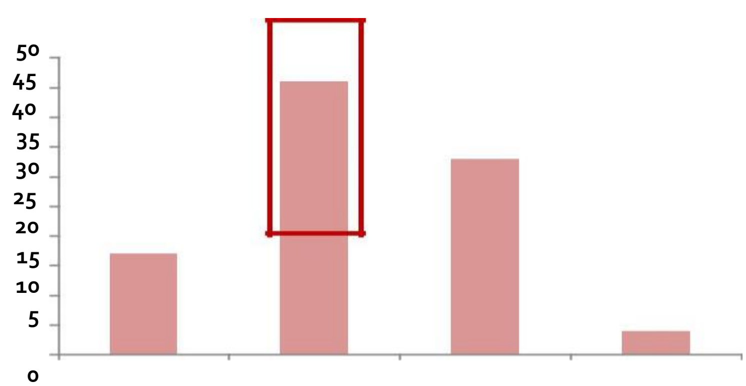
Unemployment in the Economy: Challenges & Potential in the Micro, Small and Medium Enterprises (MSME) Sector

1. Introduction

The Unemployment Rate (UR) has steadily climbed from 3.8 in 2011-12 to 5 by 2015-16. The slow and steady rise of the figures has been accounted to severe under employment and low Labour Force Participation Rate (LFPR)[1]. The job market is plagued by the lack of high quality jobs or rather jobs commensurate with the quality of educated resources. Majority the unemployed Graduates and Post Graduates[2] respectively cannot find jobs due to 'non availability of jobs matching their skill set, education or experience'. Increasingly higher education has ceased to become a guarantee for good stable employment. Amongst the employed, the largest component of them is self-employed standing at 44 per cent followed by casual labourers, salaried and contractual employees. The salaried employees are the highest earners, with 23.6 per cent of them earning between INR 10, 000 - 20,000 in a month followed by those who are self-employed. In fact, the self-employed with the largest percentage in the work force are better paid, with over half of them (54.7 per cent) being paid between INR 5,000 – INR 20,000 a month. In the number of figures given above two features about the job market are crystallized (i) the lack of high quality jobs which results in unemployment and low LWPR (ii) the high percentage of self employed in the employed category with adequate wages

Taking advantage of the self-employed nature of the employed population (high percentage), robust support can be provided to the Micro, Small and Medium Enterprises (MSMEs) through policy directives. Majority of them employment in the country is provided by small and micro enterprises including agricultural and non-agricultural. In the short term, it is important to utilize the strength of the present employment market, which is self-employment as well as small and micro enterprises, as they are major employment generators. Hence this paper aims to cover two aspects (i) Support to MSMEs with particular focus on Small and Micro Enterprises (SMEs) through measures such as increasing Access to Finance (ii) Critical sectors for further growth of MSMEs and way forward. The suggestions and analysis which have been carried out in the brief have been made keeping in mind an n implementation period of 6 months to a year.

Figure I: Employed



[1] Page 48, NITI Aayog, Three Year Road Map, 2017

[2] 50 per cent and 60 per cent of Graduates and Post Graduates respectively

Wage/ Salaried Self-Employed Casual Labourers Contract Worker

2. Medium, Small and Micro Enterprises: An overview of institutional measures

As per the latest Annual reports of the MSME ministry, the sector accounts for 6 per cent of the GDP and 40 per cent of the exports. The employment share contributed by this sector stands at 33 per cent (formal). Reports suggest that in developing and emerging economies 4 out of 5 jobs are to be created by the Small and Medium Enterprises (SME)[3]. Presently over 70 per cent of these enterprises are micro in size, they need to grow faster and greater in size (i.e. from micro to small; small to medium) to generate greater employment. A micro enterprise employs 0-10 persons while a small enterprise employs more than 10 people while a large enterprise employs more than 50 people. Through conversion of micro enterprises to small enterprises, the employment benefit of the exercise would be bountiful.

There are various policy avenues available which can contribute to the growth of MSMEs with particular focus on small and micro enterprises. Chief among them is Access to Finance/Credit which has been the focus of certain schemes.

