

**Indian Economy: Some Contemporary Perspectives**  
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**Lecture 15**  
**Indian Economy: Industrial Policy 3**

Hi everyone. So, let us start now with a new session. It is lecture 15 now in the course Indian Economy Some Contemporary Perspective. And in this particular topic since we have covered the industrial sector, industrial production and we are now going for our third session on industrial sector. So, I wanted to cover some new topics in this particular domain because industrial sector we have already covered quite extensively during whatever we have discussed the planning process.

And then we had also gone for a detailed description of the industrial sector, what kind of policies we have undertaken, but one area which is quite underrated and not explored so much in the Indian context it is called MSME sector. What is MSME sector? It is called micro; small medium enterprises and this particular sector has immense contribution to the India's growth cycle because almost around 49% of the output it consists of almost 49% of the India's export.

It also has contributed in terms of crores of unemployment and it has around 29% GDP share. So, across the globe most of the countries have device policies to support this because any industrial activity starts at the smallest level and then it goes into the medium and then it becomes a large company. So, in order to support in the beginning process of the industrialization it is very much needed that there should be some policy framework to support the initial ideas of industrial development.

And that is why even in India we have taken certain measures. So, Nitin Gadkari he is the minister of micro, small and medium enterprises. He takes care the sector in charge and then if you trace the history then you find that during 1970s in the beginning we focus more on the capacity creation. In 1970s, we had focused on small scale industries. So, the tiny unit idea that I had discussed during the Janata party government it became one of the main topics to be discussed at that time.

And since then we have given importance to handloom industries, the local industrial setups whatever we had the cottage industry and we also had some segmentation in terms of industrial backward and forward linkages. So, input suppliers are basically micro and small medium enterprises. So, there is a whole lot of chain type behavior in terms of supplying input and in terms of utilization of the resources.

So, I thought it will be good that I should give you some basic idea about MSME sector. In half an hour time it is not easy to cover each and every aspect, but I will try and cover as much as possible. Then I will also incorporate some new developments with regard to MSME sector during the pandemic when we had a Coronavirus outbreak then government had to take certain measures to give importance to the MSME sector. So, we have also taken initiatives in that direction, so I will be highlighting that part also.

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So, in this the reference book and reading materials which I have referred is the economic survey 2016-2017, 2018-2019 and 2019-2020. Each and every economic survey will have a one chapter on the industry and in 2016-2017 I saw one drastic change because for the first time in volume 1 of 2016-2017 chapter 7 had mentioned about MSME's role. The role of small sector in industrialization and how it contributes to the employment potential.

So, for example, if you give 500 crores to IT company or to setup a plant of steel the employment generation per lakh is much higher in case of micro and small enterprises compared to large and medium enterprises. So, the large companies may not have that much capacity to absorb or create employment, but at smaller level it is much easier. So, that is why

if you think in terms of employment creation per lakh this MSME comes out to be one of the winners in the direction.

And that is why government has given lot of emphasis because we have to create jobs and we have to create employment for our own people. So, in that this micro, small, medium enterprises matter a lot then I found this Sajeewan G article that has appeared in Journal of Industrial Statistics, present status of MSME statistics. And in this you will find that it is available on the MSME website.

And you will find that this particular paper discusses all the policy developments that we have undertaken since 1970s and it provides the detailed overview of different surveys that we have done for the MSME. So, one peculiar characteristics of MSME is that some micro small, medium enterprises are registered and some are you can say formal and informal. Formal means which are registered with the government and government has information about that and unregistered means informal.

But they still supply and contribute and exist in the business then I have referred annual report of 2019-2020 ministry of micro, small and medium enterprises, government of India. It is available on the website and it is really interesting document to refer. I would request everyone to at least have a glance on it and then it will be really good to know that what kind of effort we are making in reviving the MSME sector.

Then I found very interesting write up on MSME. It was CII and KPMG 2015, the new wave of Indian MSME an action agenda for growth and then I also found a very interesting write up on it appeared on 20th August 2020 by Vasal V. It was MSME growth on engines of India's economy. So, here it mentions about the recent development how MSME has potential to drive the economy.

