

A peek behind the Union Budget 2014

What shaped the thinking of
the Finance Minister?

July 17, 2014



ACTION COMMITTEE FOR FORMAL FINANCE
FOR NON-CORPORATE SMALL BUSINESSES

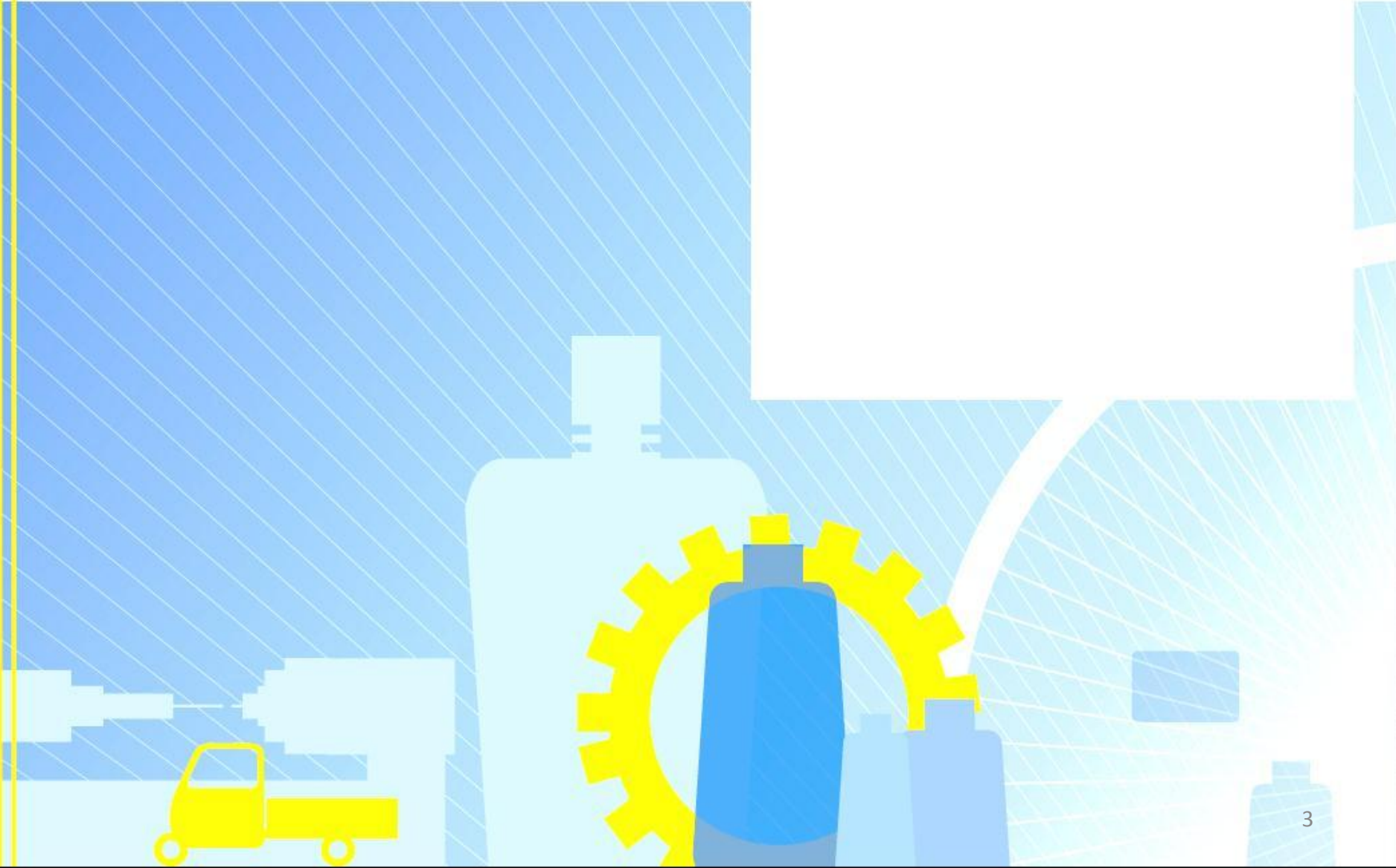
What the Finance Minister said?

