

Enable MSMEs to grow and create jobs

Ajay Shankar | Updated on November 11, 2019 Published on November 10, 2019

Apart from easing labour laws and providing a social security net, a focus on clusters with access to land and capital will help

Getting micro, small and medium enterprises (MSMEs), who employ 92 per cent of the workforce, to grow more rapidly should be one of the pillars of any strategy for job creation. This year's Economic Survey does candidly state that "Our policies must, therefore, focus on enabling MSMEs to grow by unshackling them", and that "Job creation in India suffers from policies that foster dwarfs, i.e., small firms that never grow..."

Compliance with the over 40 labour laws becomes mandatory once the number of workers employed by a firm crosses the prescribed threshold. There are different thresholds under different laws. Small firms find the costs of compliance too high and so often prefer to remain small or open a few more units in other names. They lose the gains that flow from the economies of scale. It is with scale that technological modernisation, marketing and advertising, which are necessary for growth, make commercial sense.

Converting the over 40 labour laws into the proposed four codes is an overdue reform. Putting in place a social safety net would make the provision of labour market flexibility easier in the new codes. Such flexibility reduces the risk perception in expanding the workforce.

Regulatory burden

Regulation of enterprises for human safety, health and the environment and ensuring compliance with prescribed standards is naturally essential. But the regulatory burden for enterprises is still too high. Overlapping and redundant regulatory requirements need to be scrapped. Detailed work and micro decisions need to be taken across regulatory regimes in the Centre as well as the States. To illustrate, a good question to ask would be why any permission, once granted, should need renewal. Government inspections for compliance with standards could also be gradually replaced by a credible system of third-party certification. This would go a long way in reducing the transaction costs of compliance, and at the same time lead to better compliance.

A good beginning has been made with third-party boiler inspection and certification. This approach can easily be extended to all certification. As with chartered accountancy firms, an effective system of oversight over certifying firms can also be put in place. The key is to improve a firm's perception of the costs of compliance and their associated risks, which need to be brought down to the level of competitive locations overseas.

Disclaimer: The content above is taken from the source mentioned

Resource: The Hindu, 11 Nov 2019

Copyright © 2019 Aparajitha Corporate Services Pvt., Ltd. All Rights Reserved.

Labour productivity

Progress is also needed in lowering the factor costs of production for MSMEs. Wages in India are low; they need to rise for poverty to decline. But when it comes to wage costs per unit of production, MSMEs lose on account of the low productivity of their labour. Labour productivity in the modern organised sector with large plants is not an issue, as these firms train their workers and supervisors. MSMEs are, by and large, not able to provide adequate training. The National Skill Mission should accord as much, if not more, priority to training and skill upgradation of the existing workforce vis-a-vis imparting skills to the young people who are entering the workforce.

Skill upgradation would need to be designed and implemented creatively in a way that factors in the natural inclination of the employer and worker, respectively, to not lose any production, or wages. The programme would need to be designed for industry segments and implemented across industrial clusters after testing and tinkering it for one unit. Spending public money for such skill upgradation would be well worth it. It would increase competitiveness, facilitate growth and create more jobs. Success of existing enterprises is the key to getting new entrants in that area of that industry.

Industrial land usage

Land for MSMEs is a major constraint. It needs to be recalled that, across the world, structural transformation through industrialisation has taken place in cities. Mumbai and Kolkata grew into major commercial and industrial cities over a period of 100 years prior to Independence, with flexible and pragmatic land-use regulations to facilitate growth.

Rigidities have gradually crept into the system to such an extent that recently, in Delhi, the closure of hundreds of gyms that had come up in residential areas to cater to demand has been ordered. Many micro enterprises emerge in non-conforming areas and then try to stay in the non-formal economy. Nevertheless, they are subject to considerable rent seeking.

Growing into a small and then medium enterprise is difficult for them. Land is not available and prices are too high. A 'plug and play' system is being talked about but needs to be made a reality soon across the country.

In any industrial cluster, there would be enterprises which are successful and would like to set up another larger unit. There is need for a functional system which can quickly identify this need and provide developed land in new industrial parks, with the development done by a state agency directly, or in a PPP mode. Further, there are a large number of usable plots lying idle for years in industrial parks across the country, where units have become sick and gone into bankruptcy. An efficient, quick system for releasing these lands for industrial use by new units should be put in place by the Central government.

Making Corporate India Comply

Technological modernisation and competitiveness are essential not only for growth but also for survival. PPPs for such modernisation are worth attempting; this can be done by getting the best technological capability for an industrial segment and taking up one cluster for a turnaround.

After success, scaling up can be done to cover all clusters in that industry segment. Bulk procurement of capital goods and leasing them may be easier than trying to get individual enterprises to make major investments. A much lower GST rate for such leasing would be amply justified.

MSMEs can be made to achieve their full potential and create an increasing number of jobs. But this needs focussed attention with policy changes, additional State interventions and more public funding.

The writer is Distinguished Fellow, TERI, and former Secretary, DIPP