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The Observatory Mirror



ISED SMALL ENTERPRISE OBSERVATORY

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- International SME Day
- India MSME Report 2020
- Covid 19 & Managing the "two-curves problem"
- Post -Pandemic SME Imperatives
- Solidarity Economy
- Tweaking the Start-up Agenda



Institute of Small Enterprises and Development

ISED House, ISED Road, Cochin-682028, India

☎ 0484 2808171, 2808727, 2809884

✉ seo@isedonline.org

 <https://www.facebook.com/india.sme>

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Hello friends,

For this issue of the Observatory Mirror, the most memorable event is the 'International SME Day' (June 27). The day remains memorable for another thing: the release of 'India Micro, Small and Medium Enterprises Report 2020'.

Nothing much to celebrate this year, as the SME constituency, around the world, is under an unprecedented shock and disruption, on account of the ongoing Pandemic. Shocks in the economy are nothing new for the SMEs. In fact, it is through such shocks that this bottom layer of the enterprise system gains its resilience. But, under COVID 19, it has gone beyond the so-called "creative destruction" (to quote, economist Joseph Schumpeter). Going by the projections given by the ILO, most painful days are yet to come. At the Observatory, as also at the Institute, we have been working on a new theme since 2013: 'Enterprise Security'. It is a matter of complacency for us, as the theme has proved to be all the more relevant today.

I thank the esteemed readers of the 'Observatory Mirror', and also the members of the Institute's National Partnership Network (NPN), for their co operation and support. May I also request the continued support of one and all for the 'Observatory' and its initiatives for the benefit of the MSME constituency.

A handwritten signature in black ink, appearing to read 'P.M. Mathew'.

P.M.Mathew

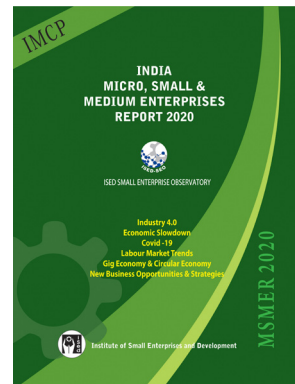
India Micro, Small and Medium Enterprises Report 2020: An Overview

Micro, Small and Medium Enterprises- are they a subject to be called “global”? As the twenty-third volume of the ‘India MSME Report’ is being released on the International SME Day (June 27), this natural question may come up; even noted economists doubted so, not long ago.

The year 2020 has turned the global economy upside down. Migrants, around the world, moved back to their home lands in order to escape from the pains of the Pandemic. Many have lost their jobs, and there is a significant pressure of human resources on the MSME sector, as labor absorption in the organized sector has seriously come down. Against an unprecedentedly fractured global economy, marked by distinct features like, the long trade war, the failure of multilateralism, weakening of the European Union, natural calamities, racist conflicts, more recently, the multilateral agenda has taken a back seat. Climate change and Covid19 have forced humanity to search for new solutions and for a new world order. In India, the border disputes instigated by China, Pakistan and Nepal, puts an added burden on the highly stressed economy.

The ensuing new world order is likely to have the following features: 1) enhanced digitalization of transactions, under a ‘platform economy’ framework; 2) a re-aligned ‘sharing economy’; 3) formalization of labor flexibility under a legitimized ‘gig model’; and 4) growth of the ‘circular economy’, shaped under the hegemony of regional value chains.

The transition in the techno-economic paradigm from ‘flexible specialization’ to ‘Industry 4.0’, implies an unprecedented shift, as it relates to engagement of human resources. The ‘knowledge economy’ has created illusions on the use of knowledge, and in many cases, has sidelined the distributive aspect of knowledge as a tool of development. COVID 19 has necessitated a fresh look at this distributive aspect from various angles: 1) the need for



employment promotion; 2) the relevance of preserving and nourishing the local economy; and 3) the need to make an optimum use of technology.

The above imperatives can be addressed only against the emerging objective realities. Industry 4.0. is likely to be the decisive paradigm of manufacture, despite the setbacks and disruption on the global value chains. 'Gig economy' is likely to grow, as casual employment is bound to increase. Moving from the rapid pace of 'servitisation' today, manufacturing base of countries like India need to be strengthened, both for their self-interest, and to build an equitable global order.

But, at the other end of the spectrum, consumption habits are likely to come to a new normal, which would be more of a 'platform economy' mode. The demand constraints would prompt new forms of manufacturing. Smart manufacturing, which facilitates just-in-time outputs that are tailored to particular market segments, will become more prominent. The 'circular economy' will have a new logic for its sustainability-the demand constraint.

