

PRUDENT PRESCRIPTION: ON MSME SECTOR

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector
incl. MSMEs and PSUs

The micro, small and medium enterprises (MSME) sector in India is not only a key engine of growth, contributing more than 28% of the GDP and about 45% to manufacturing output. It is also a true reflection of economics where people really matter. Providing employment to about 111 million people, the sector's health is crucial to the economy's vitality and society's well being. An expert committee constituted by the Reserve Bank of India has in this context submitted a substantially germane study on the issues bedevilling MSMEs and made a fairly exhaustive set of recommendations to redress them. The panel is emphatic that the policy environment needs to be urgently refocussed. To that end, it is imperative that the thrust of the enabling legislation — a 13-year-old law, the MSME Development Act, 2006 — be changed to prioritise market facilitation and ease of doing business. Observing that many Indian start-ups that are at the forefront of innovation are drawn to look overseas, given the conducive business environment and the availability of infrastructure and exit policies, the experts suggest that a new law ought to address the sector's biggest bottlenecks, including access to credit and risk capital. A substantial part of the study is justifiably devoted to reimagining solutions to improve credit flow to MSMEs. For instance, the experts recommend repurposing the Small Industries Development Bank of India. In its expanded role, it is envisaged that the SIDBI could not only deepen credit markets for MSMEs in under-served regions by being a provider of comfort to lenders including NBFCs and micro-finance institutions, but also become a market-maker for SME debt.

Sinha-led panel proposes 5,000 crore stressed asset fund for MSMEs

With technology, especially digital platforms, having become so ubiquitous, the panel has made a case for greater adoption of technology-facilitated solutions to a plethora of problems encountered by the sector. To address the bugbear of delayed payments, the mandatory uploading of invoices above a specified amount to an information utility is a novel approach. The aim is to name and shame buyers of goods and services from MSMEs to expedite settlements to suppliers. While it does sound simplistic, and banks a lot on the power of moral suasion, it is a tack worth trying. Another suggestion entails expediting the integration of information on the Government e-Marketplace, or GeM, platform with the Trade Receivables Discounting System. The goal here too is to boost liquidity at MSMEs. A noteworthy recommendation urges banks to switch to cash flow-based lending, especially once account aggregators are operational and able to provide granular data on borrowings. The RBI and the Centre clearly have their work cut out in acting on this prudent prescription to help actualise the sector's true economic potential.

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