Para 102 of the Budget Speech

“SMEs form the backbone of our Economy. They account for a large portion of our industrial output and employment. The bulk of service sector enterprises are also SMEs. Most of these SMEs are Own Account Enterprises. Most importantly a majority of these enterprises are owned or run by SCs, STs and OBCs. Financing to this sector is of critical importance, particularly as it benefits the weakest sections. There is need to examine the financial architecture for this sector. I propose to appoint a committee with representatives from the Finance Ministry, Ministry of MSME, RBI to give concrete suggestions in three months.”



Why did he say this?



The non-Corporate Sector: Definition

- Millions of proprietorship/partnership firms running as small manufacturing units, shopkeepers, fruits/vegetable sellers, truck operators, food-service units, repair shops, machine operators, small industries, artisans, food processors and others, in rural and urban areas.
- Loosely referred to as the “unorganised” or “informal” sector, they are mostly self-organised.
- Large portion of this sector runs as Own Account Enterprises (OAEs), with no employees ... essentially self-employment.



The non-Corporate Sector (...contd.)

- This sector outperforms the Corporate sector in GDP contribution, employment generation, exports and domestic manufacturing.



The non-Corporate Sector (...contd.)

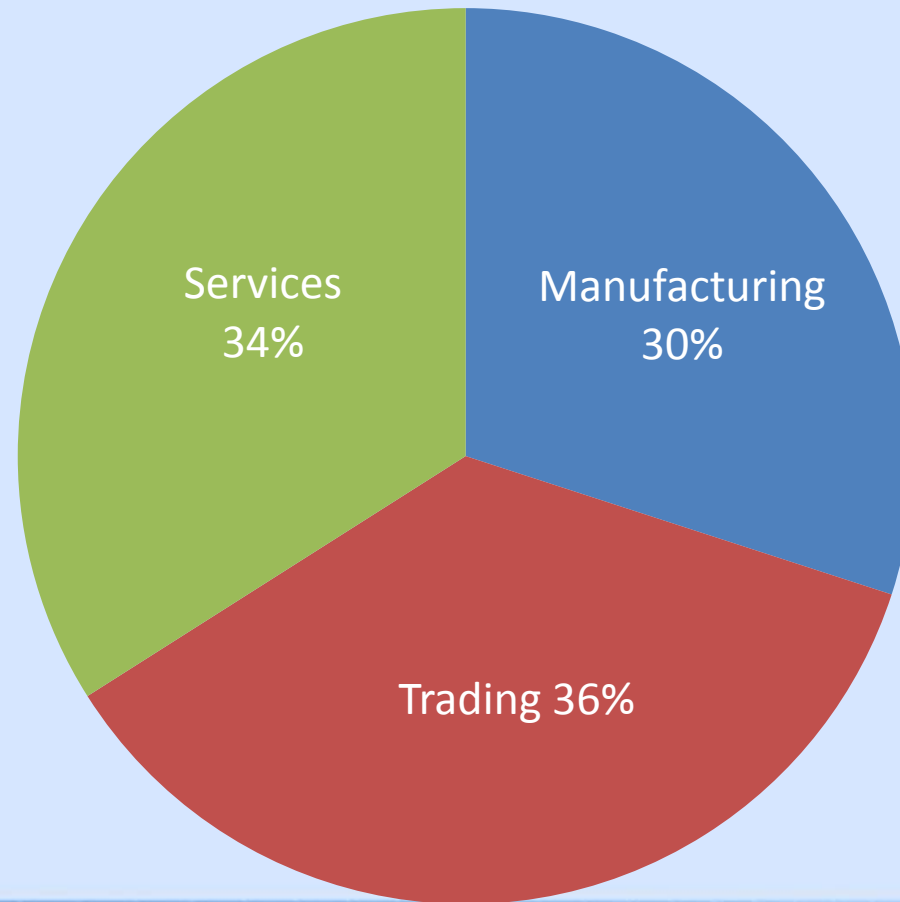
- This sector is the most financially under-served limiting the economic progress of the Nation ... less than 4% of financial needs of this sector provided by Banks.