Access to Finance: Presently 78 per cent of the MSMEs are self-financed, moreover only 7 per cent of the firms are financed through government schemes implemented by the Central Government. Self-financing of the enterprises implies unreliable borrowing networks. Access to institutional finance is imperative for enterprises to grow in a conducive and safe environment. However as per Reserve Bank of India RBI's reports credit to industry including infrastructure', 'basic metal & metal products', 'textiles' contracted in August 2017 when compared to the same period last year[4]

For the SMEs, the Central Government has instituted certain long running schemes like Pradhan Mantri Employment Generation Scheme (PMEGP) for making credit available to these enterprises. Under the scheme, subsidy or marginal money for up to 25 per cent of the project cost in rural areas and 15 per cent in the urban areas is provided by the Government. The maximum cost of the project eligible under the scheme is INR 25 lakhs in the manufacturing sector and INR 10 lakhs in the service sector. The beneficiary also has to contribute 5-10 per cent of the project cost. However as mentioned above, the credit to certain key employment generating industry has reduced over this quarter. Even the Micro Units Development and Refinance Agency (MUDRA) Bank scheme, a scheme focused on refinancing banks and other Micro Financing Institution (MFI), missed the credit target by 20 per cent in the year 2016-17.

Table 1: Ease of doing Business Rankings

78	China
176	Bangladesh
8	USA
130	India
110	Sri Lanka

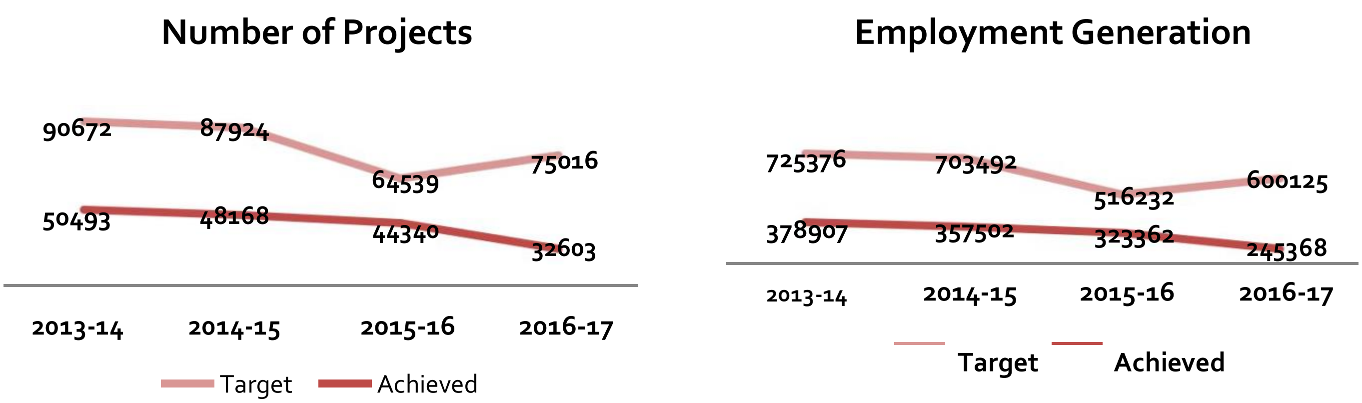
[3] http://www.worldbank.org/en/topic/financialsector/brief/smes-finance, accessed as on

[4] https://rbi.org.in/SCRIPTs/BS_PressReleaseDisplay.aspx?prid=4182, accessed as on

Source: World Bank

2.1. PMEGP: Analysis of the scheme over a time period displays certain gaps in the implementation. The targets for the last 3 years in terms of setting up of units have consistently been missed. Only 55 per cent of the projects which were set out as targets were completed from the years 2013-14 to 2016-17. The employment achievement figurers are even worse, with little over half the target (51.27 per cent) being achieved for the next few years[5].

