

| OPINION

Budget must revive floundering MSME sector, backbone of India's economy, hit hardest by pandemic

There are an estimated 6.63 crore MSME units in India. The sector contributes around 30 per cent of India's GDP, has a share of 40 per cent in exports and employs around 11 crore people



Representative



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At 8:30 am every day, 3000-odd labourers begin their work at a hot rolling steel plant in Jind, a small dusty town in Haryana. Hot rolling steel is used as an intermediary for making steel utensils. Although, the large steel plants have become mechanized, the hot rolling steel plant such as the one in Jind is categorized under micro, small and medium enterprises (MSMEs).

There are many such other similar plants and thousands of people, both skilled and unskilled, profess

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categorized as medium enterprises.

The MSME sector contributes around 30 per cent of India's GDP, has a share of 40 per cent in exports, and employs around 11 crore people.

The smaller steel plants, like the one in Jind, has nearly 70 - 80 melting units and more than 500 units are engaged in rolling and employ over 400,000 direct and indirect labour. The firms which are in the business of manufacturing hot rolling steel have already invested about Rs 5,000 crore in plants and machinery and have invested another Rs 5,000 crore in working capital.

It has a wide geographical spread. Jodhpur produces nearly 25 per cent of the total output, Ahmedabad (25 per cent), Bhiwadi (15 per cent), Jagadhari (15 per cent) and National Capital Region, Delhi (20 per cent).

At a time when fewer jobs are getting created, and India's urban sectors are not able to accommodate any further expansion, growth of MSME sector is important from the perspective of job creation and uniform growth process, pan-India.

However, the MSME sector is not competitive and is struggling to survive. Although contributing a fair share in India's foreign exchange earnings, the MSME outputs are characterized by low-end products, unreliable delivery and uncertain pricing.

Also, the MSME sector has a shortage of working capital for it to venture into market research, conceptualisation, design, prototyping, testing, compliance and certification for new product introduction.

At present, MSME units do not have the capabilities to manufacture high-technology intensive items. In comparison to China, where the MSME sector is contributing to 60 per cent of China's GDP and 80 per cent of jobs, India's MSME sector is lagging behind. Even when it comes to trade with China in MSME products, India is incurring a huge trade deficit.

To firefight this increase in the trade deficit, returning to protectionism seems to be a natural and an easier option. However, not so long ago - sometime during 2005 - India experimented with further opening up border trade. The country in fact signed six different Regional Trading Agreements (RTAs) between 2006 and 2010. This, however, led to an overall increase in the trade deficit for India. The current account deficit as a percentage of GDP also rose from 0.67 per cent in 2007 to 5.0 per cent in 2012.

This prompted policymakers to adopt an inward-looking policy by increasing tariffs, particularly on electronics, mechanical and electrical items. During the last decade, simple average tariffs for India rose 25 per cent from 8.9 per cent in 2010-11 to 11.1 per cent in 2020-21. The proportion of tariff lines exceeding the 15 per cent mark rose from 11.9 per cent in 2010-11 to 25.4 per cent in 2020-21. In spite of these measures, MSME sector continues to struggle.

The association of hot and cold rolled steel manufacturers to protect their interests.

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The COVID-19 pandemic has hit the MSME sector hard, leading to loss in livelihood. Recent estimates from NCAER suggests that the share of temporary workers working in the MSME sector fell from 26.5 per cent in March 2020 to 10.1 per cent in June 2020. The corresponding numbers for permanent workers were 14.9 per cent in March 2020 to 5.1 per cent in June 2020, respectively.

In another related survey conducted by National Small Industries Corporation, it was found that post COVID-19, around 9 per cent of the MSME plants had shut down.

Incidentally, the number of businessmen committing suicides increased from 9052 in 2019 to 11,716 in 2020. Very clearly then, in addition to trade policy instruments (tariffs and non-tariffs measures), it is imperative for the government to provide a helping hand.

Many plants belonging to the MSME sector do not have access to formal loans and other government benefits. More than 95 per cent of the firms belonging to this category are not registered and therefore lack any legal entity. Even when they have access to bank loans, conditions require providing a bank guarantee (non-fund-based limit such as collateral) five times the loanable amount. Due to the pandemic, there is clearly a need to relax this limit.

Secondly, tax benefits for the big corporates, for instance, lowering the corporate tax to 25 per cent, can also be extended to proprietorship firms falling under the 30 per cent tax bracket.

Thirdly, budgetary allocation for schemes such as market access schemes must be increased. This will allow the MSME sector to market its products outside India, and at the same time allow foreign buyers to venture into the Indian market.

Lastly, giving benefits in the form of lower electricity tariff, lower GST and a faster refund of duty drawbacks for the MSME involved in the export sectors will help the sector survive.

(IPA Service)

Views are personal

(The author is a professor at Mahindra University, Hyderabad)

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