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Growth and Productivity in Indian Manufacturing: Evidence from Small and Medium Enterprises

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The transition from an emerging to developed economy involves an increasing relevance of manufacturing sector, and within the industry, it is the Small and Medium Enterprises (SME's) which assume importance and make the entire growth process equitable. These enterprises are job creators, accounting for 70-95% of new employment opportunities in emerging economies, and it has been observed that the regional density of these enterprises is in line with income level distribution. They have the least density in areas such as Sub-Saharan Africa and maximum being in OECD Countries (IFC MSME Report,2018). In the Indian context, these enterprises are referred as Micro, Small and Medium Enterprises (MSMEs), accounting for more than 40% of manufacturing and overall exports while employing close to 111 million people (Annual Report, Ministry of MSME,2017-18).

Employment generation, increasing private investment and productivity growth are some of the significant challenges before the Indian economy, and the MSME sector is currently an active area of policymaking to meet these challenges. Usually, these enterprises operate in a cluster-based ecosystem where they complement each while fragmenting the entire production chain (Satyakai Roy,2013). There are about more than two crore such enterprises spread across India, facing several challenges such as physical infrastructural bottlenecks, absence of formalisation, technology adoption, lack of access to credit etc (Report of the Expert Committee on MSME,2019). These challenges act as a barrier in its overall growth, especially productivity growth, thereby negatively influencing the global competitiveness of the MSMEs. The inability to compete globally further impedes their technical progress and integration into Global Value Chains.

The existing academic research (Bhattacharya (2013), Sen and Ghosh (2015) and Bhattacharjee and Chakraborty (2013)) and policy have been focussing towards financial aspect such as access to credit, debt resolution, insolvency etc. It is partly an outcome of unavailability of data on other issues of MSMEs such as employment profile, investments in technology up-gradation etc. The Office of the Development Commissioner, Ministry of MSME, Government of India (GOI) undertook the last dedicated census of these enterprises in 2006-07. After which some Ad-hoc data collection approach has been used.

A macro-level analysis shall be presented in the context of SMEs in other emerging and advanced economies such as Brazil, Russia, China, Australia, including India. The objective of macro-level analysis would be to compare and contrast and to draw upon the experiences of other major emerging and advanced economies. In addition to it, an in-depth micro-level productivity analysis would be undertaken to focus exclusively upon the Indian SMEs, i.e. MSMEs. For analysis, the paper shall draw upon the existing multiple secondary data sources and harmonise them to create a dataset providing detailed enterprise-level information. For MSMEs operating in registered manufacturing the Annual Survey of Industries (ASI), Ministry of Statistics and Programme Implementation (MoSPI) and for the ones working in Unregistered sector the 73rd Round of National Sample Survey Office (NSSO), MoSPI shall be used. The principal objective of the microanalysis would be to estimate indicators of productivity, such as Multifactor productivity and Labour productivity to gauge the productivity gap between the MSMEs and Non-MSMEs. The estimated productivity variable would be used as a dependent variable to assess the role of factors such as Trade, ICT adoption, Labour force composition (Skilled Vs Unskilled, Permanent Vs temporary), Cluster vs Non-Cluster, Access to credit etc. In addition to enterprise-level factors, the state and industry level factors would be taken into account. The inferences drawn from the exercise would enrich the understanding of challenges and factors contributing positively/negatively to the productivity of MSMEs in India.

Indicative Bibliography

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