



Revising the Definition of MSMEs: Who is Likely to Benefit From it?

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1 Introduction

Until recently, Micro, Small and Medium Enterprises (MSMEs), registered with the concerned government agencies, have been defined in terms of investment in plant and machinery, as mentioned in panel A of Table 1. The registration is the eligibility for availing government promotional assistance, as listed in Table 2.

On March 25, economic lockdown was imposed to tackle COVID-19. Expectedly, the decision has severely hurt jobs and livelihoods, especially in the informal sector. To mitigate the hardships, the Prime Minister proposed Rs. 20 lakh crore Atma Nirbhar Bharat stimuli and relief package. On May 13, the Finance Minister (FM) announced the measures for the MSME sector. A prominent item in it was the much awaited revision of the criteria for registration as an MSME, which is as follows:

1. Abolition of the distinction between manufacturing and services enterprise.
2. Raising the upper limits for investment in plant and machinery to qualify as an MSME.
3. Introducing “turnover” as an additional criterion.

Panel B of Table 1 has the revised definitions. The most significant revision is the increase in the investment limit for medium-sized enterprises, from Rs. 10 crores to Rs.50 crore.

The following are other incentives included in the FM’s economic package:¹

1. Rs. 3 lakh crore emergency working capital facility for businesses, including MSMEs,
2. Rs. 20,000 crore subordinate debt for stressed MSMEs,

¹ <https://pib.gov.in/PressReleaseDetailm.aspx?PRID=1623601> (Accessed on 15 June 2020)

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Table 1 MSME definitions

	Panel A		Panel B	
	Old definition (Inv.)		New definition (mfg & ser.)	
	Mfg.	Services	Investment	Turnover
Micro	25 L	10 L	1 cr.	5 cr.
Small	5 cr.	2 cr.	10 cr.	50 cr.
Medium	10 cr.	5 cr.	50 cr.	250 cr.

As per the new definition, an enterprise qualifies as MSME only if it satisfies both the criteria

Table 2 Benefits of MSME registration. *Source:* Ministry of MSME, RBI (2019)

Collateral free loans from banks	Ease of getting licenses, approvals and registrations
Reservation policies to manufacturing 1 production sector	Special consideration on international trade fairs
Octroi benefits	Waiver of stamp duty and registration fees
Exemption under Direct Tax Laws	Bar code registration subsidy
Subsidy on NSIC Performance and Credit ratings	Eligibility for IPS subsidy
Counter Guarantee from Government of India through CGSTI	Protection against delay in payment
Reduction in rate of interest from banks	15% CLCSS subsidy to purchase fully
Waiver in security deposit in government	Concession in electricity bills
Reimbursement of ISO Certification	Excise Exemption Scheme
Preference in procuring from government	P15% weightage in price preference
1% exemption on interest rate on OD	50% subsidy for patent registration

3. Rs. 50,000 crore equity infusion through MSME fund of funds,
4. No global tenders for government tenders of up to Rs. 200 crore.

There are two reasons for the upward revision of the limits: one, to account for inflation; and, two, to enable firms to secure economies of scale in production and avoid “splitting” enterprises to remain “small”, to continue availing official assistance.

Who is likely to benefit from the upward revision? It will benefit the enterprises that are currently outside the investment limits, which can now register as MSMEs. We estimate the size and composition of enterprises that may benefit from the redefinition. CMIE Prowess database is analysed for the purpose, as the beneficiaries are likely to be larger and corporate enterprises.

2 Size and Structure of MSMEs

Before answering the question posed above, it will be useful to understand the size and composition of registered MSME sector. It will help us to figure out where in the distribution of the MSMEs, the potential beneficiaries are likely to fall.

What constitutes the MSME sector is ambiguous. It includes the entire non-agricultural informal sector. It consists of 634 lakh unincorporated enterprises, employing 1110 lakh persons, contributing 29% of GDP and more than 40% of India's exports in 2015–16 (MSME Ministry Annual Report, 2018–19; RBI 2019). Government sources often use these statistics to showcase the sector's significance in the national economy. Protagonists of "small industry" often invoke them to argue that MSMEs form the bedrock of India's production and entrepreneurial base—in contrast to popular perception of large firms (and business houses) being the engine of the economy.