Figure II: Target and Achievement under PMEGP from 2013-14 to 2016-17



As evidence from the figures, in all these years the targets have been coontinously set lower however the achievement under both the components i.e. the number of projects as well as the expected employment generation has not taken place. The difference between the targeted number of projects and creation of actual projects is starkest in the states of Uttar Pradesh, Delhi, Madhya Pradesh, Sikkim and Gujarat. For employment, the states with the stark difference between target and employment are Delhi, Chhattisgarh, Arunachal Pradesh, Haryana and Madhya Pradesh. There could be a number of reasons behind the gap between target and achievement. Some of them could be related to the demand of collateral by banks. There has been a study conducted by the MDI Gurugram in collaboration with the Ministry of Medium, Small and Micro Enterprises, preliminary assessment point to the fact that in some states collateral is also demanded by the banks however as per guidelines banks cannot ask for collateral for loans amounting up to INR 5 lakhs. In states like Odisha in 100 per cent of the loans collateral was demanded by the banks[6].

2.2. MUDRA: MSMEs are usually owned by an individual or a proprietorship, and therefore often do not have formal organization. This leads to poor access to credit, and results in underfinancing of this sector. Private lines of credit are unregulated and often lead to the detriment of MSME owners. This lack of financial support prevents such enterprises from expanding or ensuring their financial stability.

In this context, the Government of India (GoI) set up the Micro Units Development & Refinance Agency Ltd. (MUDRA) in April 2015. This was accompanied by the rollout of the Pradhan Mantri Mudra Yojana. MUDRA was formed to develop and promote the micro-enterprises sector through financial support to institutions which deal in lending to micro and small business entities engaged in manufacturing, trading and service activities. To this end, MUDRA partners with

[5] Lok Sabha Unstarred Question no. 2933, 20/03/17

[6] Lok Sabha Starred Question 2452, 31/07/2017

banks, Non-Banking Financial Institutions, microfinance institutions and other lending institutions at the state and regional level. MUDRA offers multiple services to the sector, including:

- **Micro Credit Scheme:** This scheme offers credit up to 1 lakh through micro-finance institutions (MFIs) who are enrolled with MUDRA. Beneficiaries are either individuals or self-help groups who are undertaking specific micro enterprise activities.

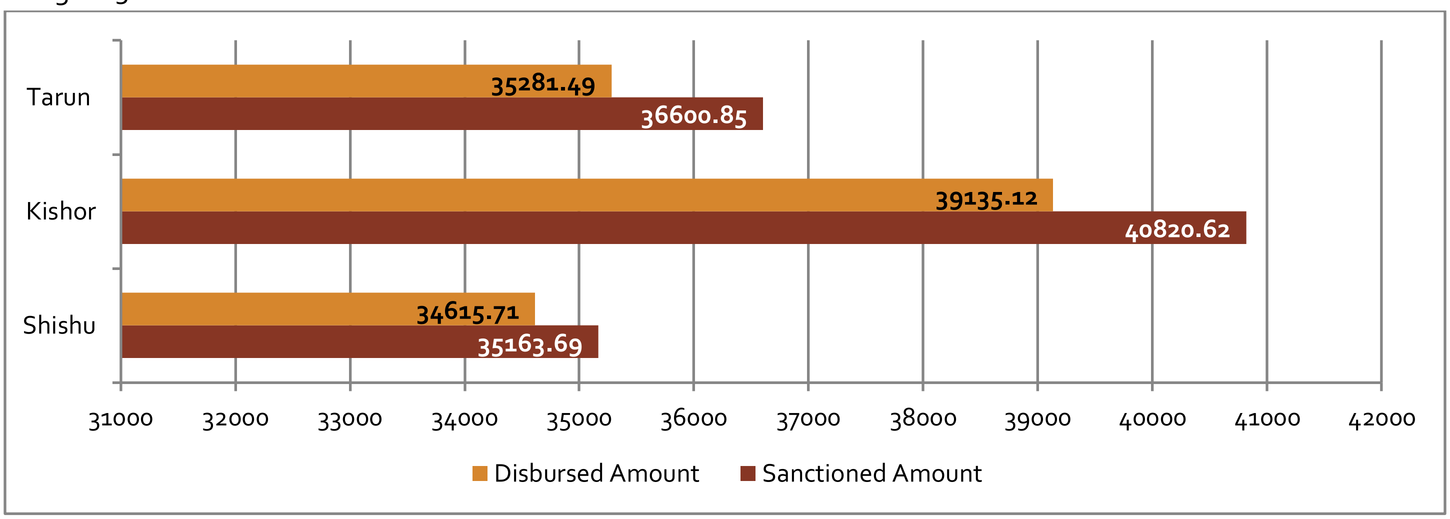
- **Refinance Scheme for Banks**: Bank who enroll with MUDRA can avail refinance support for micro-enterprise loans. Refinancing is divided into three categories based on the amount of loan given i.e. 'Shishu' (upto INR. 50,000), 'Kishore' (INR. 50,000-5.0 Lakhs) and 'Tarun' (5.0 Lakhs-10.0 Lakhs).