India has peculiar problems and opportunities against the above background. Capital formation has constraints. But the lessons given by the Pandemic has induced the country for a strengthening of local manufacturing base. But the new circumstances demand more focused attention on subsectors and regional and local value chains.

India's SME scene today is a continuation of the "slow-growth syndrome" of 2019. With the experience of COVID 19, it became a full circle. The current state of SMEs, as in 2020, has some broad features: a) confidence crisis; b) damage of inventory; c) failure of logistics; d) backlog of slowdown; e) disruption of labour supplies; and f) market failure. The policy response has come in the form of a package involving fiscal relief measures, administrative reforms, and a financial package.

Finance is a key area of concern. Financing the fractured enterprise system would be an important challenge during the coming days. The packages announced by the Ministry of Finance, and the RBI have yielded some interest and hope. In a situation where liquidity was completely stalled through various factors, including delayed payments, Lock-down, and absolute contraction of market, such a response is natural. But, since structural problems of the industry still continue, such measures have not yielded sig-

nificant results, especially for the small and micro units. In fact, a well-designed strategy of debt restructuring would be required to save at least the marginally viable units from complete extinction.

On the MSME front India has two important imperatives: a) focus on entrepreneurship resources; and b) a discretionary approach to policy support. The country's base of wealth and income, having been eroded substantially under the Pandemic, it can best be regained only with the active participation of wealth creators, the entrepreneurs. India also needs a broad based entrepreneurial base, which would demand a large number of small and medium enterprises on stream. The supply of sustainable entrepreneurship can best be ensured where there is a clear policy of treating entrepreneurship as a critical national resource.

Unlike in the past, the year 2020 marks a convergence of several adverse factors, which makes India look forward to the strength and resilience of its entrepreneur community. It is time for the country to harness its MSME capabilities both at process and product levels. It will help India withstand the phenomenon of 'enterprise insecurity' occurring out of multiple factors; COVID 19 and its fall out are only a few. The structural weaknesses of India's enterprise system, and of the MSME system, in specific, are strongly felt, as we find China as not only an economic threat, but as a strong political threat as well.

The new economic order that would emerge, will have two major facets: 1) smart manufacture, and the associated 'invisible work place'; and 2) enterprise system with a significant "bottom of the pyramid"-the "visible work place". The latter is more prominent in the Indian context. Defining the value chains and engaging the local MSMEs are major challenges for India, especially from the angle of massive unemployment, migration, and the phenomenon of return migration.

India needs a dual development agenda: For the rural sector, it should thrust on enhanced labour absorption. The urban agenda needs to be focused on smart and clean production, so that the benefits trickle down to a clean habitat. Producing for the global market need to be the strategy; but, self-sufficiency need to be the founding principle. Introspection on past policies, from this angle, would be needed. The strategic approach needs to be geared to four focal points: First, harnessing the country's lega-

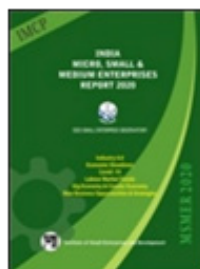
cy and capabilities, wherein, 'process capabilities' need primary attention. Secondly, institutional reforms, especially in the financial sector, demand a greater development orientation, and vertical restructuring. Thirdly, based on the experience of COVID 19, the counter-cyclical role of SMEs needs greater policy attention. Fourthly, the greater developmental and participatory role of SMEs need to be harnessed through promotion of 'solidarity business models involving all relevant stake holders. The overarching principle need to be the critical role of 'entrepreneurship' as a national resource, to be preserved and nourished.

Transport Industry-Seeking New Models

The experience of COVID 19 raises new issues in business organisation and processes. In the services sector, educational institutions, hospitals, and political and religious formations, are experimenting with new functional platforms and tools in their regular business activities. Where social distancing is the norm, local passenger transport is craving for new organisational innovations. Following its early field studies in London city, ISED is exploring the feasibility of a 'Community Transport' model in the context of urban India. A preliminary study was initiated in the context of Cochin, Kerala, and recommendations were made for the consideration of the Government of Kerala. The findings have also come out in the form of a paper under the ISED Discussion Paper Series.

Rural Entrepreneurship-Where is it heading to?

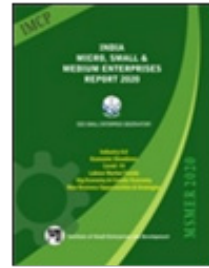
The distinction and trade-off between rural India and the rest of the country has been an area of extensive debates. The practice, so far, has been to treat these two spatial domains separately. Of late, there has also been arguments in favour of an 'Urban Employment Programme', on lines of the MNREGA. The ongoing research at the ISED Small Enterprise Observatory comes out with a "Rural-Urban Locomotive Model", as a viable alternative. The research findings have been discussed by the India Micro, Small and Medium Enterprises Report 2020.