It can boost your exports and under Atmanirbhar Bharat Scheme that we have under that the government is trying to enforce certain rules and regulations to make sure that the domestic production is being consumed efficiently by the domestic firms and industries. So, there should be some kind of inter and intra transfer of goods and services rather than simply importing from outside.

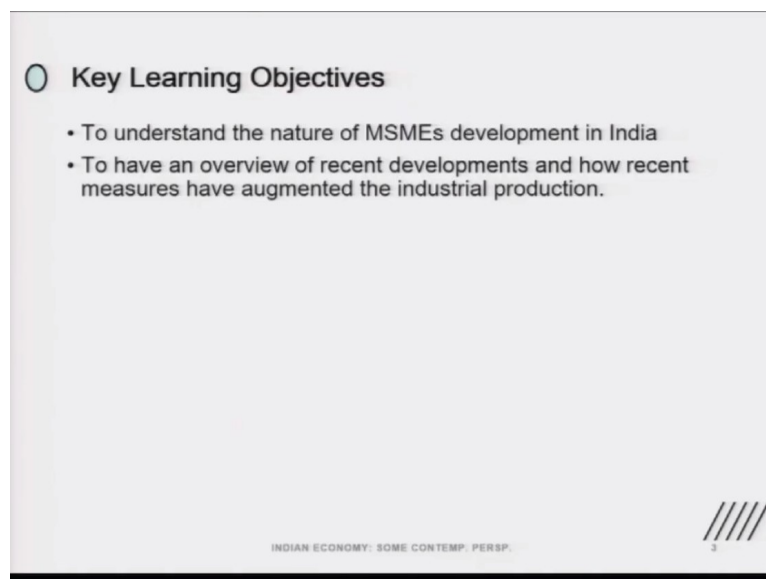
So, government is now putting lot of effort to make sure that the domestic produce goods are consumed domestically more. So, at least we have public sector enterprises which rely more

on micro, small and medium industries. So, government is putting effort to make sure that these micro and small medium enterprises get due credit and they get good income from the PSE.

So, government has now come up with circular also saying that each and every Central public enterprise will have to now buy from MSMEs and then there is also a rule that certain norms have been (()) (07:52). For example, Rs. 200 crores or less than that a project will not be having global tender which means that domestic firms will have opportunity to apply. And there is certain registration process that government has undertaken under that there are incentives.

That if you register with the online portal then you will be entitled for certain benefits for example selling to Central public enterprises then you will also have loan waivers then there is also chance in terms of access to credit you will be given incentives. So, those are the things we will be discussing in next 20 or 25 minutes.

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So, the key learning objective is that overall of the India's MSME development how we can understand better and how we can aware of the recent developments that government of India has undertaken in terms of reviving the MSME sector.

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The slide is titled "India's Industrial Development: Analysis and Perspectives". It features a list of bullet points under the heading "Micro, small and medium enterprises (MSMEs)". The bullet points state that MSMEs contribute enormously to India's economic development, cite the National Sample Survey 73rd Round (2015-2016) showing 633.88 lakh units and 11.10 crore employment opportunities, and note that MSMEs contribute 29% of India's GDP and consist of 49% of India's exports. The slide has a footer with the text "INDIAN ECONOMY: SOME CONTEMP. PERSP." and a small logo.

- Micro, small and medium enterprises (MSMEs)
  - MSMEs contribute enormously to the India's economic development.
  - According to National Sample Survey 73<sup>rd</sup> Round (2015-2016)
    - MSME comprises of 633.88 lakh units
    - Created the employment opportunities of 11.10 crore
  - MSMEs contribute 29% of India's GDP and consists of 49% of India's exports

