

Food processing, for example, can gainfully absorb the released labour from agriculture, have high productivity because they add value to raw materials and fetch more price per unit of input, and have more export potential. Hence, investing in improving the business environment for these sectors would be a better option than investing in less productive sectors. The quality and pace of growth achieved depends crucially on how we allocate our resources. Ad-hoc allocation to low productivity sectors also achieves growth; however that is non-sustainable and peaks out quickly. Better quality of growth can be achieved by adhering to desired structural transformations.

14. Highlight the importance of MSME sector in India's economy. Also, identifying the challenges, suggest some policy recommendations to ensure their sustenance and competitive growth.

Approach:

- Explain concisely the MSME sector
- Mention the importance of MSME sector in India's economy
- Enumerate the challenges faced by the sector
- Suggest some policy recommendations to ensure the sustenance and competitive growth of the MSMEs
- Conclude

Answer:

MSME Development Act, 2006, as amended in 2018, classifies MSMEs as those which have annual sales turnover of up-to Rs. 5 Crore (Micro), Rs. 75 Crore (Small) and up-to Rs. 250 Crores (Medium). The earlier definition was based on investments in plant and machinery. Industries involved in manufacturing food products, wearing apparels, and services such as sale and repair of motor vehicles come within MSMEs.

Importance of manufacturing sector:

- MSMEs are the backbone of Indian manufacturing sector, as almost **90% of Industrial units** in India and **40% of value addition** in the manufacturing sector are done by them.
- They provide **large scale employment opportunities** at comparatively lower capital cost. They employ 11.10 crore workers (NSS 73rd round, 2015-16)
- They help in **industrialisation of rural and backward areas**.
- 50% of the total manufacturing **exports** comes from MSMEs.
- They have the capacity to adjust with changes, and **promote innovation** due to inherent flexibility.

Challenges Faced by them:

- Non-availability of **adequate credit** for expansion of business activities.
- Intense **International competition** after reforms of 1991, and due to WTO obligations.
- Decline of Public sector which has been a major **customer** of SMEs.
- Lack of reliable and efficient **infrastructural facilities** such as power, road, water, transportation and communications, information and technical inputs.
- They are not in position to hire **skilled and competent manpower** as large organisations can do.
- Lack of **marketing strategy** due to paucity of funds.

Policy recommendations to ensure their sustenance and competitive growth:

- **Finance**- availability through bank credit, angel funding, venture capital, private equity etc. Schemes like Credit Guarantee Scheme, Credit linked Capital subsidy scheme, PM MUDRA yojana, MUDRA banks are good steps in this regard.
- **Reform labour laws** such as productivity linked wage structure, single labour law to enhance its competitiveness etc.
- Promotion of inter-firm linkages and integration with global supply chain.