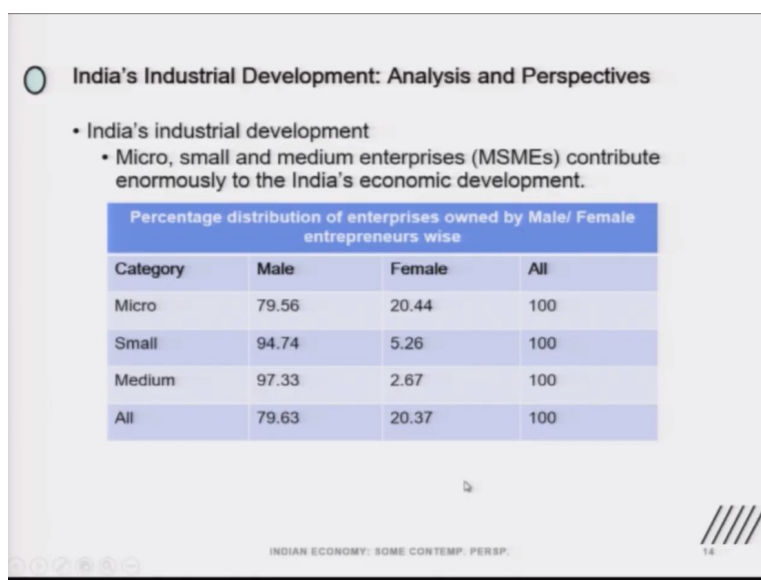


Indian Economy: Some Contemporary Perspectives
Professor Wasim Ahmad
Department of Economic Sciences
Indian Institute of Technology, Kanpur
Lecture 16
Indian Economy: Industrial Policy 4

So welcome back. So, let us think about one more topic on the MSME sector also and I will be also giving you some idea about recent development. So, in this particular lecture we will be talking about MSME and the recent development that we have undertaken in the case of industrial sector and we will be also highlighting some measurement tools how we are measuring.

So, this particular lecture is in continuation with the previous lecture on lecture 15, it was on the MSME. So, I will be also giving you some more facts about MSME sector, the difference remains same like the previous lecture, lecture 15 and if you want to refer some documents you can refer regarding MSME sector from the previous lecture 15.

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India's Industrial Development: Analysis and Perspectives

- India's industrial development
 - Micro, small and medium enterprises (MSMEs) contribute enormously to the India's economic development.

Percentage distribution of enterprises owned by Male/ Female entrepreneurs wise

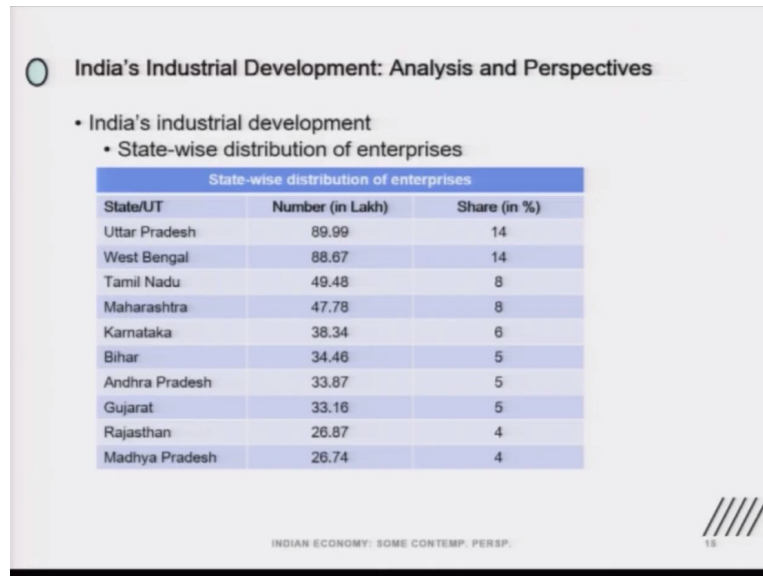
Category	Male	Female	All
Micro	79.56	20.44	100
Small	94.74	5.26	100
Medium	97.33	2.67	100
All	79.63	20.37	100

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And that is why I will be continuing now more on the MSME contributions. So, here in terms of percentage distribution of enterprises owned by male, female. So, the annual report 2019-20 of the MSME it also provides the classification at the male, female level. So, in case of micro again you have the percentage share of male quite high then here you have this small it is again higher 94.74.

