

IMCP

INDIA MICRO, SMALL & MEDIUM ENTERPRISES REPORT 2020



ISED SMALL ENTERPRISE OBSERVATORY

Industry 4.0. & the Evolving Industrial System

COVID 19 & the "Two-Curves Problem"

Labor Market Disruption & the Employment Scene

Rural Enterprise & Entrepreneurship

New Business Opportunities & Strategies

Gig Economy & Circular Economy

Responsible Banking



Institute of Small Enterprises and Development

MSMER 2020

India
Micro, Small & Medium
Enterprises Report
2020

India Micro, Small & Medium Enterprises Report 2020



Published for
**ISED Small Enterprise
Observatory**



Cochin
**Institute of Small
Enterprises and Development
2020**

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India Micro, Small and Medium Enterprises Report Series

India Micro, Small and Medium Enterprises Report(MSMER) Series, is a flagship project of the Institute of Small Enterprises and Development. Initiated by the Institute's Knowledge Platform, ISED Small Enterprise Observatory (ISED-SEO), it is a tool that addresses the "invisibility syndrome" relating to the small enterprise economy. The aim of the MSMER Series is to put forward an independent and scholarly view of the state of India's micro, small and medium enterprises on an yearly basis, and of the likely happenings for future. The Report is being brought out under the 'India MSME Communication Programme (IMCP)' of the Institute.

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Foreword

COVID 19, the pandemic that broke out towards the fag- end of 2019, brings with it the seeds of a new global economic order. While the 'Third Industrial Revolution', by all means, was leading to a highly centralized global system tied up by global value chains, the objective experience of COVID 19 unleashes circumstances and arguments in favour of regional value chains, and a decentralized manufacturing system. While the UN has recognized the strategic role of SMEs in the global development agenda, the Pandemic has contributed to buttressing the relevance for such a new agenda.

Both in the popular eye, as also in the media scrolls, the ongoing Pandemic leads to the doomsday for SMEs. But, it would be out of place to jump into such a conclusion. This 23rd issue of the 'India MSME Report' series feels complacent on the opportunity for introspection on new policy directions. It adds to the agenda and debates on 'enterprise security', as mooted by the 'ISED Small Enterprise Observatory' since 2013. While the issues, on the one hand, are much more complex, the responsibility of development practitioners also are on the rise. But, it would be out of place to jump into such a conclusion. There is need for introspection and debates. While the issues, on the one hand, are much more complex, the responsibility of development practitioners also are on the rise. I thank the Observatory and the various Knowledge Centers of the Institute, for their meticulous drive in bringing out the Report as an icon of the ' International SME Day 2020'.

New Delhi
June 25, 2020


Kamal Nayan Kabra
Chairman, ISED

Preface

While presenting this twenty-third Report of the MSMER Series, the ISED Small Enterprise Observatory has mixed feelings of complacency and concerns. Having initiated and brought to the limelight the theme of 'enterprise security' as an alternative approach to the MSME problems in the emerging global context, as also in India, we feel complacent on the debates it has triggered. At the same time, the ongoing global pandemic offers only limited options for the MSMEs. The global MSME demography is likely to witness dramatic changes characterized by accelerated death rates and low natality rate.

Management of the base of the enterprise system is likely to be the biggest challenge in the evolving post-COVID 19 global economic order. While SMEs have been brought around the centre stage of the global 'Sustainable Development' agenda, it would be the responsibility of the global community, as also of governments, to meet this challenge.

In such a bad year of decline and despair, we hope, the Institute could do its little mite to the global debates on solving the "two curves problem". But, even such a humble initiative would not have been possible, but for the continued co operation of our esteemed Partner Institutions across the country. Our sincere thanks to all of them.

This Report is the outcome of the coordinated work of the Observatory and the various Knowledge Centres of the Institute. The team of the Observatory did a meticulous job, under the guidance and support of the Special Advisory Team and the Project Leaders. The chapter on 'Finance' was facilitated by the ISED Centre for Financial Education and Research. The Center for Enterprise Development took care of the overall co-ordination. At the desk, I would like to acknowledge and appreciate the meticulous support of J. M. I. Sait, Phillips Mathew, and P. Jagannathan. Last, but not least, I would like to place on record, the technical support of Vishnu Vardhanan, , Shaji Mathew and Ajith George.

The Institute wishes to thank, without fail, the pains and efforts of all, including those whom I may have inadvertently failed to mention..

