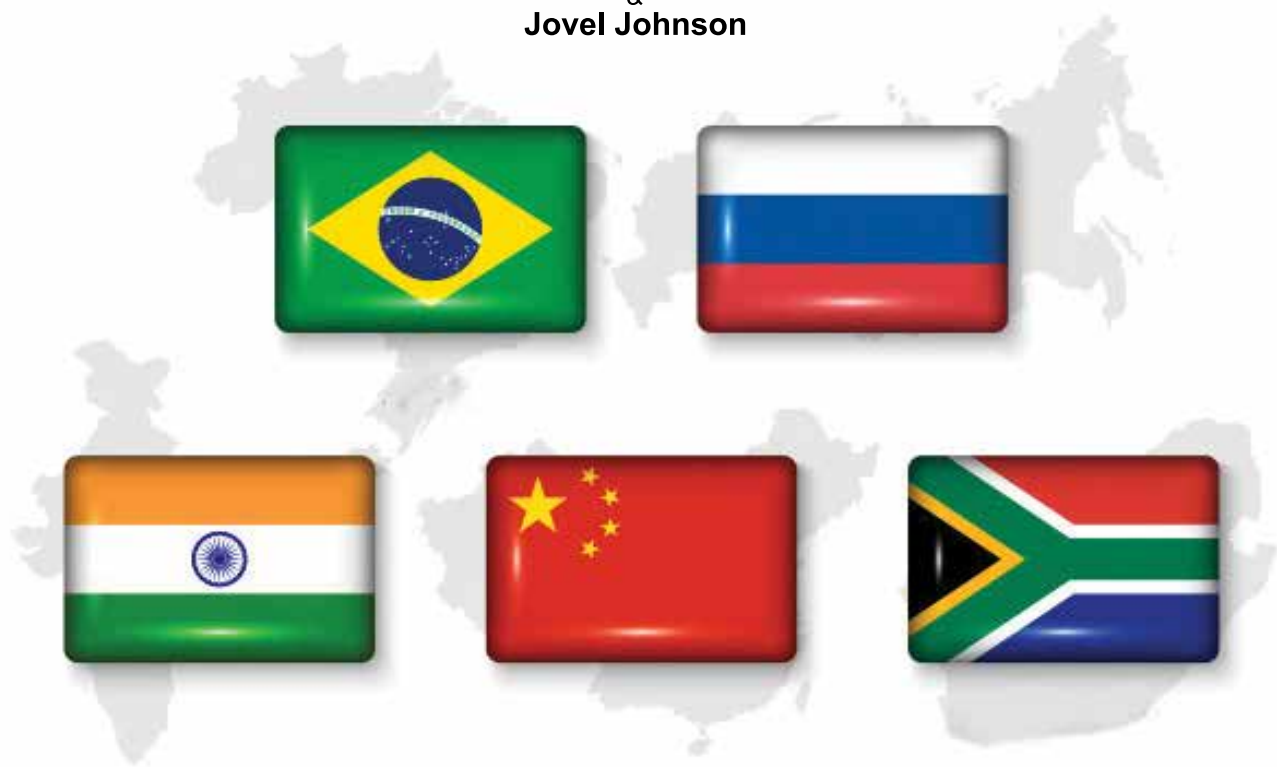


ISED Policy Brief

SME Policy: India and the Emerging Economies

by
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Institute of Small Enterprises and Development

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About 'ISED Policy Briefs' Series

Brought out by the Institute's knowledge platform, the ISED Small Enterprise Observatory, titles under this Series are meant to stimulate a discussion on some of the latest developments in the economy and society. The contents of 'ISED Policy Briefs' emerge largely from the findings and experience of research work at the various Knowledge Centers of the Institute of Small Enterprises and Development. They are meant to be a backgrounder for policy debates and discussions at various levels.

Preface

The Pandemic COVID-19, which has triggered disruption in lives and livelihoods globally, obviously, re-shapes the present as also the future of economies and of humanity as a whole. However, it is a challenge and opportunity for humanity to outlive such constraints. Shaping new development strategies and promotion of enterprise and entrepreneurship alone can be the solution to this impasse. That means, we need to start speaking of the impacts at the “bottom of the pyramid”, and plan for broad basing the mass base of entrepreneurship.

Under the India MSME Communication Programme(IMCP), the ISED Small Enterprise Observatory, in co operation with the various Knowledge Centres of the Institute, makes a rigorous analysis of the latest currents in the MSME constituency, leading to a unique ‘Development Report’. This study is a spill-over of this exercise of Development Reporting on micro, small and medium enterprises (MSMEs) at the ISED.

While the team of the Observatory did a meticulous job under the guidance and support of the Project Leaders, individual members of the Team, including the editors and the Associates, have made their special contribution in specific thematic areas. While this title is significant in the present context of the Indian economy, and of the MSME developments in specific, I hope it will contribute to wider discussions in the subject area.

As this title comes out as a joint output of the Observatory and the ISED Centre for Enterprise Development, the Institute wishes to thank, without fail, the pains and efforts of the authors, and all who have supported it through inputs and suggestions. ISED has taken best efforts to ensure the quality and reliability of this paper. However, for the findings and views, the authors alone are responsible.

