

Challenges with MSME classification

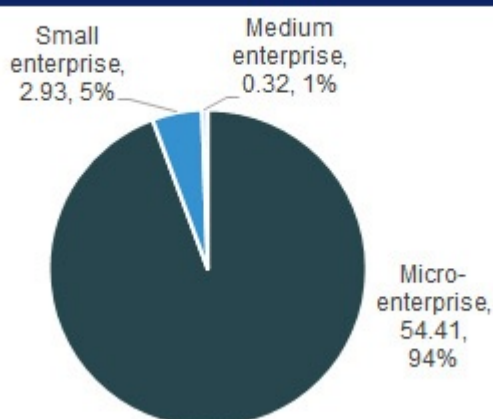
Why in news?

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](#)