Then you have medium again it is higher and overall 79 almost close to 80%. It is in the domain or run by the male. Female has the share of only 20.37% and that is why it is really crucial to understand that how we can think about micro, small and medium enterprises making more gender equity and that is why the economic survey table mentions about those things.

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India's Industrial Development: Analysis and Perspectives

- India's industrial development
 - State-wise distribution of enterprises

State/UT	Number (in Lakh)	Share (in %)
Uttar Pradesh	89.99	14
West Bengal	88.67	14
Tamil Nadu	49.48	8
Maharashtra	47.78	8
Karnataka	38.34	6
Bihar	34.46	5
Andhra Pradesh	33.87	5
Gujarat	33.16	5
Rajasthan	26.87	4
Madhya Pradesh	26.74	4

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Now in India if you compare the state wise distribution of the micro, small, medium enterprises. Then what appears to be that the Uttar Pradesh has the highest number of enterprises and it has the share of almost 14% followed by West Bengal and it is having 88.67 and it is again having the share of 14% then Tamil Nadu, Maharashtra, Karnataka, Bihar, Andhra Pradesh then here we have Gujarat, then you have Rajasthan then you have Madhya Pradesh. So, these are the states which are leading in terms of.

So, UP has a peculiar characteristics that it has almost each and every region one handloom or the local small scale industries available and it has existed for many, many years or for centuries and that is why some areas are known for some items, for example, here you have a Bijnor then in some parts of Lucknow then towards the areas, for example, (()) (03:01) the areas the localities or the districts where you have a different set of handloom industries or handcraft industry is existing for centuries.

And that is why this figure reflects that how UP is leading in terms of numbers then you have the West Bengal 88.67, West Bengal has historically been known for one of the industrialized states in India during the British era and that has continued and there are lot of medium,

micro, small, medium enterprises located nearby Kolkata or towards the outskirts of Kolkata in certain districts.

So, the second 5-year plan gave boost to the development of micro, small enterprises in West Bengal and then we have a Tamil Nadu it is also known for certain handicrafts and cottage industries and that has contributed a lot. Maharashtra is one of the most industrialized states in India and that is why the input suppliers the large firms are dependent on the micro, small, medium enterprises for their inputs and that is why it is continuing.

Similarly, all the states can explore for their characteristics and can be found that these states are having. So, the most important thing to note is that in terms of contributions of number of SMEs it is more like a located more in Uttar Pradesh and West Bengal and that is why there is whole lot of effort to revive this and there are some targets that some states are targeting now trillion-dollar GDP.

And based on the idea if they revive these micro, small enterprises then they will have better growth opportunities.

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India's Industrial Development: Analysis and Perspectives

- **UK Sinha Committee (2019) on MSMEs**
 - The committee recommended to create **Rs. 5000 crores** stressed asset funds as relief package for MSMEs hurt by the demonetization, GST implementation and the Indian banking sector upheavals.
 - The committee also suggested to create a "**Fund for Funds**" of Rs. 10,000 crores to support private equity and VCs investment.
 - To expand the role of SIDBI in loan extension services in underserved areas.
- **Small Industrial Development Bank of India (SIDBI)**, established in 1990, plays crucial role in financing and creating the financing avenues for MSMEs.
- SIDBI comes under the Department of Financial Services, Government of India.

INDIAN ECONOMY: SOME CONTEMP. PERSP. 15

Now, when I was looking at different report then I found the committee setup in 2019. So, post the demonetization, GST and then we had a banking sector upheaval that led to the banking sector crisis that we call it as twin balance sheet crisis. We will be discussing this in when we will discuss the financial sector reforms in India. And how the banking sector adverse development has led to the credit squeeze in this particular domain.

