**2.1.2 Labor Productivity**

Labour productivity, also known as workforce productivity, is defined as real economic output per Labour hour. Growth in Labour productivity is measured by the change in economic output per Labour hour over a defined period. Labour productivity is directly linked to improved standards of living in the form of higher consumption. As an economy's Labour productivity grows, it produces more goods and services for the same amount of relative work. This increase in output makes it possible to consume more of the goods and services for an increasingly reasonable price.

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16. These included 360.41 lakh jobs in manufacturing, 387.18 lakh in trade, 362.82 lakh in other services in the rural and urban areas across the country.

India's MSME sector comprises 63 million units and has created 111 million jobs, but this sector is plagued by low levels of registration. Although MSME registrations are at a meagre 8.3 million (13% of all MSMEs), these registered MSMEs create 46.6 million (42%) jobs. Top registrations are from personal and professional services (10%), textile and apparel manufacturers (9.4%), food and beverage manufacturers (7.9%), wholesale and retail traders (6.6%), hospitality services (6.4%) and other manufacturing enterprises (6.2%).

Recognising the ability of MSMEs to generate large-scale employment and contribute to the nation's GDP and exports, the government is encouraging more establishments to register as MSMEs.

India Labour Productivity Growth data is updated yearly, available from Dec 1992 to Dec 2021, averaging at 5.24 %. The data reached an all-time high of 9.15 % in Dec 2016 and a record low of 1.13 % in Dec 2002. India Labour Productivity improved by 2.91 % YoY in Dec 2021, compared with a growth of 1.41 % in the previous year.

**2.1.3 Labour Mobilization**

In 2020, there were about 900 million people (67% of total population) in the working age group of 15-64 in India, which is expected to expand by another 100 million by 2030, despite a declining trend in fertility rate. This implies that a whopping 24.3% of the incremental global workforce over the next decade may come from India alone. As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 0.07 lakh in Non-captive Electricity Generation and Transmission, 387.18 lakh in Trade and 362.82 lakh in Other Services) in the rural and the urban areas across the country.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Broad Activity Category** | **Employment in Lakhs** | | | **Share %** |
| **Rural** | **Urban** | **Total** |
| Manufacturing | 186.56 | 173.86 | 360.41 | 32 |
| Electricity | 0.06 | 0.02 | 0.07 | 0 |
| Trade | 160.54 | 226.54 | 387.18 | 35 |
| Other Services | 150.53 | 211.69 | 362.22 | 33 |
| All | 497.78 | 612.1 | 1109.89 | 100 |

Micro sector with 630.52 lakh estimated enterprises provided employment to 1076.19 lakh persons that in turn accounts for around 97% of total employment in the sector. Small sector with 3.31 lakh and medium sector with 0.05 lakh estimated MSMEs provided employment to 31.95 lakh (2.88%) and 1.75 lakh (0.16%) persons of total employment in MSME sector, respectively. Table below shows the distribution of employment sector wise in Rural and Urban Areas.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Employment Distribution** | | | | | |
| **Sector** | **Micro** | **Small** | **Medium** | **Total** | **Share%** |
| Rural | 489.3 | 7.88 | 0.6 | 497.78 | 45 |
| Urban | 586.88 | 24.06 | 1.16 | 612.1 | 55 |
| All | 1076.18 | 31.94 | 1.76 | 1109.88 | 100 |

**2.1.4 Gender Gap in Labour Force Participation Rate**

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, out of 1109.89 lakh employees in MSME sector, 844.68 (76%) are male employees and remaining 264.92 lakh (24%) are females.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Distribution of workers by gender in rural & urban areas (in lakhs)** | | | | |
| **Sector** | **Female** | **Male** | **Total** | **Share%** |
| Rural | 137.5 | 360.15 | 497.65 | 45 |
| Urban | 127.42 | 484.54 | 611.96 | 55 |
| Total | 264.92 | 844.68 | 1109.6 | 100 |
| **Share%** | 24 | 76 | 100 |  |

The period between 2011 and 2019 has seen the percentage of female labour in the agricultural sector fall from 62% to 54.7%. The percentage of women employed in industrial work during this period also saw a marginal decline, from 19.9% to 19%. Although the same period also saw the share of women workers in the services sector rise significantly, this growth has largely been confined to urban areas. Thirty per cent of women in rural India are performing low-skilled occupations, compared to 19% in urban areas. Within the agricultural sector, over 71% of women are engaged in low productive activities.

