

## Challenges with MSME classification

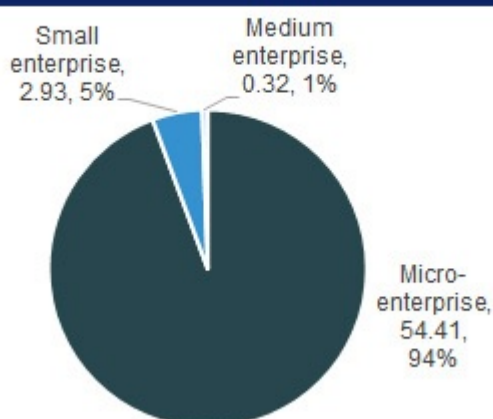
### Why in news?

The recent government order mandating timely payments to MSMEs has marginalized smaller enterprises in the shorter term

#### Status of MSME sector

- Micro Small and Medium Enterprises (MSMEs) serve as the 'backbone of Indian economy' and the 'growth engines of the country'.
- **Increased growth**-The number of MSMEs in the country is expected to grow from 6.3 crore, to 7.5 crore in the coming times, growing at a projected CAGR of 2.5%.
- The top 5 states in Udyam registration is Maharashtra, Tamil Nadu, Uttar Pradesh, Gujarat, Rajasthan.

#### Registered MSMEs in India in FY22\* (lakh units)



- **Women empowerment**- Women owned MSMEs constitute 20.5% of Udyam Portal registrations, contributing 18.73% to employment and 10.22% to turnover.
- **Significant contributor**-MSMEs contribute about 30% to India's GDP and around 45% to the manufacturing output.
- **Employment generation**-They provide employment to over 110 million people, playing a vital role in job creation.
- **Export contribution**- MSMEs contribute around 48% to India's total exports, boosting foreign exchange earnings.
- **MSME definition**- A revision was announced in Atmanirbhar Bharat package in 2020.

Classification	Investment in Plant and Machinery or Equipment	Annual turnover
Micro	Not more than Rs 1 crore	Not more than Rs 5 crore
Small	Not more than Rs 10 crore	Not more than Rs 50 crore
Medium	Not more than Rs 250 crore	Not more than Rs 250 crore

### What is the issue with MSME definition?

- **Impact of revised definition**- It aimed to prevent firms from underreporting revenues to qualify for micro-enterprise benefits.

- **Skewed distribution**- National Sample Survey Organisation’s Unorganised Enterprise Survey 2016 found that 95% of surveyed enterprises still reported revenues under Rs 50 lakh per annum, highlighting a skewed distribution and the need for a more nuanced classification.
- **Need of sub-classification**- Annual Survey of Industries data also indicates that a significant majority of enterprises have annual revenues under Rs 50 lakh which demonstrates that most micro-enterprises are on the lower end of the revenue scale, highlighting the need for further sub-classification within the micro category.
- **Lack of clarity**- A comprehensive understanding of how micro-enterprises operate is lacking, making it difficult to design effective policies.
- **Failure to address diversity**- The current broad classifications under the MSME umbrella fail to capture the diversity within the micro-enterprise segment.
- **Data limitations**- Since 2016, systematic data collection on enterprises not registered under the Factories Act has been lacking.

*Annual Survey of Industries (ASI) primarily captures data from factories registered under the Factories Act, leaving out a significant portion of micro-enterprises.*

- **Lack of specific details**- Udayam registration categorizes enterprises as micro, small, and medium, it does not provide detailed annual revenue information which limits the granularity needed for specific policy interventions.
- **GST data disparity**- The GST data from 2022 shows a rightward skew in the distribution of enterprises, with a majority with annual revenues below Rs 50 lakh and those between Rs 50 lakh to Rs 5 crore.

### What should be done?

- **Enhance data planning**- Implement regular and detailed surveys to capture the financial and operational metrics of micro-enterprises not covered by the Annual Survey of Industries.
- **Facilitate policy planning**- Encourage detailed revenue reporting in Udyam registration to facilitate better policy planning.
- **Separate micro-enterprise**- Parliamentary panel has suggested to separate micro-enterprises from the broader MSME category to better address their unique challenges.
- **Update definition**- The standing committee has recommended updating the definition of MSMEs every five years to reflect current economic realities.
- **Sub-classify microenterprise**- The micro-enterprise category must be sub-classified to address specific needs such as

Category	Revenue	Targeted intervention
1A	Up to Rs 10 lakh	Basic financial assistance, market access, and infrastructure development
1B	Between Rs 10 lakh- Rs 50 lakh	Emphasize technological upgrades, credit access, and formalization of operations.
2	Between Rs 50 lakh-Rs 5 crore	Support expansion, advanced technology adoption, and export promotion.

### What lies ahead?

- The significant rightward skew in revenue distribution within the micro-enterprise category underscores the need for a more nuanced approach to classification and policy support.

- Enhanced data collection and further sub-classification can lead to more effective and targeted interventions, promoting sustainable growth and competitiveness in the MSME sector.

## Quick facts

### Steps taken by Government to promote MSME sector

- **Udyam registration portal**- It was launched in 2020 as a zero cost free registration to simplify the procedure for business owners to register their business under MSME.
- **RAMP Scheme**- Raising and Accelerating MSME Performance Programme is assisted by World Bank that enhances market and credit access, infrastructure, and skills development.
- **ASPIRE Scheme**- A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship' (ASPIRE) is launched with the aim to create employment opportunities in the agro-rural sector.
- **Zero Defect Zero Effect (ZED)**- It encourages manufacturing with minimal defects and environmental impact.
- **CGTMSE**- Credit Guarantee for Micro and Small Enterprises was launched in 2000 to provides collateral-free credit to MSMEs.
- **Self-Reliant India fund**- It was launched to provide support for MSMEs across the country through equity infusion.
- **MSME SAMBANDH**- It was launched in 2017 to disseminate information on procurement done by various government departments, ministries and Public Sector Units.
- **MSME SAMADHAN**- An online delayed payment monitoring system governed by Micro and Small Enterprise Facilitation Council (MSEFC).
- **MSME SAMPARK**- A digital platform where both the job seekers skilled in MSME Technology Centres and the industries looking for skilled manpower can interact.
- **Prime Minister's Employment Generation program**- It was launched in 2006 which is a credit linked subsidy that provides employment opportunities through establishment of micro-enterprises in the non-farm sector.

## References

1. [Indian Express- A climate paradox](#)
2. [IBEF- Status of MSME sector](#)