MICRO, SMALL & MEDIUM ENTERPRISES (MSMEs), INEQUALITY & POVERTY IN INDIA: EVIDENCE FROM THIRTEEN MAJOR STATES

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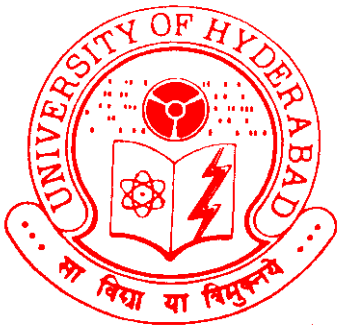

CERTIFICATE

This is to certify that **Ms. Puja Priyadarsini Sahoo** has carried out the research embodied in the present dissertation entitled "**Micro, Small & Medium Enterprises (MSMEs), Inequality and Poverty in India: Evidence from Thirteen Major States**" for the full period prescribed under M.Phil. ordinances of the University of Hyderabad.

This dissertation is an independent work and does not constitute part of any material for any research degree or diploma here or elsewhere.

Dean
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DECLARATION

I, **Puja Priyadarsini Sahoo**, hereby declare that the research method in the present discussion entitled "**Micro, Small & Medium Enterprises (MSMEs), Inequality and Poverty in India: Evidence from Thirteen Major States**" is an original research work carried out by me under the supervision of **Prof Debashis Acharya**, School of Economics, for the award of M.Phil., from the University of Hyderabad.

I declare to the best of my knowledge that no part of this dissertation is earlier submitted for the award of any research degree or diploma in full or partial fulfilment in any other university. I hereby agree that my dissertation can be deposited in Shodhganga/ INFLIBNET.

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ABSTRACT

Micro, Small & Medium Enterprises (MSMEs) are a major driver of the Indian economy for its significant contribution to output, employment and exports. Its labour intensive nature is helpful especially in rural areas where employment opportunities are limited. In such a scenario, MSME sector is continuously expanding in India. It is believed that growth in MSMEs has the potential of reducing income inequality and poverty. In this study, an attempt has been made to examine this belief with substantial results and it is supposed to provide an insight which may help in policy making in future as the growth of MSMEs seems to have a larger bearing on sub-national growth and national growth of India as well. The results show very interesting findings that growth in MSME employment is causing more income inequality significantly while MSME output is insignificant in reducing poverty in India.

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CHAPTER I

INTRODUCTION AND OBJECTIVES

1.0 Introduction

MSMEs play a critical role in determining the socio-economic profile of the nations by its universal acknowledgement as major contributors to Gross Domestic Product (GDP), exports and employment. The World Bank states that in emerging economies, formal Small & Medium Enterprises (SMEs) contribute up to 40% of GDP and 60% of employment (Ndiaye et al., 2018). It facilitates employment options at a relatively cheaper capital cost than the big industries and helps to industrialize the backward and rural areas. As a result it reduces regional imbalances and ensures more equitable distribution of wealth and income in the economy (Annual Report 2017-18, Ministry of MSME, GoI). MSMEs complement the big industries by supplying raw materials to them and thereby contributing significantly to the development of the country. Ministry of MSME, Government of India is the apex body of this sector. Under the ministry, Khadi & Village industries, Coir industries are working. Khadi & Village industries are specially focused to promote and develop the artisan oriented products & market.

Presently, MSMEs are classified on the basis of their investment.

Table 1.1

Type of Enterprises	Manufacturing Sector (Investment in Plant & Machinery)	Service Sector (Investment in Equipments)
Micro	< INR25.00 lacs	< INR10.00 lacs
Small	INR25.00 lacs- INR 5.00 crore	INR10.00 lacs- INR2.00 crore
Medium	INR5.00 crore - INR10.00 crore	INR2.00 crore - INR5.00 crore

[Source: MSMED Act, 2006]

1.1 Performance of MSMEs: India Context:

According to the Annual Report 2017-18, Ministry of MSME, GoI, in 2015-16, the gross value added (GVA) of MSME sector was ₹ 3936788.00 crore having an annual percentage growth

of 7.62 %. The share of MSMEs in total GVA and total GDP were 31.60 and 28.77 respectively in 2015-16. Manufacturing MSMEs are contributing 33 % to total gross value of manufacturing output.

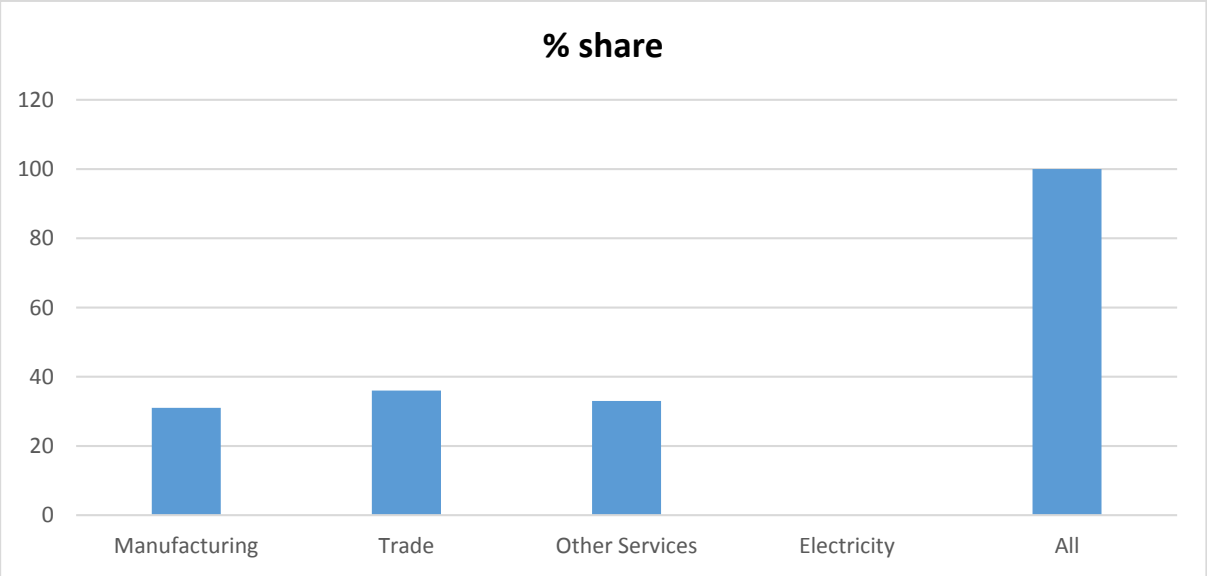
The table and figure show the estimated number of MSMEs activity wise in 2015-16.

Table 1.2 (in Lakh)

Industry	Manufacturing	Trade	Other Services	Electricity	Total
Rural	114.14	108.71	102	0.03	324.88
Urban	82.5	121.64	104.85	0.01	309
Total	196.64	230.35	206.85	0.04	633.88
% share	31	36	33	0	100

(Source: Annual Report 2017-18, Ministry of MSME, GoI)

Figure 1.1 (estimated number of MSMEs activity wise in 2015-16)



And, rural MSMEs constitute 51 % and urban MSMEs constitute 49 % of the total MSME sector in 2015-16. Male & female participation rate were 79.63 and 20.37 respectively in 2015-16.

The percentage distribution of MSMEs in 2015-16 category wise is given below.

Percentage Distribution of Enterprises (Social Category Wise)

Table 1.3

Sector	Micro	Small	Medium	Total
SC	12.48	5.50	0.00	12.45
ST	4.11	1.65	1.09	4.10
OBC	49.83	29.64	33.85	49.72
Others	32.79	62.82	70.80	32.95
Not known	0.79	0.39	4.27	0.79
Total	100	100	100	100

(Source: Annual Report 2017-18, Ministry of MSME, GoI)

As we can see the total percentage distribution of MSMEs is the lowest for SC and ST category people. In spite of schemes like National SC/ST Hub, these people could not perform and develop like non SC/ST people. So they need more push in terms of new policies which will work in their favour.

Looking at the employment opportunities provided by the MSMEs, a total of 1109.89 lakh jobs were created. The below table shows the data.

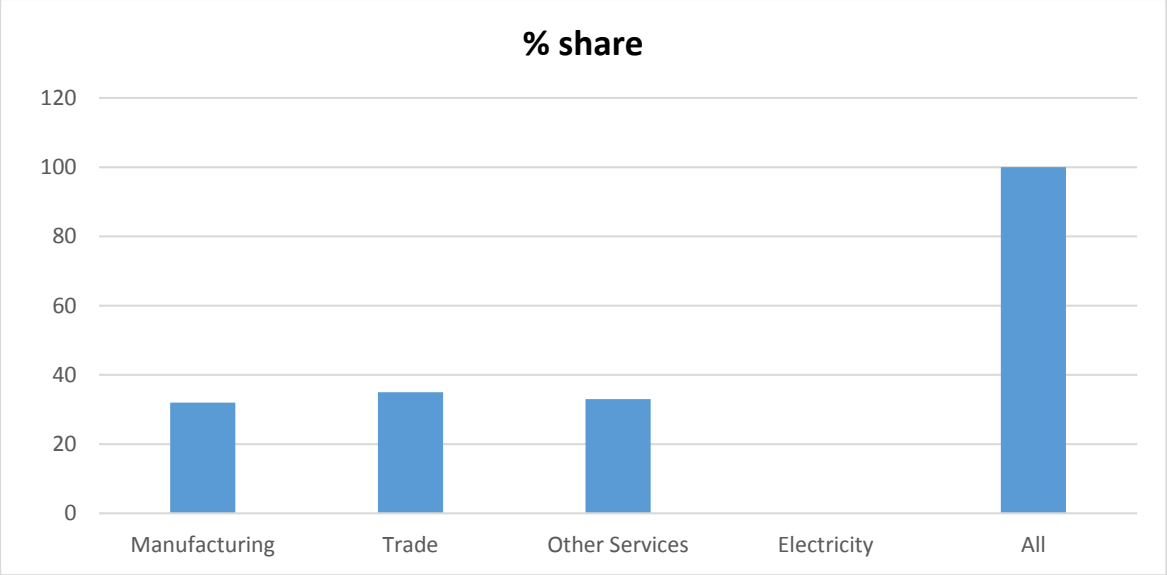
Estimated Employment in MSME sector Broad Activity Category wise in 2015-16

Table 1.4

Broad Activity Category	Rural	Urban	Total	% share
Manufacturing	186.56	173.86	360.42	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity	0.06	0.02	0.08	0
All	497.78	612.1	1109.88	100

(Source: Annual Report 2017-18, Ministry of MSME, GoI)

Figure 1.2 (Estimated Employment in MSME sector Broad Activity Category wise in 2015-16)



As it is depicted in the table and figure, the maximum number of employment was created by trade activities followed by the manufacturing activity.

Now coming to the state level, states like Uttar Pradesh (UP), Tamil Nadu (TN), Maharashtra & West Bengal (WB) are the leading states of MSME sector in terms of enterprises. The top ten states are,

Table 1.5 is exhibiting the top ten states in India in terms of number of enterprises. Highest share is of Uttar Pradesh and West Bengal.

Table 1.5 (State-wise distribution of Enterprises)

States	% Share of MSMEs
UP	14
WB	14
TN	8
Maharashtra	8
Karnataka	6
Bihar	5
Andhra Pradesh	5
Gujarat	5
Rajasthan	4
Madhya Pradesh	4
Total of top 10 sates	74
Other state/UTs	26
All	100

(Source: Annual Report 2017-18, Ministry of MSME, GoI)

According to 4th census survey of MSMEs in 2006-07, the total employment created was 805.24 lakhs, total gross output produced was of ₹ 107721286 lakhs and total investment in fixed assets was ₹ 68995486 lakhs.

Now let's have a look at the performance of Indian MSME sector in terms of percentage growth over the previous year of output at constant prices, employment generated and exports in post-liberalisation period starting from 1991 to 2006. Table 1.6 and figure 1.3 depict the post-liberalisation scenario of MSME sector.

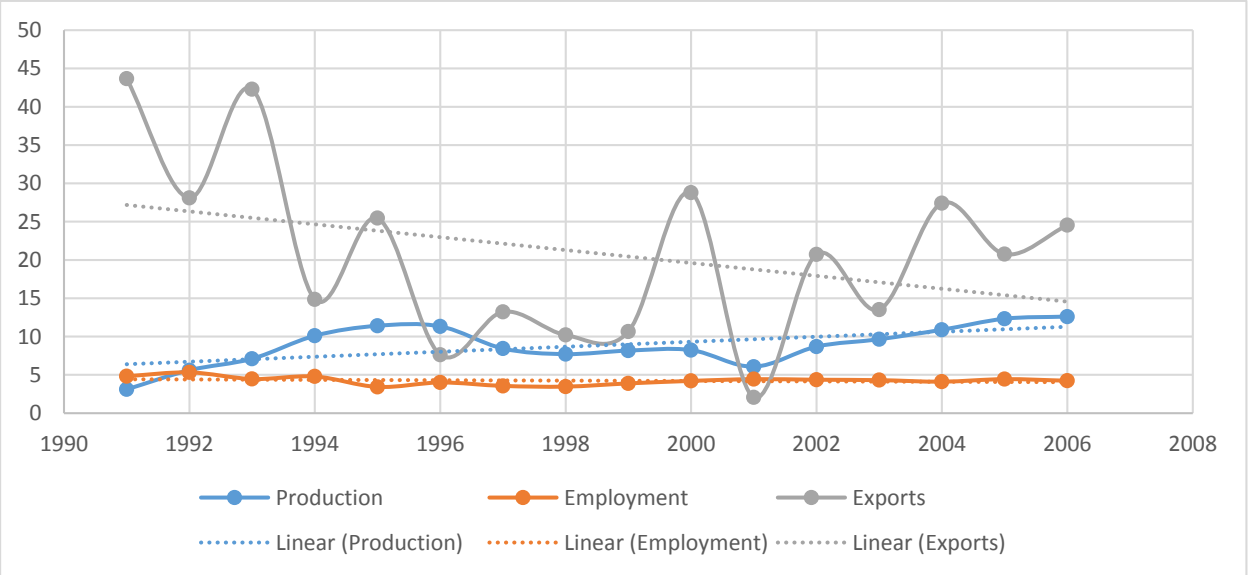
Table 1.6 (% growth over the previous years)

Year	Production (%growth)	Employment (%growth)	Exports (%growth)
1991	3.1	4.83	43.66
1992	5.6	5.33	28.1
1993	7.1	4.46	42.3
1994	10.1	4.79	14.86
1995	11.4	3.42	25.46
1996	11.32	4	7.62
1997	8.43	3.55	13.23
1998	7.7	3.46	10.21
1999	8.16	3.88	10.66
2000	8.23	4.21	28.78
2001	6.06	4.44	2.07
2002	8.68	4.36	20.73
2003	9.64	4.31	13.52
2004	10.88	4.11	27.42
2005	12.32	4.44	20.76
2006	12.6	4.23	24.54

(Source: Annual Report 2017-18, Ministry of MSME, GoI)

Figure 1.3 shows the graphical representation of table 1.6. But along with this, the graph is also showing the linear trend lines for each variable, their equations and R-square values. For 'production' the equation is y = 0.3262x- 643.09 and R-square value is 0.3552, for 'employment' the equation is y = -0.0258x + 55.847 with R-square value 0.0547 and lastly, for 'exports' the equation is y = -0.8408x + 1701.1 with R-square value 0.1163. The trend line for 'production' is continuously rising but at a slower rate and trend line for 'employment' is quite stable. But the trend line for 'exports' has fallen over time. The R-square value is the highest for 'production.'

Figure 1.3 (% Growth of MSME Production, Employment & Exports over the previous year)



1.2 Problems of MSMEs:

There are several factors which act as constraints of MSME growth process and hinder it. Some of the important problems are discussed below.

Credit

According to Yadav (2012), MSMEs often find it hard to get financed from banks. The reason is that this sector is considered to be riskier in comparison to the big firms and as a result, they have to pay higher premiums and collaterals for an institutional loan. Most of the times MSMESs fail to provide collaterals. Although absolute credit deployed through banks to manufacturing sector increased substantially post 1991 reforms, the share of credit to MSEs declined (Bhattacharya, 2019). The strategy of industrial policy in the mid-2000s by making MSME a new category has not served any useful purpose in terms of making institutional credit available to MSMEs (Nair & Das, 2019). There are several reasons for this kind of result. Profit-oriented banks show their apathetic attitude towards giving loans to MSMEs, MSMEs fail to provide collaterals, the loan sanctioning process is very formal and lengthy which make it rigid in nature and so on. Hence, credit becomes a very significant problem of MSME sector as nothing else can substitute credit. For instance, the subsidies provided to reduce SMEs access to finance can be ineffective or counter-productive (Beck & Demirguc-Kunt, 2006). So

the government policies must ensure the availability of timely & adequate credit. The schemes like Credit Guarantee Scheme should be implemented properly.