The non-Corporate Sector: Size

- 5.77 crores unincorporated non-agricultural enterprises excluding construction*

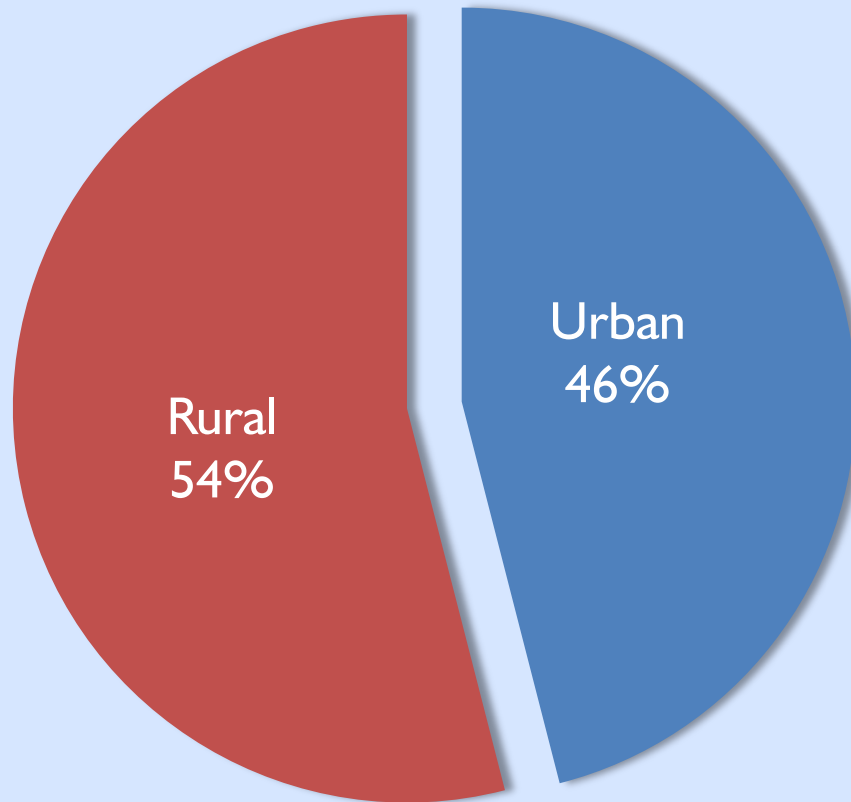
The non-Corporate Sector: Composition



**The NSSO study of the non farming enterprises in 2010-11*

The non-Corporate Sector: Composition

(...contd.)



