potential for job creation.

### Khadi and Village Industries

Khadi and Village Industries are two important National Heritage sectors of India. The Khadi and Village Industries sector plays a very vital role in providing employment opportunities in rural areas at low per capita investment especially to people belonging to weaker sections of the society. Ministry of Micro, Small and Medium Enterprises has a host of schemes for the Khadi and Village industry sector to provide gainful employment at the door steps of the rural unemployed, especially youth and women.

### Focus on Technology

Today, global value chains are competing at the global level. In order to become a preferred supplier, an enterprise needs to adopt best practices and follow international standards to go forward not just in terms of offering innovative solutions, but offer greater value to their partners. It is in this context that technological sophistication has become immensely important. The Ministry is focussing on high end skilling and technical support through 18 Tool Rooms and Technology Development Centres across the country. In addition the Ministry of Micro, Small and Medium Enterprises has allocated Rs 2200 crore with funding support from the World Bank to upgrade some of the existing centers and establish 15 new Technology Centers (TCs) under Technology Center Systems Project (TCSP) to improve the overall productivity of MSMEs. The TCs will support MSMEs by providing access to state-of-the-art manufacturing technologies, skilled manpower and business advisory support to entrepreneurs. Additionally, a Credit Linked Capital Subsidy Scheme (CLCSS) is also operational for upgradation of technology for Micro and Small Enterprises. The Scheme facilitates modernization of plant and machinery by providing an up-front subsidy of 15 per cent subject to a maximum of Rs 15.00 lakhs. As on June 2017, a total amount of Rs 78.68 crore has been released, benefitting 1293 MSEs.

Hon'ble Prime Minister has recently launched the Scheme for Financial Support to MSMEs in Zero Defect

Zero Effect (ZED) Certification. This scheme is an extensive drive to create awareness amongst MSMEs about ZED manufacturing and motivate them for assessment of their enterprise for ZED and support them.

### Strengthening Infrastructure

Availability of infrastructure such as access to utilities, market, skilled manpower, and latest technology etc. is a must for any enterprise to run its operations successfully in the market. In this context, the Government has adopted a cluster-based approach for the development of MSMEs. As a whole, the approach encourages cooperative behavior, yet infuses a sense of competition amongst the firms present at the cluster level for doing business.

Due to lack of capital, the Micro and Small Enterprises are generally not in a position to get access to latest tools and techniques, thereby compromising on the quality of their end product. Therefore, the Cluster Development Programme aims at the creation of tangible assets like Common Facility Centers (CFC), getting access to latest tools, technology, designs, testing facilities etc. for such enterprises. Several clusters across the country have benefited through these and various other cluster development initiatives taken by the Government. The Ministry of Micro, Small and Medium Enterprises (M/o MSME) has prepared comprehensive guidelines



for Schemes such as Micro Small Enterprises – Cluster Development Programme (MSE – CDP) and Scheme for Upgradation of Rural and Traditional Clusters (SFURTI) to undertake more and more clusters for further interventions.

### Access to New Markets

To enlarge the existing market size of MSMEs and to build enduring interdependent relationships, an overall goal has been set up by the Government. It was proposed that Ministries and Departments of Central Government and Central Public Sector Enterprises, shall procure 20 per cent of goods and services from Micro and Small Enterprises (MSEs), as a part of Public Procurement Policy, MSE order 2012. This policy not only focuses

on MSEs, but also encourages MSEs owned by Scheduled Caste (SC) and Scheduled Tribe (ST) entrepreneurs to participate in the Public Procurement Market. Therefore, a sub-target of 4 per cent has also been set aside for procurement from MSMEs owned by SC-ST entrepreneurs. Furthermore, analysis of the MSME sector in terms of social group reveals that the enterprises owned by SC-ST entrepreneurs have their own set of constraints. To achieve this target and to promote entrepreneurship culture for SC-STs, a National SC-ST Hub (NSSH) has been launched by the Hon'ble Prime Minister on October 18, 2016 with an outlay of Rs. 490 crore (2016 – 2020). The objective of NSSH is to provide professional support to SC-ST enterprises. The Hub is currently operational from National Small Industries Corporation (NSIC), a Central Public Sector Enterprise (CPSE) under M/o MSME, GoI. A Special Credit Linked Capital Subsidy Scheme (SCLCSS) has also been formed under the hub to facilitate the purchase of Plant and Machinery by existing as well new SC-ST enterprises. The scheme envisages the upfront capital subsidy amount of 25 per cent.

### Human Capital

Attracting and retaining new talent has become an important factor for the growth of MSMEs. Even with a population of more than 1.25 billion individuals, skilled manpower is still cited as scarce. MSME sector holds the key for skilling our workforce,



especially at a time when 65 per cent of our population is below the age of 35. Keeping in view the growing number of individuals joining the job market every year, focus on skill based training and Entrepreneurship Development Programmes (EDPs) has become a necessity to make the workforce job ready. Several EDPs and Vocational Training Programmes have been conducted by Ministry of Micro, Small and Medium Enterprises through the office of Development Commissioner (MSME) in various sectors and trades.

### Concluding Remarks

Working in tandem with the larger goal of pushing the economic growth and comprehending the significance of the sector, the Government is firming up the existing policies/programmes and taking numerous other initiatives as well. For instance, as part of 'Ease of Doing Business' and to formalize the sector, Udyog Aadhaar Memorandum (UAM) has also been notified in September 2015. The system offers one – page single point registration, thereby avoiding delays and replacing heterogeneity in the existing system of Entrepreneurship Memorandum (EM) Part I and II. This is a path-breaking initiative taken to offer ease to Indian MSMEs in terms of registering their businesses. More than 35 lakh units have been registered under Udyog Aadhaar Memorandum (UAM) since its inception. Furthermore, with 'One Nation One Tax' approach under GST, MSMEs are likely to unleash its true potential.

To sum it all, with progressive changes in the Indian MSME sector, several policy interventions along with innovation and entrepreneurship will continue to play a dynamic role in creating a business – friendly ecosystem. The possibilities and potential for job creation and wealth formation are immense in the MSME sector. All the Stake holders including the State Governments, the Industry associations, the incubators, the technology providers, the Financial institutions and various Ministries of Government of India would have to join hands to attain the common goal and shared vision of high growth and employment. MSME sector with its vast spectrum of enterprises, let's remember, holds the key to achieving the Demographic Dividend.

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(E-mail: [sec.msme@gmail.com](mailto:sec.msme@gmail.com))

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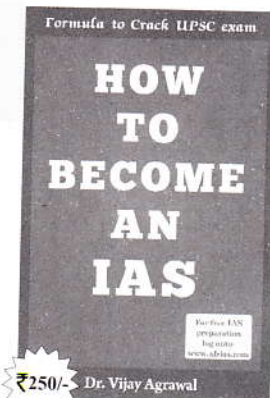
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