Infrastructure & Institutional Constraints

Lack of proper infrastructure also has a significant effect on the MSME sector. This is the reason why MSMEs in rural areas aren't developed as like urban areas in India. Poor roads, irregular & insufficient electric supply, water shortage, poor telecommunication facility hinder MSME growth (Ndiaye et al., 2018). Similarly, formal institutional set up must support for the smooth functioning of the market. Protecting property rights through legislation, required entities and supporting mechanisms result in lower transaction cost to carry out the production process and exchange process in the market as well. But in India, underdeveloped formal institutional framework results in institutional voids, counter-productive legacy institutions, weak regulatory and legal regimes, the absence of formal capital & labour market etc. makes the growth process difficult for the MSME sector especially (Maksimov et al., 2016). These problems must be solved to encourage the MSME sector and to spread spillover effect to other industries.

Informality

In India, informal firms constitute a vital portion of the MSME sector. According to the 4th MSME census survey (2006-07) only 5.94% MSMEs were registered firms and 94.06% were unregistered firms. Though output contribution is higher in registered MSME sector, employment contribution is higher in the unregistered sector. It means the unregistered firms are highly unproductive in nature and affects labour productivity negatively. This sector also does not get any benefit from government policies and supporting institutions. Voluntary registration of firms results in significant gains in value added per employee and sales per employee (Sharma, 2014). Unregistered firms are still a big problem even today as its output statistic suffer from incomplete coverage and causes a loss in tax revenue of the government. The government should make the rules and regulations of the MSME sector little simple and convenient and incentivize unregistered entrepreneurs to register.

Lack of awareness about the policies

It is a challenge not only for the MSMEs but also on the side of institutions. Sometimes entrepreneurs are not aware of the policies framed for MSME and do not get its benefits. But sometimes the institutional members like bank employees are also not aware of the policies

and fail to implement it properly. A survey on the impact of 'Credit Guarantee Scheme' in Odisha revealed that 46% of bank employees are not fully aware of this scheme, only heard about it (Acharya, 2015). This is a big problem to be considered which requires institutional awareness and government intervention.

Innovation & Market linkage

The scope of innovation in the MSME sector is limited. It is because MSMEs do not have enough capital to invest in research & development (R&D) and human capital. Unlike big enterprises, MSMEs are unable to invest in training and skill development programs of employees. Market linkage is another serious problem for MSMEs. They do not have any organization for marketing and their products are compared with large scale industries. This disadvantage can reduce its sale and profit. So the government should intervene to invest in R&D on behalf of MSMEs and provide a market for its product.

1.3 MSMEs and Inclusive growth:

MSMEs have the potential of minimizing regional imbalances and ensures substantial equitable distribution of wealth and income in the economy (Annual Report 2017-18, Ministry of MSME, GoI). It is possible through increasing output production and generating more and more employment. This also helps in reducing poverty by enabling local workers to earn. As a result, growth in MSME sector can help in achieving inclusive growth in India.

But in reality, has this happened or not can only be revealed after examining and testing the data of past years. This study has made an attempt to check if this relationship between MSME sector & income inequality and MSME sector & poverty holds. For this purpose, three years' MSME census data have been used and the years are 1987-88, 2001-02 and 2006-07. By applying panel models the results are obtained.

1.4 Organization of the Dissertation:

This rest of the dissertation is divided into four chapters. Chapter II briefly reviews relevant literature pertaining to the study, identifies research gap and formulates objectives of the study. In Chapter III a policy review of MSME schemes is attempted, and Chapter IV is state level analysis of role of MSMEs in reducing income inequality & poverty. In this chapter few econometric models are estimated to achieve the main objectives of the study.

CHAPTER-II

REVIEW OF LITERATURE

The prime focus of this work is to glance at various aspects of MSME sector. It includes the existing scenario of MSME sector in India, growth constraints and its effect on inclusive growth. Hence, a brief literature review pertaining to the above-mentioned aspects of MSMEs has been done below.

2.1 MSMEs in India

India is often remarked as a country with many dependent states i.e. while the western and southern states are industrially developed, the eastern and northern parts are agriculturally developed (Jena, & Thatte, 2018). In the industrially developed states, there is a presence of highly diverse and vivid sector called the MSMEs (Lahiri, 2014). With nearly 1.5 million registered and 24.5 million unregistered firms MSMEs play a critical role in shaping the Indian economy in a substantial way and are often acknowledged as the "*nurseries for entrepreneurship"* owing to their ability to promote innovation and massive share of 8%, 45% and 40% to the Indian GDP, manufacturing output and exports respectively (Yadav, 2012). Further, the contribution of MSMEs to India's economic growth has increased by many folds during the last ten years (Javalgi et al. 2011). This contribution is reinforced by the notable aspect of job creation by the MSME sector and thereby becoming an agent for reducing poverty (Jena, & Thatte, 2018). MSMEs are the second biggest recruiters after the agriculture industry (Javalgi et al. 2011).

Manna & Mistri (2017) have shown the existing scenario of MSME sector in Indian states. MSMEs have the potential of reducing regional imbalances through contributing to gross output and employment as it is labour intensive in nature, empowering the rural folk and assists in achieving sustainable development. This is the reason why this sector has attracted more and more amount of investment and came under the purview of policymakers in recent years. Despite the fact that many new MSMEs are mushrooming each year in Indian states there exists spatial inequalities. States like Uttar Pradesh, Gujarat, West Bengal and Tamil Nadu have higher MSME units, output and employment. This shows the spatial variation in the context of MSMEs across various states.

Having divided into two types namely manufacturing and services, MSMEs in India enjoy the status of having higher labour: capital ratio along with being a dispersed sector and are regarded as one of the most important sectors to drive growth, inclusion and equity (Yadav, 2012). As the Indian products are reaching international markets, there is a growing sense of global brand in the Indian market (Javalgi and Ramsey 2001). In this context, Shridhar (2006) rightly points out the importance of small enterprises thanks to their huge potential to national economic growth. Availability of workforce, inflated demands for Indian made products and the interest of Government to purchase products only from Indian SMEs are some of the reasons attributed to the growth of MSMEs in India (Javalgi et al. 2011).

While considering the overall level, MSMEs in India have scaled up significantly both in terms of numbers and investment size (Bala, 2007). The death rate of enterprises has reduced drastically from 39% in 2001-02 to 21.6% in 2006-07 (Yadav, 2012). Keeping these progress in the Government of India has been vesting high interests in the MSME sector through National Manufacturing Policy (NMP) to achieve inclusive growth along with increased contributions to the GDP and national economy. It is estimated that by 2022, MSMEs in India is expected to contribute 25% to the GDP while adding 100 million jobs to the Indian economy.

Ndiaye, Razak, Nagayev & Ng (2018) has done an analysis of SMEs of 266 economies and constituted five performance indicators based on potential factors like finance, infrastructure, technology, informality, innovation, workforce etc. They have done a thorough segregated analysis of SMEs and showed how SMEs behave differently. In some factors, like the firms which use e-mail to communicate with suppliers or buyers have a positive effect on employment growth in medium firms but not in small firms. But in some factors like the proportion of investment raised by the sale of equity has an adverse effect on small firms but not on medium firms.

2.2 Issues pertaining to MSMEs

2.2.1 Finance

According to Yadav (2012), MSMEs often find it hard to get financed from banks thanks to its low equity base, insignificant market tie-up, absence of co-laterals, improper bookkeeping, lower involvement of technology and fund diversions etc. However, it is suggested that in spite of these weaknesses, growth rate of MSMEs has outsmarted the growth rate of credit in the Indian banking system and therefore, it is concluded that *"…Small (MSMEs) is mighty, profitable & good for sustainability."*

Salwan (2019) tested the relationship between bank lending and MSME sector growth and found that banks should complement the MSMEs growth process by leveraging its internal efficiency in risk management and redefining their value position while providing loans. As to the RBI circular, 2005-06 SMEs are a subsidiary of priority sector lending for banks. But still, banks are reluctant to issue loans to MSMEs because of credit risk associated with it and increasing non-performing assets, lower profitability and high mortality rates. At the other hand, the availability of finance continues to be a major problem for MSMEs. So through sharing the strengths banks can find a way to mutual sustainable growth for both. It also stated that in transition economies, foreign banks do not normally provide loans to SMEs.

According to Eniola & Entebang (2015) in the Nigeria economy, SMEs performed exceptionally in boosting economic growth and providing employment. But as a result of globalization, SMEs are facing many challenges. This paper focuses on the source of finance of SMEs and its challenges. Adequate finance motivates the entrepreneurs to continue his work at a larger scale than before and maintains a favourable environment for the growth of SMEs. As a solution to the challenges of availability of finance, crowdfunding can be a better source of finance and affecting the SMEs' growth positively.

Bhattacharya (2019) in this paper studied the nature & direction of the flow of bank credit to the MSEs, focusing especially on the manufacturing sector in the post-1991 period. The study reveals that though there is a substantial increase in the absolute bank credit lent out, the share of credit to MSEs declined. Even within the manufacturing sector, large and medium-sized MSEs mainly received bank credit, not the small enterprises.

Chan & Lin (2013) has done an exploratory study of financing pattern and issues of MSEs in China. MSEs play a pivotal role in the Chinese economy. But due to financial constraints like

longer loan repayment periods, requirement of lower credit cost, loan instalment etc suggest to financially include the unbanked entrepreneurs and suggests to implement microfinance in MSE sector.

2.2.2 Internationalization

As stated earlier internationalization of MSME products are gearing up in the recent past. However, going international comes up with a series of challenges that has been mentioned in the work of Roy, Sekhar and Vyas (2016) on Indian MSMEs. In this study, the authors mention external and internal barriers in the path of MSME products going global. The external barriers consist of economic and governmental/legal/political barriers, socio-cultural and task barriers and procedural, and currency barriers; the internal barriers include managerial barriers, marketing barriers, informational barriers and financial barriers.

Similar study by Bala (2016) has found that though the growth of Small Scale Industries (SSIs) has slowed down in terms of numbers, their contribution to employment, production and export remains impressive. Therefore, the growth of SMEs is much more inclined towards international market rather than domestic. The importance of globalization to Indian SMEs is perennial as it has provided vast global markets and networks for the Indian MSME products.

Das (2007) has shown the performance of Small enterprises in India. It talked about the dominance of SMEs in the industrial sector by contributing significantly in income generation and employment and thereby reducing regional disparities in the post-Independence period of India. Though before 1991 many policies for MSMEs were pursued, since 1991 this process was geared up with the introduction of small firm policy emphasizing on various aspects like internalization, innovation, access to market trade, business strategies etc. And after that, for the first time medium firms were added to it through MSMED Act, 2006. But the performance of SMEs in exports was unimpressive during 1988-2008 though the composition of exports remained the same. Globalization has put many crucial changes and challenges in SME sector and the aim of making SMEs, the provider of ample employment has occupied second place in the face of strategies to strengthen the external competition and to emerge as a global player. At the same time, the author also stated that the SME cluster development has been promoted without a sound regional policy. Despite numerous policy, the SME sector's progress has been hindered by many issues like limited credit, technological underdevelopment, poor

infrastructure etc. with an example of garment sector this paper expressed concern about linking SMEs with international product network.

Anand (2015) stated more than nine out of ten firms outside the agricultural sector are MSMEs contributing significantly to GDP, employment and export. SMEs' role should be further strengthened in tackling the rising inequality and raising employment and hence achieving inclusive growth. This paper addresses the issues relating to internalization of SMEs, access to market and finance, policy framework with special reference to agro-based and Biotech led SMEs. Issues like access to finance, access to the international market, limited capital, and knowledge management are hindering the growth process of SMEs. Suitable institutional setups like a strong legal system, administrative environment, human capital etc. can stimulate their growth process. So to make Reverse globalization is possible in one way through internationalization of SMEs and internalization of SMEs is possible through innovation and suitable policies. This also demands a change in the attitude and mind set of people engaged in Small enterprise development. In order to take advantage of the benefits from globalization, financial literacy is required. So in the end, it is the human capital and knowledge which can boost the SME sector in the long run.

Another important facet in the development of MSMEs is the role of innovations in developing competitive edge over the other firms and sectors as a whole. In the ADBI report titled '*Barriers to Innovation in Indian Small and Medium-Sized Enterprises,'* Pachouri and Sharma (2016) highlights the emerging involvement of innovation in the MSMEs of developing countries. The report infers that trade policy barriers, shortage of skilled labours, weakening links between firms and institutions along with less availability of funding and R&D are the primary barriers of MSMEs development in India.

Another CII report titled 'Innovation: Changing the MSME Landscape', Nath & Singh (2011) summarizes the potentials of Indian MSME sector as an agent of growth while addressing that the Indian MSME sector suffers from numerous challenges such as trifling scale of operations, insufficiencies in supply chain, obsolete technology, increased competition in domestic and global market, shortages of fund, volatile market situations and ever changing process of manufacturing. These challenges on the other hand, can be handled by the usage of innovation in business process, product development, service handling, handling external environment, technology to develop competitive advantage globally.

2.2.3 Policy Intervention

Another study by Nikaido, Pais & Sarma (2012) explores the aspect of registration and education in SMEs and found that if a SME is registered to any institution or act, is keeping proper accounts and is associated with higher education, the likelihood of achieving fiancé increases by many folds. However, it is also a matter of great concern that 90-95% of the Indian MSMEs are unregistered and around 46% of them have owners who are illiterate pointing towards the need for revival in the supply policies and planning.

Ghatak (2010) further analyses how the policy interventions for MSME growth changed from 'protectionism' during the early 1990s to 'export oriented' by the end of the 1990s.

Sharma (2014) examined the impact of voluntary registration policy supported by government bodies on the microenterprises' financial performance by applying the semi-parametric propensity score matching (PSM) technique and collecting data from World Bank survey of microenterprises, 2006. The result shows that the registration policy really works well. After getting registered with the government, the value added per employee and sales per employee increase significantly. Male-owned enterprises, firms functioning with or without paid labour and firms functioning outside of owner's house are experiencing large gains.

The operational aspects of integrating cloud computing with the MSME growth has been discussed in the paper of Malviya & Chakraborty (2013). It has been argued that cloud computing which is a prime enabler of computing services through delivery of hardware, software, data and databases provided over internet can assist in solving excessive computational complexities of MSMEs with minimum rental. The various features of cloud computing which are ubiquitous, timely and multifaceted have been discussed on the lines of requirements of MSMEs.

2.2.4 Other Issues

Rajesh Raj and Mahapatra (2009) in their work states that in comparison to pre-reform periods, reform periods in India is marked by the erosion of growth in terms of the MSME output with variations across different states.

Davis, Haltiwanger & Schuh (1996) made an interesting study on how job creation and job destruction behaviour is affected by firm size by considering a time period from 1972 to 1988 in the U.S. manufacturing sector. It found the conventional idea that small firms are job-creator

is based on misleading interpretations of the data. Both employment creation and employment destruction are higher for smaller firms. This paper has rightly shown the limitation of data.

The work of Sahapathi & Khanna (2011) titled "*An Appraisal of Small & Medium Enterprises (SMEs) in Haryana state of India"* acknowledges that the need to realize the goals and targets (in terms of higher production and lower cost) pertaining to MSME growth can be fulfilled by SME-friendly operating environment, improvements in physical infrastructures, properly drafted policies, security, peace and usage of huge labour force. According to Ghatak (2010) the key drawbacks faced by the Indian MSMEs are red tapism, less access to credit and technology etc.

2.3 MSMEs and Poverty & Inequality

Kiss & Zagyi (2014) in their work about MSMEs in India provides constructive arguments regarding how the promotion of MSMEs can result in decreasing the social and spatial differences which are often the result of demographic and socio-cultural differences. By citing the example of MSME in Khadi and village industries, the authors concluded that there is an increased recognition about the revival of business opportunities in Indian handicrafts and its sustainability through promotion of MSMEs.

Similar conclusions have been derived in the works of Mishra (2012) who points out that MSMEs can play an immensely important role in developing a sustainable economy in India by reducing poverty and social inequality while strengthening the rurality of the country. This leads to a general consensus that being a labor rich and capital scarce country, the SMEs have enormous potential to address the employment deficit problem in various parts of India and hence, there role in reducing social and economic differences can't be ignored (Venkatesh & Muthiah, 2012).

According to Katyal & Xaviour (2015) Indian MSMEs along with generating employment, influences the low skilled mass at the bottom of the pyramid to take advantage of their local skills and environment. It is a sector that acts as an ancillary unit to complement the large industries while contributing heavily towards the social and economic growth of the country.

Further, Kadivar (2016) provides evidences that India, since the very beginning has been prioritizing the MSME sector and is persuaded to draft favourable policies to support the sector while concluding that MSMEs through various initiatives have managed to overcome the

throat-cut competition in the global market and is leading by examples in terms of sustaining livelihoods, reducing poverty and creating equitable regional developments.