And that is why most of the firms were reporting or having a difficult time in obtaining or getting loans or access to credit. So, the UK Sinha Committee had recommended that government should create a corpus of around a 5,000 crore as a relief package for the MSME sector because these sectors had faced lot of difficulties in terms of when we have the two major developments.

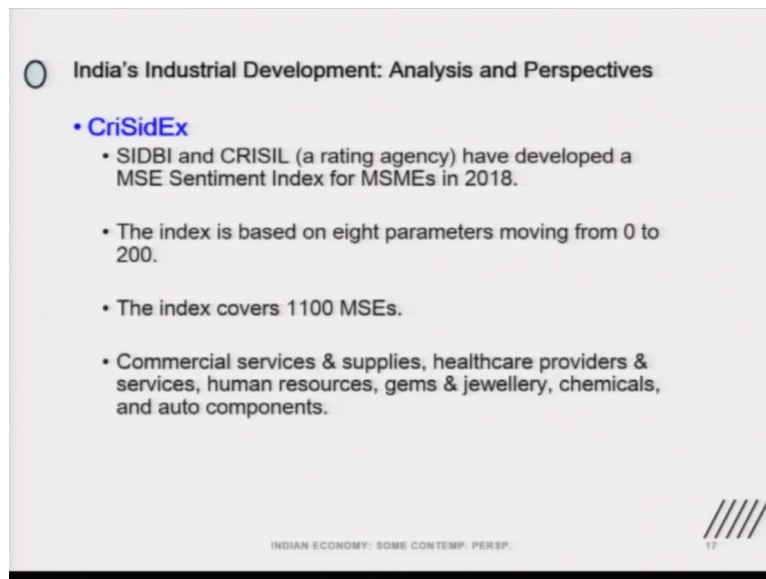
One was demonetization and the GST implementation and back to back we had also the industrial Indian banking crisis unfolding. So, at that time this was recommended though the lobbying group of MSME had suggestion that they should have gone for more amount compared to just 5,000 because 5,000 is nothing when you have to deal with 66 lakh firms. The committee also supported to create a fund for fund of Rs. 10,000 crores to support private equity and venture capital investment.

So, private equity venture capital investment which means that they will be asked to pull the money in this particular fund. So, that is why it is fund for funds and these entities will be given some share in terms of returns or if they have any special interest. SIDBI, which is called a small industrial development bank of India. SIDBI was established in 1990 just to cater the need of the MSME sector and it's headquartered is in Lucknow.

And this SIDBI is interested to give or to expand the landscape of the micro, small, medium enterprises across the country. So, it takes lot of initiatives, it helps in financing, it also creates avenues for further financing of the MSMEs. It also helps in setting of training incubators or it also helps in some kind opportunities creation for the promotion of micro, small, medium enterprises.

So, there is a whole lot of effort to revive this. SIDBI comes under the department of financial services, government of India. So, this is one contribution that I found in the contemporary development. If you see in case of India so MSME sector has got this UK Sinha committee report. UK Sinha is the former chairman of the SEBI.

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India's Industrial Development: Analysis and Perspectives

- **CriSidEx**
 - SIDBI and CRISIL (a rating agency) have developed a MSE Sentiment Index for MSMEs in 2018.
 - The index is based on eight parameters moving from 0 to 200.
 - The index covers 1100 MSEs.
 - Commercial services & supplies, healthcare providers & services, human resources, gems & jewellery, chemicals, and auto components.

INDIAN ECONOMY: SOME CONTEMP. PERSP. 17

Then in 2018 SIDBI and the rating agency CRISIL has developed something it is called CriSidEx. It is just to measure the sentiment in the MSME sector. They have developed in 2018. The index is based on 8 parameters so it includes everything these sectors and subsectors also following in these sectors and then the index varies between 0 to 200 higher is better. The index covers 1,100 industries.

The index is created based on the response received from the persons working in MSMEs and that is why it is important so it was for the first time we had gone for such drastic change happening so because MSME sector contributes a lot in our activity. So, it is better that one should have a barometer to measure the sentiment index in MSME.