The occupational structure of women’s workforce shows that most women continue to undertake marginal and vulnerable jobs, and that more than half work as self-employed. Of those who are engaged in self-employment, most are unpaid helpers and contributing family workers.

For urban women, marriage reduces the likelihood of their participation in the workforce by 17%. The presence of young children is also associated with lower participation, as women in households with children less than five years of age are less likely to participate in the labour force across rural and urban areas.

The total number of establishments owned by women entrepreneurs was 8,050,819 out of which 5,243,044 constituting about 65.12 % of the total establishments were in rural areas and the remaining 2,807,775 (34.88%) were located in urban areas. Further, about 6,697,354 establishments i.e., 83.19% operated without hired workers and 1,353,465 (16.31%) operated with hired workers. The percentage of establishments without hired workers in rural areas was 86.85% whereas, in urban areas, it was 76.33%. The number of women establishments involved in agricultural activities was 2,761,767 constituting 34.3 % of the total number of establishments owned by women.

Collectively, these women-owned enterprises contribute 3.09 percent of industrial output and employ over 8 million people. Approximately, 78 percent of women enterprises belong to the services sector, which is followed by manufacturing. Women entrepreneurship is largely skewed towards smaller sized firms, as almost 98 percent of 12 women-owned businesses are micro-enterprises. As with the broader MSME sector, access to formal finance is a key barrier to the growth of women-owned businesses, leading to over 90 percent of finance requirements being met through informal sources.

Female entrepreneurs with workers are most active in services, followed by manufacturing and trade. A more detailed sectoral breakdown shows that there are large differences between men’s and women’s activities. Apart from retail trade, which is the most important sector for both females and males, nearly half of female entrepreneurs with workers operate in traditionally female sectors. These are wearing apparel, education, health, and other personal services (beauty treatment, hairdressing, cleaning of textile, household maintenance etc.). In contrast, male entrepreneurs with workers are dispersed in more diverse activities.

**2.1.5 Regional Disparities**

With over 1400 million peoples spread across the length and breadth of the country; India stands as the 2nd most populous country in the world only next to China. A strong heterogeneity can be seen in terms of the changing customs, regional balances, and traditions at every 200 Miles across India. Mumbai, Delhi NCR, Kolkata, Chennai being the most populous cities across India. Mumbai is also known as the Financial Capital of the country and witnesses one of the biggest tax contributions made single handed from a major city. The National Capital Region of Delhi has emerged as an economic powerhouse with rapid industrial growth along with adjoining areas of Punjab, Uttar Pradesh, Haryana and Rajasthan. Chandigarh has the highest per-capita State Domestic Product (SDP) of any Indian union territory. New Delhi, apart from being the capital of the country, boasts a large sourcing hub, large industrial/ manufacturing hubs and is known as the unofficial capital for design and creative industry in the country. Chandigarh, Jaipur and Lucknow are now major hubs for business, trade, capital (money) and talent for entrepreneurship apart from Delhi.

Given its natural rate of population growth and aging characteristics, India is adding about 13 million new workers every year to its labour pool. India's economy has been adding about 8 million new jobs every year predominantly in low paying, unorganised sector. The remaining 5 million youth joining the ranks of poorly paid partial employment, casual labour pool for temporary infrastructure and real estate construction jobs, or in many cases, being unemployed.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SI No** | **State/UT** | **NSS 73rd Round** | | **Fourth All India Census of MSME and 5th Economic Census** | |
| **Number in Lakhs** | **Share%** | **Number in Lakhs** | **Share%** |
| 1 | UP | 89.99 | 14 | 44.03 | 12 |
| 2 | WB | 88.67 | 14 | 34.64 | 10 |
| 3 | TN | 49.48 | 8 | 33.13 | 9 |
| 4 | Maharashtra | 47.78 | 8 | 30.63 | 8 |
| 5 | Karnataka | 38.34 | 6 | 20.19 | 6 |
| 6 | Bihar | 34.46 | 5 | 14.7 | 4 |
| 7 | AP | 33.87 | 5 | 25.96 | 7 |
| 8 | Gujarat | 33.16 | 5 | 21.78 | 6 |
| 9 | Raj | 26.87 | 4 | 16.64 | 5 |
| 10 | MP | 26.74 | 4 | 19.33 | 5 |
| **Total of above 10 states** | | **469.4** | **74** | **261.04** | **72** |
| 12 | Other State/UTs | 164.5 | 26 | 100.72 | 28 |
| **Grand Total** | | **633.9** | **100** | **361.76** | **100** |