Maksimov, Wang & Luo (2017) through examining 1273 small and medium enterprises (SMEs) from 7 least developed countries (LDCs) including Asia, Africa and the Middle East this paper made an effort to assess the role of SMEs in poverty alleviation in the LDCs. For poverty alleviation in the LDCs, the income level of local workers has to be raised. And for an increase in employee wages, organizational efficiency is required. The authors stated three conditions which result in organizational efficiency. They are government contract, female ownership and export. Formal and informal institutional constraints are affecting the growth of SMEs in LDCs. The efficiency of SMEs can be improved either by taking advantage of institutional enablers like government contract, legislation etc and internalizing the institutional constraints like institutional voids, weak legal regimes etc. Government contract helps the SME entrepreneurs to get information, access to critical resources, finance etc. and thus SMEs get incentives to grow. With export, SMEs can get the benefits of export promotion policies and can access the foreign market. This stimulates their growth process. Similarly, female ownership leads to a strong cooperative network and achieves business goals. Mediation is the strongest for firms owned by female and direct relationship is the strongest for firms involved in export.

Beck (2013) found from reviewing the existing literature that there is significant evidence of financial deepening boosting SME growth, employment by expanding SME finance. There is no clear direct evidence that SMEs help in country's growth or reduce poverty at a faster rate (Beck, Demirgûç-Kunt and Levine, 2005). Though there are more SMEs in developed economies their success stories are not explained by having lots of SMEs. SMEs can help in reducing poverty by creating employment opportunity. At the other hand, financial deepening can definitely boost economic growth and reduces poverty ultimately by removing the financial constraints of SMEs, better resource allocation and enabling entrepreneurship & firm entry. This effect is indirect in nature. This paper also differentiates between different firms and different policies.

Beck, Demirgûç-Kunt and Levine (2005) have tried to establish a relationship between the size of the SMEs, economic growth, poverty and income inequality by using data of 45 countries. Though the authors found a strong positive linkage between SMEs' growth and GDP per capita

growth it does not assure any causal impact. And they did not find any strong evidence that growth in the SME sector alleviates poverty or reduces income inequality.

Das (2015) studied the impact of cluster development in Micro, Small industries (MSEs) on poverty. In the late ’80s, MSEs cluster development approach gathered pace through policies and schemes. For example, in Assam, thousands of rural household enterprises are using traditional skills and local resources to operate and achieve sustainable livelihood. Labour is expected to be more productive within the cluster and earn a higher income. So this paper shows that cluster development approach empowered rural artisans, raised income, created assets, upgraded skill, improved forward and backward linkages etc.

Bonito, et al. (2017) have discussed the impact of the entrepreneurship and economic growth on poverty and income inequality along with economic development in Philippines. Entrepreneurship is measured by the number of MSMEs in the country and economic growth by regional gross domestic product. By using a set of cross-sectional data, the result obtained is that though economic growth significantly affects poverty and growth in MSMEs has insignificant or no impact on poverty and income inequality but significantly affects economic development in Philippines.

Dangi and Ritika (2014) discusses about the prospects of women entrepreneurship in MSME growth in India. Their study contended that though challenged by many factors MSMEs in India are breaking the stereotypes associated with Indian housewives as just cooks and caretakers of the house.

Further analysis of the Indian MSME sector has been provided in the benchmarking paper of Jena & Thatte (2011) who has compared the performances of manufacturing based MSMEs in different states while trying to address the reasons for such differences from the prism of an index known as *MSME Manufacturing Business Facilitator Index*. It is concluded that the differences exist in the performances of manufacturing based MSMEs in India owing to absence or presence of enabling factors such as large economic infrastructures (in terms of road, water and electricity etc.), state govt.’s will to promote MSMEs, availability of labour force, status and size of GSDP, proper regulatory framework and absence or presence of MSME clusters. All these factors contribute to make states like Tamil Nadu, Andhra Pradesh, Uttar Pradesh, Kerala and West Bengal as successful MSME destinations, while inferring that

other states like Odisha, Rajasthan, Madhya Pradesh, Assam and Bihar needing a lot of interventions to become successful in MSMEs.

While majority of the studies on Indian MSMEs have concentrated on issues like sources of growth, importance of financial institutions and indicators pertaining to performances, the study by Dixit and Pandey (2011) uses an cointegration analysis to establish an causal relationship between exports, SMEs output, SMEs number, SMEs investment, Indian GDP and employment (both public and private). The results of their study reveals a positive causality between Indian GDP and SMEs growth. It is argued that SMEs require very small initial investment and it operates with in a protective environment which gives the entrepreneurs in the sector risk-taking abilities (Dixit & Pandey, 2009).

Srinivasan (2009) in his work *CSR and ethics in MSMEs in India* has discussed about the Corporate Social Responsibility and ethics aspect in the Indian MSMEs and has argued that as MSMEs are one of the fundamental building blocks of poverty eradication and employment generation in India, their adoption of ethical practices and CSR are persistent in ensuring sustainable development of the country.

Lukács (2005) in his study on SMEs all over the world (especially in Europe) argues that SMEs are sophisticated and skill driven enterprises that varies from small individual family owned firms to innovative, dynamic and growth-driven institutions.

Gibb & Li (2003) in their study provides accounts of the MSME sector in the social market economy of China. The study outlines various propositions like entrepreneurial behaviours of private and public stakeholders, conditions of ambiguity, freedom to explore local reality, grounded and bottom-up process of development and above all low significance of private sectors and intellectual property and thereby provides a critique of the western views about criteria for successful MSMEs. It is established that unlike western markets, in China decentralization market i.e. freedom of local market to establish its own price, strong association with culture, mutual obligation networks and encouragement to entrepreneurial abilities are the key ingredients for successful MSMEs. In the words of the International Finance Corporation (IFC) *"in much of the developing world the private economy is almost entirely comprised of SMEs"* and that *"they are the only realistic employment opportunity for millions of poor people throughout the world."* However, many of the academic critiqued that in developing countries SMEs are mostly driven by traditional activities generally attributed by low levels of skill, infrastructure, credibility, productivity and quality. Addressing these

critiques, enforcing the good practices and learning from the experiences can take MSMEs to reach new heights.

2.4 Research Gap

Though the existing literature on MSME sector covers almost all its aspects in the international sphere, there is a limited number of descriptive papers in India showing the relationship between the growth of MSME sector and an inclusive growth for the country, especially state level study. This work fills the research gap and seeks to provide some policy implications.

2.5 Objectives and Hypotheses

In view of the above discussion, the main objective of this dissertation is to check if growth in MSME sector could reduce poverty and income inequality in India by analyzing 13 Indian state level data on MSME output, MSME employment, Net State Domestic Product (NSDP), Gross Enrolment Ratio (GER), Poverty Headcount ratio and income inequality for three years, 1987-88, 2001-02 & 2006-07. Accordingly, the following hypotheses are formulated.

Null Hypothesis 1: Growth in MSME sector does not reduce Income inequality in India.

Alternative Hypothesis 1: Growth in MSME sector reduces income inequality in India.

Null Hypothesis 2: Growth in MSME sector does not help in poverty alleviation in India.

Alternative Hypothesis 2: Growth in MSME sector helps in poverty alleviation in India.

2.6 Limitation of the Study

This study is heavily constrained by data limitation. It used only three years' data because it is very difficult to get data for all the six variables simultaneously. Data for MSME variables are available only for four MSME census years, 1973-74, 1987-88, 2001-02 & 2006-07. So the maximum data period can be four years. 1973-74 has been dropped because data for other variables like GER, poverty, income inequality are not available for this period. So this is a limited model.

CHAPTER- III

MSME SECTOR IN INDIA: A REVIEW OF POLICIES

Starting from The Coir Industry Act, 1953 and The Khadi and Village Industries Commission (KVIC) Act, 1956 to the MSME Development Act (MSMED Act), 2006 MSME sector has evolved over time in India. Prior to the MSMED Act this sector was known as Small Scale Industrial Units (SSI units sector). With the introduction of MSMED Act in 2006, for the very first time, medium enterprises were included in this sector and it was renamed as MSME sector. Presently, Ministry of MSME, Government of India is the apex body of MSME sector. This ministry undertakes all the plans and policies related to this sector. In state level, there is also a Ministry of MSMEs in each state which specifically deals with MSMEs of the respective states.

3.1 List of Schemes related to MSME sector in India

MSME sector in India is considered as a new wave having the potential of empowering people by breaking the cycle of poverty and deprivation. It encourages entrepreneurship by focusing upon innovation & technologies, creates opportunities for women. Especially, programmes like Make in India, Skill India, and Digital India etc. are meant to promote MSMEs. Besides this, both central and state governments make policies to protect and promote this sector. A large number of policies have been implemented in this sector until today. Some of the major schemes which are operating in the present are discussed in this paper.

Prime Minister Employment Generation Programme (PMEGP):

This scheme provides continuous opportunities in terms of employment in urban and rural areas through establishing new ventures. KVIC implements it at the national level and at the state level by state KVIC Directors and State Khadi & Village Industries Boards. The maximum cost of the project can be Rs. 25 lakh under the manufacturing sector and Rs. 10 lakh under the service sector. The minimum age to enter into this programme is 18 year. In 2017-18, the budgetary estimated (BE) allocation to this scheme was Rs. 1004.49 crore.

Credit Guarantee Trust Fund for MSEs (CGTMSE):

CGTMSE was established jointly by Ministry of MSME and Small Industries Development Bank of India (SIDBI). It is a provision for collateral free credit for Micro, Small & Medium

Enterprises (MSEs) up to Rs. 200 lakh per borrowing unit through banks, financial institutions and NBFCs. The guarantee covers up to three forth of the credit availibility up to Rs. 50 lakh with a uniform guarantee at 50% of the credit exposure above Rs. 50 lakh and up to Rs. 200 lakh. Having covered more than 29 lakh beneficiaries in the last ten years, this is considered as a tremendous successful scheme.

Interest Subsidy Eligibility Certificate (ISEC):

This scheme is used to fund the khadi programme undertaken by khadi institutions. The main purpose of this scheme is to mobilise funds through banking institutions whenever there is a short fall of funds between the actual requirements and budgetary allocations. Under this scheme, credit is provided to the institutions at a concessional rate of 4 % per annum.

Besides these schemes, there are certain other schemes which specifically aim at the promotion of Khadi, Village & Coir industries. They are,

Market Promotion and Development Scheme (MPDA):

This is a marketing assistance scheme introduced in 2010 with the objective of creating a growth stimulating and artisan oriented market. It helps in marketing, publicity, market promotion and infrastructure building of khadi industries. Subsidy is given to construct khadi plazas under this scheme. The main purpose is to empower the artisan of the country and raise their earnings. By the end of 2017, Rs. 328.31 crore have been disbursed by KVIC towards this scheme and got a BE allocation of Rs. 340 crore in 2017-18.

Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI):

This scheme aimed at creating clusters of artisans and traditional industries. Clusters make them competitive and helps in achieving long term sustainable goal like sustained employment with government assistance. Under this scheme, the industries in the clusters get help in marketing their products, improving their skills and capabilities by training and many more. The artisans get common facilities provision and improved equipments. There are three types of interventions under this scheme namely, soft intervention, hard intervention and thematic intervention. Soft intervention has a maximum ceiling of ₹ 25 lakhs with 100 % scheme funding. There is no such maximum ceiling for hard intervention. It is decided as per the project requirement with 75 % scheme funding.

Coir Vikas Yojana (CVY):

This scheme specifically aims at coir industries. It helps in developing artisans' skill, women coir plans, establishing new coir unit or upgrading an already existing one under Coir Industry Technology Upgradation Scheme (CITUS), providing financial support for trade and other support services and welfare of coir workers. Under CITUS, financial assistance is provided up to 25 % of the cost of admissible items of coir industries. The maximum financial assistance will be ₹ 2.50 crore per coir project.

.**Export Market Promotion (EMP):**

This scheme is implemented by coir board to improve the export performance of coir industries in India. The coir industries are encouraged and get financial support to participate in seminars, conferences & international fairs, information sourcing, improve export performance and to present coir industry awards.

Trade and Industry Related Functional Support Services (TIRFSS):

This scheme is aimed at collecting data for various aspects like labor infrastructure, marketing, product, productivity, raw materials etc. It provides data to the trade and industry and helps in making the appropriate policy for the overall development of coir industry. It also maintains the IT database of coir industry. Specifically data on importing countries, value and quantity of exports can be obtained under this scheme.

Pradhan Mantri Suraksha Bima Yojana (PMSBY):

This is an insurance scheme started from 1988. It provides insurance coverage against accidental death, permanent partial disability to the coir workers and permanent total disability for one year and gets renewed from year to year. The minimum age of a coir worker to be covered under this scheme is 18 and the maximum age is 70. It covers almost 4 lakh workers. This scheme works for the welfare of coir industry workers.

There are many other policies also exist apart from Coir Board policies, like

Micro & Small Enterprises Cluster Development (MSE-CDP):

MSE-CDP scheme tries to address issues like market access, skill & quality, access to capital, improvement of technology etc. and to support sustainable growth of MSEs. It also helps in the formation of self-help groups and common facility centres. By the end of 2017, 9 common

facility centres and 11 infrastructure development projects have been completed and got a BE allocation of Rs. 184 crore in 2017-18.

A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE):

This scheme aims to create new jobs by promoting entrepreneurship culture and innovation. Setting up Network Technology Centres, creating database, developing human resources are major instruments of this scheme. By the end of 2017, total support to be provided to 70 incubators was Rs. 106.20 crore and BE allocation was Rs. 50 crore in 2017-18.

Financial Support to MSMEs in ZED Certification Scheme:

This scheme was introduced in 2016 to benefit the MSMEs by promoting zero defect and zero effect (ZED) manufacturing units among MSMEs and also certifies ZED. This ZED certification helps in developing a system for zero defect MSMEs, improving the quality of tools, adaption of energy efficient units and encouraging the MSMEs to start zero defect production process without having any negative impact on the environment. ZED assessment can help in reducing wastages, productivity increase, develop new process and new product and expanding their market. This scheme covers almost 22,222 MSME units with a project cost of ₹ 491 crore.

National Scheduled caste and Scheduled Tribe Hub (National SC/ST Hub):

Under the central government public procurement policy for MSMEs order 2012, this scheme gives professional support to scheduled caste and scheduled tribe entrepreneurs. It collects data on SC/ST entrepreneurs, helps in capacity building through training, skill development programs, develops vendor through NSIC, CPSEs, DICCI etc., promotes SC/ST entrepreneurs' participation in conferences & seminars and makes sure these entrepreneurs get benefit of all the plans & policies. During 2016-17, assistance was provided for 58 domestic exhibition to 671 SC/ST MSMEs.

Ease of Registration Process of MSMEs- Udyog Aadhaar Memorandum:

In 2014 the honorable Prime Minister of India, Mr. Narendra Modi suggested to simplify the registration process for MSMEs in India in 'Mann Ki Baat.' Following his suggestion, Ministry of MSME notified a simple one-page registration form namely, Udyog Aadhar Memorandum (UAM) in 2015. This idea promoted ease-of-doing-business in India.

Framework for Revival and Rehabilitation of MSMEs:

It addresses the stress in the MSME accounts in a simpler and faster way and works to promote and develop the MSMEs. In this process, banks help by finalizing corrective action plan. It started in 2015.

MSME Data Bank:

To enhance the competitiveness of MSMEs, all the MSMEs are instructed to disclose their information pertaining to their enterprises online in the data bank maintained by the central government. This data bank will enable the governments to assess the performance of the MSMEs and undertake policy measures accordingly. Through the online system, MSMEs will be able to take the benefits of various policies. This scheme was started in 2016 by Ministry of MSME, India.

Lastly, the government of India notified in 2018 that MSMEs' loan of one crore rupees can be obtained within 59 minutes subject to eligibility conditions. . This hassle free loan decision will stimulate the whole MSME sector as it has the potential to solve the continuous credit problem.

These are some of the schemes to facilitate the MSME sector of India. But are the schemes successful in promoting and developing Indian MSME sector? It is quite difficult to provide any specific and clear answer to this question. But some points demand to be noted.

3.2 Evaluation of schemes related to MSME sector: How far they have been successful

Credit:

According to Yadav (2012), MSMEs often find it hard to get financed from banks thanks to its low equity base, insignificant market tie-up, absence of co-laterals, improper book keeping, lower involvement of technology and fund diversions etc. The reason is that this sector is considered to be riskier in comparison to the big firms and as a result, they have to pay higher premiums and collaterals for an institutional loan. Most of the times MSMESs fail to provide collaterals. Although absolute credit deployed through banks to manufacturing sector increased substantially post 1991 reforms, the share of credit to MSEs declined (Bhattacharya, 2019). The strategy of industrial policy in the mid-2000s by making MSME a new category has not served any useful purpose in terms of making institutional credit available to MSMEs (Nair & Das, 2019). For instance, the provision of subsidies to alleviate SMEs access to finance can be ineffective or counter-productive (Beck & Demirguc-Kunt, 2006). So from the existing

literature it is clear that in spite of many schemes like CGTMSE and presence of several supporting institutions like National Small Industries Corporation (NSIC), Small Industries Development Bank of India (SIDBI), Small Industries Development Organization (SIDO), National Bank for Agriculture And Rural Development) etc., MSMEs are suffering from credit constraint. Looking at the outstanding bank credit to micro and small enterprises, one can see the year-on-year growth rate of credit from banks has declined substantially.