- **Women Enterprise Programme:** In order to encourage women, MUDRA extends a reduction in its interest rates to MFIs/NBFCs, who are providing loans to women entrepreneurs.

With a total sanctioned amount of INR.180528.54 lakh crores in 2016-17, progress in the most recently completed financial year has exceeded the 1.8 lakh crore target set by the government. The sub-scheme breakup can be examined

Figure III: Amount Sanctioned and Disbursed in 2016-17 (INR. Crore)

in Figure 3.



Source: Ministry of Finance, PMMY Overall Performance Report (2016-17)

The Union Budget announced a target of INR 2.44 lakh crore for Mudra Loans for 2016-17. Yet, as on 8th December 2017, financing worth only 1.21 lakh crore has been sanctioned. However, the Women Enterprise Programmes are seen to be successful as per the most recent data, with 76 per cent of borrowers being women[7].

2.3. RSETIs: In 2008, the Government introduced Rural Self Employment Training Institutes (RSETIs) across the nation. This initiative was a continuation of the Rural Development and Self Employment Training Institute model for rural entrepreneurship established in 1982, under which 122 institutes were already in place. Under the new model, one RSETI is to be set up in each district, to train the rural BPL population for entrepreneurship or wage employment. These run in

[7] http://pib.nic.in/newsite/PrintRelease.aspx?relid=174424, accessed as on 20th December 2017

partnership with the State Government, which provides land free of cost, and sponsor banks, which manage the institutes, provide manpower and bear the operational costs. The Central Government bears a one-time infrastructure cost of INR 1 crore, and also reimburses the cost of training the participants. The training provided by RSETIs is short-term, entrepreneurial, and market linked. A target of training 750 candidates has been set for all RSETIs, with an expected settlement rate of a 50 per cent, 60 per cent and 70 per cent in the first, second and third year respectively.

The training provided is holistic as it involves support up to the stage of settlement, and includes provisions like bank linkages. Further, rather than requiring migration to cities, the emphasis is on in-situ employment of the candidates in the rural areas. Till date, there have been 586 functional RSETIs set up across the nation, with 90,995 training programmes organized and 25,24,443 unemployed youth having been trained. These institutes have witnessed a 66 per cent placement rate. 89 per cent of placed candidates are self-employed, with a minority of 11 per cent being placed under wage employment[8]. Further, there are currently 31 sponsor banks, due to which 40 per cent of placed candidates have availed bank credit.

These schemes have huge potential for reinvigorating micro and small enterprises however, presently due to continuous missing of targets for the last three years, presently the programme is not living up to its potential.