One of the critical indicators to assess the successful development of MSME Sector in an economy is the data on opening of new MSMEs; it depicts the conducive environment for opening and growth of such units in an economy as well as show the high morale of entrepreneurs in the macroeconomics of the economy.

|  |  |  |
| --- | --- | --- |
| **Comparative Percentage Distribution of MSMEs** | | |
| **States** | **Fourth All India Census of MSME and 5th Economic Census** | **NSS 73rd Round** |
| UP | 12 | 14 |
| WB | 10 | 14 |
| TN | 9 | 8 |
| Maharashtra | 8 | 9 |
| Karnataka | 6 | 6 |
| Bihar | 4 | 5 |
| AP | 7 | 5 |
| Gujarat | 6 | 5 |
| Raj | 5 | 4 |
| MP | 5 | 4 |
| Other State/UTs | 28 | 26 |
| **Grand Total** | **100** | **100** |

The Ease of Doing Business (EoDB) index is a ranking system established by the World Bank Group. In the EODB index, ‘higher rankings’ (a lower numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights. Among the chosen 190 countries, India ranked 63rd in Doing Business 2020: World Bank Report. In 2014, the Government of India launched an ambitious program of regulatory reforms aimed at making it easier to do business in India. The program represents a great deal of effort to create a more business-friendly environment. India has emerged as one of the most attractive destinations not only for investments but also for doing business. India jumps 79 positions from 142nd (2014) to 63rd (2019) in 'World Bank's Ease of Doing Business Ranking 2020'.

Within Indian States, below listed table depicts the EoDB Ranking among the states.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **State Wise Ease of Doing Business** | | | | |
| **State/Union Territory** | **2015** | **2016** | **2017** | **2019** |
| **Rank** | **Rank** | **Rank** | **Rank** |
| Andhra Pradesh | 2 | 1 | 1 | 1 |
| Arunachal Pradesh | 32 | 31 | 34 | 29 |
| Assam | 22 | 24 | 17 | 20 |
| Bihar | 21 | 16 | 18 | 26 |
| Chhattisgarh | 4 | 4 | 6 | 6 |
| Goa | 19 | 21 | 19 | 24 |
| Gujarat | 1 | 3 | 5 | 10 |
| Haryana | 14 | 6 | 3 | 16 |
| Himachal Pradesh | 17 | 17 | 16 | 7 |
| Jammu and Kashmir | 29 | 31 | 22 | 21 |
| Jharkhand | 3 | 7 | 4 | 5 |
| Karnataka | 9 | 13 | 8 | 17 |
| Kerala | 18 | 20 | 21 | 28 |
| Madhya Pradesh | 5 | 5 | 7 | 4 |
| Maharashtra | 8 | 10 | 13 | 13 |
| Manipur | - | 28 | 32 | 29 |
| Meghalaya | 30 | 31 | 34 | 29 |
| Mizoram | 28 | 29 | 30 | 25 |
| Nagaland | 31 | 26 | 28 | 29 |
| Odisha | 7 | 11 | 14 | 29 |
| Punjab | 16 | 12 | 20 | 19 |
| Rajasthan | 6 | 8 | 9 | 8 |
| Sikkim | 27 | 30 | 33 | 29 |
| Tamil Nadu | 12 | 18 | 15 | 14 |
| Tripura | 26 | 22 | 25 | 29 |
| Telangana | 13 | 1 | 2 | 3 |
| Uttarakhand | 23 | 9 | 11 | 11 |
| Uttar Pradesh | 10 | 14 | 12 | 2 |
| West Bengal | 11 | 15 | 10 | 9 |
| Andaman and Nicobar Islands | 25 | 31 | 31 | 22 |
| Chandigarh | 24 | 31 | 29 | 29 |
| Dadra & Nagar Haveli | - | 25 | 26 | 23 |
| Delhi | 15 | 19 | 23 | 12 |
| Daman & Diu | - | 23 | 24 | 18 |
| Lakshadweep | - | 31 | 34 | 15 |
| Puducherry | 20 | 26 | 27 | 27 |
| .: Not Applicable. -: Not Available. | | | | |
| Ease of Doing business Index is based on the implementation of the Business Reform Action Plan (BRAP) recommended by the Department of Industrial Policy and Promotion (DIPP) to all States and Union Territories. | | | | |