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India's Industrial Development: Analysis and Perspectives

- Policy initiatives for the MSMEs
 - Under "Aatmanirbhar Bharat Abhiyan", the government has revised the classification of MSMEs.
 - Under new scheme of classification, investment in plant and machinery and turnover are required to be considered to determine whether a business should be classified as micro, small and medium.
 - New classification includes the following
 - Micro enterprises – Investment of less than 1 crore and turnover less than 5 crore.
 - Small enterprises – Investment of less than 10 crore and turnover less than 50 crore.
 - Medium enterprises – Investment of less than 50 crore and turnover less than 250 crore.
 - Export turnover is also not considered for the above turnover limits.
 - Investment in plant and machinery is calculated as per the provisions of income-tax laws and turnover based on the GST return.

INDIAN ECONOMY: SOME CONTEMP. PERSP.

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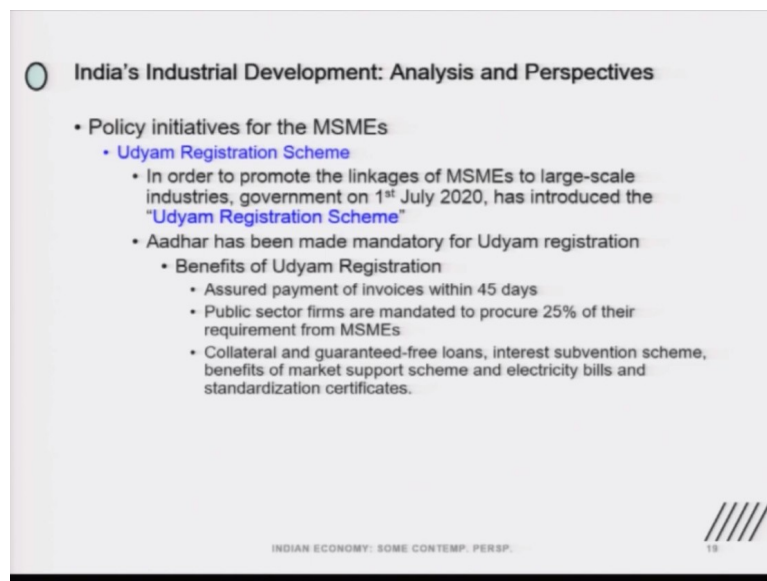
If you think in terms of policy initiative then it is under Aatmanirbhar Bharat Abhiyaan government has gone for setting up or revisiting the classification of micro, small and medium and under the new rule investment of less than 1 crore and turnover of less than 5 crore it will be called as micro enterprises. A small enterprise will have 10 to 50 and my medium enterprises will have 50 to 250 crores.

And so earlier it was based on just investment. Now we have added turnover also. So, which means that the World Bank classification that we had we are now almost aligning with it. Export turnover is also not considered for the turnover limit which means just to give promotion to the exports we have not added and now since there are different initiatives of the government also supporting the micro, small enterprises.

For example, startup India and then we have a certain entrepreneurship, we have gross root level innovation schemes supporting these enterprises. So, that is why government has to now go for certain standardization so that it can be incorporated. Investment in plant and machinery is calculated as per the provisions of income tax laws and turnover based on the GST returns.

So, these are accountable rules and regulation so which means that just to make sure that MSMEs are accountable to tax laws and both direct and indirect so that is why it has been introduced in this.

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Then there is something called Udyam registration scheme. It is launched on first July 2020 under this the government has given incentive to those it is online registration platform. The Aadhaar Card is mandatory for this so you need to have Aadhaar registration. There are certain clauses if it is Hindu undivided family then of course one person. If the enterprise registered under some community or the community-based activities.

Then it should be on the name of the companies or the communities or even the members of the promoters. So, Aadhaar has been made mandatory for the Udyam registration. Benefits of Udyam registration is that assured payment of invoices within 45 days if a registered online on the Udyam registration micro, small, medium enterprises then you get a certification and this certification you can produce or attach at different levels and you can receive the benefits.

