Q1

Faster economic growth requires increased share of the manufacturing sector in GDP, particularly of MSMEs. Comment on the present policies of the Government in this regard.

UPSC Civil Services Mains 2023 · GS III · 10 marks · Indian Economy

Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Core demand of the question

- State why faster growth needs a larger manufacturing share, especially MSMEs
- **Comment on present Union policies:** Production Linked Incentive, Udyam, Credit Guarantee Fund Trust for Micro and Small Enterprises, Prime Minister's Employment Generation Programme
- **Judge gaps:** scale, credit, logistics, and jobs

Revision summary

India's growth mix is still services-heavy; a larger manufacturing share is needed for jobs and tradable output.

MSMEs are the bulk of industrial units and a large part of manufacturing and exports.

PLI rewards scale in notified sectors; Udyam, CGTMSE and PMEGP formalise and finance the small unit.

TReDS, Samadhaan and ZED support payments and quality around that core.

The gap is still logistics, delayed payments, and a manufacturing share of GVA near one-sixth.

Introduction

India's growth after 1991 was led more by **services** than by factories. A larger **manufacturing** share would absorb surplus farm labour, cut the import bill, and spread jobs beyond a few cities. **Micro, Small and Medium Enterprises** are the thick layer of that factory story. Present policy tries to raise both scale at the top and formal credit at the bottom.

Body

Why manufacturing and MSMEs

- Services cannot absorb the whole workforce that still sits in **low-productivity agriculture**.
- Manufacturing creates **tradable goods**, supplier chains, and shop-floor jobs that a call centre does not.
- MSMEs are the bulk of industrial units and a large share of **manufacturing output and merchandise exports**.
- Faster growth that skips this layer stays **job-thin**.

Present Government policies

- **Production Linked Incentive (PLI)** pays a time-bound incentive on incremental sales in notified sectors so firms scale electronics, pharma, autos, textiles, solar, and other lines in India rather than only assemble.
- **Udyam** is the online MSME registration that replaced older paper and Udyog Aadhaar routes; it uses **Permanent Account Number** and **Goods and Services Tax** data so a unit can prove size and claim schemes.
- **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)** gives a guarantee cover so banks lend without asking for heavy collateral from micro and small units.
- **Prime Minister's Employment Generation Programme (PMEGP)**, run with the Khadi and Village Industries Commission, subsidises new micro enterprises in rural and urban areas.
- Related tools include **Make in India**, **Trade Receivables Discounting System (TReDS)** for unpaid bills, **Samadhaan** for delayed payments, cluster and **Zero Defect Zero Effect (ZED)** quality support, and emergency credit during the pandemic.

Comment

- PLI is aimed at **large, exportable scale**. It helps a few champion sectors; it does not by itself turn a workshop into a factory.
- **Udyam, CGTMSE and PMEGP are the** MSME door**:** formal identity, guaranteed credit, and a first machine.
- **Gaps remain: logistics and power costs**, skill mismatch, slow payment by large buyers, and a still-modest manufacturing share of **gross value added** (about one-sixth).
- Policy is in the right direction if PLI **pulls MSME suppliers** into the chain, and if CGTMSE and TReDS actually reach the unit, not only the portal.

Flow diagram

Faster growth -> Larger manufacturing share

Larger manufacturing share -> MSME layer

MSME layer -> PLI scale sectors

MSME layer -> Udyam identity

MSME layer -> CGTMSE credit

MSME layer -> PMEGP first unit

PLI scale sectors -> Jobs and exports

Udyam identity -> Jobs and exports

CGTMSE credit -> Jobs and exports

PMEGP first unit -> Jobs and exports

Conclusion

Faster growth needs factories, and factories in India are mostly MSMEs. PLI, Udyam, CGTMSE and PMEGP are the present toolkit. They will work only if credit, payments and supplier links reach the small unit, not only the large PLI winner.

Facts & figures

Production Linked Incentive

Union incentive on incremental production in notified manufacturing sectors, rolled out from 2020.

Udyam

Online MSME registration using PAN and GST; the gateway for most MSME schemes after 2020.

CGTMSE

Credit Guarantee Fund Trust for Micro and Small Enterprises: collateral-light bank credit backed by a government-SIDBI trust.

PMEGP

Prime Minister's Employment Generation Programme: margin-money subsidy for new micro enterprises, implemented with KVIC.

Manufacturing share

Manufacturing still accounts for about one-sixth of India's GVA, well below the long-stated 25 per cent ambition.