Role of small and medium enterprises in innovation driven economy

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Structure of Presentation

I. What is the Context in which MSMEs operate?
II. What are the key innovations in the economy relevant to MSMEs?
III. How are the MSMEs responding to these innovations?
I. The **Context** in which MSMEs operate
MSMEs in India

37% Contribution to GDP (7% Mfg (down); 30% services - Up)

40% - Total Exports

The Growth Engine of our Economy
- 5.1 crore enterprises
- 98% are micro & 99% unregistered
- 11.7 crores employed

(Excluding Sectors: wholesale/retail trade, legal, educational & social services, hotel & restaurants, transports and storage & warehousing)

Source: MSME Annual Report (2015-16)
Employment Scenario (20.7/25 crores) excluding agriculture

Number of Workers in crores

5.1 Manufacturing
4.4 Construction
2 Transport & Storage
4.8 Non Manufacturing
4.4 Retail Trade

Source: Turnaround in India’s Employment Story, EPW (2013)
Inclusive Growth requires

1. More new MSMEs and bigger share of medium enterprises in the national value chain (EODB: starting business, electricity connection, land availability, loan availability)

2. Existing enterprises to grow in sectors that are employment intensive and environment friendly (Dominant Role of Private Sector: BMOs, BDS; Govt. role: To complement; To strengthen eco system; Scrap avoidable work)
II. Key Innovations in the economy relevant to MSMEs
1. Technology: Mechanization of Low end processes

Gains in productivity & efficiency but also loss of jobs in handicrafts, handlooms and micro enterprises

Q1: So how are these MSMEs coping with productivity improvements and job losses?
2. Advent of Digital Technology: E-Commerce

E-Commerce

- 6.3% share $38 bn/600 bn (2016) to 11.8% share $100 bn/850 bn (2020)

Q2: 14 million retail outlets with 40 million people employed (3% of population). What is their response?

Source: KPMG-Snap deal Report on E-Commerce in India
3. Skill development: Bridging the Burgeoning gap?

Percentage of Workers

- 53% of all informal employment is Own Account Enterprises (OAEs)
- Only 3-4% of the total workforce is said to be skilled (certified)

Q3: Are MSMEs accessing benefits from skill development?

Percentage of Workers: 93% Unorganized Sector, 7% Organized Sector

4. (Non) Availability of Institutional Finance

- Gap in mid level financing (Rs. 50K to Rs. 10 lacs) Informal lenders. Only 8% (20% requirements) have access to institutional credit
- New policy initiatives for financing being encouraged. MUDRA bank. 10 Small finance banks. Hundreds of NBFCs
- Several small technology based start-ups as linkers and finance providers

Q4: Has access to capital become easier with MUDRA, payment banks, small finance banks, NBFCs? Specific to services?
5. Access to Social Security Systems - Targeting Unorganised sector workers

Q5: Has it helped at some scale? Are we in the right direction?

- **Atal Pension Yojana**: 1.6 million subscribers till January 2016
  19 lac subscribers

- **Pradhan Mantri Suraksha Bima Yojana**: 9.1 crore subscribers

- **Pradhan Mantri Jeevan Jyoti Bima Yojana**: 2.8 crore subscribers

Source: [http://www.pradhanmaniyojana.co.in/](http://www.pradhanmaniyojana.co.in/)
6. Rising Environmental Concerns and Response

Q6: Is there a Real (not subsidy based) demand for better technology, expertise, equipment financing and training requirements?

Q7: Are public schemes and our industry bodies geared to meet the challenge at the speed and scale?
7. Access to Alternate Energy Sources

Renewable Energy Target (2022): 175 Giga Watts by 2022

ALEAP Green Industrial Park in Nandigama near Hyderabad (Telangana)

Q8: Is there a strong demand among MSMEs for alternate energy sources and is the eco system responding to it?
III. How are the MSMEs responding to these innovations?
Summary of key questions?

1. **Is Ease of doing Business working on the ground?**
   Role of states, inter-ministerial cooperation? Easier to do business without corruption?

2. **Do we have strong business association to provide real services to their members?**
   Market linkages, productivity, loan provision

3. **Are the service sector MSMEs mainstreaming with policy, chambers, banking?**

4. **Are public & commercial service providers responding to problems of market linkages, productivity & information?**
....Stock taking and key questions?

5. Has access to capital become easier with MUDRA, payment banks, small finance banks, NBFCs? Specific to services?

6. What are the emerging potential sectors (job creators and environment friendly?) Tourism, green infrastructure, Efficient supply chains and virtual clusters

7. Do we witness improvement in Quality of jobs: OHS/social security)

8. Have our Monitoring and Evaluation Frameworks become more outcome oriented for its promotional schemes?
Thank You

www.fmc.org.in
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We assist institutions undertake effective and inclusive cluster based local area development initiatives