**The NSSO study of the non farming enterprises in 2010-11*

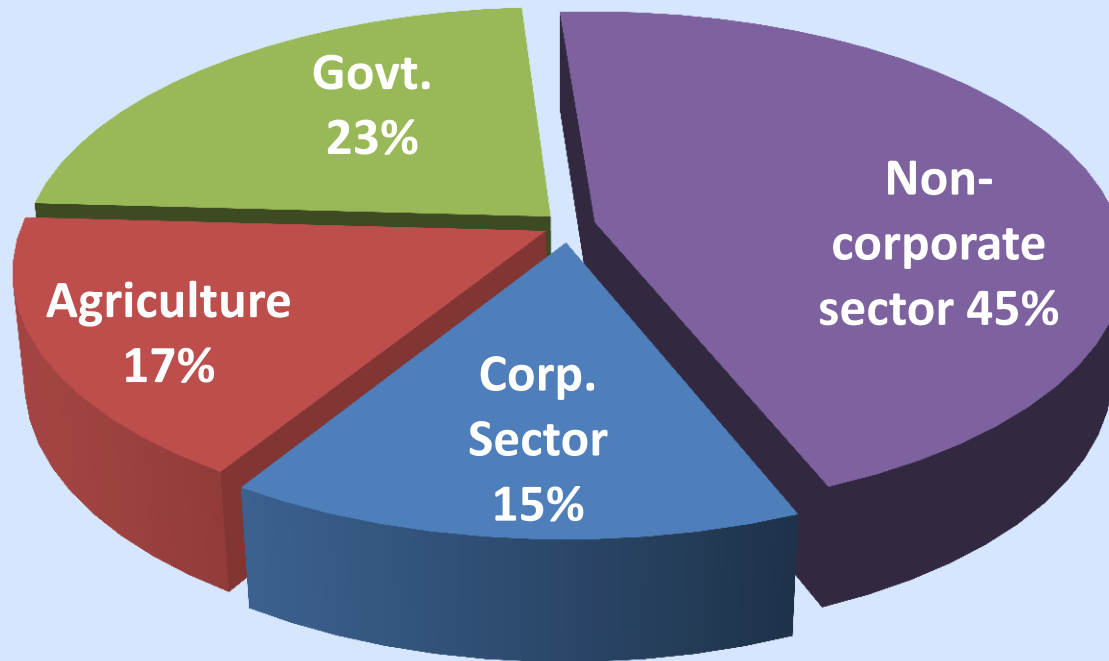
The non-Corporate Sector: Contribution

- Nearly half of GDP
- 90% of employment
- GDP of India is underestimated by 15% in the absence of proper estimate of this sector.*

**The NSSO study of the non farming enterprises in 2010-11*

**Credit Suisse Asia Pacific/India Equity Research Investment Strategy paper dated 09 July 2013*

Composition of GDP



Formal Sector in Contrast

- Listed corporates [BSE 500] account for only 4% of the national consumption. (Credit Suisse)
- 10% of national employment



Year 1991-2011: Corporate Sector - At a Glance

- Received close to \$317 billion of foreign investment
- \$176 billion through stock market and \$141 billion as direct investment.
- \$160 billion foreign borrowing
- The bank lending to corporates grew up by 43 times to almost `20 lakh crore.



Year 1991-2011: Corporate Sector - At a Glance

- Corporate and personal tax rates had halved, making India rank among world's least taxed nations.
- Bonanza of tax cuts of ` 30 lakh crore in seven years from 2006-7 to 2012-13
- The Sensex vaulted by 20 times from 1,000 to over 20,000 in 2011 with stock market-cap touching \$1.6 trillion (` 96 lakh crore)



Year 1991-2011: Corporate Sector - At a Glance

(...contd.)

- Result, Indian corporate promoters now constitute a fifth of world's billionaires with a tally of 70 – none in 1991
- The corporate sector share in GDP improved by just 3 per cent in 20 years to 15 per cent.
- The corporate profits rose by over `9 lakh crore in this period. But the corporates did not even invest their high profits to grow their business.



Year 1991-2011: Corporate Sector - At a Glance

(...contd.)

- Just 2.2 million jobs in 20 years since 1991!
- The private corporate sector added 3.7 million jobs over 76.7 million in 1991, but the public corporates dropped 1.5 million jobs reducing the net job addition to 2.2 million.
- In the 30 years from 1961 to 1991, the private corporate sector added 2.7 million jobs and public corporate sector's 12 million – growth of 5 lakh a year.