For example, assured payments of invoices within 45 days then the public sector enterprises are mandated to procure 25% of the requirement from MSMEs. So, this is also one initiative to make sure that in MSMEs are having a sufficient market, created within the economy by the large firms. So, they have been given incentive to procure at least 25% of the produce coming from the MSMEs.

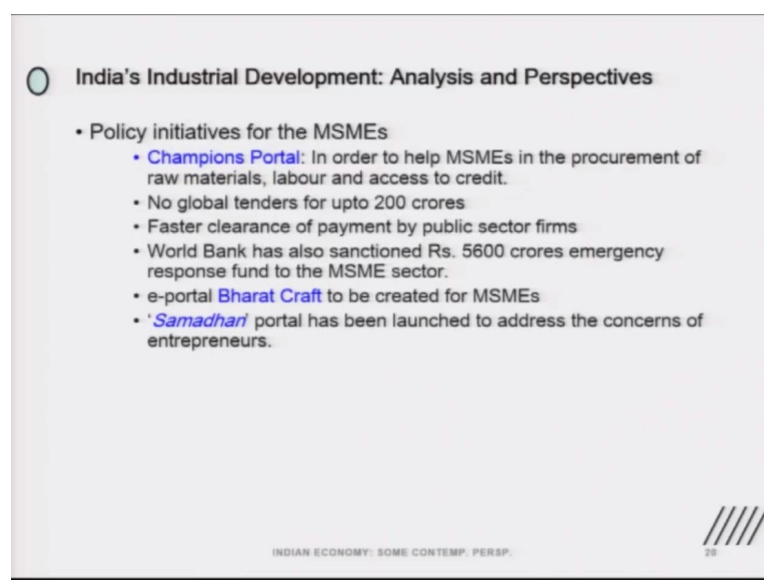
And if you are registered under Udyam registration scheme then you will be entitled for such benefits. Collateral and guaranteed free loans if you attach this particular certificate then you will be having a registration certificate then you will be having access to credit, interest

subvention scheme. You can also ask for certain benefits of market support scheme as I mentioned the 25% will come from CPSEs.

Electricity bills, utility bills if you have and standardization certificates you are applying for ISO 9001 or based on your classification of industry. Some certification for your produce then also this particular registration will help and during the pandemic period it was required because at that time most of the MSMEs were complaining for their losses. So, once the government will have a clear-cut idea about the number of firms falling under micro, small and medium then certain packages can be announced.

So, this is just the standardization of data and I think it is going to give a boost to this MSME sector under Aatmanirbhar Bharat Abhiyaan.

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Then there are champions portals where the MSMEs are encouraged to register and seek help in terms of procurement of raw materials, employing labor, access to credit and government has also now announce that up to 200 crore there will not be any kind of global tenders which means that it will be open for the MSMEs also to apply. Faster clearance of payment by public sector firms there is limit now 45 days or so.

And then within 45 days they are supposed to pay. World Bank I also sanctioned of Rs. 5,600 crores, emergency response fund to the MSME sector, e-portal Bharat Craft is going to come based on the idea of Amazon and Alibaba in China and in India you have Amazon. So, based

on that government is also trying to setup an alternative platform so that domestic properties, goods and services will be sold and it will be promoted.

So, e-portal of Bharat Craft is going to be created for the MSMEs and then there is also a portal created for to address the concerns of the entrepreneurs in the micro, small, medium enterprises there is a portal called Samadhan and it has helped a lot in terms of solving certain concerns of the entrepreneur working in this domain. So, that is why it becomes really important to highlight the developments in this particular domain.

Though, there are still concerns in terms of coverage, in terms of information availability, but maybe after 5 to 10 years the positive impact could be seen and these are the right steps in going for indigenously driven growth that we have.

