

ISED Policy Brief

MSME Policy and Practice: Opportunities for Comparative Learning

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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,
January 20, 2020

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Abstract

From the conventional perception on SMEs as a micro level subject, confined to the country- specific agenda of regional development, it has now become global. As such, the United Nations has announced celebrating the 'SME Day' on an annual basis. This is indicative. At the global level, the opportunities of comparative learning must lead to, not only action at country level, but also should lead to international exchanges. The emerging trend is that, under the multilateral and bilateral trade regime, SMEs are now an emerging presence. That requires a meticulous understanding of ground level experience in SME development. It is in this context that the concept of an 'Enterprise Observatory' becomes all the more important. Beyond these, there are also significant opportunities for cross- border investments. 'Micro-multinationals' is a new and emerging area where India has made significant progress over the last few years; but, the opportunities are much more.

KEY WORDS: MSME policy, programmes, international experience, United Nations.

1.0. Introduction

The global economy has been treading on an unprecedented path of structural changes today. This makes many of the rules of the game in industrial change increasingly redundant. In the present era of the 'Fourth Industrial Revolution', vertical learning opportunities of the SMEs are on the rise, though horizontally, the competition has been intense. MSME development, having become a global agenda, there are opportunities and imperatives for comparative learning. Such comparative learning need to take place, both at the international level, and among different States and regions of the country. A discussion on the comparative experience of public policy and practice between two global blocks, the developed countries, on the one hand, and the emerging economies on the other, offers substantial opportunities for mutual learning and sharing of experience. The objectives of development policy remain largely the same in most countries. Apart from questions of scale efficiency, which is a debatable, the need for employment promotion is common in most of the countries. Dealing with this social angle, and considering the emerging pattern of 'jobless growth' across the globe, the opportunity, at least in the short-run, remains with SMEs that can absorb a large number of people into its fold. Since the SMEs pass this test, a painstaking effort for keeping up their morale and for developing them on scientific lines, becomes a viable agenda for most countries today, and more so, for India. Within India, there are significant divergence in MSME policy and practices among the States. It is important that such experiences are examined on a comparative plane.

2.0. Areas of Convergence

Unlike in the past, there are many emerging areas of co-operation and cross-breeding of best practices. The opportunities of such sharing exist both at the international and national levels. Cutting across spatial distinctions, the process need to happen at the subsector level, since the global value chains are the decisive factor in business opportunities today. A discussion on such areas would be useful for nurturing a better understanding and co operation for the benefit of sustainable enterprise development and employment promotion. By far, this is going to be the only answer for the emerging global situation, as we have today.

2.1. Technology

Unlike in the past, the major spurts in technology, have contributed to a flattening of the MSME constituency, according to time and space. It is this ground that has facilitated the growth of micro- multinationals(mMNCs) especially from the emerging economies. While this is a major facilitator of enhanced convergence, the latest developments under the Fourth Industrial Revolution, has inherent implications for divergence. For instance, the wave of disruptive technologies, which will rule the stage shortly, is likely to be against the interests of employment promotion in the developing and emerging economies. It is, therefore, important for these countries to develop strategies and selective decisions, in order to protect employment at home, while enjoying the benefits of such new technologies and of global growth in general.

2.2.Trade

International trade still continues to be an area of less attention by SMEs. While, in the past, the regulations and restrictive trade practices were largely inhospitable to the context of SMEs, the 'new economy', today, provides substantial unique opportunities. However, grabbing such benefits, is also conditioned by the overall economic governance system of individual countries. In fact, there is substantial need and scope for cultivating a spirit of outward orientation among SMEs.

3.0. Scope for International Learning

Irrespective of the economic system, the logic of sustainable enterprise development remains the same in most countries. Enterprises take shape essentially in a micro form. It may either be due to a perception on market opportunities, or derived from the need for an income opportunity. In the semantics of entrepreneurship, the former is called 'opportunity entrepreneurship', and the latter, 'necessity-driven entrepreneurship'.

Irrespective of the kind of entrepreneurship that is implicit in a new business entity, there are certain fundamental factors that needs to be fulfilled. These may be categorized into two: a) the objective setting for SME growth; and 2) the subjective setting of achievement motivation, and influence factors such as, family and neighbourhood.

3.1. Objective Setting

The objective setting for SME growth includes the following conditions:

3.1.1.A conducive business ecosystem: The role of the business ecosystem need to be understood in relation to a variety of conditions, which has often been described as Framework Conditions. It also implies a situation of coexistence of large and small enterprises, wherein, the relationship is significantly benign, rather than exploitative.

3.1.2.Free-flow of resources: The term 'resource' includes, natural resources and other inputs, as also, human power, and entrepreneurial resources, which is part of the labour market. It is assumed that, legal or institutional rigidities do not hamper the free flow of such resources.

3.1.3.An ideal economic governance system: 'Economic governance' implies, the sum total of arrangements, including legal and institutional, that facilitate resource

allocation, production and exchange. In the case of many public programs for enterprise promotion, the political aspect of governance stand out, whereas the economics of the day-to-day management of such programs take a back seat. As a consequence, programs are often evaluated in terms of the numbers they lead to, rather than quality and content.

3.1.4.An ideal 'ease of doing business' condition: In the semantics of investment promotion, 'ease of doing business' is a catch-word. This is often used as a generic concept. However, beyond the variables that constitute the EoDB index, there are several under lying processes that influence the growth of SMEs. These situation-specific factors need to be properly captured, in order to ensure that investments of all types, large and small, flow into a particular region(ISED- FICCI, 2017)

3.1.5 The presence of appropriate institutional structures and policy clarity: Institutions are often created as a response to addressing a public problem. However a 'public problem' and its relevance change from time to time. This, again, implies that the relevance of institutions also change accordingly. Unless the policy regime is broad based, and compelling on institutions to remain dynamic, they turn out to be a burden on the public exchequer.

3.1.6.A macro-economic policy regime that sets an appropriate space for SMEs as key actors: Macroeconomic policy often do not provide an adequate space for MSMEs in normal times. However, when there is a crisis in the economy, governments come up with several relief measures. It has now been universally accepted that, SMEs have a greater natural resilience than the large enterprises. Unless the social role of MSMEs is not properly factored in to the macroeconomic policy, their contribution to the overall state of business confidence is likely to turn insignificant.

3.2. Subjective Setting

The subjective setting involves the presence of conditions that motivate a larger number of individuals into the stream of entrepreneurship. This includes the following conditions:

3.2.1.A value system that respects entrepreneurship: Entrepreneurship, in the ultimate analysis, is a labour market issue. In the labour market, the dominant preference is often in favour of wage employment. In a society where wage employment has a premium, it is natural that the value system is moulded against