India’s major achievement can be summarised as.

**Construction Permits:** India’s ranking on this parameter has improved from 184 in 2014 to 27 in 2019.4 This improvement has been mainly on the account of a decreasing the number of procedures and time taken for obtaining construction permits in India.

**Getting Electricity:** India’s ranking on this parameter has improved from 137 in 2014 to 22 in 2019. It takes just 53 days and 4 procedures for a business to get an electricity connection in India apart from these significant improvements, among the 190 economies, India ranks 13th in Protecting Minority Investors and 25th in Getting Credit.

**2.1.6 Social and Environmental Outcomes**

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last seven decades. It contributes significantly to the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly to the inclusive industrial development of the country.

For businesses and governments to make informed decisions about global socioeconomic and environmental issues**, social entrepreneurship is becoming increasingly important.** Hindi and related languages predominate in North India. Hinduism is the main religion while other religions practiced by various ethnic communities include Islam, Sikhism, Jainism and Buddhism. North Indian culture is mainly rooted in Indo-Aryan traditions and customs, with assimilation of and impact from other cultures over long periods of history. North Indian culture reflects the diversity of traditions and customs of the vast region it encompasses.

According to a report from a global consortium of over 500 researchers, India is among the top five economies where it is easier to begin a new business, putting the country on top amongst low-income economies on different entrepreneurial framework conditions. **The Global Entrepreneurship Monitor (GEM) 2021/2022 report,** The GEM report put India on the top amongst low-income economies (according to GDP per capita) on different Entrepreneurial Framework Conditions such as Entrepreneurial Finance, Ease of Access to Finance, Government Policy: Support and Relevance; and Government Support: Taxes and Bureaucracy, while Government Entrepreneurial Programmes was ranked second highest.

Further, it was found that more than 77 per cent of entrepreneurs are pursuing new opportunities due to the COVID-19 pandemic placing India first out of 47. This observation reiterates the findings of a report published last year by researchers from the University of Strathclyde and King’s College London that found almost 60 per cent of entrepreneurs in India predict a long-term positive impact of COVID-19 on their businesses.

In India it is projected that MSMEs contribute roughly 70 percent to the industrial pollution. These sectors are usually dominant in industries by relatively high resources and emission intensity. It has been estimated that MSMEs potential environmental impact can be proportionate with the large companies in similar sectors. Growing economic activity (production and consumption) requires larger inputs of energy and material and generates larger quantities of waste by-products. Increased extraction of natural resources, accumulation of waste and concentration of pollutants will therefore overwhelm the carrying capacity of the biosphere and result in the degradation of environmental quality and a decline in human welfare, despite rising incomes

The World Bank ‘Financing Energy Efficiency at MSMEs’ (FEEM) Project has clearly identified that environment and energy best practices in India perceive assessments such as energy audits as a compliance tool rather than an exercise that can result in high and direct benefits. It was found that very few recommendations from energy audits translated into actual investments due to lack of adequate and deep technical know-how, inability to comprehend government schemes and benefit from them, lack of ability and/or willingness to pay for technical advice, limited or no access to external finance, and high transaction costs. The project also found that MSMEs did not have access to business-friendly, timely and adequate finance at competitive rates from financial institutions (FIs). As Energy Efficiency investments (EE) do not generate additional revenue and since the format of the energy audit reports was not amenable to EE being treated as bankable, EE initiatives were not seen in the realm of traditional financing options by the FIs. Due to the semi-formal nature of MSMEs, they often failed to meet the credit norms of FIs. Even where the MSMEs were willing to invest in EE options, it was challenging for them to find appropriate and reliable vendors, those whose products and services were geared for the smaller enterprises.