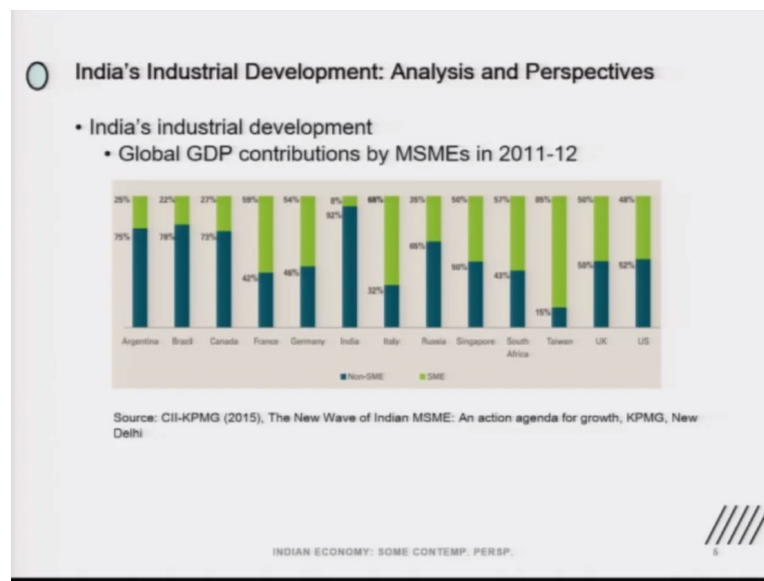
INDIAN ECONOMY: SOME CONTEMP. PERSP.

So, the micro, small enterprises so the National Sample Survey 73rd round 2015-2016 it appeared. It had recorded that MSME comprises of 633.88 lakh units. So, it means that in India we have around 633 lakh units of enterprises under MSME which means that it is a huge and if we can orient our policies for the development of these sectors then we are not very far to become next China because China has also invested so much on the micro, small, medium enterprises.

So, the takeoff stage that we have it can be decided by these MSME in this micro, small and medium enterprises created the employment opportunities of around 11 crores. So, which means that it is a huge and though during pandemic it was very difficult to sustain this growth, but it has gone in a right direction then MSME contribute 29% of India GDP. It means that it is almost close to 30% and it consists of around 49% of India's export.

So, you can think about how we cannot ignore the role of MSME in India's GDP growth and one of the best contributions of MSME is that it drives the local business cycle. So, which means that at very local level may not be at very aggregate level, but it drives the sentiments at the very local level when you think about the economic sentiment among the middle class or lower middle-class people then they drive their sentiment from these sectors.

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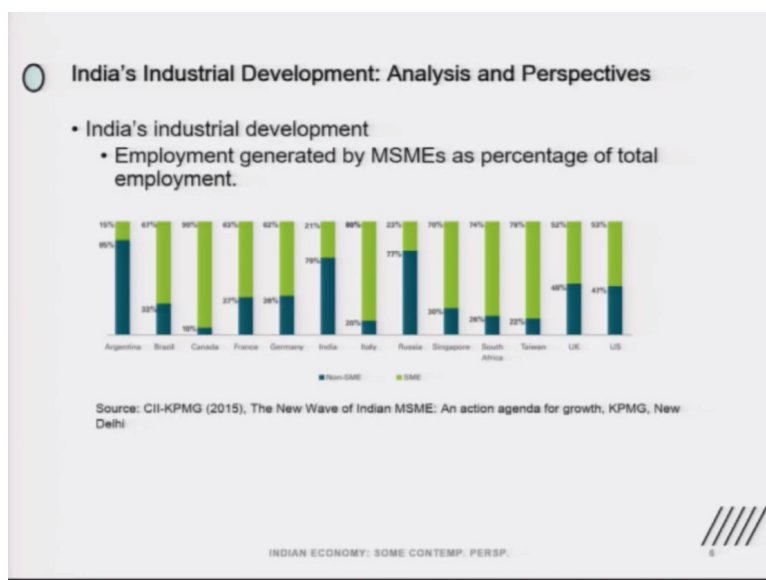
I was going through an important document it is published by CII and KPMG it appeared in 2015. The title was new wave of Indian MSME agenda for growth. In this particular report, I found this particular chart quite interesting and it compares India across all other countries. So, maybe India can be compared with South Africa, it can be compared with Brazil. In case of Brazil, the contribution of semi sector is almost 22%.

In case of India we have just 8% it was recorded in 2011-2012. And in case of South Africa it is 57% which means we are still lacking behind maybe we are not able to identify and maybe we have not registered that much. Though, it looks like there is some kind of data discrepancy here which means that we have to look for the informal sector more and try to register and try to spread the dimension of micro small enterprises in a much better way.

But surprisingly in case of Taiwan we find the role of share of SME around 85%. So, most of the highly industrialized countries you will find that in France you have 59%. In Germany, you have a 54%. So, you will find most of the industrialized countries they have not grown on large companies only. They have the setup of having all types of firms even micro, small, medium enterprises and they have contributed that much.