Y-o-Y growth rate of Credit to Micro & Small Enterprises

Table 3.1

Year	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
2006	21.6	21.3	22.1	21.3
2007	24.4	26.1	38	25.7
2008	47.4	257.1	33.1	67.7
2009	26.6	0.0	16.6	19.9
2010	45.4	38.3	16.6	42.1
2011	35.3	36.1	2.2	33.5
2012	5.2	25.8	1.1	8.8
2013	26.8	40	37.9	30
2014	23.4	29.8	-1.76	23.8
2015	-4.94	5.81	-19.8	-2.8

(Source: Annual Report 2015-16, Ministry of MSME, Government of India)

From the table 3.1, the declining trend of credit from 2006 to 2015 is clearly observed. In 2015, the Y-o-Y growth rate of credit became negative. It shows the failure of government policies for MSMEs pertaining to credit.

SC/ST Enterprises:

Percentage Distribution of Enterprises Social Category Wise

Table 3.2

Sector	SC	ST	OBC	Others	Not Known	Total
Micro	12.48	4.11	49.83	32.79	0.79	100
Small	5.50	1.65	29.64	62.82	0.39	100
Medium	0.00	1.09	33.85	70.80	4.27	100
Total	12.45	4.10	49.72	32.95	0.79	100

(Source: Annual Report 2015-16, Ministry of MSME, Government of India)

From table 3.2, as we can see the total percentage distribution of MSMEs is the lowest for SC and ST category people. In spite of schemes like National SC/ST Hub, these people could not perform and develop like non SC/ST people. So they need more push in terms of new policies which will work in their favor.

Male/ Female Ownership:

According to Annual report 2017-18, Ministry of MSME, Government of India, 79.63 % MSMEs were owned by male and only 20.37 % was owned by female. This figure shows MSME sector still needs to go a long way in order to reduce gender inequality. Schemes like Mahila Coir Yojana are not performing as per the expectation.

Productivity:

Numerous policies have been implemented to raise the skill and productivity of workers in MSME sector. But it seems these policies also failed to provide satisfactory results. According to Ganguly, 2017 data show that productivity of small firms in manufacturing industry is low in comparison to large firms in India. This creates a problem of 'missing middle' in firm level. And from 2010 onwards there is a significant drop in total factor productivity (TFP) of MSMEs. The TFP within unregistered manufacturing MSMEs was negative for some motor vehicles, rubber, textile, machinery and plastic products during 2006-2011.

Informality:

In India, informal firms constitute a significant portion of the MSME sector. According to the fourth MSME census survey, 2006-07, only 5.94% MSMEs were registered firms and 94.06% were unregistered firms. Though output contribution is higher in registered MSME sector, employment contribution is higher in the unregistered sector. It means the unregistered firms are highly unproductive in nature and affects labor productivity negatively. This sector also does not get any benefit from government policies and supporting institutions. Voluntary registration of firms results in significant gains in value added per employee and sales per employee (Sharma, 2014). Unregistered firms are still a big problem even today as its output statistic suffer from incomplete coverage and causes a loss in tax revenue of the government. The government should make the rules and regulations of the MSME sector little simple and convenient and incentivize unregistered entrepreneurs to register. Numerous policies, subsidy and incentive schemes couldn't solve this problem.

Performance of North eastern States:

Looking at the MSME census data of all the four years, 1977-78, 1987-88, 2001-02 & 2006-07, the lower performance of some north eastern states can be noticed in relative to the other parts' states. Especially states like Arunachal Pradesh, Manipur and Mizoram are the low performing states in terms of output, employment, number of units and investment in fixed assets. States like TN, WB & Maharashtra are far ahead of them. So policies could not address this issue yet. For the growth of MSME sector as a whole in India, the situation of MSMEs in north eastern states has to be improved.

From the above discussion one thing is clear that many schemes are existing for MSMEs in India. But proper implementation and success of these schemes are matters of question.

CHAPTER-IV

MSMEs, POVERTY & INCOME INEQUALITY: SOME PANEL EVIDENCE

4.1 Introduction

MSMEs have been scattered in different numbers across the states in India. From the 4th census survey of MSME, 2006-07, it can be inferred that some states like WB, UP, Maharashtra and TN have higher number of MSME units and employment whereas states like Arunachal Pradesh, Nagaland, Pondicherry and Dadra & Nagar Haveli have lower number of MSME units and employment. In terms of gross value of output, Maharashtra, UP, TN and Punjab are leading states whereas Arunachal Pradesh, Manipur, Tripura, Mizoram and Meghalaya are backward states. Investment in fixed assets is higher in Gujarat, Maharashtra and Tamil Nadu with states like Manipur, Mizoram and Meghalaya having a lower rate of investment.

It would be interesting to know how the Indian states are performing in terms of MSME units, MSME output, MSME employment and investment in fixed assets in MSME sector in four years, 1977-78, 1987-88, 2001-02 and 2006-07. The reason behind choosing these specific four years is that MSME census surveys were conducted in these years only. So state level data available for these four years only.

4.1.1 First Census Survey of Small Scale Industrial Units (1977-78)

In the year 1977-78, for the first time a census survey had been conducted for small scale industrial (SSIs) units by covering 2.58 lakh registered SSI units but it did not cover the service sector small scale units. Out of 2.58 lakh SSI units only 1.4 lakh units were working. 16,53,178 employment were created and Rs. 2,60,273 lakh output was produced. Along with this, the value of the exports was Rs. 150.49 crore (First Census Survey of Small Scale Industrial Units, 1977-78). The data on number of units, employment, output and investment in fixed assets are presented below in a table.

Form the table 4.1, one can see various states' performance. By looking at the overall performance in all the four categories, it can be concluded that Maharashtra, Tamil Nadu, Uttar Pradesh West Bengal and Gujarat were some of the leading states and Arunachal Pradesh, Dadra & Nagar Haveli and Nagaland were some of the backward states in India in terms of small scale units' performance.

Table 4.1

States	No. of Units (in number)	Employment (in number)	Output (in Rs crore)	Investment (in Rs crore)
West Bengal	16904	176198	270.22	91.9
Uttar Pradesh	13939	160027	222.67	91.33
Maharashtra	17338	239770	529.47	226.66
Tamil Nadu	18547	215182	321.78	111.15
Madhya Pradesh	8727	59612	70.03	30.43
Rajasthan	8055	45860	56.38	25.59
Kerala	6902	126514	115.65	44.08
Gujarat	11599	114500	208.62	96.04
Karnataka	7062	64385	79.77	43.79
ArunachalPradesh	12	181	0.11	0.01
Nagaland	46	448	0.48	0.28
Manipur	518	3409	3.32	0.9
Tripura	275	1698	1.45	0.79
Bihar	6368	61465	72.03	31.79
Haryana	5361	48503	101.79	40.45
Himachal Pradesh	1729	5851	4.52	3.16
J&K	1232	9598	11.03	3.67
Odisha	2163	18624	22.26	8.79
Punjab	14827	123544	243.38	81.54
Delhi	5327	64880	136.98	52.68
Pondicherry	294	2570	3.14	1.97
AP	8999	78673	85.91	45.87
Mizoram	84	336	0.16	0.21
Meghalaya	179	1188	1.2	0.87
Assam	1739	19652	22.64	11.09
Chandigarh	284	2882	6.35	3.33
Dadra& Nagar	36	361	0.47	0.31
Goa	641	7253	10.8	6

(Source: Report on Census of Small Scale Industrial Units, Ministry of MSME)

The summary statistic of the above table is presented here.

Table 4.2

Variable	Observations	Mean	Std. Dev.	Min	Max	C.V
No.of Units	28	5685.25	6099.106	12	18547	1.0727
Employment	28	59041.57	70578.54	181	239770	1.1954
Output	28	92.95036	127.3913	11	529.47	1.3705
Investment	28	37.66714	50.88335	.01	226.66	1.3508

(Source: Author's own calculation)

The above summary statistic table shows the huge difference between states as the difference between minimum value and maximum value is quite a large number. Here, the coefficient of variation (CV) shows the dispersion of values around its mean. In this data set, CVs are quite large numbers. Dispersion in 'investment in fixed assets' is the highest and lowest for 'number of units.'

To have a better and clear understanding of states' performance the graphical representations of the Table 4.1 are given below.

Figure 4.1

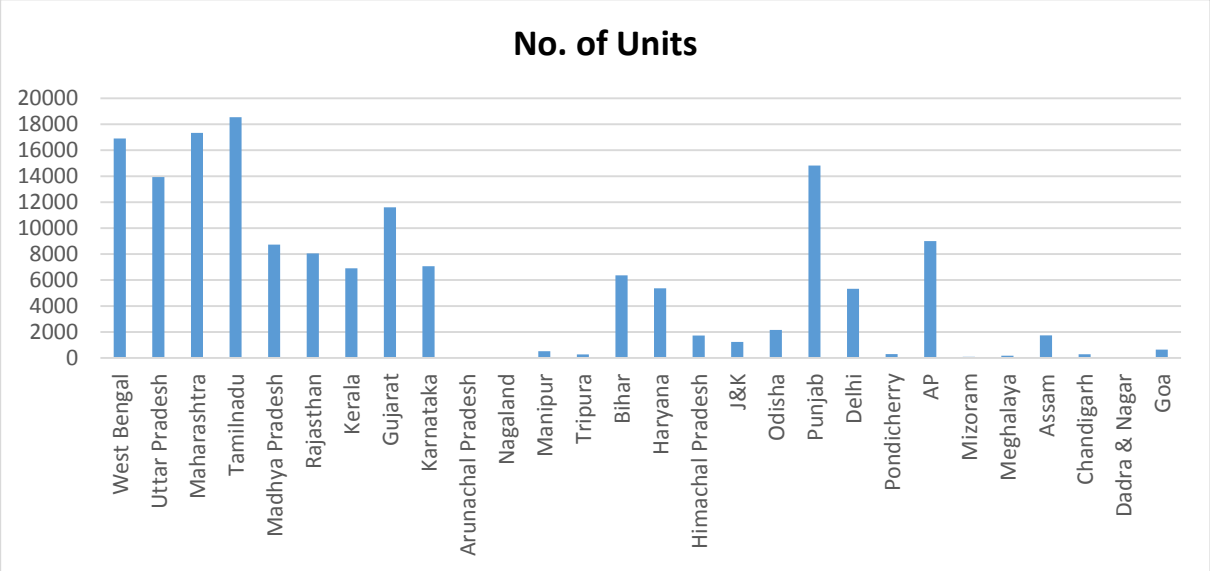


Figure 4.2

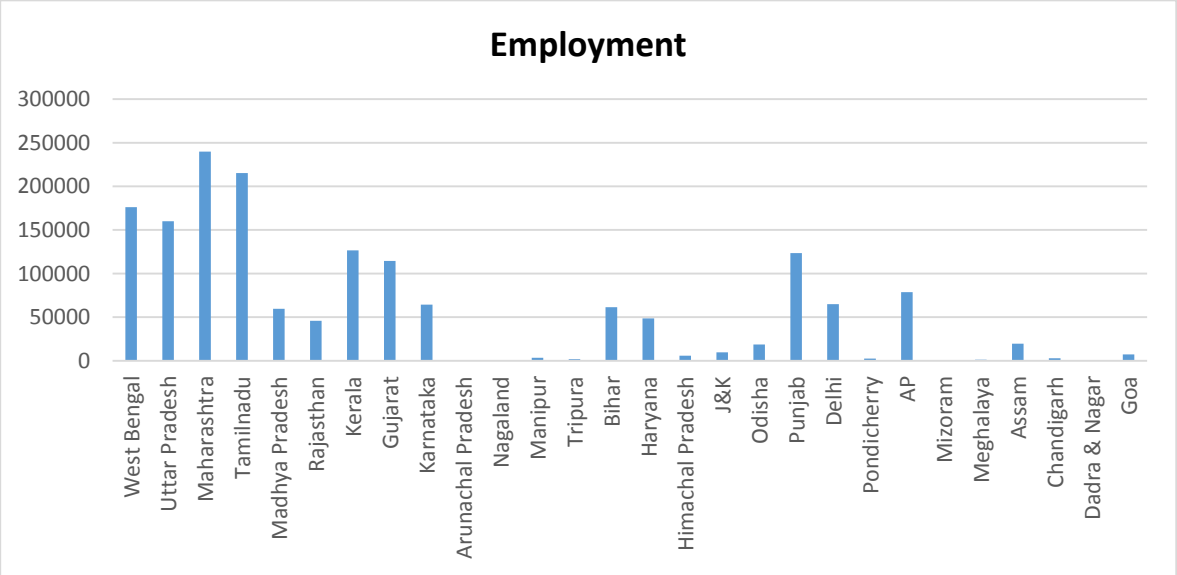


Figure 4.3

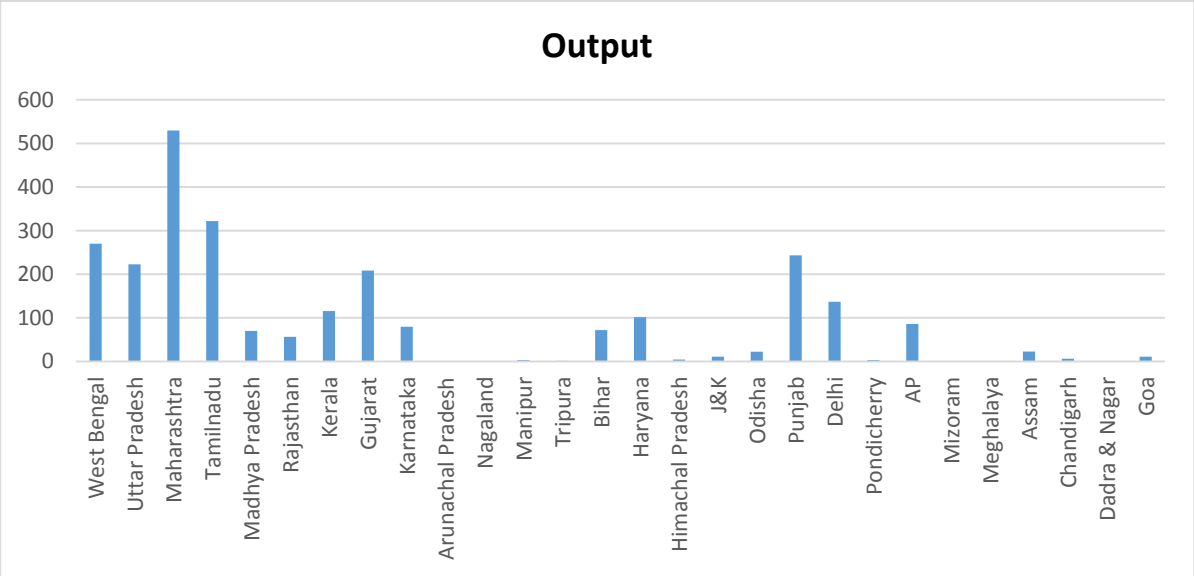


Figure 4.4

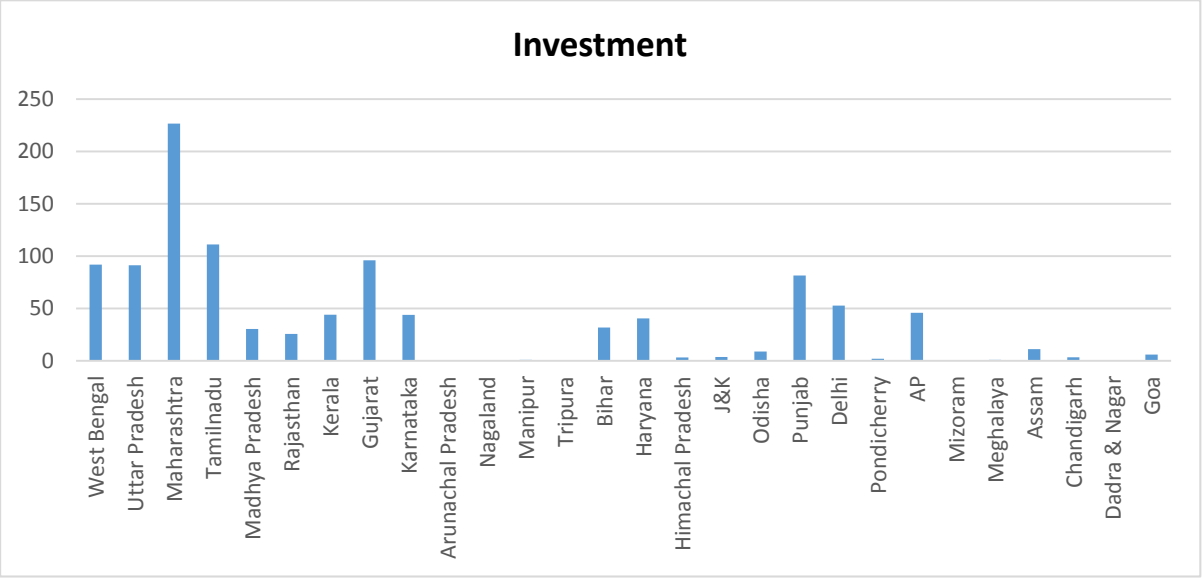


Figure 4.1, 4.2, 4.3 and 4.4 show the number of units, employment, output and investment in fixed assets respectively across the Indian states in the year 1977-78.