**2.4.2. Finance**

**2.4.2.1 Funds Allocated and Disbursed for the Development of SMEs**

The Union Budget 2022-23 highlights the MSME sector, a critical sector that makes up for about 45% of the country’s total manufacturing output, 40% of exports, and almost 30% of the national Gross domestic product (GDP). With a focus on growth, the government announced the following welcome measures to boost the MSME economy in India.

In the budget of FY 2022-23, the Emergency Credit Line Guarantee Scheme (ECLGS) was extended to March 2023. Besides, the guaranteed cover has also been extended by an additional Rs.50,000 crore. The total allotment under the scheme would increase to Rs.5 lakh crore. In the previous Budget, the finance minister unveiled ECLGS of Rs.20 lakh crore to help the Covid-hit MSMEs. One key highlight of the budget was the increase in budgetary allocation for MSMEs from last year’s Rs.15,699.65 crore to Rs.21,422 crore now (up by 26.71%).

Salient feature of ECLGS

* ECLGs have provided the much-needed additional support to more than 130 lakh MSMEs helping them mitigate the worst effects of a pandemic.
* The hospitality and related services, especially for MSMEs, are yet to regain their pre-pandemic level.

Last year, the total outlay for all the schemes and projects for the Development of Khadi, Village and Coir Industries was Rs.905.04 crore. This allocation was subsequently revised to Rs 1,232.32 in 2021-2022. However, in this Budget, the revised figure has seen a marginal reduction. The new allocation stood at Rs 1,168.03 crore. A significant number of MSMEs belong to labour-intensive domains and had expected an increase in allocation of funds. That has not happened this time. In Technology Upgradation and Quality Certification, the total outlay has been slashed from last year’s Rs 330.31 to Rs 80.72 crore (down by 75.56%). Notably, the Credit Linked Capital Subsidy and Technology Scheme, which earlier had an allocation of Rs 315.31crore, has not secured any amount this time. However, the MSME Champions Scheme that had a nil allocation earlier has got Rs 60.72 now.

The Prime Minister Employment Generation Programme (PMEGP), a flagship programme of the government, has seen a big increase from Rs 12,499.70 crore to Rs 17,600.12 crore. This translates to an increase of 29%. However, a closer look at the subheads revealed that the overall allocation to this segment was a mixed bag for MSMEs. The allocation for the Interest Subvention Scheme for Incremental Credit to MSMEs had been drastically slashed from Rs.199.66 crore to Rs 0.04 crore. Also, the Distress Assets Fund have been given a provision of just Rs 100 crore — a significant reduction from Rs 300 crore earlier. One reason for this could be the fact that the Guarantee Emergency Credit Line (GECL) facility to eligible MSME borrowers has been hiked from Rs 10,000 crore to Rs 15,000 crore for the new financial year.

Entrepreneurship and skill development schemes were earlier allocated Rs 570.93 cr. This has been increased to Rs.717.99 crore (up by 20.48%). Within this, the Fund of Funds has got Rs.486 crore, from Rs.350 crore earlier. Similarly, other sub-schemes have also seen a hike. Allocation for the Mahatma Gandhi Institute for Rural Industrialisation is now Rs 10.41 crore from Rs 7.5 crore. This time, the budgetary allocation for the Promotional Services Institutions and Programme is Rs.182.82 crore from Rs.176.70 crore earlier. The allocation for the Total-Infrastructure Development Programme — from Rs.1,107.63 crore to Rs.1,596.03 crore. The outlay for research and evaluation studies is also up from Rs.175.64 to Rs.157 crore.

To prioritize entrepreneurship and formalize the economy, the MSME registration portal [Udyam](https://www.indiafilings.com/learn/msme-udyam-registration/), [e-Shram, NCS, and ASEEM portal will be interlinked](https://www.indiafilings.com/learn/budget-2022-government-to-interlink-udyam-e-shram-ncs-aseem-portals-to-support-msmes/) to provide live and organic databases in the Union budget 2023.

