

ISED Policy Brief

India's Scene of Micro, Small & Medium Enterprises Today

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Institute of Small Enterprises and Development

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Published by P.M. Mathew, for Institute of Small Enterprises and Development.

Series: ISED Policy Brief

Price: 490.00 (India); US \$ 15.00 (Overseas)

About 'ISED Policy Briefs' Series

Brought out by the Institute's knowledge platform, the ISED Small Enterprise Observatory, titles under this Series are meant to stimulate a discussion on some of the latest developments in the economy and society. The contents of 'ISED Policy Briefs' emerge largely from the findings and experience of research work at the various Knowledge Centers of the Institute of Small Enterprises and Development. They are meant to be a backgrounder for policy debates and discussions at various levels.

Preface

The Pandemic COVID-19, which has triggered disruption in lives and livelihoods globally, obviously, re-shapes the present as also the future of economies and of humanity as a whole. However, it is a challenge and opportunity for humanity to outlive such constraints. Shaping new development strategies and promotion of enterprise and entrepreneurship alone can be the solution to this impasse. That means, we need to start speaking of the impacts at the “bottom of the pyramid”, and plan for broad basing the mass base of entrepreneurship.

Under the India MSME Communication Programme(IMCP), the ISED Small Enterprise Observatory, in co operation with the various Knowledge Centres of the Institute, makes a rigorous analysis of the latest currents in the MSME constituency, leading to a unique ‘Development Report’. This study is a spill-over of this exercise of Development Reporting on micro, small and medium enterprises (MSMEs) at the ISED.

While the team of the Observatory did a meticulous job under the guidance and support of the Project Leaders, individual members of the Team, including the editors and the Associates, have made their special contribution in specific thematic areas. While this title is significant in the present context of the Indian economy, and of the MSME developments in specific, I hope it will contribute to wider discussions in the subject area.

As this title comes out as a joint output of the Observatory and the ISED Centre for Enterprise Development, the Institute wishes to thank, without fail, the pains and efforts of the authors, and all who have supported it through inputs and suggestions. ISED has taken best efforts to ensure the quality and reliability of this paper. However, for the findings and views, the authors alone are responsible.

Cochin,
August 20, 2020

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Abstract

The present slowdown in the Indian economy need to be understood in relation to a sequence of issues during the previous years. In a crisis situation, the policy focus needs to be on business confidence. The logic and historical experience of economic slowdown visualizes a gap in the confidence levels between the MSMEs and the corporate sector. This gap, conceptually, cancels out during an adjustment period. While, of late, this logic has not worked very well recently due to some specific factors, there is need for a corrective mechanism. The role of private sector is undoubtedly crucial. The Union Budget 2019 has come up with several proposals for providing relief to this sector. But this is not enough to ease the so-called 'millennium dualism'. There is a puzzle relating to employment promotion and public policy support, which calls for a discretionary approach to public policy and strategy. Here lies the case for a 'Tortoise and Hare' strategy.

KEY WORDS: MSME, India, Policy, Union Budget 2019, 'Tortoise & hare strategy'.

1.0. Introduction

Against global setting of investment and trade today, India's opportunities and constraints relating to its MSMEs have great analytical and policy significance. Since 1990, the macroeconomic policy, and more specifically, the policies relating to MSMEs in the country, have followed a path of liberalization, with much less role for government, both regulatory and promotional. While the mixed perceptions on the MSME role continued to get reflected in public policy, the accelerated focus on growth and its possible implications on this sector needed closer examination. While the leading issues in the policy and practice of MSME development are not adequately discussed and articulated in the country, the task of the following pages is to identify and discuss some of the major threads, especially in relation to the most recent developments.

2.0. Indian Economy in 2019

The state of the Indian economy today need to be understood against its transition, and developmental implications thereon, in policy and practice. The major official sources of information, on which one can draw some meaningful conclusions are, the documents of the Ministry of Finance, Reserve Bank of India, Labour Bureau, NSSO, and the CSO.

Our discussion need to be in relation to developments in the following key areas:

2.1. GDP Growth Rates

India has emerged as one of the fastest growing economies in the world, and is expected to be one of the

top three economic powers over the next 10-15 years. The state of the Indian economy, as in 2019, demonstrates some unique developments that are of significant relevance to MSMEs in the country. India's GDP was estimated to have increased 6.7 per cent in 2017-18 and was expected to grow 7.3 per cent in 2018-19. In April-July quarter of 2018-19, the GDP grew by 8.2 per cent. The Monetary policy Committee of the Reserve Bank of India, pegged the growth estimates of 2019-20 at 6.1 per cent, from its earlier rate of 6.9 per cent, during the first week of October 2019. Global credit rating agency Moody's 'Investors Service' has projected India's economic growth to moderate to 7.3% in 2019 and 2020, as higher oil prices combined with rupee depreciation and monetary tightening dampen domestic demand. OECD projected GDP, at market prices to grow 7.3% in 2019 and 7.4% in 2020, from 7.5% in 2018. According to its report, Economic Outlook, "economic growth in India will slow somewhat but remain robust, at close to 7.5% in 2019 and 2020".