The above account equates the entire non-agricultural informal sector with MSMEs. However, the units registered with the official agencies (mostly with Development Commissioner, MSME) constitute a minuscule fraction of the estimate mentioned above. Moreover, larger units within the registered MSME sector belong to the formal or organised sector as they come under the Factories Act or the Companies Act (some listed in stock exchanges). Though most (if not all) of the informal sector establishments or enterprises are, in principle, eligible to register as MSMEs, they mostly do not register.

There is no official registry of working enterprises or credible estimates of their contribution to output and employment regularly. The ministry estimates are mostly an extrapolation from the last census of MSMEs conducted in 2006–07. It uses online registration of newer enterprises for the extrapolation (RBI 2019).²

In the absence of recent credible data, we describe the size and structure of registered MSMEs as per the fourth census. In 2006–07, there were 15.64 lakh registered units; 95% of them were micro-units (that is, with investment less than Rs. 25 lakhs in plant and machinery as per the original value). 45% of the registered units were rural, 90% proprietary firms with an average of six workers per unit. Over two-thirds of the units were in manufacturing; the gross value of output per unit was Rs. 46 lakhs (Table 3). However, the working units are only 70% of the registered units. The rest are closed or untraceable.

In other words, most of the registered MSMEs form a tiny fraction of the MSME sector as defined by the Ministry, reported earlier. However, more prominent among them are outside of the informal sector and belong to the organised or formal sector. Mapping the contours of the MSME sector is well-nigh impossible for the following reason: registered MSMEs are defined by investment in plant and equipment, whereas the other official datasets follow the employment criterion.

² The report said: "After the fourth MSME Census in 2006-07, there has been no census. Much of the extrapolation has relied upon data on new registration" (<https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=924>).

Table 3 Composition of registered MSME sector: summary statistics as per 4th census, 2006–07. *Source:* Development Commissioner MSME (2011)

Si. no.	Characteristic	Value
1.	No. of units	15.64 lakh
2.	Of which rural	7.07 (45.23%)
3.	Type of units: Micro	14.85 (94.94%)
4.	Small	0.76 (4.89%)
5.	Medium	0.03 (0.17%)
6.	No. of workers per units	5.93
7.	Enterprises by type of organisation, of which proprietary	14.09 (90.08%)
8.	Partnership	0.63 (4.01%)
9.	Private company	0.43 (2.78%)
10.	Public limited company	0.08 (0.54%)
11.	Type of activity, of which manufacturing	10.49 (67.10%)
12.	Repairing and maintenance	2.52 (16.13%)
13.	Services	2.62 (16.78%)
14.	Per unit gross output (Rs. lakhs)	45.7

Enterprises permanently registered with District Industries Centre are defined as registered MSMEs

Though constituting a tiny fraction of the MSMEs, registered units are far from homogeneous. For instance, 95% of them are micro-units and 90% proprietary concerns. In contrast, though accounting for just 0.2% of the number of units, nearly half of the medium-sized units are corporate entities (Fig. 1). An average medium-sized enterprise employs 27 times more workers, has 73 times more fixed assets and produces 62 times more gross output compared to the average unit in the registered MSME sector (Fig. 2).

3 Data and methodology

India's private corporate sector's size structure is also highly skewed. Of about a million registered companies (with the registrar of companies, Ministry of Corporate Affairs), only about 60,000 of them are listed in the stock exchanges, accounting for the majority of paid-up capital and output (or sales). CMIE Prowess database consists of about 50,000 relatively larger and listed companies. However, many balance sheets in the database are incomplete. Hence, our analysis is based on the data for 20,440 companies for FY2016 and 17,450 companies for FY2018, for which complete information on (1) fixed investment in plant and machinery and (2) turnover are available—to identify the potential beneficiaries under the new MSME definition. Little over half of the companies are in services, and the rest are in manufacturing.