Institute of Small Enterprises and Development,
Cochin
June 25, 2020



P.M Mathew
Project Director

Acronyms & Abbreviations

ABC	-	Adjusted Bank Credit
ADB	-	Asian Development Bank
AfDB	-	African Development Bank
ALMP	-	Active Labour Market Policies
ASEAN	-	Association of South-East Asian Nations
BDS	-	Business Development Services
BRIC	-	Brazil, Russia, India and China
CAGR	-	Compound Annual Growth Rate
CGTMSE	-	Credit Guarantee Fund Trust for Micro and Small Enterprises
CRR	-	Cash Reserve Ratio
CSO	-	Central Statistical Organisation
DC (MSME)	-	Office of the Development Commissioner (MSME)
DIC	-	District Industries Centre
DPIIT	-	Department of Promotion of Industrial and Internal Trade
ECGC	-	Export Credit Guarantee Corporation of India
ECLAC	-	Economic Commission for Latin America and the Caribbean
ECLGS	-	Emergency Credit Line Guarantee Scheme
EDP	-	Entrepreneurship Development Programmes
EFC	-	Entrepreneurial Framework Conditions
EMDE	-	Emerging Market and Developing Economies
ESCAP	-	Economic and Social Commission for Asia and the Pacific
ESDM	-	Electronics System Design & Manufacturing
ESOP	-	Employees Stock Option Plans
FDI	-	Foreign Direct Investment
FIEO	-	Federation of Indian Export Organisations
FMCG	-	Fast Moving Consumer Goods
FTA	-	Free Trade Agreement
FTEA	-	Female Total Early-stage Activity
GDP	-	Gross Domestic Product
GEM	-	Global Entrepreneurship Monitor
GVA	-	Gross Value Added
GVC	-	Global Value Chains
HDI	-	Human Development Index
ICT	-	Information & Communication Technology
IIP	-	Index of Industrial Production
IMCP	-	India MSME Communication Programme
ISED	-	Institute of Small Enterprises and Development
ISED-SEO	-	ISED Small Enterprise Observatory

LCM	-	Life Cycle Management
LED	-	Local Economic Development
MCA	-	Ministry of Corporate Affairs
MEGA	-	Mission on Employment Generation
MENA	-	Middle East and North Africa
MFI	-	Microfinance Institutions
MGNREGA	-	National Rural Employment Guarantee Act
MSE-CDP	-	Micro and Small Enterprises Cluster Development Programme
MSME	-	Micro, Small and Medium Enterprises
MUDRA	-	Micro Units Development and Refinance Agency Ltd
NABARD	-	National Bank for Agriculture and Rural Development
NBFC	-	Non-Banking Finance Company
NPA	-	Non-Performing Assets
NRLM	-	National Rural Livelihood Mission
NSA	-	Non-state Actors in enterprise development
NSDC	-	National Skill Development Corporation
NSIC	-	National Small Industries Corporation
NSSO	-	National Sample Survey Office
OAE	-	Own Account Enterprises
OBICUS	-	Order Books, Inventories and Capacity Utilisation Survey
OECD	-	Organisation for Economic Co-operation and Development
PMEGP	-	Prime Minister's Employment Generation Programme
PMJDY	-	Pradhan Mantri Jan Dhan Yojana
PMMY	-	Pradhan Mantri Mudra Yojana
RBI	-	Reserve Bank of India
SDG	-	Sustainable Development Goals
SHG	-	Self Help Groups
SIDBI	-	Small Industries Development Bank of India
SLBC	-	State Level Bankers' Committee
SME	-	Small and Medium Enterprise
SPV	-	Special Purpose Vehicle
TEA	-	Total Early-stage Entrepreneurial Activity
TRDS	-	Trade Receivables Discounting System
UAM	-	Udhyog Aadhar Memorandum
UNCTAD	-	United Nations Conference on Trade and Development
UNDP	-	United Nations Development Programme
UNIDO	-	United Nations Industrial Development Organization
WTO	-	World Trade Organisation

About MSMER Series

- **Background :** The crucial role of micro, small and medium enterprises (MSMEs) in the economy needs to be properly understood and communicated; both from the angle of ensuring direct benefits to these enterprises, as also for meaningful planning and implementation of development programmes. India MSME Communication Programme (IMCP) is an umbrella initiative meant for this.

IMCP has two key components: a) 'India MSME Report' series; and b) 'India MSME Darshan'. The former provides a strong evidence base to the MSME constituency through reporting, and the latter seeks to connect the reporting exercise with the field, in order to ensure its authenticity.

IMCP, as a programme of the ISED, has been steered by a dedicated knowledge platform, the ISED Small Enterprise Observatory (ISED-SEO). Grown to maturity over the last 23 years, thanks to the kind interest and support of a National Partnership Network (NPN), the India MSME Report (MSMER) is a well attracted icon of the 'International SME Day' (June 27).

- **Scope :** India's MSME sector is uniquely huge, with substantial latent potential. For harnessing such potential for the country's sustainable development, it needs to be more comprehensively understood against the global, national, and regional experience. As a watch dog of these developments, the ISED-SEO, from time to time, have analyzed, informed and tried to educate, policy makers, financial institutions, entrepreneurs, and other stake holders, on what has happened, and what is likely to happen.