MSMER Proposes Decentralised Manufacturing Agenda

While the global economy itself is passing through a phase of rapid disruption, the options available to India on the

manufacturing front are limited. But, what is the way forward for the country? Webinars are aplenty these days on the evolving global economic scene. The Observatory has initiated a research programme on manufacturing in India. The conclusions of the research at the Observatory are based on India's strong manufacturing fundamentals. A decentralised manufacturing base needs to be strengthened and nourished and utilised for future strategies. India MSME Report 2020 carries a detailed discussion on this.



ISED Report scans 'Value Chain' Perspective

While the post- COVID 19 global economic order is still a very elusive concept, 'India MSME Report2020' visualises a major policy conflict on the technology front, having implications for trade and investment in India. It warns against uncritical adoption of the major advances in technology, such as IoT and AI. Manufacturing agenda and its priorities, rather than technology fetishism should guide public policy in the post-Pandemic economy, says the Report. It is the real shape of value chains that is going to matter for India, globally and regionally. If the focus is going to be regional, India will have to renegotiate the RCEP, and will have to initiate a trade patch up with its neighbours. an extremely difficult situation. The Report discusses the opportunities and constraints relating to the subject. India also needs to reorient its educational system accordingly.

'Circular Economy' in the Limelight

Recent research at the ISED focuses on 'Circular Economy' as a new paradigm and opportunity in the Indian context. While the debates on the subject are in a rudimentary stage, the Pandemic has further strengthened the case for it. At the younger age of this generation, watches and calculators used to be repaired and used under a 'normal economy' model. Over time, we moved into a 'throw-away' economy. The old practices are slowly coming back, at least in some of the subsectors., like automobiles, high-value consumer goods etc. In the semantics of economists, this is called 'circular economy'. A full length discussion on the subject is a novelty of 'India MSME Report 2020'.

COVID 19 Lessons: Start-up Strategy Needs a Tweak?

Globally, there has been a boom in strategies for the promotion of start-ups. But against the ongoing Pandemic, a relevant question comes: To what extent has this boom contributed to innovative entrepreneurship that can add value to India's manufacturing agenda? A research by Dr.Divya Jose looks into the potential business opportunities of marine enzymes in India, a country blessed with a marine coastline of 7,500 km, spread across nine States, with a 2.02 million sq km area of Exclusive Economic Zone. Based on her studies, she is also developing some enzyme products that are useful as therapeutic agents for plant, human and aquaculture bacterial pathogens.



Research on Youth Entrepreneurship in Spotlight

The prolonged experience of COVID 19 has an overall dampening effect on total early-age entrepreneurship (TEA) around the world. The entrepreneurship dilemma of wage employment versus self employment, and the trilemma of family business (where there is an added dimension of joining the family business or not), in the case of youngsters, has exacerbated in the context of the Pandemic, COVID 19. The youth in India need a clear direction on how to go forward. ISED puts forward a research agenda that focuses on youth entrepreneurship in the country, in a global perspective. The research, directed by P.M.Mathew, is based on his early engagement with the Asian Development Bank.

Enterprise Security & SME Development: Selected Titles

1. Micro, Small and Medium Enterprises in India: Towards Enterprise Security & a Medium term Agenda (2014-19)
2. Micro, Small and Medium Enterprises in India: A Mid- term Agenda, 2014-19
3. MSME Vulnerability and Enterprise Security in India: Key Issues to be Debated
4. MSMEs in India: Key Concerns of Entrepreneurship & Enterprise Security
5. MSMEs and Enterprise Security in India: Towards an Agenda 2019-24
6. Towards an Enterprise Security System in India: Case for a National Enterprise Security Act

More details, please visit: www.isedpublications.org

P.M.Mathew to speak at the National Banking Summit

P.M.Mathew, Director, ISED, will participate at the National Bankers Summit, as Lead Speaker, on October 10. The Session on 'Strategies to Strengthen MSMEs: Redefining the Role of Banks' will deliberate on the strategic options for reenergizing the banking industry, with focus on the MSME constituency. The National Banking Summit is being organized by the National Institute of Bank Management (NIBM), Pune, as part of its Golden Jubilee celebrations.