So, it is important that we cannot ignore the role of micro, small enterprises in this particular direction.

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If we have a contribution then we also look for employment and in case of employment what comes out that we can look in terms of how much they have contributed as share of total employment. So, if the total employment is 100 million how much it is coming from the MSME sector. So, you will find that in case of India though the share in GDP as per the data of 2011-2012 it was just 8%, but in terms of employment it is 21% which means that from employment from job perspective this particular sector is really, really important.

In case of Brazil it consists of 67%, in case of South Africa it is 74% which means that South African business cycle is more sensitive to the micro, small, enterprises compared to India's and especially the job market is more sensitive to the MSME sector growth. We find that even in case of India it is 21%. So, that is why it is important that we should be I have just given these statistics just to make sure that we have a sufficient overview of this particular sector because you will hardly find any textbook or anywhere mentioning about this MSME.

They mention about the small and large firm or maybe we discuss industrial sector in a more general fashion and that is why I thought it is important to highlight this development.

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**India's Industrial Development: Analysis and Perspectives**

• Why MSMEs

Sectors	Investment (Rs Crores)*	Jobs (Lakhs)	Jobs per lakh Investment	Female Jobs (Lakhs)	Female Jobs per lakh Investment
Apparels (NIC 14)	3156	75.4	23.9	25.9	8.2
Leather & Footwear (NIC 15)	1624.5	11.6	7.1	5.5	5.6
<i>Of which</i>					
Tanning and Dressing of Leather & Fur (NIC 1511)	470.8	2.2	4.6	1.1	2.4
Leather Goods (NIC 1512)	218.3	2.2	9.9	0.8	3.9
Footwear (NIC 1520)	935.4	7.2	7.7	5.6	5.8
Textiles (NIC 13)	17814.7	71.3	4	22.5	1.3
Food Processing (NIC 10)	21119	50.2	2.4	27.9	1.3
Automos (NIC 2910 & 2930)	29647.6	7.6	0.3	3	0.1
Steel (NIC 2410 & 2431)	70528.3	7.8	0.1	3.7	0.05

Source: [Economic Survey](#) (2016-2017), Volume 1, Chapter: 7, Ministry of Finance, Government of India.

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So, in case of India in 2016-2017 economic survey chapter 7 volume 1 it mentions about the role of small firms and medium micro small medium enterprises and though it did not mention explicitly, but this chapter chief economic advisors mention that the size of the firm in most of the apparel and leather and footwear industry it is quite a small which means that the employment potential of these companies are less than 50 year or 50 to 100 compared to other countries, for example, China and Brazil and other countries.

So, the most interesting indicator to look at here is jobs per lakh of investment. So, in case of apparel which means that it is one of the important sectors it has contribution of around 16% to 17% as per the survey of 2006 and 2007. So, it was SME survey conducted I will be discussing that also in a few moments. So, here is apparel. Job per lakh investment is 23.9 whereas in steel and auto if we invest.

So, job per lakh investment is just 0.3 and 0.1. So, if the government wants to give more importance to employment and job creation then they should invest more in apparel and leather footwear industries and that is why you will find that even jobs per lakh of investment it is 23.9 in case of apparel. In case of leather and footwear it is 7.1 and the most important part is that in terms of job creation the female jobs per lakh if you want you will find more in case of micro and small medium enterprises compared to large firms where large firms have different requirements.



And they may not be able to hire that much the workforce because one of the peculiar characteristics of MSME industry is that it employs both skilled and semi skilled. So, those who are skilled labor force and those who are unskilled and semi skilled they are also having opportunity to be engaged in this particular sector. So, that is why apparel, leather and footwear become really important.

So jobs per lakh investment if you find then you find that these industries are playing very important role and if you just compare the data of MSME then you find that food and beverages has the highest share in MSME followed by fabrication and metals it has also the share, but after that we have apparel then we have the leather and footwear, then we have tanning, dressing and leather and fur then we have leather goods, footwear, textiles.