* The scope of all the portals collectively will be widened, offering G2C, B2B, and B2C services.
* This step aims to create credit facilitation, skulking, recruitment efficiency, and employment opportunities.

Additional allocation of Rs 19,500 crore for PLI for manufacturing of high-efficiency modules with a priority to fully integrate manufacturing units from polysilicon to solar PV modules will be made. Production Linked Scheme (PLI) scheme applied in 14 sectors has received an excellent response and has the potential to create 60 lakh new jobs and additional production of 30 lakh crore during the next five years. A fund with blended capital, raised under the co-investment model, will be facilitated through NABARD. This is to finance start-ups for agriculture & rural enterprise, relevant for the farm produce value chain. The activities for these start-ups will include, among other things, support for FPOs, machinery for farmers on a rental basis at the farm level, and technology, including IT-based support. Besides introducing a unified logistics interface platform for the logistics sector, FM added that railways would develop new products and efficient logistics services for small farmers and small and medium enterprises.

**2.4.2.2. Availability of Loans from the Domestic Banking Sector and Financial Institutions**

A report by the IFC stated that 85% of MSMEs remain underserved in terms of credit, and only one-fifth of these financing gaps were fulfilled by formal credit. The contributing factors to this issue are access, cost, and underwriting. Traditional lenders require MSME borrowers to provide credit history, formal records, business vintage, etc, which may exclude many small businesses from the formal lending ecosystem. Moreover, their dispersal brings up a problem of reach and penetration for larger lending institutions. As a consequence, the MSME lending sector in India faced a credit deficit of Rs 16 lakh crore. (as of Q1 2020). With the pandemic providing renewed impetus to MSMEs to digitalize and formalize, proprietors are becoming increasingly comfortable with having their business needs met digitally. The Reserve Bank of India estimates indicate, there is a wide gap that can be bridged through [digital lending](https://economictimes.indiatimes.com/topic/digital-lending) that relies on data-driven credit models.

The total amount of credit extended to MSMEs in the financial year (FY) 2021-22 by scheduled commercial banks has increased by 24.6 per cent from FY20 and 12.7 per cent from FY21, indicating the rise in credit demand among small businesses fast-tracking their Covid recovery. According to the data from the Reserve Bank of India (RBI), the credit outstanding to the MSME sector increased from Rs 16.13 lakh crore given to 384.18 lakh borrowers in FY 20-21 to Rs 17.83 lakh crore to 420.19 lakh borrowers in FY21-22 and shall further increase to Rs 20.11 lakh crore to 264.67 lakh borrowers in FY22. Till date, among top states in FY22, 26.91 lakh MSMEs in Maharashtra secured maximum credit of Rs 3.39 lakh crore followed by 39.07 lakh MSMEs in Tamil Nadu raising Rs 2.19 lakh crore, and Gujarat with 10.20 lakh MSMEs getting Rs 1.85 lakh crore in bank credit. In Delhi, 4.29 lakh units raised Rs 1.30 lakh crore in FY22.Meanwhile, the latest [RBI](https://www.financialexpress.com/about/rbi/) data showed Rs 17.99 lakh crore raised by MSMEs under priority sector lending in October 2022, up 20.3 per cent up from Rs 14.95 lakh crore in October 2021 while in September 2022, the total MSME credit deployed was Rs 18.55 lakh crore.

The Ministry of MSME, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with a view to facilitate flow of credit to the MSE sector without the need for collaterals / third party guarantees. The main objective of the scheme is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a MSE unit, which availed collateral - free credit facilities, failing to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender, as per the scheme. The CGTMSE would provide cover for credit facility up to ₹200 lakh which have been extended by lending institutions without any collateral security and /or third-party guarantees. A guarantee and annual service fee is charged by the CGTMSE to avail of the guarantee cover.