4.1.2 Second Census Survey of Small Scale Industrial Units (1987-88)

The second census survey for small scale industrial units had been conducted in the year 1987-88 covering 9.87 lakh SSI units, out of which only 5.82 lakh SSIs were working. 36,65,810 employment opportunities were created and Rs. 42,96,205 lakh value of output was produced. The value of exports was Rs. 2,49,902 lakh (Second Census Survey of Small Scale Industrial Units, 1987-88). But like the first census survey the second census survey also did not include the service sector small scale units and excluded micro and medium enterprises. The performance of various states in India is presented in the below table.

From the below table one can have the idea about how the states are performing in India. Looking at the overall picture, TN, UP, WB and Maharashtra were some of the best performing states in India for this year too. Arunachal Pradesh, Nagaland and Dadra & Nagar Haveli were at bottom.

Table 4.3

States	No. of Units (in number)	Employment (in number)	Output (in Rs crore)	Investment (in Rs crore)
West Bengal	45954	311838	2530.03	429.25
Uttar Pradesh	53282	348908	3727.04	980.96
Maharashtra	29856	355900	7511.79	1260.25
Tamil Nadu	57213	536381	4513.02	1085.84
MadhyaPradesh	73892	158808	1967.36	260.15
Rajasthan	29043	122550	1460.76	364.38
Kerala	25717	169309	1136.91	387.51
Gujarat	34453	276955	3586.24	887.4
Karnataka	40525	244039	2526.86	660.85
ArunachalPradesh	326	2771	26.24	7.03
Nagaland	183	3059	112.47	7.29
Manipur	2078	10216	29.88	20.78
Tripura	809	10069	29.57	14.73
Bihar	34822	181781	3586.24	333.34
Haryana	23356	105656	1763.91	355.9
Himachal Pradesh	6983	25536	245.17	80.67
J&K	9080	40655	303.09	113.31
Odisha	8287	69305	657.34	156.46
Punjab	45339	206209	2776.39	567.34
Delhi	10038	121972	2530.63	401.22
Pondicherry	1221	8721	179.98	36.2
AP	39210	276127	3694.04	625.8
Mizoram	917	4223	14.7	13.88
Meghalaya	587	3780	27	8.88
Assam	4430	34475	302.35	93.69
Chandigarh	1310	10579	131.38	36.5
Dadra & Nagar	149	2115	60.34	12.26
Goa	2772	19935	198.75	74.17

(Source: Report on the Second All-India Census of Small Scale Industrial Units)

The summary statistic table for the year 1987-88.

Table 4.4

Variable	Observations	Mean	Std. Dev.	Min	Max	C.V
No.of Units	28	20779.71	21523.39	149	73892	1.0357
Employment	28	130781.1	142283.3	2115	536381	1.0879
Output	28	1629.624	1863.743	14.7	7511.79	1.1436
Investment	28	331.2871	364.6297	7.03	1260.25	1.1006

(Source: Author's own calculation)

Now form this table an idea about the dispersion for this year can be inferred. Dispersion in 'output produced' is the highest and 'number of units' is the lowest.

Graphical representations of the Table 4.3 are provided below for further clarification on states' performance in the year 1987-88 in India.

Figure 4.5

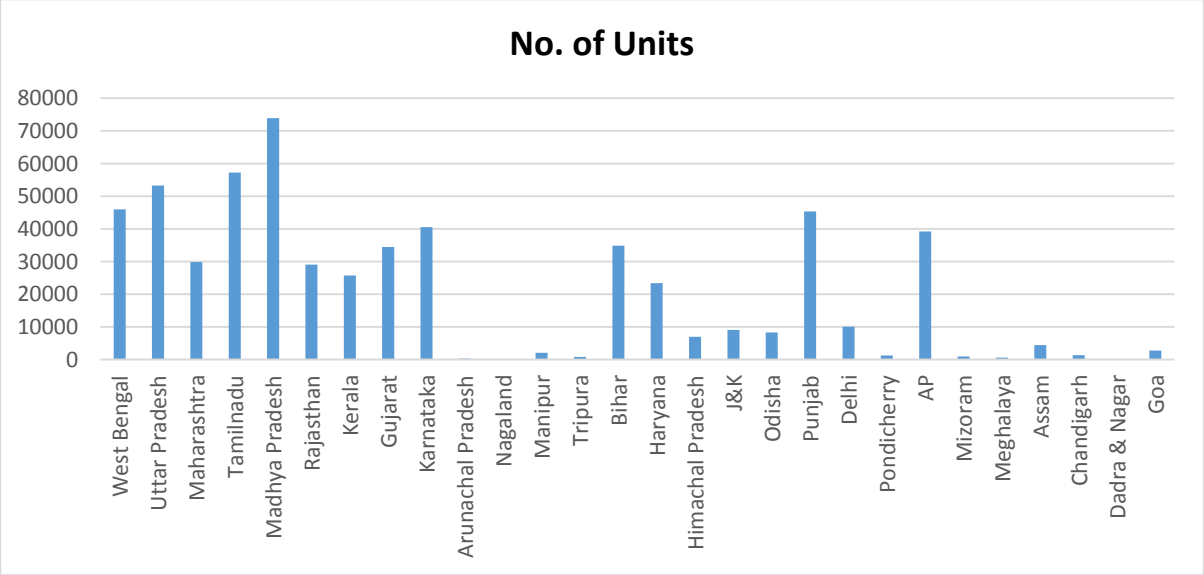


Figure 4.6

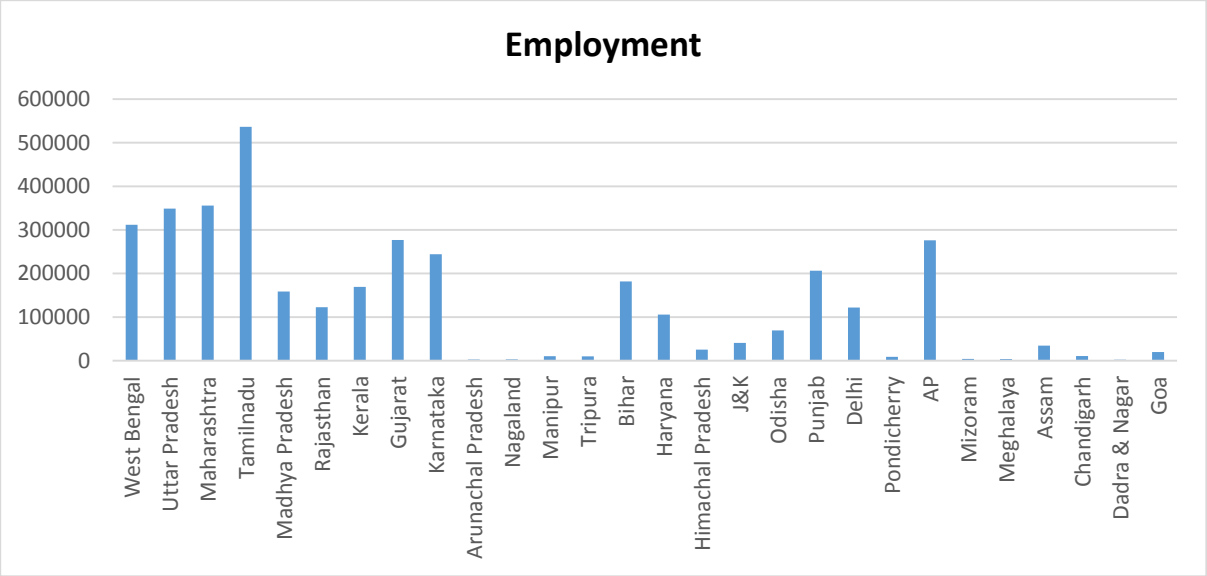


Figure 4.7

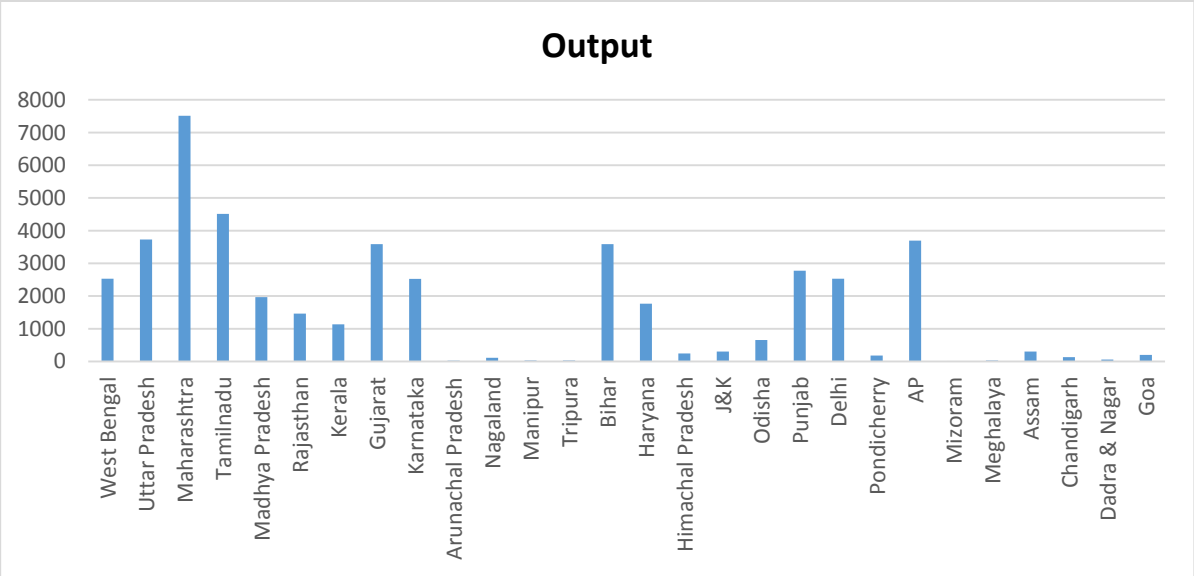
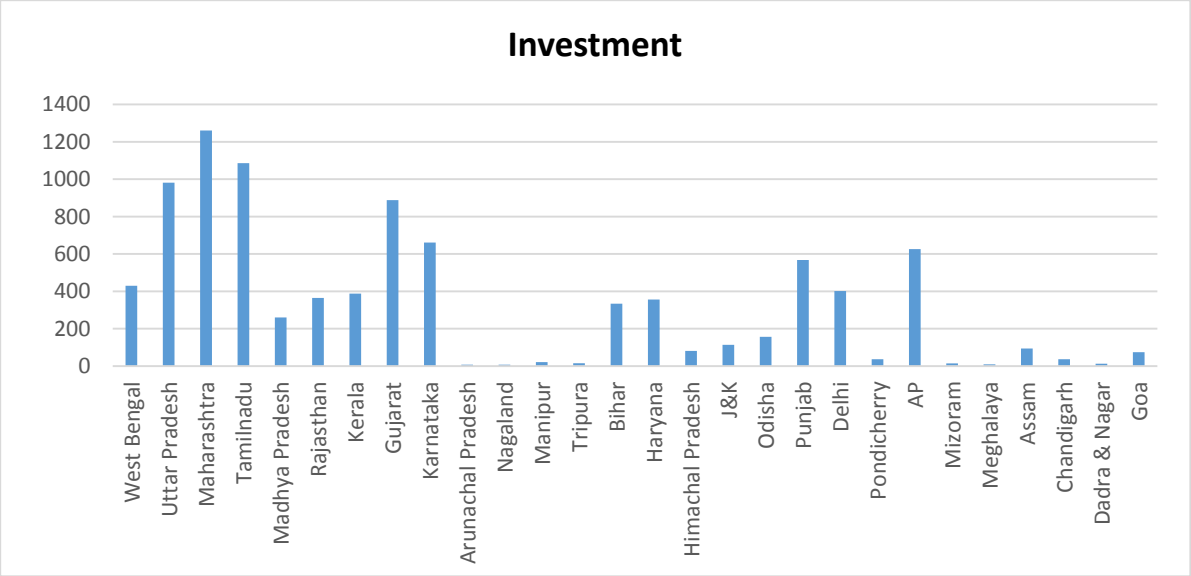


Figure 4.8



4.1.3 Third Census Survey of Small Scale Industrial Units (2001-02)

Third census survey was conducted in the year 2001-02 which only surveyed the small scale industrial (SSI) units neglecting the micro and medium enterprises and service sector small scale firms like the first two census surveys. But it collected data separately for registered units and unregistered units and analysed it. Out of 1,05,21,190 SSIs, only 13,74,974 were registered and the rest 91,46,216 were unregistered units. A total of 2,49,32,763 employment were created and Rs. 2,82,26,998 lakh output was produced. And Rs. 14,19,956 lakh exports had been recorded. The following table presents the states' performance in this year. UP, Maharashtra, Madhya Pradesh and TN were some of the best performing states. Madhya Pradesh's performance was slowed down in this year. Arunachal Pradesh, Dadra & Nagar Haveli and Goa did not perform at par with other states.

Table 4.5

States	No. of Units (in number)	Employment(in number)	Output (in Rs crore)	Investment (in Rs crore)
West Bengal	771388	2169105	17670.1	5602.85
Uttar Pradesh	1707977	4002374	18968.54	17287.05
Maharashtra	803568	2051494	41013.82	27983.41
Tamilnadu	787965	2018137	18262.86	10989.62
Madhya Pradesh	793552	1344584	9710.08	3704.36
Rajasthan	441572	867608	13661.86	6590.68
Kerala	452826	1114661	8157.6	7022.86
Gujarat	530314	1266676	13266.68	11035.92
Karnataka	658821	1638703	12335.19	8427.43
ArunachalPradesh	1252	3687	56.45	30.86
Nagaland	13861	56795	366.95	277.82
Manipur	47999	136811	479.85	355
Tripura	24352	56962	31049.69	324.13
Bihar	519351	1082685	3697.73	2716.53
Haryana	223294	553399	19984.71	7977.82
HimachalPradesh	76198	130120	2399.29	710
J&K	73125	152699	2568.65	1281.09
Odisha	388277	923176	5250.22	1913.92
Punjab	376826	908576	25997.06	11838.54
Delhi	177080	626909	15270.8	6961.12
Pondicherry	8860	35215	2229.93	493.91
AP	875430	2139763	18262.86	12363.32
Mizoram	11116	24850	141.13	123.47
Meghalaya	22520	65586	338.72	138.91
Assam	194379	429003	3302.55	1095.87
Chandigarh	22247	48252	1298.44	509.35
Dadra & Nagar	3010	42012	10641.57	2099.14
Goa	7097	29311	2004.11	632.82

(Source: Third All India Census Of Small Scale Industries 2001-2002)

The summary statistic table is given below.

Table 4.6

Variable	Observations	Mean	Std. Dev.	Min	Max	C.V
No.ofUnits	28	357652	403944.6	1252	1707977	1.1294
Employment	28	854255.5	963285.5	3687	4002374	1.1276
Output	28	10656.69	10503.07	56.45	41013.82	0.9855
Investment	28	5374.64	6525.483	30.86	27983.41	1.2141

(Source: Author's own calculation)

As it's presented in the above table, dispersion across the states is the highest for 'investment in fixed assets' and lowest for 'gross output produced.' It means states are converging in terms of output to some extent.

For better clarification about the performance of Indian states in the year 2001-02, graphical representations of the Table 4.5 are given below.