So, these are the sectors where you have a high employment growth potential and also in terms of gender equity if we talk about gender equity. So, there is more likelihood that if we invest more in micro, small medium enterprises then there is a high chance of giving more opportunity to the female job worker as compared to only male. And that is why though in terms of firms based on male, female based on gender then you find more skewed towards male compared to female.

But in terms of providing employment opportunity this micro, small enterprises play very important role. In case of India there has been successes where it has been reported that how jobs were created for the women and other entrepreneurs and how even the jobs per lakh of investment if we compare, female jobs per lakh investment it is 8.2, in case of apparel and leather and footwear it was 3.4 and then you have leather goods where it is 3.9.

So, conventionally those cities which were known for such industries, for example, Kanpur now it is not leading in terms of leather production, but at some point of time this particular city was known and that is why there is a need to revive these sectors again and so that we will not have to just rely on the imports, we can go for the domestic production and that is why there is a huge lot of effort to revive the micro, small enterprises and government under Aatmanirbhar Bharat Abhiyan is trying to give emphasis on that.

Though, the level of effort just started so maybe after two to three years of lag we will have some positive outcomes, but though the sentiment has started coming more in favor of Aatmanirbhar which means that we are looking for more of a domestically produced goods.

So, the female jobs per lakh it is 25.9, female job per lakh investment 8.2 so this is what I thought I should be discussing.

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**India's Industrial Development: Analysis and Perspectives**

- **World Bank Classification of MSME**
  - World Bank's definition of MSME is based on three indicators:  
Number of employees, annual sales and total assets

	Number of employees	Total assets (in USD)	Annual sales (in USD)	Loan size (in USD)
Micro	Less than 10	Less than 100,000	Less 100,000	Less than 10,000
Small	10-50	100,000 to 3 million	100,000 to 3 million	10,000 to 100,000
Medium	50-300	3 million to 15 million	3 million to 15 million	100,000 to 1 or 2 million

Source: Shi, A., & Michelitsch, R. (2013). Assessing private sector contributions to job creation: IFC open-source study. International Finance Corporation.

Economic survey 2016-2017 also mentioned about the financial rules at the state level. So, maybe when we will discuss the fiscal policy we will come to that also. Now, let us look at the classification. So, when I am saying that micro, small, medium enterprises then there is some classification criterion. Under that we mentioned that how we can think about going for different set of classification, so here it is World Bank classification of MSME.

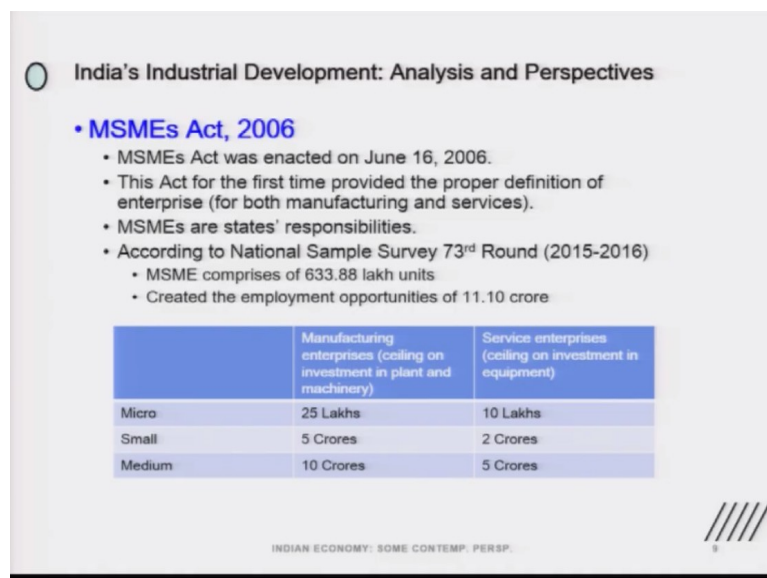
So, under this it is decided based on three factors. One is number of employees, then you have a total asset then you have annual sales and IFC International Finance Corporation had also gone for adding these loan size as per the studies they have conducted. Shi and Michelitsch as assessing private sector contribution to job creation IFC open source study International Finance Corporation.

