

MSMEs in India: A Regional Audit

ISED Discussion Paper

by
ISED Small Enterprise Observatory
jointly with
ISED Centre for Monitoring Enterprise
Development in the States (ISED-CMEDS)



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Institute of Small Enterprises and Development
ISED House, ISED Enclave, ISED Road,
Cochin-682 028, India
URL: www.isedonline.org
Email: info@isedonline.org



ISED Small Enterprise Observatory
ISED House, ISED Enclave,
ISED Road, Cochin - 682 028
URL: www.isedonline.org
Email: seo@isedonline.org

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This monograph forms part of the '*ISED Discussion Paper*' series of the Institute. Brought out by ISED Small Enterprise Observatory (ISED-SEO), the Institute's knowledge platform, titles under this Series are meant to offer a platform for discussion on some of the latest developments in the economy and society. The contents of this document may be used for debates and discussions, as also for preparation of course materials, but with due acknowledgement only.

Preface

A unique feature of the MSME sector in India is its diversity. This, unlike in many other countries, is a reflection of the geographical and cultural diversity of the country. There is significant latent opportunity, which probably, is paralleled by China alone. The purpose of this Discussion Paper is to bring to light some of the least known aspects of the subject. It is also meant to initiate a wider discussion on the subject so that it may contribute to public policy and strategies.

India's MSME diversity also offers it significant market opportunities. However, policies of the State governments, so far, have tried to follow a national pattern, rather than to grab the local opportunities. The perspective brought in by NITI Aayog paves the way for an alternative line of thinking. A true spirit of Cooperative Federalism can help to strengthen the national economy, as also the economies of the States. However, the State governments need to evolve region specific strategies, rather than try to copy national level models and strategies relating to MSME development.

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Cochin
February 23, 2017

P.M.Mathew

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Abstract

A unique feature of India's micro, small and medium enterprises is their regional diversity. This, unlike in many other countries, is a reflection of the geographical and cultural diversity of the country. Such diversity is, alternatively, a significant latent opportunity, which probably, is paralleled by China alone. It also offers significant market opportunities for these enterprises. However, policies of the State governments, so far, have tried to follow a national pattern, rather than to grab the local opportunities. The perspective brought in by NITI Aayog paves the way for an alternative line of thinking. A true spirit of cooperative federalism can help to strengthen the national economy, as also the economies of the States. However, the State governments need to evolve region-specific strategies, rather than try to copy national level models and strategies relating to MSME development.

Key words: Co operative Federalism, regional diversity, MSME development

1.0. Introduction

In order to understand the Indian reality of small enterprises, and to plan and strategize for them, one need to have a decentralized view of the entrepreneurial base and the enterprise story-line in the States, regions, and hubs of enterprise activity. As the new national initiatives promulgated in May 2014 have already become fully operational by 2016, the current MSME scene in the States needs to be examined in relation to the significant changes in policy perspectives. The new policy perspective confirms that, India has outlived the centralized planning era, and therefore, the State level programs and policies could now be largely autonomous, without any major direct intervention by the Union government. While the Union government has some broad national priorities, which get reflected through its flagship programs, at the State level, it is the responsibility of the State governments to situate them according to the local needs and conditions. The paradigm shift necessitates the State governments to articulate their needs for enterprise development, have a relevant knowledge base, and to evolve appropriate policies and strategies.

The purpose the following discussion is three-fold. First, it seeks to understand the MSME ecosystem in the States. Secondly, it examines the new initiatives by the States. Thirdly, it outlines the challenges and opportunities for particular States, against the emerging policy paradigm and priorities.

2.0. What is Regional Enterprise Development Audit?

The term 'audit', in the context of development, means conducting a systematic review of a scheme or a programme. Enterprise development, in a State or a district,

involves a set of programmes, which together, have a common objective, or a set of objectives. Auditing enterprise development, therefore, means a systematic review of all these programmes over a period of time.

Institute of Small Enterprises and Development, based on its track record extending 28 years, has been constantly monitoring the National and State level scene of enterprise development. The Institute has developed an innovative programme called 'Regional Enterprise Development Audit (REDA)'. As a programme, being implemented by the ISED Centre for Monitoring Enterprise Development in the States (ISED-CMEDS), it is meant to support governments in their MSME related development initiatives, by analysing the track record of enterprise development activities, and by offering innovative solutions. The term, 'regional', implies all sub-national locale of the country. The term, 'government' specially means, State, District Administration and local governments, such as municipalities and Panchayats. How the State, District, and Local governments have performed in the past in relation to their enterprise development initiatives? What is the way forward? What is the potential? How can such potential be tapped? Finding these out is the prime objective of REDA. More specifically, it aims:

1. to help the State governments/District Councils/Local governments to draw meaningful local enterprise development plans;
2. to help them implement national programs in a locally meaningful manner;
3. to help them produce maximum results from existing programs through effective synergies;
4. to help them design innovative programs.;
5. to help them link up with the national Ministries concerned effectively;
6. to help in branding of local success stories and inno-

REDA Programme of ISED;

- Peer group discussions
- Stakeholder consultations
- Data base creation and data analysis
- Evidence-based articulation of policy options
- Case studies
- Cross- matching with international best practices
- Effective and high quality documentation
- Policy recommendations and follow-up support.

vative programs (eg: *Kudumbashree* in Kerala, 'Electricity for all' in Gujarat); and

7. To suggest methods for ensuring people's participation.

The ISED methodology of 'Regional Enterprise Development Audit' includes:

- Peer group discussions
- Stakeholder consultations
- Data base creation and data analysis
- Evidence -base articulation of policy options
- Case studies
- Cross- matching with international best practices
- Effective and high quality documentation
- Recommendation on action points and follow-up support.

The Audit will result in a report containing recommendations and action points as to how the State/ local government can create success stories in enterprise development. It will also provide an opportunity to discuss the Report's recommendations with global forums such as the World Economic Forum and the United Nations Conferences.

2.1 Key Rationale of Regional Audit

The rationale of a 'Regional Enterprise Development Audit' should be understood against the following aspects:

2.1.1. Branding of States

In India's post-Independence development scene, both the Union Government and the States have undertaken various development programmes. Most of these programmes have been traditionally, sponsored by the Central Government. The time has come, wherein, the State

governments have to do a good lot of homework on the design and implementation of development programmes, on a national canvas of 'cooperative federalism'. Today, the platform is one of competition among the States, rather than falling in line with pre determined thumb rules. Branding the States has become all the more important.

2.1.2. Local Economic Development

The never-ending aspirations of the people, in relation to local economic development, is a reality today. People do not know how to articulate them. They think that more money from the Union government and Investment Meets will help. The global enquiries on development of appropriate models for local economic development have come of age. It is necessary to create an atmosphere for the people to think aloud and participate in forming policies and strategies that would properly reflect their aspirations and ensure their realisation, is a democratic context.

2.1.3. Local Purchase Policy Revisited

'Local purchasing' is a preference to buy locally produced goods and services over others. "Buy local", as a movement, parallels the phrase "think globally, act locally". At the national level, the equivalent of local purchasing is import substitution, the deliberate industrial policy or agricultural policy of replacing goods or services produced on the far side of a national border with those produced on the near side, i.e., in the same country or trade bloc. Dove-tailed into the recent global movement of "Think Small First" the local purchase policy has a great relevance to MSME development in that, the movement suggests preferential buying from the MSMEs in the same locality or neighbourhood. Thus, a Panchayat should endeavour to buy from an entity within that Panchayat itself. Appropriate guidelines are also needed for the public sector buyers to decide on the geographical area from where they