

Lessons & Imperatives from Quarter of a Century

India's Micro, Small &
Medium Enterprises (1997-2022)

ISED Policy Brief

by

P.M.Mathew



ISED Small Enterprise Observatory

Jointly with

ISED Centre for Public Policy Studies

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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

India's history of transition in industry and enterprise is unpatrolled. The role of the micro, small and medium enterprise constituency remains unique in terms of its diversity and strengths. It is important to understand this diversity and strength from the point of view of policy and strategy formulation, especially in a situation where the industrial paradigm globally as also in India, is undergoing a major structural change. Besides, the unprecedented train of events and disruption following the outbreak of Covid 19, brings in new challenges and opportunities for the micro small and medium enterprises.

At the Institute of small Enterprises and Development, the ISED small Enterprise Observatory has been closely monitoring changes in the subject area since 1997, under a regular reporting and communication system, the India MSME Communication Programme(IMCP).Over time , the IMCP has matured into an effective platform for analyzing and understanding change , that is helpful in exploring new policy directions, where India's challenges on the MSME front have gained increased complexity.

The title under reference summarizes the experience of India's MSME policy and practice during the past quarter of a century, a period that coincides with the track of experiments and initiatives of the ISED Small Enterprise Observatory. While it reflects the imprint and contribution of the Observatory, I hope that the policy leads, as it carries, would be helpful as some sparks for the way forward.

This publication is expected to provide a long term summary view of change and choice relating to enterprise and entrepreneurship in India. As such it is expected to be a useful for reference material for researchers and practitioners alike. Students of Management and Economics may find it a useful text material for gaining full view at a glance on India's industrial change over the years.

Cochin

January 02, 2022



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Abstract

"Ideas shape the course of history", says economist John Mynard Keynes).With its legacy of decentralized enterprise development strategies, and their umbilical relationship with the 'Freedom Movement', India's experience and experiments in the area of SME development stand out. This is an all the more important model for the rest of the world, as the country has a huge pyramidal industrial structure today, the base of which is significantly strong and diverse. Having been closely monitoring the growth and transition of this huge structure for the past quarter of a century, the ISED Small Enterprise Observatory finds areas of both strengths and weaknesses that need to be discussed. While these issues relate to institutions and policy, the unprecedented experience of Covid 19 take us back to the need for a new 'glocal' paradigm of survival and sustainability, "Sustainable Development through Enterprise", as it was pioneered into the semantics of development debates, way back in 1988, by the Institute of Small Enterprises and Development. Against the dire experience of the Pandemic, this paper explores the policy options and strategic imperatives for taking the industrial structure and entrepreneurial morale of India forward.

Key words: SMEs, Covid 19, India, glocal strategies, ISED Small Enterprise Observatory.

1.0. Introduction

Unlike in the case of many other countries, MSMEs in India adorn a prominent place in its manufacturing map. The very fact that India has emerged as a key player in the global economy, necessitates a fresh look at the opportunities as also the constraints before this vital sector of the economy. Though the story of the MSME economy over the last two decades shows a mixed picture of gains and losses, leaps and slow-downs, it has demonstrated some basic resilience. The purpose of the 'India MSME Report' series, at the Institute of Small Enterprises and Development (ISED) is to bring to the limelight a scholarly view of the latest scene of MSMEs in the country, besides presenting pointers to the emerging scene. This reporting exercise, over the last nineteen years, has done a significant job relating to this primary task, besides initiating a role of bringing together the relevant stake holders into a single knowledge platform. India MSME Report 2017, as an important addition to this innovative exercise, has undoubtedly, helped to trigger a debate on the latest issues and challenges of MSME development in India. The purpose of our discussion in the following pages is to offer a glimpse of that lengthy debate.