So, here it mentions about so maybe loan size if you want you can skip, but it is these three indicators matters a lot. So, the number of employees is less than 10 in one firm and if it is having total asset size of less than 1,000 dollar and annual sales of less than 1,000 dollars then it will be called as micro. Then small if it is having the employee size of 10 to 50 and then you have a 100,000 to 3 million dollar of total sales and the annual sales of 100,000 to 3 million so it is small and then here you have a medium.

Medium you have number of employees 50 to 300 and the total asset size is 3 million to 15 million and the annual sales of 3 million to 15 million. Now in India recently government has revised the earlier definition which was created during 2006, but now we have added annual sale which means turnover is added now. So, we are now almost aligning with the World Bank classification of MSME.

Though loan is not being considered because loan it was just mentioned if it is less than 10,000 dollar of loan it will be called as micro then 10,000 to 100,000 it will be calling a small, medium, but the World Bank classification mentions about number of employees, annual sales and total assets.

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**India's Industrial Development: Analysis and Perspectives**

- **MSMEs Act, 2006**
  - MSMEs Act was enacted on June 16, 2006.
  - This Act for the first time provided the proper definition of enterprise (for both manufacturing and services).
  - MSMEs are states' responsibilities.
  - According to National Sample Survey 73<sup>rd</sup> Round (2015-2016)
    - MSME comprises of 633.88 lakh units
    - Created the employment opportunities of 11.10 crore

	Manufacturing enterprises (ceiling on investment in plant and machinery)	Service enterprises (ceiling on investment in equipment)
Micro	25 Lakhs	10 Lakhs
Small	5 Crores	2 Crores
Medium	10 Crores	5 Crores

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So, it was in 2006 when we had an act call MSMEs act. It was enacted on June 16, 2006 and then since then it has been referred as one of the major developments that we undertook during this period and as per the state list that we had discussed in terms of Union list then we had state list then we had a concurrent list. So, according to that MSMEs are state responsibilities. So, we have already discussed this so if you go by the classification of this MSME act.

So, micro under manufacturing enterprises based on investment in plant and machinery which means that it is also a part of total assets. So, it is a micro 25 lakhs. If it is under services enterprises then it is 10 lakh and if it is a small then it is 5 crore and if it is services sector then it is 2 crores. If the medium is considered from 10 crores for the manufacturing and 5 crores for the services.

Services the classification is much lower because you need a different type of technological enhance tools to deal with, there is a less role of labor more of technology. So, that is why the classification is much lesser than this.

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**India's Industrial Development: Analysis and Perspectives**

- **MSME Censuses**
  - Fourth All India Census of MSMEs in 2006-07 was the first survey for generating the data on MSMEs.
  - First census was launched in 1972-73 followed by second and third respectively in 1987-88 and 2001-02.
  - The number of MSMEs increased from 139,577 in 1972-73 to 15,52,492 in 2006-07.
  - While investment per enterprise (in Lakh) has gone-up but employment generation per 1 lakh investment has gone down quite significantly.
  - The investment has gone-up 0.57 Lakh in 1972-73 to 33.78 Lakhs in 2006-07.
  - Employment per 1 Lakh rupees has decreased from 20.05 in 1972-73 to 0.85 in 2006-07.

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Then I had gone through one particular report. So, we have so far conducted Four All India Census of MSMEs the last was in 2006-2007 and in 2003 we had a C P Chandrasekhar committee that also had recommended that we should be going for this and we should have a proper census to deal with and at that time it was decided that only registered firms will be included in IIP not others.

So, the first census was launched in 1972-1973 it was regarding MSME followed by second and third in 1987-1988 and 2001-2002. The number of MSMEs if you think in terms of unit it has increase from 1,39,577 in 1972-1973 to 15 lakhs now to 2006-2007. So, there has been tremendous growth in this particular domain. So, number of firms have also gone up. If you look the investment per enterprise it has also gone up.

But if you think employment generation per 1 lakh it has not gone up that much it has gone down quite significantly. The investment has gone up from 0.57 lakh in 1972-1973 witnessed at around 57,000 to 33.78 lakhs in 2006-2007. So, which means that there is a whole lot of emphasis on creating a more fixed capital. Employment per lakh rupees has decreased from 20.05 from 1972-1973 to 0.85.