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India's Industrial Development: Analysis and Perspectives

- **Index of Industrial Production (IIP)**
 - IIP is considered as a barometer to measure the progress of industrial production in the country.
 - It is published monthly by the Central Statistical Organization (CSO)-MOSPI.
 - Two industry groups are considered for calculation of the index
 - **Use-based classification:** Primary goods (34%), Capital Goods (8.2%) and Intermediate Goods (17.2%), Infrastructure/construction goods (12.3%), Consumer durables (12.8%) and Consumer non-durables (15.3%).
 - **Sectoral classification:** Mining (8%), electricity (14.4%) and manufacturing (77.6%).
 - The base year is 2011-12 and it was changed in 2017
- **Index of Eight Core Industries (ICI)** measures the performance of eight core industries: Crude oil, coal, natural gas, petroleum refinery products, fertilizers, steel, cement and electricity.

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Those who are from economics you may be knowing it or you may be reading in newspaper and maybe familiar with this particular indicator which is called index of industrial production. So, apart from the wholesale price index and consumer price index that we have for inflation. We have also derived a barometer or we indicated to measure the industrial production and it is called index of industrial production.

IIP is considered as a barometer to measure the progress of industrial production in the country. It is published by CSO MOSPI. So, two industry groups are considered under this for calculation of the index. One is called Use based classification. So, according to economic

survey so I have taken the chapters in industry and economic survey 2019-2020 as per the economic survey 2019-2020 of volume 2.

It mentions about the primary goods 34%, capital goods 8.2%, intermediate goods 17.2%, infrastructure construction goods 12.3 then we have consumer durable 12.8, consumer non-durables 15.3. So, if you go on the website of CSO MOSPI you will find the index. So, one will be general index which will have some value and then you can also see the weightage coming from these Use based classification.

One more classification which is highly useful for sectoral classification is mining 8%, electricity is 40.4% and manufacturing is having weight of 77% which means that the index is completely you can say almost driven by the manufacturing sector and the base year 2011-2012 and it is changed in 2017 and one of the peculiar characteristics of the IIP is that if you are working on the real data.

And if you are working and if you want to measure the economic sentiments at the monthly level because the frequency of data is monthly and the monthly level then you can see if you calculate the correlation between IIP and GDP it is quite high it is 0.98 or in some cases it go to 0.99 which means that it is a good proxy for GDP because GDP is available only from quarterly.

So, most of the economic researchers they analyze IIP data to measure the economy activity at the monthly level. So, maybe if you want to see the exchange rate pass through, how exchange rate upheavals impact the industrialization process, industrial growth and development. You can also measure in terms of output growth from the perspective of monetary transmission.

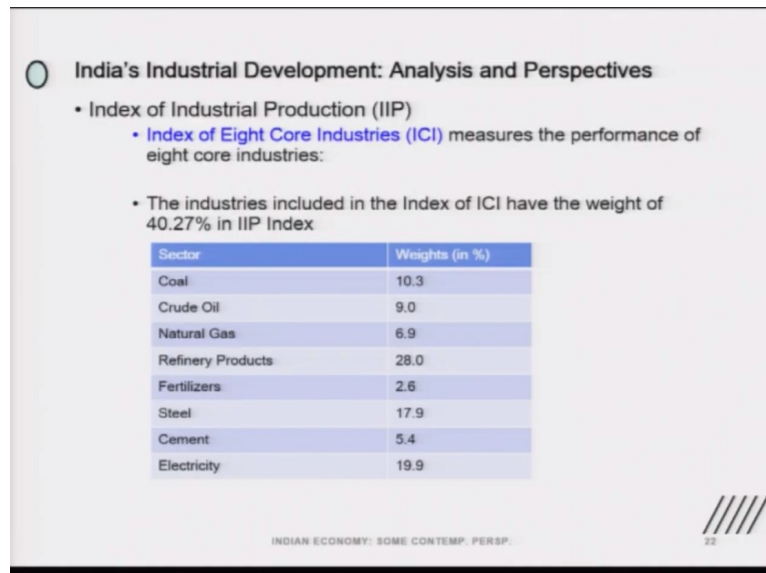
If (()) (17:26) monetary policy how it is impacting the different sectors and subsectors in the manufacturing sector and services. So, those things are also being covered so that is why IIP is considered as one of the major sentiment indices. So, whenever you have IIP data coming for next month or so then you will find that there will be news reports and there will be whole lot of debate and discussions.