Multi-million Business Opportunities for the Insurance Industry

Despite its huge size, India is relatively weak in its social security systems. However, the potential of insurance remains still squarely tapped. A Discussion Paper, authored by P.M.Mathew and J.M.I. Sait, looks into its latent opportunities in the specific context of MSMEs. The title is likely to be much interesting and useful for scholars dealing with actuarial science, as also for insurance professionals. For copies, please log on to www.isedpublications.org



Count- down for MSMER 2021

The count-down at the ISED Small Enterprise Observatory, for the India MSME Report 2021(MSMER 2021) is on. The prestigious 'MSMER Series' forms part of the India MSME Communication Programme(IMCP). Brought out by the dedicated research team of the Observatory, the Report series brings out the latest developments, global and national, and comes out with policy leads. The forthcoming Report, the 24th in the Series, will be brought out on the International SME Day 2021(June 27)Both the IMCP and the MSMER have been facilitated by Endowment support, and through the support of the National Partnership Network(NPN), under the ISED Small Enterprise Observatory.

'Enterprise Security' Gains Prominence

The new analytical approach of 'Enterprise Security', put forward by the ISED Small Enterprise Observatory, is gaining prominence, against the COVID 19 experience. The experience of the Pandemic calls for new analytical approaches and tools to the specific context of India. While the research at the Observatory continues, this publication written in December 2019, just before the outbreak of COVID 19, shows how the Observatory has visualised the kind of developments. Readers are advised to visit www.isedpublications.org, for more details.



A Unique Business Clinic for Small Enterprises

Institute of Small Enterprises and Development (ISED) comes out with a unique platform for extending advisory services for the Covid19-affected MSMEs in Kerala: 'Finance Clinic'. This initiative seeks to offer free guidance to entrepreneurs to make a self-evaluation for improving their performance, says an ISED Press Brief. ISED Centre for Financial Education and Research, a Division of the Institute, has opened a dedicated window, in order to address the MSME issues, with specific focus on the COVID-19 context: 'ISED Finance Clinic for Small Enterprises' (ISED-FCSE), the innovative platform, services the interests of MSMEs, entrepreneurial aspirants, such as return migrants, start-ups, educated unemployed, and women entrepreneurs.

Solidarity Research Group on Livelihoods and Small Enterprises

All economies of the world are facing the "two-curves problem" today. Though there has been a growing number of general studies on COVID-19, in-depth enquiries relating to livelihoods and entrepreneurship at the grass roots, are negligible. In fact, this is an area where there is much need and scope, because, as projections go, the other end of the development scene, in the post-Covid world, would be chronic poverty. COVID-19 has brought in the need for extensive collaboration among researchers for a common cause.

A new era of collaboration and sharing of knowledge is not only

mutually beneficial, but the humanity expects that as well. ISED has set up a Solidarity Research Group, meant to share ideas and experience of the member researchers/practitioners, so that joint initiatives can be taken forward on a win-win basis. We would also be keen to share among our Partner institutions and scholars, thoughts on the emerging environment, and as to how we can contribute in terms of interventions. ISED would be happy to invite individual researchers and institutions to be with it as its, esteemed Partners. Please write to: Coordinator, ISED Small Enterprise Observatory (email:seo@isedonline.org).

Recent Titles : Pandemics & Small Enterprises Series

- 1 Economy, Industry and Entrepreneurship: The Global Scene in 2020
- 2 The Pandemic and After: Implications for Small Businesses
- 3 Emerging Labour Market Trends 2020
- 4 Gig Economy: Gloomy Days or a New Sunshine?
- 5 The Base of India's Enterprise System Under COVID 19
- 6 Rural Enterprise & Entrepreneurship in India: Disruption and the Way Forward
- 7 'Circular Economy' -A New Paradigm and Opportunity for India
- 8 Financing India's MSMEs: COVID 19 Experience
- 9 Solving the 'Two-Curves Problem' and Beyond: Blue print of an Agenda
- 10 India Micro, Small, and Medium Enterprise Report 2019
- 11 India Micro, Small, and Medium Enterprise Report 2020

More details, please visit: [www. isedpublications.org](http://www.isedpublications.org)

Research Collaboration in Subsector Studies

ISED invites correspondence researchers and institutions interested in research collaboration/contract research. The focal areas are industry, entrepreneurship and subsector studies. Enquiries may please be addressed to the Director (*email: director@isedonline.org*)

Dr George. B. Assaf Speaks on India MSME Report 2019

“
India Micro, Small and Medium Enterprise Report 2019, the 22nd volume in the Series brought out by the ISED Small Enterprise Observatory, is a very thorough of the state and challenges of SME development in India, set in the appropriate global context of significant political, technological, investment, and macro-economic developments. The United States seems to have abdicated its global responsibilities and its historic global leadership in many areas, from climate change, energy efficiency, human rights, to sustaining global growth and political stability. It has left a huge vacuum which the EU and especially China-not to mention Russia in certain areas- may well fill up. The Uni- polar world of US hegemony, as it is often perceived, is far from assured or apparent in the current global context. This will have enormous implications for development, global supply chains (textiles, pharmaceuticals and IT are just a few examples-)and for Indian SMEs and global development.