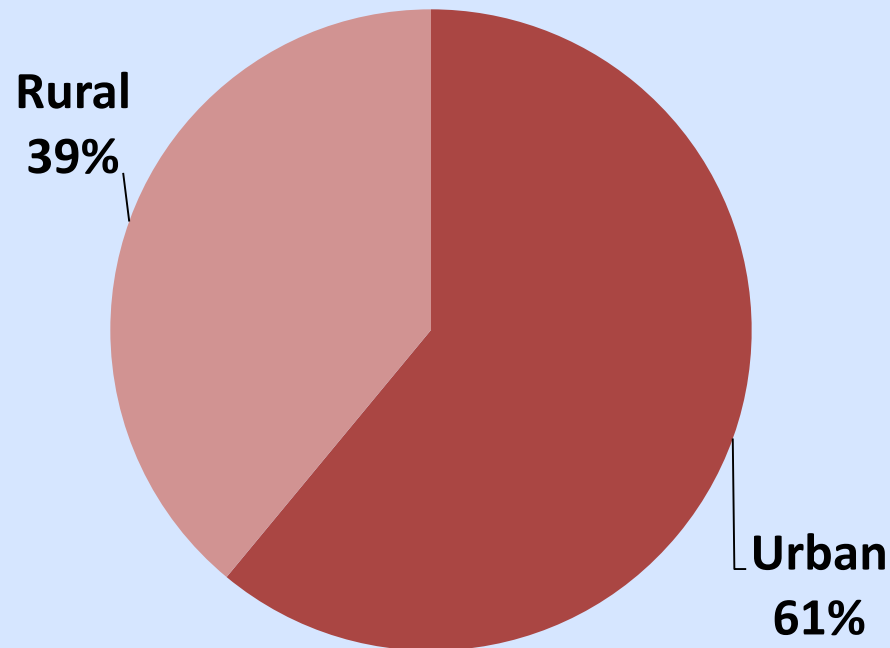


The non-Corporate Sector: Contribution

- Gross value addition of this Sector is Rs. 6.28 lakh crs

The non-Corporate Sector: Contribution

Gross value addition



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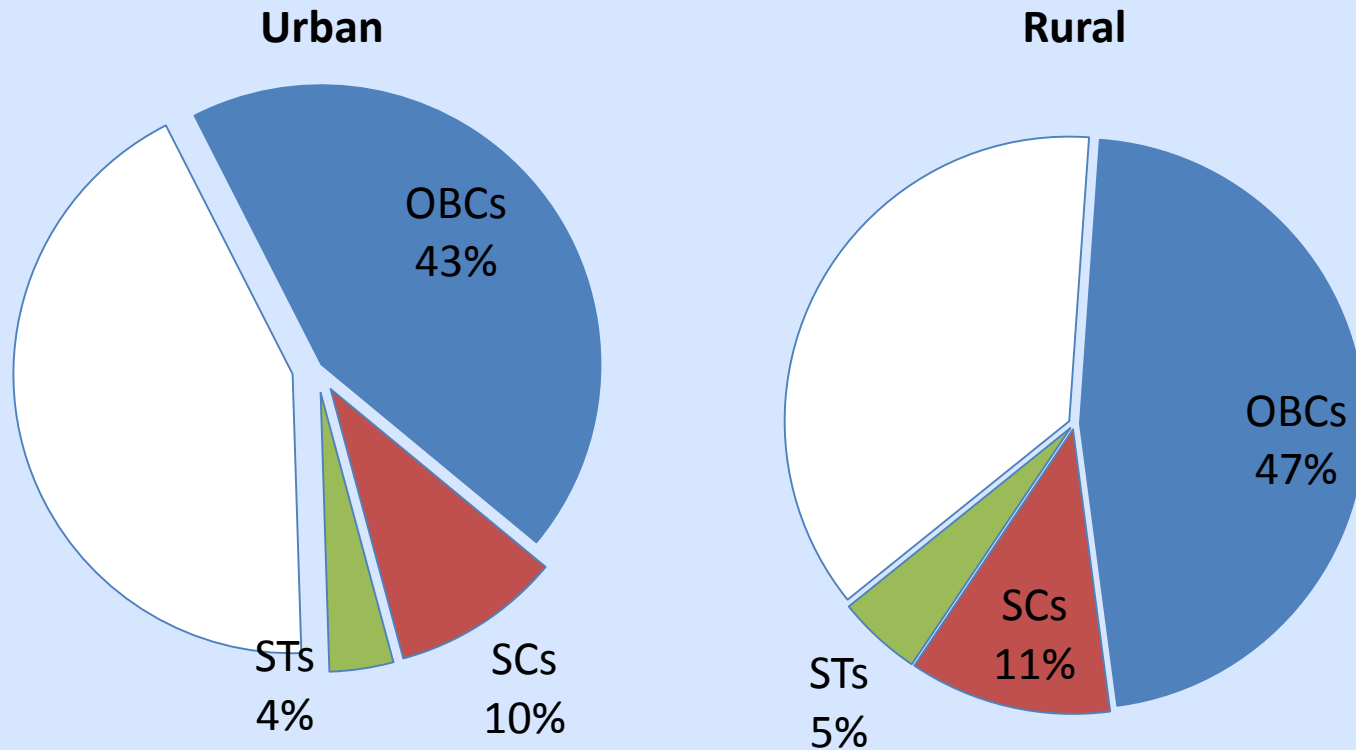
The non-Corporate Sector: Employment