Cochin,
August 20, 2020

P.M.Mathew
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SME Policy: India and the Emerging Economies

Abstract

The specific country experiences of SME policy are crucial in the modern world. The case for SME development is inter-twined by the politics and economics of development. In India, the case has been strongly grounded on the history of the 'Freedom Movement', on the one hand, and the need to provide livelihoods to millions of poor people. While this historical ground is common in many developing and emerging economies, the rapid changes in technology, trade, and economic structure, at the global level, has important implications for policy making in individual countries. However, a cross examination of such comparative experiences is likely to be rewarding for India. Likewise, India's experience is likely to be useful for other developing countries as well. It is such comparative learning that provides the base for greater international collaboration among countries.

KEY WORDS: SME policy, India, emerging economies

1.0. Introduction

The specific country experiences of public policy, provide a closer view of ground level processes of policy making. India's long history of its SME policy demonstrates a typical experience of how an underdeveloped country can shape its industrialisation programme with a significant focus on unorganized manufacturing. It should also be understood against the country's strong base of core sectors with the corporate and the 'commanding heights' of the economy with the public sector. It also gives lessons on how a country can grow out of backwardness into an emerging economy. Therefore, a spotlight of India's experience is likely to be a useful exercise involving substantial spill-over benefits to other developing countries and emerging economies as well.

2.0. India's Enterprise System

An understanding of the sum total of the functional and spatial linkages of enterprises in India (the so-called 'enterprise eco system'), and the direction of its

change, are crucial for visualising and shaping a policy approach. The specifics of the enterprise pyramid and the manufacturing geography of the country speaks of that.

Functionally speaking, India's manufacturing panorama has taken shape over time on the basis of a logic that has four streams: The original manufacturing landscape got shaped on the basis of a "magnets of manufacturing" logic (e.g.: brassware of Moradabad; silk in Varanasi and Bhagalpur). These agglomerations offered opportunities of growth and employment in a rather autonomous fashion, even without much policy support. The second stream involved the individual-entrepreneur-oriented development of self employment (mostly service enterprises) since Independence, where, policy support was significant. The third stream, marked a focused intervention by the state in clusters of enterprises. The sum total of the above four streams form the enterprise landscape of India today.

Structurally, India's enterprise geography today consists of : 1) the apex of the pyramid involving the corporate sector, the middle of the pyramid, consisting

India's Enterprise Landscape Today

India's manufacturing panorama has taken shape, over time, under four streams: The original base was the so-called "magnets of manufacturing" (e.g.: brassware of Moradabad; silk in Varanasi and Bhagalpur). Such agglomerations offered opportunities of growth and employment in a rather autonomous fashion, even without much policy support. The second stream involved the individual-entrepreneur-oriented development of self employment (mostly service enterprises) since Independence, where, policy support was significant. The third stream, marked a focused intervention by the state in clusters of enterprises. The fourth stream, called 'technology start-ups', have emerged largely without any direct public support.

of the medium scale enterprises, as also the modern technology-intensive small units, and the bottom of the pyramid consisting of the large number of tiny units, mostly own-account enterprises. India's Economic Census distinguishes these different types of enterprises into two simple categories: (1) establishments; and (2) own-account enterprises. This makes a better understanding of the degree of entrepreneurship involved.

India's corporate sector has grown steadily over the past two decades in terms of number of registered companies and amount of paid up capital. The corporate sector consists of closely held (private limited) and publicly held (public limited) companies, with approximately 619,000 registered companies, about 40 percent of which are in the manufacturing sector. Private limited companies comprise the majority of firms in the corporate sector, but account for less than one-third of total paid up capital.

3.0. MSME Role in India

Being one of the fastest growing economies of the world, in India, MSME sector is likely to continue to play a significant role in its growth story.. In the last ten years, MSME sector has shown impressive growth in terms of parameters like number of units, production, employment, and exports. Given the right set of support systems and enabling framework, this sector can contribute much more, enabling it to actualize its immense potential.

MSMEs provide employment opportunities at comparatively lower capital cost, and act as ancillary units for large enterprises to support the system in growth. Table 1 depicts the growth rate of MSME sector in comparison with the overall industrial sector. The MSME sector has in many years registered a higher growth rate than the overall growth of industrial sector.

During 2000 to 2006, India witnessed industrial growth in the range of 5-8% annually. Subsequently, it recorded double digit growth for 4-5 years, before slowing down to around 6% growth during 2015-2016. The MSME

Table 1: Contribution of MSMEs in Indian Economy (at Current Prices) (in ₹ crore)

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (%)
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: Government of India, Annual Report Ministry of MSME 2017-18

Table 2 : Head-count of MSMEs in India

Activity Category	Estimated Number of Enterprises (in lakhs)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
Electricity*	0.03	0.01	0.03	0
All	324.88	309.00	633.88	100

Source: Sixth Economic Census, cited in Annual Report, Ministry of MSME

*Non-captive electricity generation and transmission and distribution by units not registered with the Central Electricity Authority