2.0. The Story of MSME Transition: Two Decades

In order to have a meaningful understanding of the directions of India's industrial growth, it is necessary to have a closer view of the experience of MSME growth. Such an exercise need to focus both on the qualitative and quantitative aspects:

2.1. The Milestones

The Indian economy during the past two decades demonstrated a mixed experience of accelerated growth, as also periods of downswing. However, this period generally, has been, remarkable in terms of major reforms. The experience of changes, as also the reform agenda, has had its impact on industrial sector in general, and MSMEs in specific.

The major change that has happened during the past two decades, can be explained in terms of a transition from a regulatory regime, into an era of de-regulation. The deregulation agenda was expected to lead to a "level playing field". Such a level playing field was expected to enhance the competitiveness of MSMEs, and to help their sustainable growth. However, the experience so far shows that, the concept of a "level playing field" has not trickled down to the extent it was expected. The

constraints relate to the limitations of the alternative mechanisms, and in some cases, to lack of such alternative mechanisms.

A critical area of concern relates to the weaknesses of public policy, on the one hand, and the gap between policy and practice, which constrains the spillover effect of policy to the context of the entrepreneurs and of the industry in general. On the one hand, there is the problems relating to employment policy. It is necessary to move forward from the traditional concept of man power planning, to the new paradigm of labor market strategies. Where self employment is in focus, the question of employability comes to the forefront. The question of employability is, again, a question of skills, including entrepreneurship skills. However, entrepreneurship still continues to be something abstract in the context of both public policy and practice.

There is need for some new policy perceptions. However, the existing policy perception continues to focus on, entrepreneurship and skills as two separate agenda. Against this background, it is necessary to raise some fundamental questions regarding the relationship between education, skills and entrepreneurship. It is also necessary to shape a new policy perspective and associated strategies on the relationship between small and large enterprises. The concern of a policy perspective should not simply be on the classical 'exploitative-benign' debate, but on their very future based on rapid changes in the economy and of the domain of consumer tastes.

2.2. Qualitative Changes

Public policy and programmes during the past two decades have significantly focused on the role of institutional structures, and much less on the content of programmes and their impact to sustainable enterprise development. A major shift from 'individual efficiency'-oriented promotional activities to one of 'collective efficiency', which was characteristic of the period, has had important implications for both the qualitative and quantitative aspects of growth. Another crucial aspect relates to the kind of economic governance, at the national level and in the States, that explains the impact and relevance of public programmes and schemes

to the context of MSMEs. This is a critical area that demands immediate attention.

3.0. Emerging Trends and Concerns in 2017

Against the emerging paradigm at the global level, India's experience stands out. India's industrialization perspective, since Independence, has been focused on a two-pronged approach: 1) providing employment opportunities (labour market intervention); and 2) taking such opportunities, to the extent possible, to the villages, in such a way that industry can be used as a tool for achieving regional equity considerations (regional development through enterprise promotion). This kind of an approach has significantly contributed to the growth of a large number of semi-urban centres, which provide a significant space MSMEs in the country. Today, five leading States account for 67.1% of the new MSME registrations, whereas, at the lower end, ten States account for 0.1 per cent of the registrations. This, by no means, indicates an equitable distribution.

Employment Generation through MSMEs: Massive employment generation through enterprise creation is the first challenge. But today, it is a highly volatile and complex task, that has to take into account the rapid global changes in technology, trade, and consumer tastes. Against this global canvas, what matters most, domestically, is the path and strategic approach to enterprise development.

'Make in India' is a highly visible national campaign mode initiative which needs to be translated into action at two levels: on the one hand, there is need for attracting foreign investments into the country. While foreign investments are likely to make a visible impact, those large enterprises also need subcontracting linkages and service delivery, which has to come from the MSME sector. It is important to have a prior knowledge of the MSMEs and their capabilities, while planning for the proposed Smart Cities that would attract such investments. The implication is that, unlike the present pattern of urban planning, there is need for a focus on effective economic governance alongside. The techno-spatial aspects of MSME growth in India, therefore, necessitates a closer understanding and review. It is against this context that India's MSME growth experience need to be understood.