- 460 million people
- Self-employed constitute 242 million.*

The non-Corporate Sector: Ownership structure

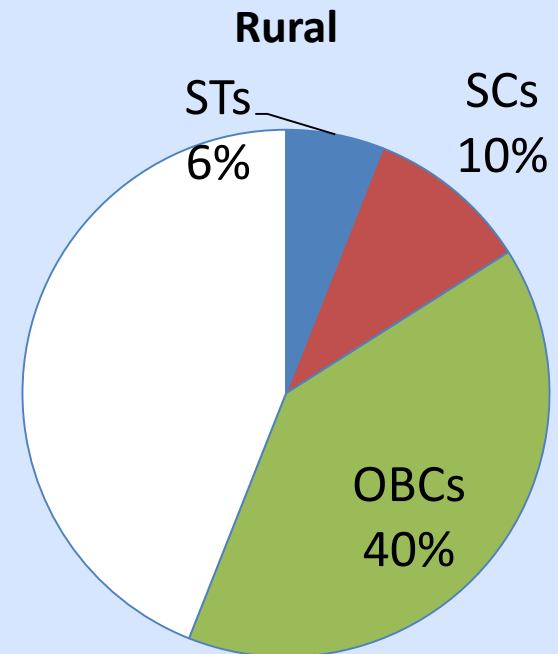
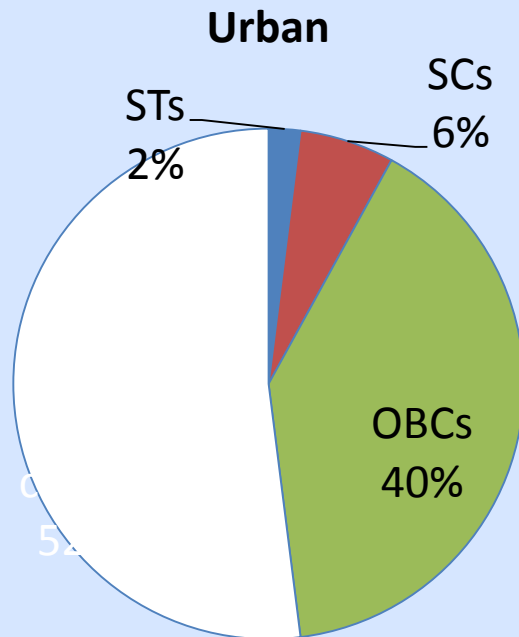
- 57% of all enterprises owned by Backward Classes in Urban India
- 61% in Rural India

The non-Corporate Sector: Ownership structure



- OBCs share of enterprise ownership is more than their share of the population.

Employment share of ST, SC and OBCs



- The employment position of SCs and STs in urban and rural areas is not good.

**Sukhadeo Thorat Professor, Centre for the Study of Regional Development, Jawaharlal Nehru University, Delhi, and Chairman, Indian Council of Social Science Research The Hindu dated 30.11.2011*

***Building Entrepreneurs in Daily Pioneer dated 23.3.2014, Prof Vaidyanathan*

Entrepreneurship better for employment than reservation

- No amount of reservation can generate the kind of employment that entrepreneurship does!



Entrepreneurship better for employment than reservation (...contd.)

- The Harvard Business School Study: *“The SCs, STs and especially the OBCs have made significant progress at the level of political representation in independent India. The OBCs have made progress in entrepreneurship, but SCs and STs are considerably under-represented in the entrepreneurial sphere. That is, for SCs and STs, political gains have not manifested themselves in greater entrepreneurial prowess.”*

It means that the SC ST entrepreneurship has to be promoted.

Entrepreneurship better for employment than reservation (...contd.)