Figure 4.9

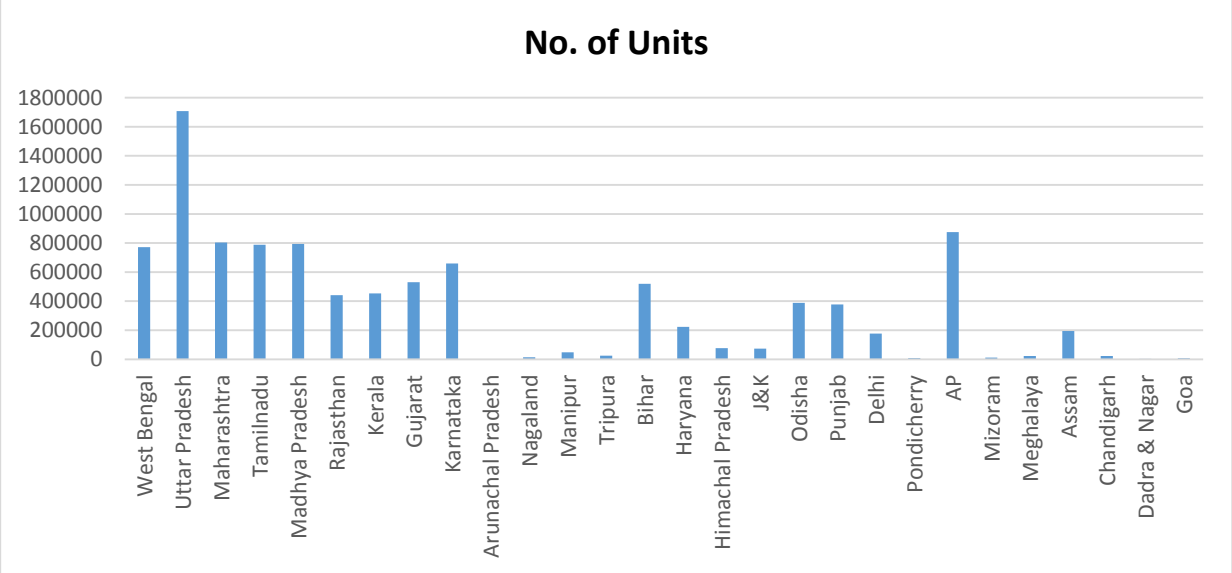


Figure 4.10

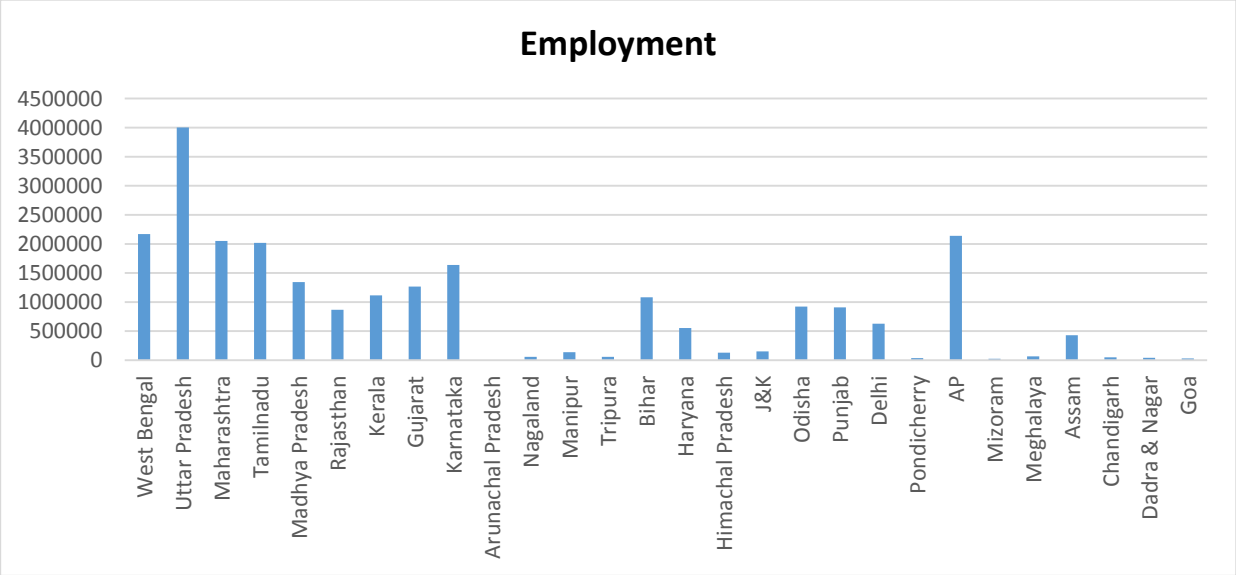


Figure 4.11

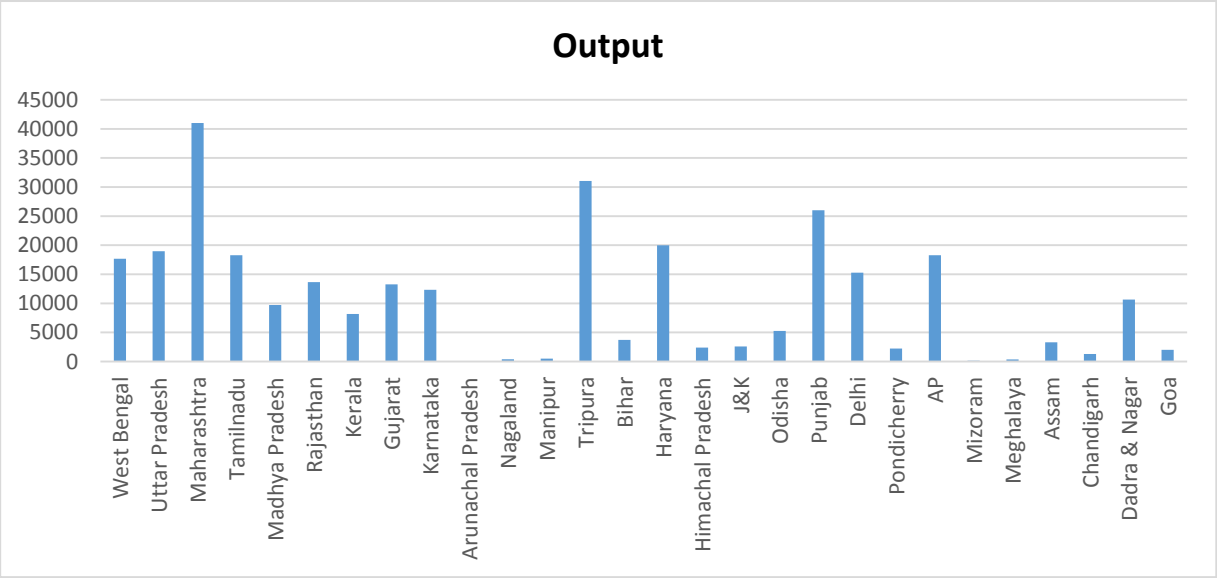
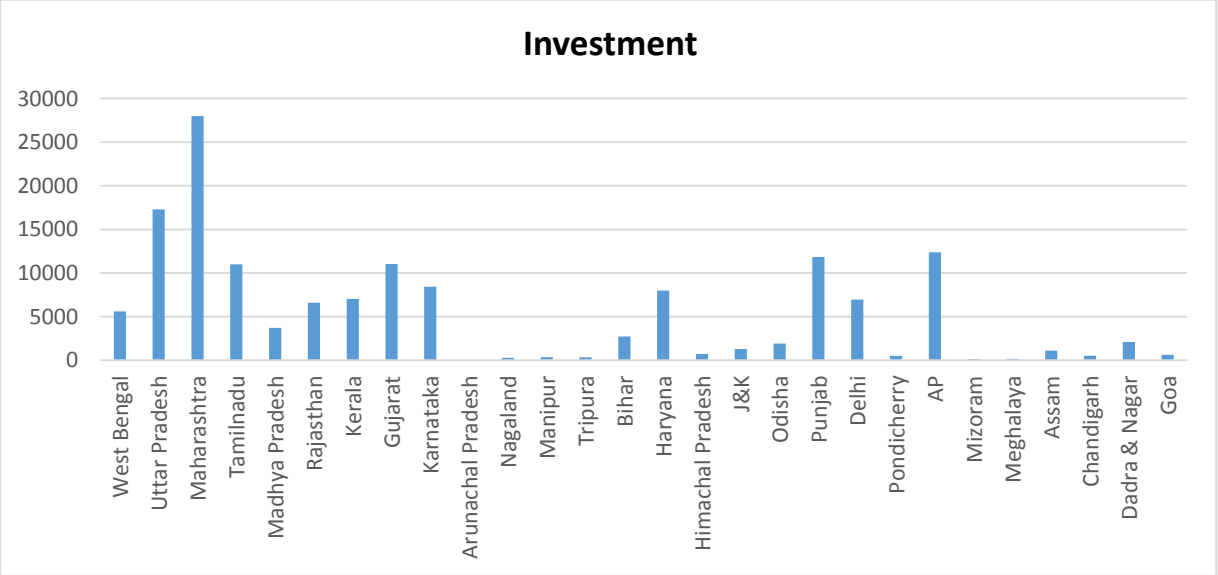


Figure 4.12



4.1.4 Fourth All India Census of Micro, Small & Medium Enterprises, 2006-07

This is the first census survey which included all micro, small and medium units of both industry and service sector unlike the earlier three census surveys which included small scale industrial units only. So, fourth MSME census survey provides a broad and complete picture of MSME sector. This happened as a result of introduction of MSME Development Act, 2006 which gave a proper definition of medium enterprises and renamed this sector from 'Small Scale Industrial Sector' to Micro, Small & Medium Enterprises (MSME) sector.' A total number of 261.01 lakh units were surveyed, out of which 71.44 % belongs to the service sector and the rest 28.56 % belongs to the manufacturing sector. Again, a total of 15.53 lakh were registered units and 245.48 lakh were unregistered units. It means 94.06 percentage of MSMEs remained unregistered which is not a good sign for the economy. 594.61 lakh employment were created and Rs. 4,71,663 crore output was created along with Rs. 1,77,600 crore exports.

Table 4.7

States	No. of Units (in number)	Employment (in number)	Output (in Rs crore)	Investment(inRs crore)
West Bengal	2513303	5831566	29801	15018
Uttar Pradesh	3113316	5791479	81688	43930
Maharashtra	2582870	6465654	111480	67027
Tamilnadu	2595127	6257596	70546	54428
MadhyaPradesh	1290536	2609646	28259	9255
Rajasthan	1271463	2422543	42797	18794
Kerala	1468104	3024124	24462	17808
Gujarat	1097101	3060899	38452	151906
Karnataka	1611655	3710228	44363	19484
ArunachalPradesh	20423	41591	256	584
Nagaland	27138	69948	1384	719
Manipur	64802	116967	160	92
Tripura	109665	165685	575	382
Bihar	1002259	1639977	5898	4723
Haryana	604095	1367915	45703	20943
Himachal Pradesh	184851	310576	12040	4798
J&K	261337	415771	15756	7863
Odisha	1061686	1931929	14749	5770
Punjab	803985	1729062	61565	25863
Delhi	617207	2821657	8394	852
Pondicherry	34409	80987	7113	1468
AP	2005044	5943242	14817	6573
Mizoram	22379	37639	303	279
Meghalaya	48690	102485	437	132
Assam	603541	1234356	6805	5249
Chandigarh	31747	94474	1682	422
Dadra & Nagar	6127	81187	2074	178
Goa	51491	141028	8109	4431

(source: 4th All India Census survey of MSMES)

From the above table, UP, Maharashtra, WB & TN are some of the leading states of MSMEsector and states like Arunachal Pradesh, Manipur, Meghalaya and Mizoram are lagging behind.

The table of summary statistic are given below.

Table 4.8

Variable	Observations	Mean	Std. Dev.	Min	Max	C.V
No.of Units	28	896584	946371.1	6127	3113316	1.0555
Employment	28	2053579	2209824	37639	6465654	1.0760
Output	28	24273.86	28628.87	160	111480	1.1794
Investment	28	17463.25	31402.4	92	151906	1.7981

(Source: Author's own calculation)

The summary statistic table shows the dispersion of 'number of units' is the lowest and highest for 'investment in fixed assets' across the states in the year 2006-07.

The graphical representations of the Table 4.7 are provided below.