And these developments could be because of the technological advancement that we have made, there is more emphasis on automation, there are a greater number of SMEs now into the manufacturing basically require some kind of modernization in terms of technological upgradation. So, technological upgradation has also replaced labor and that is why we can see that the number of jobs created per lakh it was almost 20 in 1972-1973 now it has come down to 0.85, but in certain sectors if you compare then you find that it is much better.

For example, I just discussed the economic survey 2016-2017 in report it mentions in about apparel and textile how it is doing better.

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**India's Industrial Development: Analysis and Perspectives**

• Number of MSMEs

	Estimated Number of Enterprises Activity-wise (in Lakh)			
	Rural	Urban	Total	Share (%)
Manufacturing	114.14	82.50	196.65	31
Electricity	0.03	0.01	0.03	-
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
All	324.88	309.00	633.88	100

• Employment in MSMEs

	Estimated Employment in the MSME Sector (Activity-wise)			
	Rural	Urban	Total	Share (%)
Manufacturing	186.56	173.86	360.41	32
Electricity	0.06	0.02	0.07	-
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
All	497.78	612.10	1109.89	100

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While referring the annual report of MSME 2019-2020 I found these tables quite interesting and that is why I mentioned in the beginning itself in reading so that is why I did not mention about the space, but these two tables are coming from the annual reports 2019-2020. So, it is number of SME. So, estimated number of enterprises activity wise if you think manufacturing then we have electricity then we have a trade, then we have other services.

And then you find that in rural areas it is more in manufacturing and less in urban areas. So, 114 that you have it comes under rural areas and 82 that you have it comes under urban areas and if you compare the share in terms of enterprise and it is coming out to be 31%, electricity it is more in again the rural areas then trade it is more in urban areas because for trade you need to have a proper office requirement.

So, in order to make sure that those requirements are met you have more in urban setup other services which include all the facilitation services or the input suppliers for most of the firms are having almost equal distribution rural and urban. So, maybe the manufacturing units in the rural areas are supplemented with the rural setup of 102 and urban areas are supplemented with the urban setup of 104.

But other services may also include the firms in the services sector and that is why it is more in urban setup and the share is 36 and 33 for trade and other services. So, this is one major contribution that you have that almost in lakhs. So, this figure is in lakh so that is why you will find that these numbers are coming out to be a quite high. The second most important dimension is about employment in MSME and that is why it becomes really important.

In case of MSME, so in case of manufacturing you have a more employment in rural segment so it is 186 then you have urban 173 almost close. In trade also, you have more of urban 226 and in other services it is more of urban and the share is almost 32, 35, 33. So, that is why it is very important to note that how this particular sector which are manufacturing is helping create more employment in this particular domain.

And these are all in lakh so that is why it is all considered in lakh so this is 11 crores, this one is 6, this one is 4 crores. So, these are the employment generation so almost 5 crore jobs are created in the rural segment. Urban segment is having almost 6 crore and total job creation is around 11 crores coming from this particular manufacturing industry.

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**India's Industrial Development: Analysis and Perspectives**

- India's industrial development

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
Total	630.52	3.31	0.05	633.88	100

- Employment

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
Total	1076.19	31.95	1.75	1109.89	100

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In terms of industrial development if you compare then it becomes really important to think about. So, category wise if you think then it becomes important. So, micro, small, medium total that you have it comes out to be rural segment it is micro is more, medium is less, but in case of urban setup here you have a micro, small more than small is also higher. In medium also the size is much higher.

But the distribution of enterprises if you compare then the rural segment is having more share compared to the urban. So, which means if you want to revive the livelihood opportunities in the rural segment of the country then you should go for the revival of enterprises in MSME sector because here it looks quite obvious that the rural segment is playing very important role.

Employment opportunities if you think in terms of distribution of employment by type of enterprise in lakhs. So, it comes out to be the same that rural segment is having more share 489 and then you have urban 586 then you have a small it is 24. In terms of distribution employment, the urban segment is playing a very important role that could be because there is a shortage of employment in government opportunities in rural areas.

So, people are moving towards the urban areas. Now, so far, we have covered we have given you the background of how we can understand the overall outlook of the MSME sector, what all rules were devised, how MSME sector is important. In the next session, we will be continuing again and we will be focusing more on the MSME part and then we will be giving you then I will be updating with the recent developments also. Thank you so much.