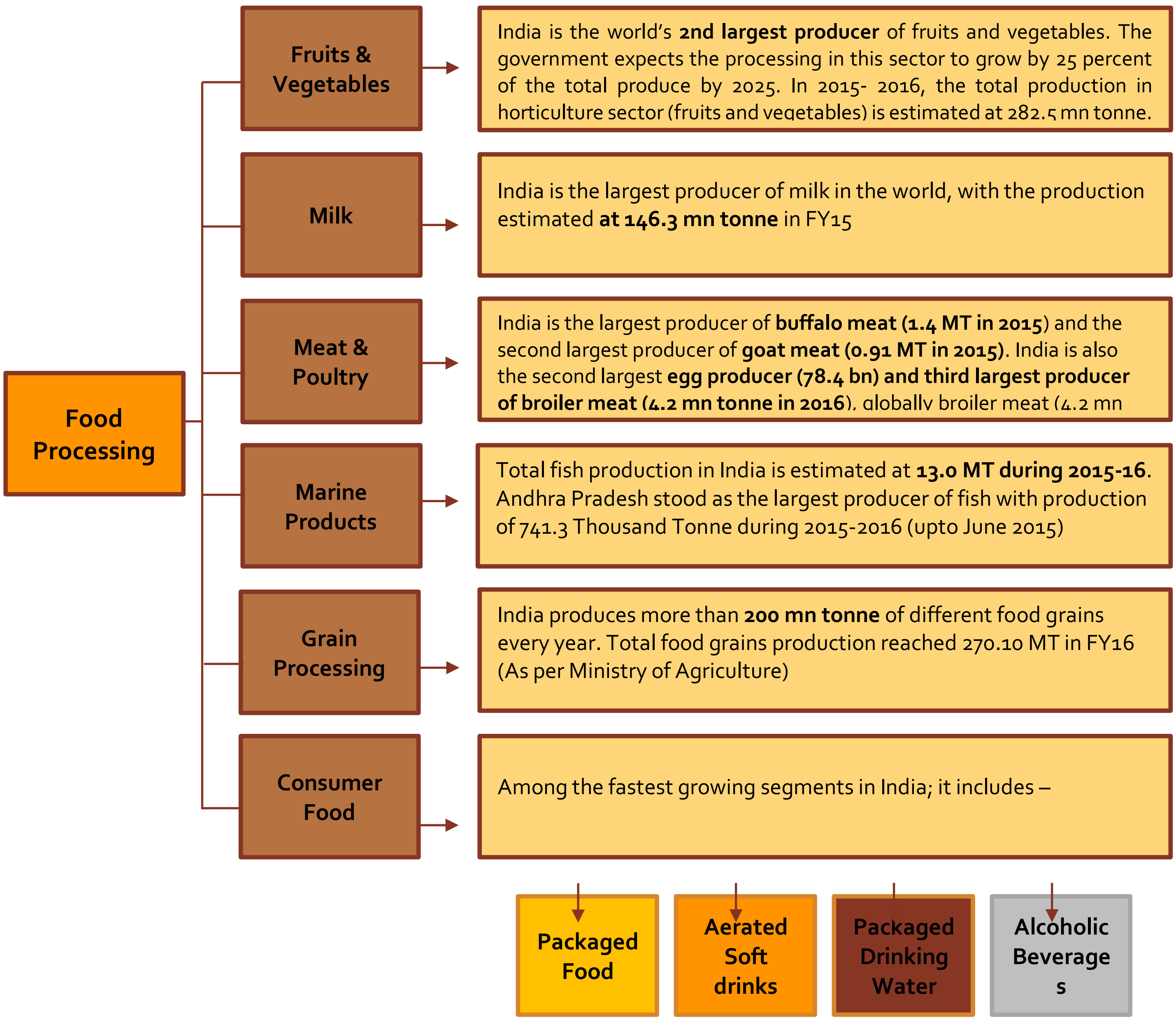
3. Possibilities of Expansion for Small and Micro Industry Expansion:

The growth trajectory of other South Asian countries has been marked by the expanding other manufacturing sectors. Presently the Service Sector is the largest contributor to the country's GDP at 58.6 per cent followed by the Manufacturing Sector which stands at 12.6 per cent. Developing of Manufacture Sector in low to middle income countries is particularly pertinent because of the employment generation capacities of the sector. Many industries within the Manufacturing like food processing, apparel and footwear are labour intensive. Given

3.1. Food Processing Industry: With fluid linkages between the Primary sector, food processing industry has witnessed significant growth in the past few years. In 2016, the food processing industry contributed 16 per cent to the total manufacturing. Currently, the Indian food processing industry is pegged close to Us$ 121 bn to US$ 130 bn. With the backward linkages to agriculture, it can prove to be a conduit for transition from the primary to the secondary sector.

Policymakers have identified food processing as a key sector in encouraging labour movement from agriculture to manufacturing. With a shift in consumption, a surge in demands for fruits & vegetables has been observed. Accordingly, the farmers are also preferring to shift production towards horticulture crops to cash in on the growing demand. In addition to this, this industry has strengthened procurement vis direct farmer-firm linkages. Largely, this process has helped both the processing companies via increasing sales and therefore augmenting their incomes, as well as providing access to better technology and fetching better prices by securing an assured market for Indian farmers. Examples include Nestlé, PepsiCo, Venky's, Milkfed, and Mahagrapes, among others.