Figure 4.13

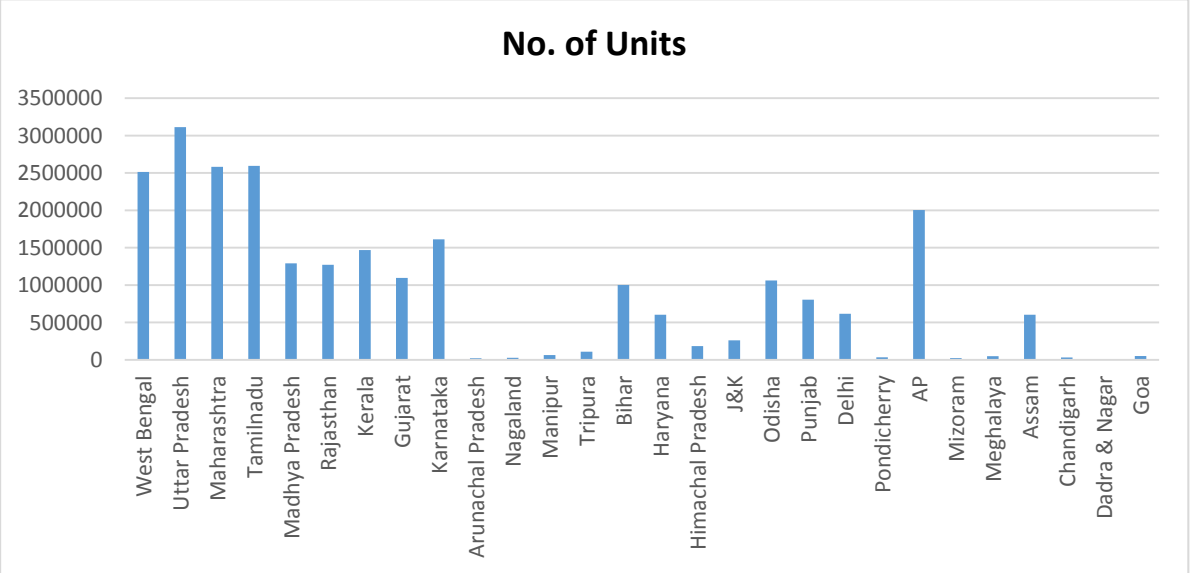


Figure 4.14

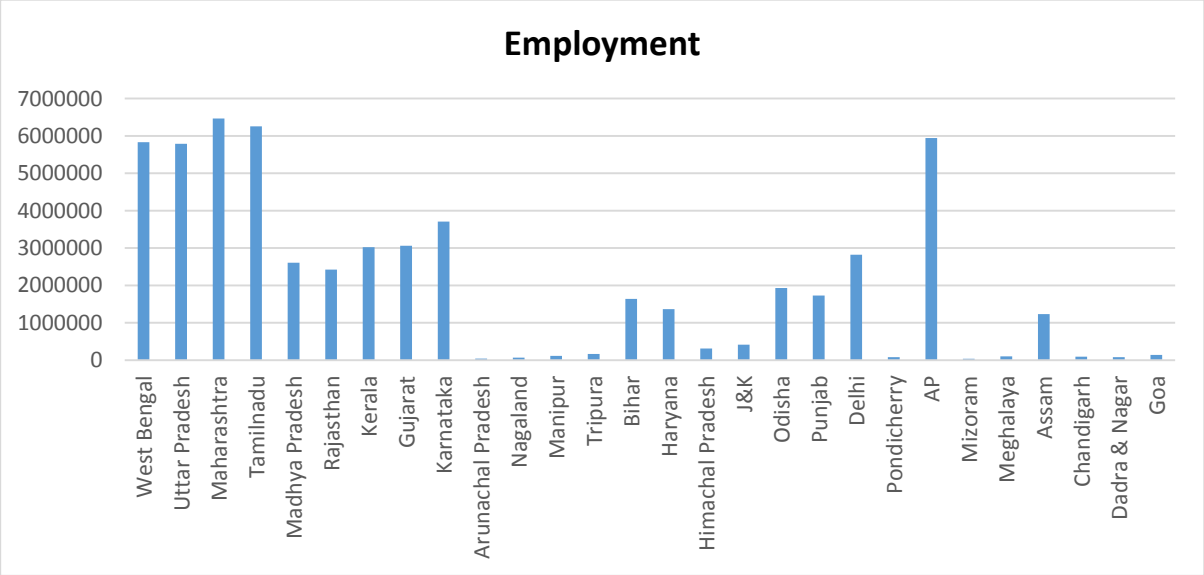


Figure 4.15

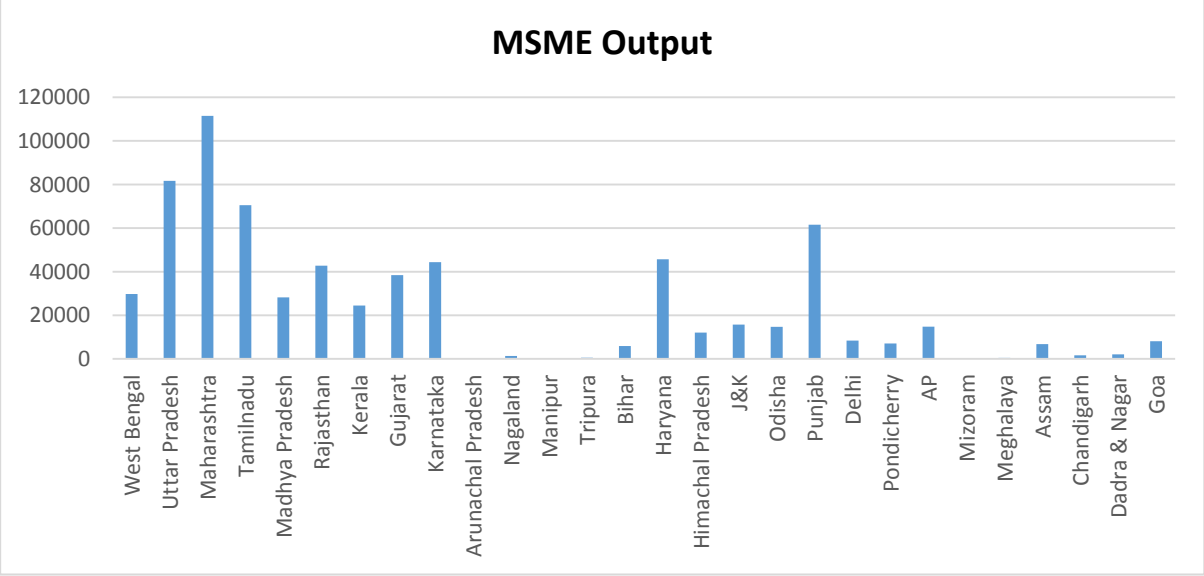
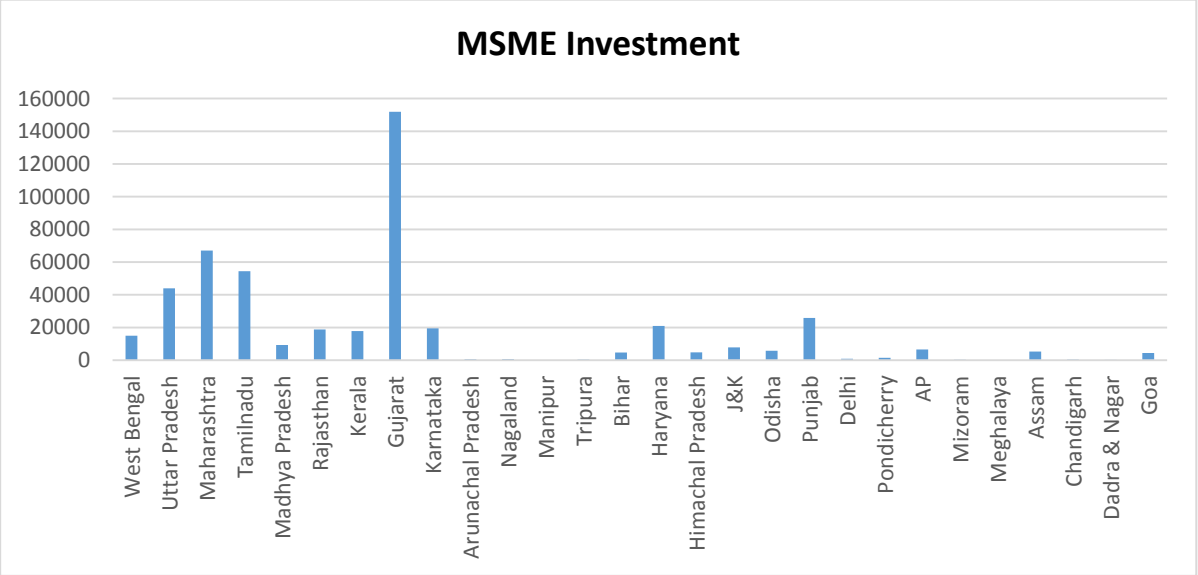


Figure 4.16



Looking at the coefficient of variations of different variables for these four years an idea about the dispersion of states can be obtained. C.V of 'number of units' are 1.0727, 1.0357, 1.1294 & 1.0555 in the year 1977-78, 1987-88, 2001-02 & 2006-07 respectively. It shows though MSMEs have performed well in terms of generating employment but the volatility across the states in terms of number of SSI units has increased in first three years but it again declined to 1.0555 in 2006-07. C.V of 'employment' are 1.1954, 1.0879, 1.1276 & 1.0760 in the year 1977-78, 1987-88, 2001-02 & 2006-07 respectively. This shows the volatility is fluctuating across the states. It declined to 1.0879 in 1987-88 from 1.1954 in 1977-78. Again it increased in 2001-02 and declined to 1.0760 in 2006-07. But comparing C.V of 2006-07 with 1977-78, it is clear that volatility across the states in terms of employment generated by SSI units has declined. C.V of 'output' are 1.3705, 1.1436, 0.9855 & 1.1794 in the year 1977-78, 1987-88, 2001-02 & 2006-07 respectively showing the decline in volatility in the first three years, especially in 2001-02 but it again increased to 1.1749 in 2006-07. Overall volatility across the states in terms of gross output generated by SSI units has come down. C.V of 'investment in fixed assets' are 1.3508, 1.1006, 1.2141 & 1.7981 in the year 1977-78, 1987-88, 2001-02 & 2006-07 respectively. Here also volatility is fluctuating across the states like volatility in employment. But the important point to be noticed is that in comparison to 1977-78 volatility has increased across the states in 2006-07 unlike other three variables. It shows some states like Gujarat, Maharashtra and Tamil Nadu have got a boost in investment in fixed assets but

states like Manipur, Meghalaya and Dadra & Nagar Haveli could not get that boost. It resulted in the increased volatility across the states in terms of investment in fixed assets.

4.2 NEXUS BETWEEN MSME SECTOR AND INCOME INEQUALITY & POVERTY IN INDIA

India is put among the countries exhibiting high-income inequality with a Gini coefficient of 0.55 in 2011-12 (India Inequality Report 2018, Oxfam India), in comparison to 0.53 in 2004-05 (IHDS, 2011). Poverty head count ratio of India stands at 21.9 % at national poverty line in 2011. Again in 2012, poverty rate in rural areas was 25 % and 14 % in urban areas and one in five Indians is poor (India's Poverty Profile, World Bank). The World Bank has projected India's growth rate at 7.3% in 2018 and 7.5% for the next two decades. These data show the critical conditions of India which need to be addressed. At the other hand, India is a growing nation. However, this growth will be futile, if the increasing income inequality and poverty persist over time. Leaving behind the lower and middle income group people and focusing upon the higher income group people will make the situation worse and will lead to a crisis as like capitalist crisis. Hence efforts should be directed towards reducing poverty and income inequality in the growth and development process.

4.2.1 Growth in MSME sector and Income Inequality

Form the previous analysis in section 4.1 the growth and performance of MSME sector (previously SSI units sector) from 1977-78 to 2006-07 is quite clear. But there is still an ambiguity about how this growth affects the income inequality of India. Income inequality is said to exist when a large proportion of income or wealth is concentrated in the hands of a small percentage of population. It widens the gap between the richest group and the rest. In India, top 1 % holds 51.53 % of total national wealth and the bottom 62 % hold only 4.8 % of the total national wealth (Oxfam Inequality Report, 2019). This is an alarming warning. If income inequality is not taken care of then it will have multiple adverse impact on the lives of the lower group people in future.

Now the question is from where this inequality started. According to Joseph Stiglitz, one answer can be the 'distribution of income.' For 200 years, a debate is going on between two schools of thought about what determines the distribution of income. One school of thought, starting from Adam Smith, Nassau Senior and 19th century liberal economists, believed in

competitive market system. They were of view that in a competitive market economy, factors get reward as to their marginal productivity. Labourers are rewarded for their contribution to the production process in terms of labour service and capitalists are rewarded for their abstinence rather than consumption. So the distribution of income is attributed to the ownership of assets, both human and financial capital. In future the distribution of income is determined by how the assets are passed on across the generations. But this theory failed to explain the widening inequality in the post second world war era. This can be substantiated with some examples. In the United States the ratio of CEO pay to that of the average worker increased from around 20 to 1 in 1965 to 354 to 1 in 2012. Jensen and Murphy conducted a study of 2505 CEOs of 1400 companies in 1990 and found that annual changes in their pay scale did not reflect changes in the corporate performance (Standard Economics Is Wrong. Inequality and Unearned Income, 2016, Stiglitz). All these examples create a doubt on the marginal productivity theory.

This failure of liberal school of thought gave rise to the second school of thought which focused on market power as the determinant of distribution of income. Inequality across individuals is related to inequality across the firms. Concentration of market power raises income of a group of people who are owners of the monopoly firms. One of the great economists of the 20th century, Joseph Schumpeter argued that monopoly power is temporary. In a competitive market system fierce competition will ensure the competitive price. But the empirical results exhibited flaws in this theory and today's market is characterized by continuous prevalence of monopoly profits (The new era of monopoly is here, Stiglitz).

In this context, one can say the income inequality issue can be tackled in some extent by solving the issue of monopoly power. Here, MSMEs enter into the picture. To reduce the monopoly power of large enterprises we need micro, small and medium enterprises. So that the market power will be distributed among all types of enterprises. But in India, whether growth in MSME sector has helped in reducing the income inequality or not can be decided after a thorough examination and proof. To test this a panel model has been applied.

4.2.1.1 Data & Methodology

The data used and the methodology applied to estimate the model are described in this section. This model has used five variables such as Income Inequality Index (Gini Index) for both rural and urban areas, MSME Output, MSME Employment, Net State Domestic Product (NSDP) and Gross Enrolment Ratio (GER). Income Inequality is the dependent variable and all others

are independent variables. NSDP & GER are control variables. In the model, only three years' data have been taken and the years are, 1987-88, 2001-02 and 2006-07. The reason behind choosing these three years inly is that state wise MSME data are available for four years: 1977-78, 1987-88, 2001-02 and 2006-07. But for the year 1977-78, GER data could not be obtained and this year was dropped from the model. Data on rural and urban income inequality (Gini Index) have been taken from Reserve Bank of India database. State wise MSME output and employment data are collected from the respective year's MSME census survey report. The census survey of 1987-88 and 2001-02 include only small scale industries but 2006-07 census survey represents micro, small & medium enterprises altogether. These reports are available in the Ministry of Micro, Small & Medium Enterprises website. NSDP at factor cost data have been taken from Indiastat database. State wise GER data are collected from CMIE, States of India database. GER data shows the total number of people attended Middle/Senior basic school (class VI to VIII). It is a proxy of the educational attainment of Indian states. Due to the limitation of data availability, only 13 states/Union Territories (henceforth only 'states') are analysed in the model. So the sample size is 13.

This model will be tested for the three years individually and then all together. Model for all the years all together is presented below.

$$\textit{Rural Income Inequality}_{it} = \alpha_0 + \alpha_1 \textit{lnMSME output}_{it} + \alpha_2 \textit{lnMSME employment}_{it} + \alpha_3 \textit{lnNSDP}_{it} + \alpha_4 \textit{lnGER}_{it} + \varepsilon_{it}$$

$$\textit{Urban Income Inequality}_{it} = \alpha_0 + \alpha_1 \textit{lnMSME output}_{it} + \alpha_2 \textit{lnMSME employment}_{it} + \alpha_3 \textit{lnNSDP}_{it} + \alpha_4 \textit{lnGER}_{it} + \varepsilon_{it}$$

These two are panel models. Hausman test will be applied to decide upon the fixed effects model or random effects model.

For individual years, the dependent variables will be regressed upon the independent variables, the model is:

$$\textit{Rural Income Inequality}_{i} = \alpha_0 + \alpha_1 \textit{lnMSME output}_{i} + \alpha_2 \textit{lnMSME employment}_{i} + \alpha_3 \textit{lnNSDP}_{i} + \alpha_4 \textit{lnGER}_{i} + \varepsilon_{i}$$

$$\textit{Urban Income Inequality}_{i} = \alpha_0 + \alpha_1 \textit{lnMSME output}_{i} + \alpha_2 \textit{lnMSME employment}_{i} + \alpha_3 \textit{lnNSDP}_{i} + \alpha_4 \textit{lnGER}_{i} + \varepsilon_{i}$$

Here, the time component 't' is not present because time is not varying in specific year's regression. So only 'i' is present which represents each state's observations. This is applicable to all other year's regression which are taken individually.

Before proceeding to the result of the model let's have a brief description on panel data, fixed effects, random effects and Hausman Specification test.

Panel data:

Panel data is also known as 'longitudinal data.' It combines both time series and cross section data, where all cross section units are observed in the whole time period. In X_{it}, *i=1,2,…….,N* and *t= 1, 2,….,T.* Usually T is small. In our model, N= 13 and T= 3. This is an unbalanced panel data model. There are some advantages of using a panel data set. They are,

a. It can take care of heterogeneity present in the cross section data set.

b. panel data provides more informative data, less collinearity among the variables, more degrees of freedom and more efficiency.

Fixed Effects Model (FE Model):

Fixed effect model is used when the focus is on analysing the impact of variables that vary over time. It explores the relationship between the predictor and outcome variables within an entity. At the same time, it allows for heterogeneity among subjects as each entity can have its own intercept value. Though it may differ in the different subjects but not over time. Besides this time-invariant characteristics are unique to the individual and are uncorrelated with other individual characteristics.

The equation for fixed effect model is;

$Yit = \beta_0 + \beta_1 X_{1,it} + \ldots + \beta_k X_{k,it} + uit$

Where,

Yit is the dependent variable. 'i' represents entity and 't' represents time.

Xit represents the independent variables.

β_k represents the coefficients of the independent variables.

uit represents the error term.

Random Effects Model (RE Model):

The equation for random effect model is;

$Yit = \beta_0 + \beta_1 X_{1,it} + \ldots + \beta_k X_{k,it} + uit + \varepsilon it$

Where,

Yit is the dependent variable. 'i' represents entity and 't' represents time.

Xit represents the independent variables.

β_k represents the coefficients of the independent variables.

uit represents the between-entity error term.

εit represents within-entity error term.

In Random effects, entity's error term is uncorrelated with the predictors which allows for time-invariant variables to play a role as explanatory variables. The intercepts values are a random drawing from a much bigger population. But the inferences can be generalized beyond the sample.

Hausman Test:

Hausman test helps to choose between fixed effects model and random effects model. The null hypothesis for this test is random effects model is appropriate. It uses chi-square value.

The hypotheses are,

Null Hypothesis 1: Growth in MSME sector does not reduce Income inequality in India.

Alternative Hypothesis 1: Growth in MSME sector reduces income inequality in India.

4.2.1.2 For the year 1987-88

By taking1987-88 data for all these five variables of 13 states and regressing the dependent variable upon the independent variables, the result is given in tables.

Table 4.9

Rural Inequality	Coefficient	p-value
lnMSME output	-0.0174 (0.0326)	0.60
lnMSME employment	0.0196 (0.0394)	0.63
lnNSDP	-0.0149 (0.0439)	0.04
lnGER	-0.0215 (0.0438)	0.63

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

Here, we can see growth in MSME output is reducing rural income inequality and the magnitude is 1.74 % but it is insignificant. The interesting result comes with employment change. As shown in the table 4.9, growth in MSME employment is causing the rural income inequality to rise. This is quite puzzling. The reason behind this puzzling result will be discussed at the end of the section 4.2.1. Growth in control variables, NSDP and GER is reducing rural income inequality. Though NSDP is a significant variable but GER is not significant. Hence, growth in NSDP has significant negative impact on rural income inequality and policy makers can directly target this variable.

Table 4.10

Urban Inequality	Coefficient	p-value
lnMSME output	-0.0268 (0.0235)	0.28
lnMSME employment	-0.0012 (0.0283)	0.96
lnNSDP	-0.0507 (0.0316)	0.14
lnGER	-0.0956 (0.0315)	0.01

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

In the table 4.10, it is clear that all the independent variables are negatively affecting the urban income inequality but only GER is significantly affecting which also has the maximum magnitude (9.56 %). So in urban areas, education is helping people to be efficient and productive. This is, in turn, helping to earn income and thereby reducing income inequality.

4.2.1.3 For the year 2001-02

Table 4.11

Rural Inequality	Coefficient	p-value
lnMSME output	0.0203 (0.0213)	0.36
lnMSME employment	-0.0004 (0.0182)	0.98
lnNSDP	-0.0041 (0.0523)	0.90
lnGER	-0.0413 (0.0272)	0.16

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

Unlike 1987-88 rural economy result, output is having a positive relationship with rural income inequality and its magnitude is 2.032 %. But it is not significant. Again this result is puzzling and will be discussed at the end of this section. MSME employment, NSDP & GER are affecting the inequality negatively but none of those is significant.

Table 4.12

Urban Inequality	Coefficient	p-value
lnMSME output	-0.0054 (0.0228)	0.81
lnMSME employment	-0.0142 (0.0195)	0.48
lnNSDP	0.0519 (0.0376)	0.20
lnGER	-0.0453 (0.0290)	0.15

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

Here, besides NSDP all other independent variables are negatively affecting the urban income inequality of India in 2001-02. But none of those is significant. One reason can be though NSDP of each state had increased in rural areas of India but a higher proportion of this increased state income had gone to the richest group and the poorest group got a smaller proportion only. So the distribution of the increased income was in favour of the rich and as a result the urban income inequality increased in spite of increase in NSDP.

4.2.1.4 For the year 2006-07

Table 4.13

Rural Inequality	Coefficient	p-value
lnMSME output	-0.0072 (0.0062)	0.28
lnMSME employment	-0.0041 (0.0330)	0.89
lnNSDP	0.0134 (0.0455)	0.69
lnGER	-0.1054 (0.2955)	0.04

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

This is a similar case of urban inequality model of 2001-02. Besides NSDP all other independent variables are negatively affecting the rural income inequality but only GER is significant. The reason behind NSDP positively affecting rural income inequality is the same as already discussed previously in the explanation of table 4.13. As an policy implication, GER should be focused to reduce inequaity.