- **Methodology :** The methodology of the project is unique. It has borrowed methodological inputs from best practices around the world: U.S Small Business Administration, and the European Observatory of SMEs, Economist Intelligence Unit, Japan, and Enterprise Observatory of South Africa. The methodology of MSMER, therefore, involves supplementing the official data with specific theme-based enquiries, as also, detailed and specific theme based and area based enquiries. Besides, central to its methodology, is an approach by which new and promising areas are brought into the stream of active discussions from time to time.

- **Output :** This iconic report, a point of convergence in the subject area, seeks to assist and support in agenda setting at the national level. It discusses the critical themes and areas of MSME development, on the basis of the latest analysis and insights. The Institute also brings out some special studies in the related thematic areas, in the form of ISED Policy Briefs and ISED Discussion Papers, reinforcing the work of the MSMER.



- **Clientele :** While MSMER, on an annual basis, provides a replica of the happenings in the MSME constituency, the Project also comes out with a chronology and historical analysis, not to be missed by MSME enthusiasts and development practitioners.

The clientele of this flagship Report cuts across different levels of analysis, policy, and practice. Policy analysts would find good leads on what worked and what did not, in particular historical contexts. Financial institutions would gain lessons on credit delivery, regionally and at subsector levels. Government departments and promotional agencies get to learn from success and failure stories of schemes. Researchers would find it a good source of longitudinal analysis of India's MSME schemes. Entrepreneurship promotion and training institutions would gain significant cases and insights from the field.

- **MSMER 2020 :** The ongoing Pandemic, COVID 19, according to many media projections, leads to a likely rout of SMEs. But, it would be out of place to jump into such a conclusion. This twenty-third Report offers new opportunities. This is the time for introspection and search for new policy directions and strategies. It makes a call for turning the pages of the earlier volumes of the Report as well. The debate on 'enterprise security', as mooted by the 'ISED Small Enterprise Observatory' since 2013, has become all the more relevant today. While the issues are much more complex today, the task of policy makers and development practitioners has become more complex than ever.

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 this International SME Day (June 27), this natural question may come up; even noted economists believed 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, and more recently, the multilateral agenda have taken a back seat., Climate change and Covid19 have forced the 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’; 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 us 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 significant results, especially for the small and micro units. In fact, a strategy of

debt restructuring would be required to save at least the marginally viable units from complete extinction.

India's imperatives on the MSME front involve 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 need 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 legacy 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 model' 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.

1

Economy, Industry, and Entrepreneurship: The Global Scene in 2020

1.0 Introduction

In most discussions on small and medium enterprises (SMEs)¹, the nation state appears as the focal point. This is essentially for the reason that, the role of these enterprises has traditionally been perceived in terms of employment promotion at home and local economic development. While the traditional perception on economic growth considers SMEs only as a growth spill-over, it has now come to the centre stage of academic and policy debates. This is for the reason that, the global reality of growth has substantially changed over time. Once accepted as a dictum, today, it has been generally accepted that the spill over approach of growth is not much realistic. Of late, the whole paradigm has further changed, under globalisation, where, economic growth has become largely space-neutral. In a space-neutral pattern of economic growth, the opportunities of SMEs are likely to be more complex. This is because, SMEs by nature, are more space bound rather than space neutral. Today, as Covid 19, the Pandemic, has completely disrupted social and economic life around the world, economic activities have been increasingly discussed in a space-bound manner, leaving behind the unbridled belief in global value chains. Hence, it is most appropriate that the United Nations has dedicated an 'International Day of MSMEs'.

2.0. The Changing Scene of the Economy

An 'economy' is an area of production, distribution and trade, as well as consumption of goods and services by

different agents. It is constituted by several economic agents. Economic agents can be individuals, businesses, organizations, or governments. Analytically speaking, these various agents belong to two categories, viz., households and firms. Households are consuming units, whereas firms are producing units.

The above simple definition of an 'economy' is fast changing. The concept today embodies different sub systems, relating to technology, economic space, legal system, and social-cultural aspects. The multi dimensionality of the world 'economic system' can be brought down in terms of the following sub systems:

2.1 Technological Sub system

Technological sub system involves some basic parameters, such as the nature of data processing and information transmission technologies, research intensity, resource saving technology, and natural processes. It is access to these parameters that take a particular country to the level of a world class efficiency, productivity, quality and novelty of products, as also modern management practices. Since 'technology' is a space neutral concept, the implementation of these requirements cannot remain country-specific.

2.2 Economic Sub system

The 'economic subsystem' involves a defined space which is common for free movement of goods and services, capital and labour, and the free exchange of national currencies. It is uniform standards relating to trade, investment and monetary affairs, that define an 'economic' subsystem.

Economy as a Complex Web

Box No: 1

The text bookish definition of an 'economy' is of a set of inter-related production and consumption activities that aid in determining how scarce resources are allocated. It is also based on a simple model involving 'households' and 'firms'. This simple model is fast changing into an intricate web. The concept today embodies different sub systems, relating to technology, economic space, legal system, and socio-cultural aspects. The multi dimensionality of the world 'economic system' can be brought down in terms of these sub systems.