

# Small units are big growth drivers

The govt has taken many steps to support MSMEs. A nudge can propel the sector to contribute a lot more to growth

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The world over micro, small and medium enterprises (MSMEs) have been huge employment generators; producers of consumer, industrial and ancillary products; enhancers of production, consumption and investment linkages; creators of niche markets; foreign exchange earners; and catalysts for economic development. The situation in India is no different, with the sector employing as many as 11.10 crore people, contributing as much as one-third of the country's GDP, accounting for almost 50 per cent of our exports, and having a wide geographical reach with over 633.88 lakh units across diverse sectors and sub-sectors.

The Covid pandemic was disproportionately harsh on this sector. Stringent lockdowns, disrupted economic activities, detrimental reverse migration and re-migration led to shutting down of many units. Amidst the pandemic and consequential containment measures, there was a sudden collapse of trade which badly affected the MSME sector.

Many of India's top export items such as gems and jewellery, garments/apparel, processed food products, chemicals, leather products, machinery and auto parts are mainly supplied by the MSME sector, which plummeted. To pull the economy out from the current slowdown, it is necessary for MSMEs to recuperate. Studies indicate that MSMEs are aided by fierce competition from large domestic firms, MNCs and imports; technology; testing, inspection and certification; finance and credit issues; and marketing strategy.

The Government took several

measures recently to address issues which afflict this sector. The revised definition of MSMEs introduced in 2020, with both investment and turnover criteria, aims to ensure that their growth is not inhibited, while the deserving enterprises are able to avail themselves of benefits which are rightfully accorded to them.

Under the Atmanirbhar Bharat package, relief and credit support to MSMEs were multidimensional, including collateral-free loans, subordinate debt for stressed MSMEs and fiscal and monetary measures for credit availability, equity infusion, e-market linkages, income-tax refunds, and facilitating ease of doing business.

Budget 2021-22 doubled the outlay for MSMEs and announced measures to take care of competition from imports and credit issues. For debt resolution, a special framework is proposed to be introduced to facilitate insolvency resolution for this sector. Cheaper imports erode the competitive edge enjoyed by MSMEs in the domestic market. To address this issue, the Budget sought to restore their competitive edge by rationalising Customs duties, addressing the issues of inverted duty structure.

Besides increasing the basic Customs duties on products produced by MSMEs, imports used as inputs by them have been made cheaper by reducing the duties. Some trade-remedial measures like anti-dumping and countervailing duties, which increase the cost of imported inputs for downstream MSME users, have been revoked. The proposed exemption on import of duty-free items would be an incentive to exporters of garments, leather, and handicraft items. What are the con-

straints faced by MSME exporters? Some developed countries offer tariff concessions under their Generalised System of Preference (GSP) to exporters from developing countries, including India, which effectively means that GSP tariffs are lower than Most-Favoured Nation (MFN) tariffs.



A stitch in time will improve the prospects of MSMEs BIJOY GHOSH

However, once a country graduates out of GSP, the MFN rates need to be paid, adversely affecting exporters. Further, stringent regulations at destination markets translate into definite non-tariff barriers, mitigating the impact of a low tariff — example, exporters to the EU need to meet registration, evaluation, authorisation and restriction, which for MSME exporters can turn out to be formidably expensive.

## Export push

Is it possible to have an export-led growth by MSMEs? The growth of e-commerce is evident with the MSME sector taking the new normal in its stride. The virtual India Toy Fair 2021 is a classic example of the sector going online. MSMEs stand to gain by focussing on strengthening their share in markets which emerge due

to developments such as Brexit. Access to comprehensive, updated information about destination markets, together with the expertise to address the non-tariff barriers and incentives to help MSMEs capture available markets would be of much aid to them.

A cluster approach will benefit in reaping economies of scale. The requirement of compliance with domestic standards set by BIS will be a step towards ensuring quality products, while ensuring screening of imports. The Indian economy's stride towards becoming a \$5 trillion economy by 2024-25 was marred by a huge setback in 2020 in terms of an already slowing global economy, a global pandemic, severe lockdowns and contraction in economic growth.

The challenge lies in not just mitigating the impact of the consequences of the pandemic, but also accelerating growth. MSMEs can play a critical role in this endeavour. An efficient and resilient manufacturing sector, with high growth and exportable products, is the key to achieving the goal of 'Atmanirbhar Bharat'. Promotion of the manufac-

turing sector, through the production-linked incentive scheme, is one way in which backward linkages with the MSME sector in the country will be established and lead to economic growth while also creating huge employment opportunities.

The government has adopted a pragmatic approach to address these twin challenges and has aimed to boost demand, while expanding the supply side through a multiplier effect. As per Advance Estimates released by the NSO on February 26, Quarter 3 of 2020-21 indicates a 0.4 per cent growth in GDP. The Index of Industrial Production improved in the April-December period. The July-September quarter witnessed higher FDI flows as compared to the April-June quarter.

These green shoots can transform into further full recovery with a bounce-back in MSME sector. A number of measures have already been taken towards this end. A little more nudge can propel the sector to contribute significantly to economic growth going forward.

The writers are officers of the Indian Economic Service. Views are personal

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