So, policy experts will be talking about the development in this particular area that how economy is moving whether we are going for a better growth or we are stagnating or we are experiencing some slowdown. So, this is a good indicator and then we have index of eight

core industries. It includes the performance of eight core industries it includes crude oil, coal, natural gas, petroleum, refinery, fertilizer, steel, cement and electricity.

And it has the weight of almost 40% in IIP. So, which means that these eight core industries matter a lot for even IIP moment, it was just to make sure.

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India's Industrial Development: Analysis and Perspectives

- Index of Industrial Production (IIP)
 - **Index of Eight Core Industries (ICI)** measures the performance of eight core industries:
 - The industries included in the Index of ICI have the weight of 40.27% in IIP Index

Sector	Weights (in %)
Coal	10.3
Crude Oil	9.0
Natural Gas	6.9
Refinery Products	28.0
Fertilizers	2.6
Steel	17.9
Cement	5.4
Electricity	19.9

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So as per the index of eight core industries it has the weight of almost 40.27% in the IIP index and these are the 8 sectors and these are the 8 the weights in percentage. So, you will find that steel is having almost 18%, refinery products which are one of the major exports we export a lot so it is having 28 then coal 10.3, electricity is having 19.9%.

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Now one popular scheme that everyone is aware of and we know about it that how this particular scheme has helped. So, one scheme which was launched in 2014 it is called Make in India Scheme and Make in India nowadays you will find that the logo is being used to just to differentiate that whether it is produced domestically or it is coming from outside. So, there is a whole lot of effort made since 2014.

There are lot of windows open for foreign direct investment in certain activities and it has been one of the flagship programs of the government not just from the perspective of industrial development, but also in the perspective of making India as one of the manufacturing hubs across globe. So, there is a whole lot of effort to make the manufacturing growth of 12% to 14% per year.

And for that certain regulatory norms are being revised, certain obstacles have been streamlined just to make sure the stakeholders are having a sufficient levy in market participation. There is also special emphasis on creation of job the 100 million jobs in manufacturing sector, increase the share of manufacturing sector to 25% which is now almost 18%.

So, by 2022 so this is also one of the majors strive or major development that the government has undertaken, to promote the environmentally sustainable growth. So, if you remember the new manufacturing policy that we had discussed in the session 12 or 13. We had discussed

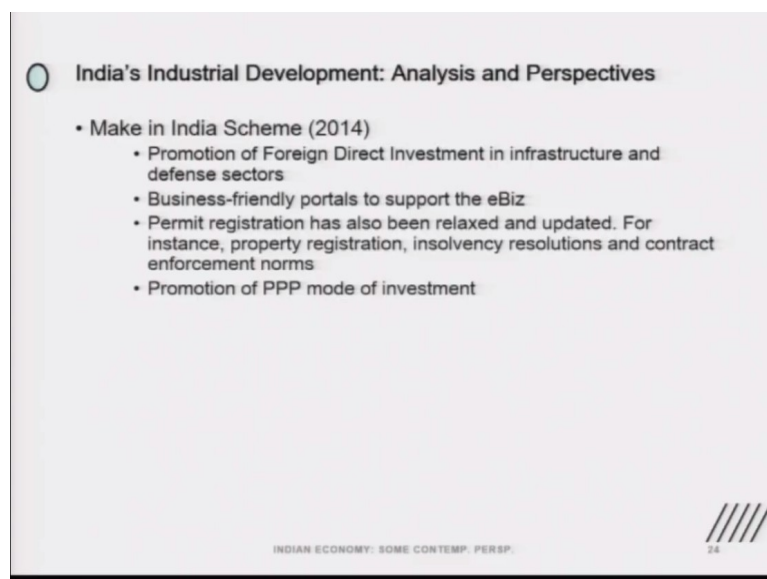
about new manufacturing policy 2011. So, make in India it is just taking forward that policy an adding certain dimension of opening up the economy for the private sector more.