The non-performing assets (NPAs) in the micro, small, and medium enterprise (MSME) sector have increased 12.59% in the fourth quarter of the financial year 2021–22 to Rs 2.95 lakh crore from Rs 2.62 lakh crore during Q4 FY21, indicating the impact of Covid. In comparison to 12.5 percent in March 21 and 12.6 percent in March 20, the overall MSME NPA rate as of March 22 was 12.8%. The NPAs began to rise from Rs 2.42 lakh crore during Q3 FY21 and reached a peak of Rs 3.10 lakh crore during Q2 FY22 before significantly declining to Rs 3.01 lakh crore in the next quarter and further in Q4. Importantly, the decline in NPAs was apparent throughout the micro, small, and medium-sized [business segments](https://www.kanakkupillai.com/learn/the-top-10-business-ideas-in-the-food-industry-in-india/) of the industry.

The micro segment had a lower NPA rate than the small segment up until Q3 FY21. The analysis highlighted that the trend has reversed, showing that Covid had the greatest influence on the micro segment. As of Q4 FY22, the small segment’s NPA rate was 10% (down from 11% in Q2 FY22), while the micro and medium segments had NPA rates of 12% (down from 13% in Q1 FY22) and 16% (down from 17% in Q2 FY22), respectively. Regarding the type of lender, NPA rates for private banks, non-banking financial companies (NBFCs), and public sector banks (PSBs) all showed a rise from Q3 FY21 for the next two to three quarters before stabilising or beginning to fall. For instance, the NPA rate for private banks (the lowest among NBFCS and PSBs) rose from 5.9% in Q3 FY21 to 6.8% in Q2 FY22 before falling to 5.6% in Q4 FY22. In comparison to commercial banks and NBFCs, PSBs had the highest NPA rate, which rose from 16.1% in Q3 FY21 to 21.1 percent in Q2 FY22 but stayed constant at 20.8 percent as of Q4 FY22. The NPA rate for NBFCs also reached a peak, going from 8% in Q2 FY21 to 10.9 % in Q1 FY22, before falling to 9.6 % in Q4 FY22.The Reserve Bank of India (RBI) mandated in March 2021 that banks and other lenders report accounts restructured due to the pandemic to credit bureaus, and based on an analysis of the restructured loans owed to Covid, the report stated that as of March 2022, 2.7 lakh accounts were tagged as restructured in the MSME sector (aggregate outstanding of less than Rs.50 crore). This accounted for about 2.3% of all live accounts reported over the same time frame. From the standpoint of the balance, it made up Rs. 0.35 lakh crore, or roughly 1.5% of MSME outstanding as of March 2022.

While the gross NPA ratio of banks in the MSME sector has decreased from 11.3 percent in September 2021 to 9.3 percent in March 2022, the bad assets in the sector continue to be relatively high, the Rs. 46,186 crore reformed MSME portfolio, which made up 2.5% of all advances under the May 2021 restructuring programme, was identified as having the potential to put pressure on the sector by the central bank.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Deployment of Bank Credit by Major Sectors (in Rs. Crore)** | | | | | | | | |
| **Sr. No.** | **Sector** | **Outstanding as on** | | | | | | |
| **Dec 31, 2021** | **Jan 28, 2022** | **Feb 25, 2022** | **Mar 25, 2022** | **Apr 22, 2022** | **May 20, 2022** | **Jun 17, 2022** |
| 1 | Micro and Small | 477226 | 493528 | 520798 | 532081 | 545384 | 551488 | 554398 |
| 2 | Medium | 196359 | 194035 | 206979 | 213996 | 218492 | 218501 | 220669 |
| Total | | 673585 | 687563 | 727777 | 746077 | 763876 | 769989 | 775067 |

**2.4.2.3. Credit Extended by Microfinance Institutions**

As per the Bharat Microfinance Report (BMR) of 2021-2022 published by Sa-Dhan, the association of microfinance firms, the combined micro credit portfolio of 272 lenders touched ₹2,63,760 crore in 2021-22, a 5% increase over the outstanding loans for the Indian microfinance sector the previous year. The report collates data of 11 crore active loans from microfinance institutions (MFIs), non-banking financial companies (NBFCs), banks, small finance banks (SFBs), non-profit MFIs and NBFC-MFIs. However, the quantum of credit extended to the poor households by MFIs registered a year-on-year growth of 19% to touch ₹1,35,099 crore during the same period.