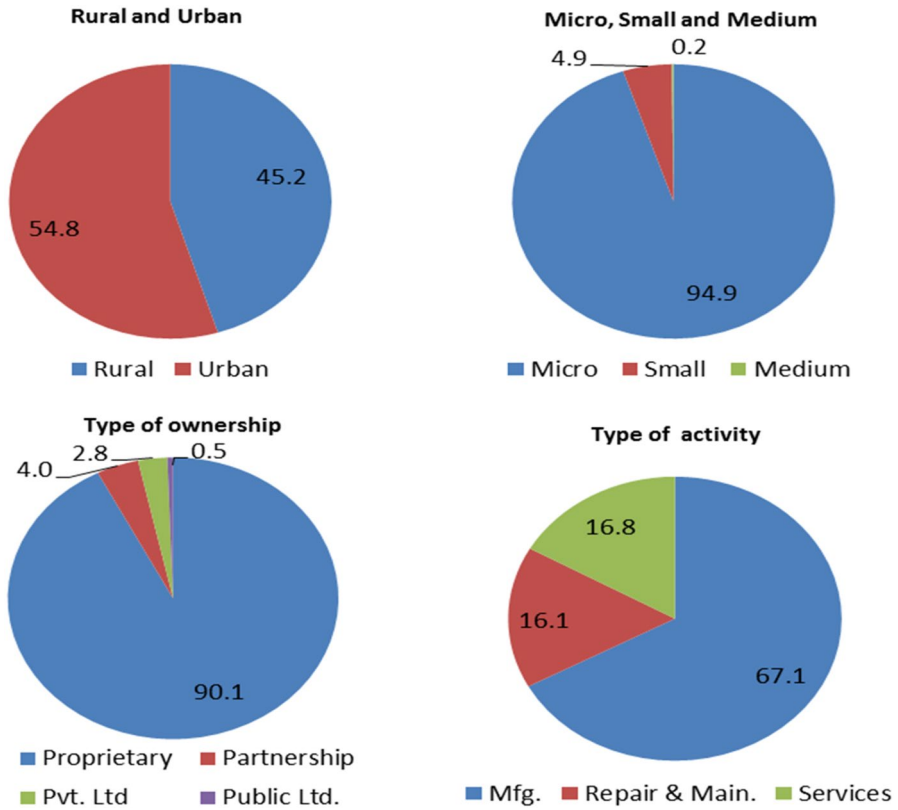


Fig. 1 Characteristics of Registered MSMEs, as per the Census 2006–07

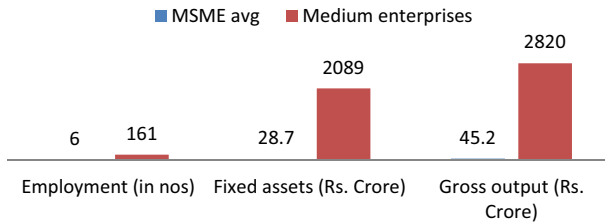


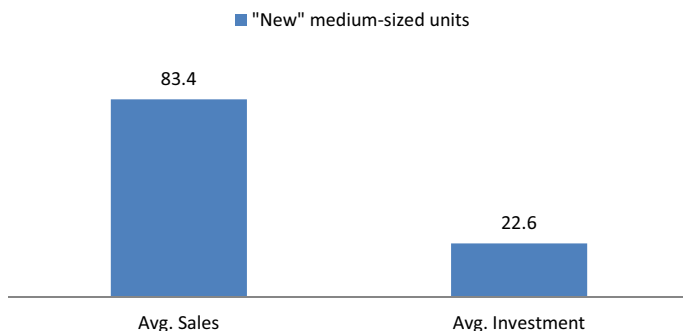
Fig. 2 Average for MSMEs and medium-sized enterprises

4 Results

Table 4 shows the distribution of the potential beneficiary companies by micro, small-, medium- and large (that is, the residual)-sized companies, as per the old and the new MSME definitions for FY2016 and FY2018. The table also shows the changes in the distribution on account of the redefinition. For FY2016, the companies qualifying as MSMEs go up by 3380; or, 30% of the sample companies.

Table 4 Total number of companies based on two definitions. *Source:* CMIE Prowess, our computation

	FY2016			FY2018		
	Old definition	New definition	Inclusion	Old definition	New definition	Inclusion
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Micro	2873	3006	133	2343	2381	38
Small	5751	5255	–496	4617	4146	–471
Medium	2129	5872	3743	1785	4815	3030
Large	9687	6307	–3380	8705	6108	–2597
MSMEs	10,753	14,133	3380	8745	11,342	2597
Total	20,440	20,440	0	17,450	17,450	0

**Fig. 3** Average sales and investment of “new” medium-sized units (in Rs. crore) in FY2016

They are mostly medium-sized enterprises. The number of small enterprises qualifying under the new definition has declined by 496, or 9%. A similar pattern is discernible for FY2018 as well.

In FY2016, 3743 companies which were previously outside the MSME sector have now got included under the new definition, Prowess data analysis shows. Nearly 60% of them are in manufacturing and the rest in services. As Fig. 3 shows, the average value of sales of these companies is Rs. 83.4 crores, with an average investment of Rs. 22.6 crore.