And in terms of promotion of foreign direct investment in that also we had discussed about for the first time we had thought about giving importance to renewable energy which means production processes would be made align to the green carbon emission norms. So that India does not have to bear the cost of the pollution emission, carbon emission. So, to promote the environmentally sustainable growth, for example, the areas which are more sensitive to the industrial pollution they will be given more emphasis in terms of setting up firms.

And the activities which are not that much having environmental hazard. So, that is why you will find that Uttarakhand and other places have become the hub for manufacturing of pharmaceuticals and IT based infrastructure. To enhance the global competitiveness of the Indian manufacturing sector just to make sure that on global map, Indian manufacturing goods are being sold or it is being recognized. So, make in India campaign is known for that.

Under this scheme, there is also effort to attract foreign direct investment in certain sectors and also to invite the well-established firm for knowledge transfer in India and that development will have lot of say in particular dimension that how this particular scheme is going to be helped.

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There is also now lot of effort to streamline the foreign direct investment. So, there is also an effort to promote foreign direct investment in infrastructure, defense sectors now you will

read in newspaper that there is lot of talk about different corridor. So, we have the Delhi-Kolkata corridor then we have Delhi-Mumbai corridor. So, all the metros are linked with the railway and the road.

And those metros which are linked the railway, they will be linked with roads and those which are linked with road they will be also dedicated flight corridors created. So, that the export and import and flow of goods and services can be promoted. One major development that we have seen under Make in India effort that continued from the new Indian manufacturing policy 2011 from the UK era.

And after 2014 we have the new government then we had to make sudden changes. Under that we are now going for defense sector exports which means that defense equipments are now being exported and the proper infrastructure is being created so that it can be promoted at every level. So, indigenous now light weighted aircraft and war equipment are being exported to some other countries.

Now Africa has become one of the major buyers of defense product that we have. Business friendly portals as I mentioned about Samadhan for MSME so it has been also created for the businesses and permit registration has also been relaxed and there are whole lot of effort to upgrade that. There is a lot of effort to go for digitalization of certain government activities which were earlier completely manual.

For example, property registration, insolvency resolution now we have insolvency and bankruptcy resolution or insolvency and bankruptcy code IBC 2016. Then we have contract enforcement norms government is now keeping an eye on the changes in the wage laws and the wage bill code that we have already discussed and how government is trying to streamline.

So, all these schemes are interlinked with the Make in India Scheme and under that one more scheme that we discuss that government has undertaken certain measures for example specialized policies for the promotion of entrepreneurship. So, when we discuss the NITI Aayog we had discussed that how Atal Mission at different level at school level and then at institution level.

And even at the state level it is helping to groom the next generation of entrepreneurs. How SIDBI is investing so much in creation of incubators across institutions then we have the

promotion of PPP mode of investment. So, under this scheme we have the effort to revive the public private partnership investment and under that certain projects are being undertaken and it has been promoted.

So, for instance, now most of the airports are now managed by private enterprises, the licenses have been given. So, there are some concerns about the operations on the labor laws, but there is a whole lot of I would say promotion of such a scheme and under an entrepreneurship as I mentioned that NITI Aayog is also helping to have groom the next generation women entrepreneur.

So, there is a whole lot of effort in agriculture also now government is going for some kind of schemes which are meant for the development of the sector. So, overall now we have covered in 4 different session the India's industrial policy. So, we covered from the overall level to the labor law, then we covered the MSME then we covered the different indicators. So, I hope these 4 sessions have helped you understand the complete architecture of India's industrial resolution that we had.

And how we have over a period of time modified and made changes and now we are looking for completely having more share of manufacturing. So, basically, we were services I would say driven economy, but now we have more focus on the manufacturing as I mentioned that the share is going to be almost 25% or more the emphasis has been being made 12% to 14% per annum in a growth in manufacturing is another agenda of the government to make sure that it happens.

MSME's are being promoted at every level. NITI Aayog is now helping these industries to play a role. So, with this background I would like to end here and I would like to say thank you for your attention and next session we will have more on the services platform. So, we will see how services sector has taken over in terms of leading the economy and it has become one of the major drivers. Thank you so much.