Table 4.14

Urban Inequality	Coefficient	p-value
lnMSME output	-0.0035 (0.0091)	0.70
lnMSME employment	0.0371 (0.0429)	0.41
lnNSDP	-0.0101 (0.0480)	0.83
lnGER	-0.0387 (0.0662)	0.57

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

Here, growth in all the independent variables besides MSME employment are negatively affecting the urban income inequality in 2006-07. But all the variables are insignificant.

4.2.1.5 For the year 1987-88, 2001-02 & 2006-07 Combined all together

The below two tables represent the two panel models discussed in the section 4.2.1.1 which represent all the three years together. By applying Hausman test, the first model is a fixed effects panel model (Table 4.15) and the second model is a random effects model (Table 4.16).

Table 4.15 (Fixed effects model)

Rural Inequality	Coefficient	p-value
lnMSME output	-0.0031 (0.0075)	0.68
lnMSME employment	0.0576 (0.0225)	0.01
lnNSDP	-0.0438 (0.0173)	0.01
lnGER	-0.6960 (0.0565)	0.23

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

As it is shown in the table 4.15, only growth in MSME employment is affecting the rural income inequality positively and the magnitude is 5.76 %. At the same time, it is highly significant with a p-value of 0.01. Growth in MSME output, NSDP and GER is negatively affecting the inequality but only NSDP is a significant variable with 0.01 p-value. As policy implication, we can focus to increase NSDP across the states in India and try to find out the reason behind this employment-inequality puzzle as it contradicts the conventional economic theory that rise in employment can reduce income inequality by making previously unemployed people to earn.

Table 4.16 (Random effects model)

Urban Inequality	Coefficient	p-value
lnMSME output	-0.0026 (0.0058)	0.64
lnMSME employment	0.0409 (0.0135)	0.002
lnNSDP	-0.0253 (0.0118)	0.03
lnGER	-0.0499 (0.0256)	0.05

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

In the urban areas also similar kind of result obtained. Only difference is that in urban areas education to people is making an impact in reducing income inequality but in rural areas it does not have a significant impact (as GER is significant with p-value of 0.05). Growth in MSME output and NSDP are negatively affecting the income inequality in urban areas but only NSDP

is a significant variable. Growth in MSME employment is significantly affecting the income inequality positively.

Discussion

The above mentioned tables are depicting different results on year-wise distribution whereas when the combined equation is pointing towards the positive relation between growth in MSME employment and income inequality. It accepts the null hypothesis and rather gives a positive relationship. When growth in MSME variables and NSDP are negatively affecting the rural and urban income inequality, this result follows the conventional economics. However, this is a rather puzzling situation where the growth in MSME variables and NSDP are positively affecting income inequality in India that goes against the conventional trends and hence, it needs to be explained in detail. When MSME output or MSME employment grow the workers should also get a significant share of the increased income like the owners or managerial class people because it is the workers who have produced this extra value with the help of machines. But when the distribution of income occurs in favour of the owners then workers are said to be exploited. They are not getting return as to their contribution. This makes the rich richer as the percentage increase in profit is higher to the percentage increase in wage. This is a situation similar to the capitalist system explained by Karl Marx. The growth in MSME sector is supposed to reduce the gap between rich and poor but actually it's widening in some years. Hence we can say that within MSME sector there is a section of people who are getting the benefits, but this is surely not the working class people. So the very basic idea of 'trickle-down effect' is failing here. This situation also points towards policy failure of MSMEs as discussed in the chapter 3. The same logic is applicable for NSDP. When NSDP is growing, it is increasing the rich and poor gap in the urban areas in 2001-02 and in rural areas in 2006-07. So the distribution of increased income is in favour of the rich. As rightly said, successful economies have more SMEs but their success is not explained by the SMEs (Beck, 2013). Considering this serious issue the policy makers should aim at finding solutions for this problem through new policies and the growth in MSME sector & NSDP should reduce the income inequality in India.

4.2.2 Growth in MSME sector and Poverty in India

When MSME sector grows and expands it employs more and more labourers in India. So it raises the employment and local workers get money. This income raises their standard of living and can help in reducing poverty. So MSME sector has the potential of reducing poverty in some extent. For poverty alleviation in the LDCs, the income level of local workers has to be raised (Maksimov, Wang & Luo, 2017). But actually growth in MSME sector has reduced poverty or not can only be said after examining the data of MSME growth variables and rural poverty & urban poverty and having NSDP and GER as control variables.

4.2.2.1 Data & Methodology

The data used and the methodology applied to estimate the model are described in this section. This model has used four variables such as poverty headcount ratio for both rural and urban areas, MSME Output, Net State Domestic Product (NSDP) and Gross Enrolment Ratio (GER). Output and employment are pro-cyclical. So only output has been taken in this model. Poverty headcount ratio is the proportion of population living below the poverty line. Starting from by Y K Alagh in 1979 to presently, Niti Aayog, the methodology for calculating poverty headcount ratio is evolving. For the years used in the model, Lakadawala methodology has been adopted which measured poverty in accordance with the state specific poverty lines.

In this model, poverty headcount ratio is the dependent variable and all others are independent variables. NSDP & GER are control variables. In the model, only three years' data have been taken and the years are, 1987-88, 2001-02 and 2006-07. The reason behind choosing these three years inly is that state wise MSME data are available for four years: 1977-78, 1987-88, 2001-02 and 2006-07. But for the year 1977-78, GER data could not be obtained and this year was dropped from the model. Data on rural and urban headcount ratio have been taken from 'Report of the Expert Group to Review the Methodology for Measurement of Poverty' published by the Planning Commission, Government of India in June, 2014. State wise MSME output data are collected from the respective year's MSME census survey report. The census survey of 1987-88 and 2001-02 include only small scale industries but 2006-07 census survey represents micro, small & medium enterprises altogether. These reports are available in the Ministry of Micro, Small & Medium Enterprises website. NSDP at factor cost data have been taken from Indiastat database. State wise GER data are collected from CMIE, States of India database. GER data shows the total number of people attended Middle/Senior basic school

(class VI to VIII). It is a proxy of the educational attainment of Indian states. Due to the limitation of data availability, only 13 states/Union Territories (henceforth only 'states') are analysed in the model. So the sample size is 13.

This model will be tested for the three years individually and then all together. Model for all the years all together is presented below.

$$lnRural\ Poverty_{it} = \alpha_0 + \alpha_1 lnMSME\ output_{it} + \alpha_3 lnNSDP_{it} + \alpha_4 lnGER_{it} + \varepsilon_{it}$$

$$lnUrban\ Poverty_{it} = \alpha_0 + \alpha_1 lnMSME\ output_{it} + \alpha_3 lnNSDP_{it} + \alpha_4 lnGER_{it} + \varepsilon_{it}$$

These two are panel models. Hausman test will be applied to decide upon the fixed effects model or random effects model.

For individual years, the dependent variables will be regressed upon the independent variables, the model is:

$$lnRural\ Poverty_{i} = \alpha_0 + \alpha_1 lnMSME\ output_{i} + \alpha_3 lnNSDP_{i} + \alpha_4 lnGER_{i} + \varepsilon_{i}$$

$$lnUrban\ Poverty_{i} = \alpha_0 + \alpha_1 lnMSME\ output_{i} + \alpha_3 lnNSDP_{i} + \alpha_4 lnGER_{i} + \varepsilon_{i}$$

Here, the time component 't' is not present because time is not varying in specific year's regression. So only 'i' is present which represents each state's observations. This is applicable to all other year's regression which are taken individually.

For a brief description on panel data, fixed effects, random effects and Hausman Specification test please refer to the section 4.2.1.1.

The hypotheses are,

Null Hypothesis 2: Growth in MSME sector does not help in poverty alleviation in India.

Alternative Hypothesis 2: Growth in MSME sector helps in poverty alleviation in India.

4.2.2.2 For the year 1987-88

Table 4.17

lnRural Poverty	Coefficient	p-value
lnMSME Output	-0.0340 (0.4145)	0.93
lnNSDP	-0.9189 (0.5005)	0.08
lnGER	-0.2084 (1.4073)	0.17

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

From table 4.17 it is clear that growth in MSME ouput, NSDP & GER are negatively affecting the rural poverty of India in 1987-88 and the magnitude of NSDP is the maximum at 91.89 %. But the magnitude of MSME output is the lowest at 3.40 %. All the variables are insignificant in reducing rural poverty in India.

Table 4.18

lnUrban Poverty	Coefficient	p-value
lnMSME Output	-0.7210 (0.1950)	0.002
lnNSDP	-0.6051 (0.2354)	0.022
lnGER	-0.0649 (0.6620)	0.923

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

Similar to result of table 4.17, table 4.18 is giving the same result. All the independent variables have negative impact on the urban poverty but both MSME output and NSDP are significant in reducing poverty. So as a policy implication, both these variables should be targeted to tackle poverty issue in urban areas in India.

4.2.2.3 For the year 2001-02

Table 4.19

lnRural Poverty	Coefficient	p-value
lnMSME Output	-0.2310 (0.4151)	0.58
lnNSDP	-0.9680 (0.4918)	0.06
lnGER	-1.5491 (2.0260)	0.45

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

Here all the independent variables have negative impact on the rural poverty in 2001-02 but none of these is significant.

Table 4.20

lnUrban Poverty	Coefficient	p-value
lnMSME Output	-0.0708 (0.2193)	0.75
lnNSDP	-1.3633 (0.2598)	0.00
lnGER	-0.6487 (1.0704)	0.55

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

Here also, all the independent variables have negative impact on the urban poverty but only NSDP is highly significant.

4.2.2.4 For the year 2006-07

Table 4.21

lnRural Poverty	Coefficient	p-value
lnMSME Output	-0.0205 (0.2435)	0.93
lnNSDP	-0.9414 (0.3280)	0.01
lnGER	-1.4220 (1.7139)	0.42

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

In 2006-07, growth in MSME output, NSDP & GER helped in reducing poverty in rural areas but only NSDP is significant.

Table 4.22

lnUrban Poverty	Coefficient	p-value
lnMSME Output	-0.1259 (0.1683)	0.46
lnNSDP	-1.3930 (0.2267)	0.00
lnGER	-0.4433 (1.1847)	0.37

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

Like the rural poverty, urban poverty is also reduced by growth in the independent variables but only NSDP is significant.

4.2.2.5 For the year 1987-88, 2001-02 & 2006-07 Combined all together

The below two tables represent the two panel models discussed in the section 4.2.2.1 which represent all the three years together. By applying Hausman test, the first model is a random effects panel model (Table 4.23) and the second model is also a random effects model (Table 4.24).

Table 4.23 (Random Effects Model)

lnRural Poverty	Coefficient	p-value
lnMSME Output	-0.0293 (0.0827)	0.72
lnNSDP	-0.0135 (0.0977)	0.89
lnGER	-0.2246 (0.5475)	0.68

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

Putting all the years together and examining the data reveal that growth in MSME output, NSDP & GER has reduced poverty but not a single variable is significantly affecting. Hence, no variable can be considered as a policy variable

Table 4.24 (Random Effects Model)

lnUrban Poverty	Coefficient	p-value
lnMSME Output	-0.0920 (0.1272)	0.47
lnNSDP	-0.0627 (0.1469)	0.66
lnGER	-0.6054 (0.7830)	0.43

(Note: Author's own calculation. Standard errors are given in the parentheses**)**

Table 4.24 provides the same result similar to table 4.23. So it has no policy implications.

Discussion

The above table results are unanimously depicting that growth in MSME output, NSDP & GER are reducing poverty in the years 1987-88, 2001-02 and 2006-07. This finding rejects the null hypothesis. But whether a policy implication can be derived or not depends on the significance of the variable. In the last models where all the years combined together show none of the variables are significant in reducing poverty both in rural and urban areas. So these variables cannot be used as policy variables.

CHAPTER V

SUMMARY, CONCLUSION AND SCOPE FOR FURTHER RESEARCH

5.1 Introduction

Micro, Small & Medium Enterprises (MSMEs) has remained an integral part of Indian economy through its contribution in terms of output and employment at the regional level. Prior to 1938, even before the first five year plan, small enterprise promotion had been given importance in the national strategy. The growth of this sector helps in reducing the regional imbalance and also rural-urban imbalances (Das, 2007). Initially prior to 1991, the strategy of protecting the small and infant industries was adopted which was also known as 'forced industrialization.' But it came to an end with the very introduction of globalization in 1991. Then the small industries were exposed to external competition and orientation. Some people say this internalization of MSMEs is a positive stimuli and helps in raising the productivity & efficiency of this sector but some people view this factor as a negative stimuli which puts the MSMEs at stake. Formerly this sector was known as Small Scale Industrial Units (SSI units sector). With the introduction of MSMED Act in 2006, for the very first time, medium enterprises were included in this sector and it was renamed as MSME sector in India.

In different countries different definitions of MSMEs prevail across the globe. Most of the countries use the number of employees to define MSMEs, some use turn over and assets. Besides this loan size, initial amount of investment and years of experience are also prevalent as the definition of MSMEs. In India, MSMEs are defined according to their investment in plant in machinery (for manufacturing sector) and investment in equipments (for service sector) .It is a very general curiosity to know where India stands in terms of MSME sector's performance in comparison to other economies. The International Trade Centre (ITC) published a report on the competitiveness of Small, Medium enterprises (SMEs) by analysing 50 countries from 2006 to 2016. Countries like India, Turkey, Argentina, Brazil, Mexico, South Africa, Kenya and many other countries are part of this study. The report ranks countries mainly under three pillars; capacity to compete, connect and change. 'Capacity to compete' means the efficiency and operation in terms of capacity utilization, international quality certificate & managerial experience. 'Capacity to connect' means how the SMEs connect themselves with rest of the world by sharing their information through digital media. 'Capacity to change' means how SMEs invest in human & financial capital and change through

innovation. In the first two pillars India performed lower than average and ranked below China, Turkey, Argentina, Russia etc. but in the last pillar, India performed better. In all the pillars, China is the best performing country. This shows MSME sector is still lacking something to be at par with countries like China. The major problems as to this report are access to finance, poor infrastructure, skill of workers etc. The negative impact of weak MSME structure shouldn't be ignored as it has multiple implications.

5.2 MSMEs and Inclusive growth

MSMEs have the potential to assist the economy in achieving an inclusive growth by reducing the income distribution disparities and poverty through employment generation. It enables the workers to earn in the regional level. MSMEs may be more helpful in rural areas where the opportunities are limited for people. In a report namely, 'MSME country Indicators, 2014' published by International Finance Corporation, World Bank Group, the relationship of MSME sector with income inequality (Gini Index), per capita income has been established by analysing data from 115 countries across the world. The result shows more the income distribution of a country deviates from the perfectly equal distribution, lower is the MSME density and countries with bigger poverty gap have a lower MSME density. So there is a negative relationship of income inequality and poverty gap with MSME sector (if MSME density is taken as a representative of MSME sector).

5.3 Result of the models

In chapter IV, panel models have shown interesting results. In the final models of MSMEs and income inequality, only growth in MSME employment is affecting the rural income inequality positively and the magnitude is 5.76 %. All other variables; MSME output, NSDP & GER are affecting negatively. But only MSME employment and NSDP are significantly affecting. Similar is the case for urban inequality but the difference is that in urban areas MSME employment and GER are significantly affecting income inequality in India. In the final models of MSMEs and poverty headcount ratio, very similar results have been obtained. All the variables; MSME output, NSDP & GER are negatively affecting poverty in India but none of them is significantly affecting. In chapter III, it has been shown where policies are failing to address the problems related to MSME sector. To summarize both the chapters' findings it can be said that policies are failing and the very basic idea of trickle-down theory as well within MSME sector in India. Policy failure can also reveal that the institutional factors like

government regulation, transact cost, legal mechanism are also failing to address the issues of Indian MSME sector.

5.4 Recommendations

On the basis of the results obtained through the models, the following recommendations can be provided.

Policies need to be framed so as to increase employment in MSME sector but at the same time to ensure the workers get a substantial portion of the increased income like the managerial people/owners. This may result in a less unequal income distribution in India.

An effort should be made to reduce poverty through MSMEs' growth significantly.

Lastly, it is easy to frame policies/schemes officially on paper but it takes a lot of time and effort to implement it properly. In the chapter III, it is clear that there are numerous schemes for MSMEs in every aspect but the problem may lie in the implementation part. As a result they are not delivering expected results. This issue needs to be addressed.

5.5 Limitations of this study

This study is heavily constrained by limitation of data. It is very difficult to get data for all the variables simultaneously at a time period. So this is a short limited model with only 13 states of India for three years. Due to this small size of sample and observations, the models can be questionable. But given the fact that there are limited number of studies found in this context of MSME sector, this study is an attempt in itself.

5.6 Scope for further research

As this study is a limited one, it can be extended to other Indian states and more years if data are available. Again, a thorough study can be done on the basis of products of MSMEs produced in specific areas, like khadi, coir and how this products are helping to uplift the lower section people of the society. Besides this, one can examine the effect of MSMEs' growth on SC/ST people who are involved with this sector.

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MICRO, SMALL & MEDIUM ENTERPRISES (MSMEs), INEQUALITY & POVERTY IN INDIA: EVIDENCE FROM THIRTEEN MAJOR STATES

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