

Public Defence Abstract

Unorganised Manufacturing in India:  
Financing the Firm Growth

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tional factors and during the last few decades, the Indian policy towards the SSIs/MSMEs has been mainly guided by the same argument (Hussain 1997). However, the official policy document of SSIs in India recognises the capital market distortion to be more severe and accordingly, various policies are in place to facilitate the flow of adequate and timely formal credit to the sector. Though the lack of access to credit is widely recognised as one of the most important problem hindering the growth of small firms within the Indian manufacturing, very few attempts have been made so far to analyse the extent, nature and institutional barriers associated with the above issue in India. The present dissertation is an attempt to fill this gap in the literature and to understand in details the interaction between financial sector policies and industrial policy during the post-reform period in India which, apart from being a major force shaping the industrial structure of India, also plays an important role in influencing the performance of the small-sized firms within the Indian manufacturing. More specifically, analysis presented in the thesis attempts to answer the following set of questions:

1. What is the nature of structural change that has been taking place within the manufacturing MSMEs in India during the post-liberalization period?
2. How does the trend in both partial and total factor productivities evolve in various industries within the unorganised manufacturing sector during the last decade?
3. Some past studies have found a rising trend in the capital intensity in India's unorganised manufacturing sector at a macro-level. We attempt to analyse whether this trend is due to the rising capital intensity of various sub-sectors within the unregistered manufacturing. Alternatively, we also look at whether the structural shift of the output composition of the sector towards the sunrise industries at the expense of traditional tiny and cottage industries explains such a trend.
4. What explains the differences in the nature of the informal industries in India and some of the East Asian economies, where the highly dynamic and productive informal firms' network has become an important part of the success of the export oriented

industrialization (EOI) of these countries? In this context, attempt is made to under-



adoption in the industrial sector is well documented in the literature (Nelson 1993) though the role of financial institutions within the broad concept of the NIS remains unexplored in the extant literature. In the backdrop of the recent policy initiative to foster growth of relatively modern and innovative manufacturing firms under the Startup India initiative, it is important to analyse the adequacy of the extant institutional setup within the country with respect to the same objective. In this context, Chapter 4, titled "Finance and Productivity: an Empirical Analysis of the Technology Intensive modern Manufacturing MSMEs in India" aims to conduct a detailed empirical exercise of the firm-level productivity dynamics within the Indian manufacturing industry during the period 2002-2016 in order to understand the relation between manufacturing firms' R&D expenses, productivity and sources of financing across a wide range of industries and firms of various size categories. Chapter 4 contributes to the extant literature on productivity measurement in Indian manufacturing by systematically analysing the productivity trend at a micro or firm level using the semi-parametric methodology of production function estimation. Further, the chapter decomposes the productivity gain at industry level following the empirical methodology of Olley and Pakes (1996) into its two main sources, i.e., average firm-level productivity change and reallocation of resources at the industry through firm entry/exit. Finally, the econometric analysis in the chapter aims to understand the nature of the relation between firms' financing sources and its R&D expenditure. The major findings of the chapter are that while capital market's contribution in financing industry remains relatively low, the non-bank non-market sources of finance coexist with the formal sources in Indian manufacturing. The access to bank and market-based sources of financing is primarily available to larger firms while smaller sized firms are more reliant on other sources of finance. Further, empirical analysis provides some evidence of a negative correlation between firms' technology intensity and proportion of bank financing.

The objective of chapter 5 is to understand the impact of the more market oriented approach that India adopted after reform on the industrial credit disbursement. As a part of the overall mandate of ensuring greater market forces in credit allocation, the financial

sector policies in India gradually dismantled the specialized development banking model and instead emphasised more on its commercial universal banking system for credit disbursement in an efficient manner. Chapter 5 aims to understand the impact of such policies on the credit disbursement to Indian industry, again with a focus on credit to small firms. Further, the comparative analysis of financial sector policies in India and East Asian countries in the chapter complements the India-specific empirical analysis presented in the earlier chapters and provides important policy implications. Finally, chapter 6 concludes the thesis with main observations, discussion on policy implications, coupled with some limitation of the present study and future research directions.

### *References in abstract*

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