[8] http://www.nacer.in/performance_glance.html



3.2. Textile, Apparel and Footwear Industry: The Indian textiles, apparels, and footwear industries play a crucial role in contributing to employment generation, industrial output and export earnings. As per the Economic Survey, the textile and apparel sector is the most labour- intensive, followed by footwear. The textile and apparel industry is burgeoning and is expected to reach US $ 141 billion by 2021, a sharp increase from the current estimate of US $108 billion. The textile industry accounts for 21 per cent of the total employment generated in the economy, employing around 35 million people directly in textile manufacturing activities[9]. This is slated to reach 60-62 million by 2022.

However, manufacturing in these sectors is still often done at a small-scale. This often leads to low R&D investments, poor technological know-how and inefficient production methods. Labour related issues such as health of the

[9] ASSOCHAM Report on Textiles and Apparel Industry, accessed as on

workers, exploitation and strict labour laws further complicate this. Owners do not have the flexibility to hire workers as per their requirements, due to which the potential for employment in this sector is not being tapped[10]. Expansion is possible only if these bottlenecks are overcome. The government has taken steps to improve and enhance the flexibility of employers through a recent amendment to the Industrial Employment (Standing Orders) Act, 1946. Given the seasonal nature of the sector, this amendment facilitates fixed employment of workers in apparel and footwear manufacturing.

This ensures the same working conditions, wages and other benefits for fixed workers and regular employees, and aims to boost employment in the sector. Further, the government launched a INR 6000 crore package for the textile and apparel in 2016. This included employment focused initiatives such as the Scheme for Production and Employment Linked Support for Garmenting Units (SPELSGU) providing additional subsidy to units that meet employment generation targets.

To promote employment generation in the footwear industry, the government has recently announced the implementation of the Indian Footwear, Leather & Accessories Development Programme. It aims to generate 3.24 lakhs new jobs in 3 years and assist in formalization of 2 lakh jobs in the sector. For example, the Human Resource Development (HRD) sub-scheme will be implemented to train 4.32 lakh unemployed persons and upgrade the skills of 75,00 existing employees. Such measures are crucial in boosting employment in these sectors, to ensure that they perform at their full labour capacity.

4. Way Ahead

Keeping in mind certain gaps in the credit delivery mechanism, it is important to discuss certain solutions which are involved at both the operational and beneficiary level.

1) Operational: Certain changes can be made at an operational level to encourage the development in states with high unemployment as well as greater number of MSMEs.

1) A. Credit Facility to combat unemployment: The vitality of Small and Micro enterprises cannot be overstated. States with high population like Bihar, Uttar Pradesh and Madhya Pradesh not only have a greater number of unemployed populations but fortunately benefit from greater number of MSME. State Level Banker's Committee (SLBC) as well as State level Khadi Village Industries Commission can be consulted on ways to improve credit facility to small scale enterprises, which would increase both the number and size of enterprises leading to favourable changes in the employment scenario of these state

1) B. Encouraging new enterprises to employ more people: Credit can not only help old enterprises to expand but also encourage the creation of new small scale enterprises. Presently the process of registering new enterprise and availing credit for the similar new enterprises are two separate processes. Under Start up India, the government has encouraged registration of Start Up with corresponding tax benefits and credit availability. This approach could also be utilized other long running schemes like PMEGP and MUDRA, whereby there is provision created to encourage registrations of new enterprises with incentive of making credit available to them at a faster pace.

2) Beneficiary Level: At the beneficiary level, certain changes can be made which would allow for efficient utilization of the scheme on the ground. This could follow an incentive model, whereby enterprises which have performed well (in

[10] http://pib.nic.in/newsite/PrintRelease.aspx?relid=151537, accessed as on 20th December 2017

terms of employment) are provided higher credit limit

2) A. Modification in the beneficiary criteria: As per the guidelines of both MUDRA and PMEGP individuals as well as cooperatives can avail of credit. Encouragement can also be given to enterprises which have greater number of people on the pay roll. These enterprises have showcased certain success (larger number of employees), and they could increase in scaled through additional finance.