The average ticket size per loan stood at ₹39,903 as on March 2022 whereas it was ₹36,510 as on March 2021. The average ticket size across all categories has increased except for non-profit MFIs. According to BMR 2022, the Return on Asset (RoA) and Return on Equity (RoE) remained positive. During FY 2021-2022, RoA was 1.11% (as against 0.64% the previous year) and RoE stood at 4.26% (2.83% in 2020-21) for the industry. The average financial cost stood at 10.65%. The percentage of non-performing assets (NPAs) rose to 2.05 in 2021-22 as against 1.85 in 2020-21. The top 10 states, led by Tamil Nadu and Bihar, constitute nearly 80% of the total portfolio. The top 25 districts contributed 20% of the portfolio and top 10 major MFIs represented 60% of the business. There were also about 100 districts with less than 10% penetration and 229 with 10 to 25% penetration.

Ensuring affordable banking and credit delivery services to the geographically and financially disadvantaged poor was a slow process till the conceptualization of the Self Help Group approach for building social capital to deliver savings and credit products. The group approach was dovetailed with the banking operations which gave birth to the concept of Self Help Group Bank Linkage Programme (SHG-BLP). This savings led group approach to deliver a bouquet of financial services at the doorstep is one of the most prominent and pioneering financial inclusion initiatives till date. The SHG movement, now in its 30th year, has emerged as a powerful intervention to cover the small and marginalized sections. With active collaboration of NGOs, banks, the Government and of late, the NRLM, the SHG-BLP programme, as on 31 March 2022, covers 14.2 crore families through 119 lakh SHGs (87% of which are women) with savings deposits of R47,240.48 crore and 67 lakh groups with collateral-free loan outstanding of R1,51,051.30 crore. The average loan outstanding is R2.24 lakh/SHG in FY 2021-22 as against R1.79 lakh/SHG in FY 2020-21. The credit gap has decreased to 43.33% in FY 2021-22 from 48.5 % in FY 2020-21.

NABARD has sanctioned a cumulative grant assistance of R255.81 crore to Joint Liability Groups Promoting Institutions (JLGPIs) for promoting 12.77 lakh JLGs as on 31 March 2022 & 91 MoUs have been signed with banks under the Business Model of JLG promotion and financing. As on 31 March 2022, there are 188 lakh JLGs of which 54 lakhs were promoted during FY 2021-22 (as against 41 lakhs promoted in FY 2020-21). During FY 2021-22, loan disbursed was R1,12,772.75 crore as against R58,311.78 crore in the previous year. Cumulatively, loan disbursement to JLGs stands at R3,25,937.63 crore as on 31 March 2022.

**2.4.2.4. Taxation Policy**

The eligible start-ups are provided with a three consecutive year tax incentive during the first ten years of their incorporation. While it was available for eligible start-ups established before March 31, 2022, it has now been extended to March 31, 2023. As mentioned above, section 115BAB allowed a reduced 15% tax rate for newly incorporated domestic manufacturing companies. The last date for commencement of production or manufacturing has been increased from March 31,2023 to March 31, 2024. MSMEs engaged in secondary steel production will get an extension of customs duty exemption on steel scrap.  Certain domestic manufacturing companies are eligible for concessional tax rates under the Income Tax Act, 1961. These companies, coming under section 115BA of the Income Tax Act, are eligible for a tax rate of 25% instead of the usual 30%. With a turnover of up to ₹400 crore as one of the criteria, it includes the MSME sector exclusively. Specified deductions, set-offs, and carry-forwards are not allowed to these companies. The company must be set up and registered on or after March 1, 2016. MSMEs can also avail of a tax rate of 22% under section 115BAA, provided that they comply with certain conditions. Any domestic company, including MSMEs, can avail of this reduced tax rate by calculating their total income without considering various deductions, depreciation, and set-offs. These companies are also exempt from the payment of maximum alternate tax under section 115JB. New manufacturing domestic companies can also opt for a 15% tax rate under section 115BAB. The requirement under this section includes all the conditions under section 115BAA.

Also, there are several presumptive tax schemes that MSMEs can opt for and reduce their tax liability. All these schemes can be availed subject to the fulfilment of requisite conditions.

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