According to the Economic Survey 2018-19, tabled in Parliament on July 4, 2019, India is expected to grow at 7% in 2019-20. India continued as the fastest growing economy at 6.8% in 2018-19 and was expected to grow at 7% in 2019-20.

The Asian Development Bank (ADB) has made its Indian growth forecast for 2019-20 to 7% from 7.2% estimated earlier. This is in line with the estimates by the Reserve Bank of India (RBI), as well as that of the Office of the Chief Economic Adviser. This mainly reflects "the unexpectedly weak FY2018 outturn", ADB said in its supplement to its publication, the Asian Development

GDP Growth a Must; but Need to be 'Responsible Growth'

How does growth scenarios impact on the prospects of the MSME constituency? Growth rates do not often pick up to our expectations, though on a comparative sense India's position today is satisfactory. Employment levels, however, has not picked up significantly. These two indicators pose the challenge of boosting start-ups, on the one hand, and to ensure the health of the MSME sector at reasonable levels. However, while the banking system sends out signals of mounting NPAs, credit off-take is not likely to pick up, as usual.

Hence, the strategy need to be at three levels: 1) real sector interventions that lead to a major confidence building; 2) promotion of start-ups; and 3) measures to continuously monitor MSME health, and to initiate corrective steps. A critical to review of past practices, and a boot-strap effort for corrective steps, are the imperatives of today.

Outlook.

The National Statistical Office (NSO), on May 31, 2019, released quarterly estimates of gross domestic product (GDP) for Q4:2018-19 and provisional estimates of national income for 2018-19. GDP growth for 2018-19 has been estimated at 6.8 per cent year-on-year (y-o-y), down by 20 basis points, from the second advance estimates released on February 28, pulled down by a downward revision in private final consumption expenditure (PFCE) and moderation in exports. Quarterly data show that domestic economic activity decelerated sharply to 5.8 per cent in Q4:2018-19, from 6.6 per cent in Q3 and 8.1 per cent in Q4:2017-18. Gross fixed capital formation (GFCF) declined sharply to 3.6 per cent, after remaining in double digits in the previous five quarters. Private consumption growth also moderated. The drag on aggregate demand from net exports increased in Q4, due to a sharper deceleration in exports relative to imports. However, the overall slowdown in growth was cushioned by a large increase in government final consumption expenditure (GFCE).

According to the resolution of the Monetary Policy Committee, held on August 20, 2019, real GDP growth for 2019-20 was projected at 7.0 per cent – in the range of 6.4-6.7 per cent for H1:2019-20 and 7.2-7.5 per cent for H2 – with risks evenly balanced. Various high frequency indicators suggest weakening of both domestic and external demand conditions. The Business Expectations Index of the Reserve Bank's industrial outlook survey shows muted expansion in demand conditions in Q2, although a decline in input costs augurs well for growth. The impact of monetary policy easing since February 2019 is also expected to support economic activity, going forward. Moreover, base effects will turn favourable in H2:2019-20. Taking into consideration the above factors,

real GDP growth for 2019-20 is revised downwards from 7.0 per cent in the June Policy statement, to 6.9 per cent – in the range of 5.8-6.6 per cent for H1:2019-20 and 7.3-7.5 per cent for H2 – with risks somewhat tilted to the downside; GDP growth for Q1:2020-21 is projected at 7.4 per cent.

The Central Statistics Office (CSO) released India's economic growth figures for the April-June quarter of FY20 on August 30, 2019. The growth slowed down to 5 per cent in the first quarter of the ongoing fiscal. In the last quarter of fiscal year 2019, the economy grew at 5.8 per cent. The deceleration in private consumption largely contributed to such a substantial fall in the GDP number. Reserve Bank of India had projected India's GDP growth for FY20 at 6.9 per cent, in the range of 5.8-6.6 per cent for the first half and 7.3-7.5 per cent for the second half of FY20.

How does growth scenarios impact on the prospects of the MSME constituency? Growth rates do not often pick up to our expectations, though on a comparative sense India's position is commendable. Employment position has not picked up significantly. These two indicators pose the challenge of boosting start ups on a massive scale and to ensure the health of the MSME sector at reasonable levels. However, since the banking system sends out signals of mounting NPAs, credit off-take is not likely to pick up, unless the real sector interventions lead to a major confidence building. Therefore, it is critical to review the policies and experience of the past, and to explore new policy options and strategies.

2.1.1. Agriculture and Rural Economic Activities

On the supply side, agriculture and allied activities contracted, albeit marginally, in Q4:2018-19, due to a decline in rabi production. According to the third