- The best way to ensure SCs and STs get employment is to promote them as entrepreneurs, like how the OBCs have done.
- Promoting, assisting and financing entrepreneurship among SCs/STs is the surest way of lifting their economic status.**

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Non-Corporate sector: Increase OBC/SC/ST ownership

- The non-Corporate sector holds huge promise for entrepreneurship, self-employment and livelihood among the weaker sections.
- The advent of Dalit ownership which started with the Agra and Kanpur Dalits could become an all Indian phenomenon.

Share of ST/SC in Retail & Manufacturing

	ST	SC	Non ST/SC
<u>Retail</u>			
Urban	36.7	34.5	34.5
Rural	32.3	27.4	33.3
<u>Manufacturing</u>			
Urban	23.0	26.0	28.2
Rural	25.2	21.3	21.3

The non-Corporate Sector: Here to stay

- Credit Suisse report: “The share of the informal economy is likely to stay significant for a while ... in India it is more structural, a reflection of the lack of development and limited government reach.”
- Economist says: “At the present rate, it will take half a century before India’s economy is fully formal. The best way to speed up the process is to extend the reach of the financial system.”



Non-Corporate sector: The Finance constraint

- 90%+ of the informal sector does not access outside sources of finance.

Poor support of Institutionalised Finance	
Non SC/ST enterprises	3.6%
SC enterprises	2.6%
ST enterprises	3.6%

Non-Corporate sector: The Finance constraint

(...contd.)

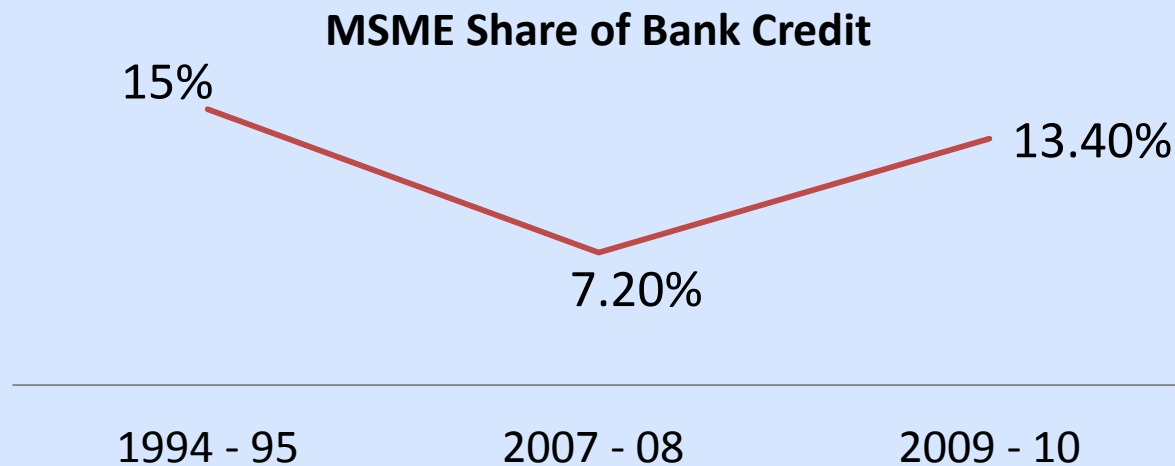
- Banks do not finance the non-formal sector which are largely unregistered.

Unregistered enterprises	
Non SC/ST enterprises	77%
SC enterprises	88%
ST enterprises	87%

Non-Corporate sector: The Finance constraint

(...contd.)

- State owned banks do not lend even to the registered informal sector enterprises.



Non-Corporate sector: The Finance constraint

(...contd.)

Banks inability to lend to the Informal sector:

- High HR cost to lend & recover monies from this sector.
- Basel norms make it difficult to finance even registered MSME sector; lending to unregistered small businesses is not possible.



Non-Corporate sector: The Finance constraint

(...contd.)

- Cost of Credit to this sector is high, as they take Credit from moneylenders who charge as high as 4%+ per month.



The Finance Minister's thinking

- CAIT applauds the FM's thinking to create a separate Financial Architecture to help the non-corporate sector to flourish and thrive.
- After all, this sector is the foundation of the Indian economy.



THANK YOU