This unique Report from the Institute of Small Enterprises and Development (ISED) surveys the major challenges for SMEs, and offers very useful analytical tools and typologies to develop policy conclusions and suggestions for the way forward. Its exercise is based on a good understanding of the difficult current socio-economic, cultural and political circumstances faced by SMEs. It is this very balanced and nuanced perspective that makes this a very important report and a document that all serious policy makers should read and inwardly digest”.

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International Development Expert, George Assaf was Representative of the UNIDO to the United Nations, and was Spokesperson of the UNIDO, and the Director General, UNIDO.

Gender, Enterprise & Entrepreneurship: Selected ISED Titles

- 1 'Sustainable Development through Enterprise':
Gender as a Third Dimension
P.M.Mathew
- 2 Women Entrepreneurship Development:
Policy Perceptions and Practice
Anne Mary Joseph & K.Pradeep Kumar
- 3 'Inclusive Finance', Gender & the Business Case
K.Sivakumar
- 4 'Genderpreneurship': An Evolving Global Agenda
P.M.Mathew
- 5 Genderpreneurship: Business Case Versus Populism
Anne Mary Joseph & K.Pradeep Kumar
- 6 State, Market, and Women's Business:
Some Field Evidences from Kerala
Sindhu Shenoy & Sidharth Menon
- 7 Gender: How does it Matter for Business
Demography and Entrepreneurship?
Mahesh Shenoy & Thomas John
- 8 Gender & Enterprise under COVID 19:
India's Policy Imperatives
J.M.I.Sait & S.Rajeshwari
- 9 Vulnerability of Women Enterprises:
An 'Enterprise Security' Perspective
T.Johnson
- 10 Salvaging Women's Businesses under Pandemic:
Business Development Services as a Critical Tool
J.M.I.Sait

How to Order ISED Publications?

ISED publications are the output of research and other knowledge transactions at the Institute of Small enterprises and Development. It includes Books, Reports, Discussion Papers Policy Briefs, and Training Manuals. Some of them are available free of charge. All titles are available online, directly from www.isedpublications.org. For full list of titles and any other clarifications, please feel free to write us(email: seo@isedonline.org) Copies procured from sources other than official ISED channels are unauthorized reprints, and are liable to attract legal proceedings under the provisions of Copyright law.

Quotes from the Doyens....



"It is a very thorough tour de force of the state and challenges of SME development in India, set in the global context.....The balanced and nuanced perspective makes it a very important report and a document that all serious policy makers should read and inwardly digest.."

Dr. George. B. Assaf, Former Representative of UNIDO to the United Nations and spokesperson of UNIDO and its Director General



NPA creation is not a sin. Informed decision making and hand holding are critical in ensuring in MSME health..... The rich work of ISED in this regard is commendable."

Mr. S.S. Mundra, Deputy Governor, Reserve Bank of India



"Understanding the MSME sector in its entirety is a complex task. Therefore, ISED and its work has great relevance today"

Mr. Rajanikant Marfatia, Member, National Executive Committee, FICCI

"The uniqueness of the India MSME Report Series is that, it is being brought out by a world-class knowledge platform, the Small Enterprise Observatory....."

Global Business Review

"The work done by ISED Small Enterprise Observatory is really significant and unique....."

Manpower Journal

"The work of ISED Small Enterprise Observatory is laudable....."

The Economic Times

"This exclusive knowledge platform for SMEs has several innovative things to offer....."

Global MSME, Kuala Lumpur

"The special feature and strength of the India MSME Report is the umbrella platform that supports it: the Observatory....."

The Economist, London

"Beyond the regular reporting by the India MSME Report, the ISED Small Enterprise Observatory is expected to contribute much more valuable inputs for planning and policy making in the country..."

The Business Line



Institute of Small Enterprises and Development (ISED) is an interdisciplinary Centre with small enterprises as its key constituency. Along with research, advisory services, advocacy, networking, and training, the Institute is an active participant to policy dialogue on small enterprises. The Institute is affiliated to the Indian Association of Social Science Institutions (IASSI), as its Permanent Member.

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