It is instructive to compare the size of the potential beneficiaries with the registered MSMEs sector as a whole. On average, sales revenue of potential beneficiaries is 191 times the gross output of a registered MSME. Though the two figures are not for the same year and, hence, not comparable, the magnitude of the difference between them is so large that they seem to belong to different “universe”.

Table 5 reports the number of listed companies—that is, those listed in stock exchanges—in CMIE Prowess database. As stock listing calls for more important disclosures and regulations, they are invariably more prominent companies. Does the redefining of MSMEs bring in a higher number of listed companies in the

Table 5 Share of listed and non-listed companies, for MSMEs. *Source:* CMIE Prowess, our computation

	Old definition				New definition			
	Total	Unlisted	Listed	% listed	Total	Unlisted	Listed	% listed
2016								
Micro	2873	2288	585	20.4	3006	2385	621	20.7
Small	5751	4947	804	14.0	5255	4388	867	16.5
Medium	2129	1765	364	17.1	5872	4868	1004	17.1
Large	9687	7153	2534	26.2	6307	4512	1795	28.5
MSMEs	10,753	9000	1753	16.3	14,133	11,641	2492	17.6
Total	20,440	16,153	4287	21.0	20,440	16,153	4287	21.0
2018								
Micro	2343	1760	583	24.9	2381	1821	560	23.5
Small	4617	3814	803	17.4	4146	3305	841	20.3
Medium	1785	1417	368	20.6	4815	3856	959	19.9
Large	8705	6419	2286	26.3	6108	4428	1680	27.5
MSMEs	8745	6991	1754	20.1	11,342	8982	2360	20.8
Total	17,450	13,410	4040	23.2	17,450	13,410	4040	23.2

ambit of the MSME sector? The answer is, yes. For FY2016, as per the old definition, the listed MSMEs were 1753. The number goes up to 2492, or by 42%, as per the new definition.

In other words, of the listed companies in our sample, those qualifying as MSMEs go up from 41% in the old definition to 58% under the new definition. The same holds for FY2018 also. These results indicate that the redefinition of MSMEs has brought in a substantial number of listed companies, hence relatively larger entities, under the ambit of MSMEs. The redefinition has enlarged the scope for medium-sized enterprises.

5 Discussion of the findings

If our estimates are correct and the broad comparison made is valid, then the redefinition has only helped the larger corporate firms to get under the fold of registered MSME sector. Hence, the redefinition seems nothing but the corporatisation of MSMEs. Millions of unincorporated enterprises in the informal sector, which are economically vulnerable, requiring public assistance do not seem to benefit from the redefinition.

One could contend the government is not preventing the vast swathes of unincorporated enterprises from registering themselves to avail of the official benefits. Here lies the rub. The cost of registration and bureaucratic hurdles that small entrepreneurs face seem so formidable that they do not register, or fail to get registered. So the proverbial “small entrepreneur” who is reportedly the target of government support, fails to benefit from the enlarged official definition. If the government is

serious about helping the truly marginal and small units, it should improve “Ease of registration” for genuinely small enterprises.

6 Conclusions

Registered MSMEs form a minuscule subset of the MSME sector (as defined by the ministry). The latter includes the entire non-agricultural informal sector that is in principle, eligible for official assistance. The registered MSMEs, forming the seed-bed of small entrepreneurship, is supposed to produce labour-intensive goods and services. Most of such units are in the unorganised or informal sector and majority in urban areas, in manufacturing, employing on average about six people. However, the registered sector’s output seems to substantially come from relatively larger units registered as factories and corporate entities listed in stock markets. The dualism reflects wide disparity or inequality within the registered MSME sector.

Recently, the definition of registered MSME has been revised upwards, expanding their ambit in the direction of larger units. Its objective is to adjust for inflation and encourage economies of scale in production by avoiding splitting of units to retain government incentives.

To find out who is likely to benefit from the redefinition, we analysed the CMIE Prowess database. The result reveals that only potential beneficiaries are medium-sized enterprises with an average turnover of Rs. 87 crores, and average fixed investment in plant and machinery of Rs. 22.6 crores. Sales revenue of potential beneficiaries is 191 times the gross output of an average registered MSME.

The reforms for MSMEs under the Atma Nirbhar Bharat package intended to address the distress of informal sector enterprises (and their workers) will mostly likely benefit about 3700 corporate and listed companies. The policy, therefore, appears like a disguised subsidy for the private corporate sector.

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