

# Micro, Small and Medium Enterprises in India: Key Concerns of Entrepreneurship and Enterprise Security

*ISED Policy Briefs*

by  
ISED Small Enterprise Observatory



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 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 come 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 01, 2019

P.M.Mathew  
Director, ISED



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## Abstract

Both the market and personality traits, positively or negatively, influence entrepreneurship growth in India. 'Enterprise security' is a relative concept; it is related to the structural and operational vulnerability of an enterprise. 'Vulnerability' is a situation, by which the enterprises face problems relating to: 1) market opportunities; and 2) capabilities. Unless the exact nature of the problem is identified, it is difficult to arrive at a strategy that is relevant to the context. Despite such constraints, the imperative for expanding the entrepreneurship base stand out. Therefore, it is important that, public policy be tuned against this objective. It is this imperative that rationalizes the search for an 'inclusive entrepreneurship development' model.

**Key words:** Vulnerability, enterprise security, India, inclusive entrepreneurship development

## 1.0. Introduction

Since 1990, the macroeconomic policy, and more specifically, the policies relating to micro small and medium enterprises in India, have followed a path of liberalization, with much less role for government, both regulatory and promotional. While the mixed perceptions on the MSME role continued to get reflected in public policy, the accelerated focus on growth and their possible implications on MSMEs need closer analysis. While the leading issues in the policy and practice of MSME development are not adequately discussed and articulated in the country, the task of the following pages is to identify and discuss some of the major threads.

## 2.0. Indian Economy in 2018

The state of the Indian economy, as in 2014-15 and afterwards, explain the recent political transition and the developmental implications thereon. The major sources of information, on which one can draw some meaningful conclusions, are provided by the Ministry of Finance and the Reserve Bank of India. India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers of the world over the next 10-15 years. The state of the Indian economy, as in 2018, demonstrates some unique developments that are of significant relevance to MSMEs in the country. India's GDP is estimated to have increased 6.7 per cent in 2017-18 and is expected to grow 7.3 per cent in 2018-19. In April-July quarter of 2018-19, the GDP grew by 8.2 per cent. The Reserve Bank of

India expects FY19 growth at 7.4%. Global credit rating agency Moody's Investors Service has projected India's economic growth to moderate to 7.3% in 2019 and 2020 as higher oil prices combined with rupee depreciation and monetary tightening dampen domestic demand. OECD projects GDP at market prices to grow 7.3% in 2019 and 7.4% in 2020 from 7.5% in 2018. According to its report, Economic Outlook, economic growth in India will slow somewhat but remain robust, at close to 7.5% in 2019 and 2020," the Paris-based organisation said for India in its 2018.

India's labour force is expected to touch 160-170 million by 2020, based on rate of population growth, increased labour force participation, and higher education enrolment India has retained its position as the third largest start-up base in the world with over 4,750 technology start-ups, with about 1,400 new start-ups being founded in 2016, according to a report by NASSCOM.

India's foreign exchange reserves were US\$ 392785 million in the week up to November 23, 2018, according to data from the RBI.

Exports from India increased 20.7 per cent year-on-year to US\$ 221.83 billion in April-August 2018. It grew marginally by 0.34 per cent in December 2018.

Mergers and acquisitions (M&A) activity in the country has reached US\$ 74.8 billion in 2018 (up to August).

India's Foreign Direct Investment (FDI) equity inflows reached US\$ 389.60 billion between April 2000 and June 2018, with maximum contribution from services,

computer software and hardware, telecommunications, construction, trading and automobiles.

India's Index of Industrial Production (IIP) rose 5.4 per cent year-on-year in April-July 2018. Factory output growth crashed to its slowest in 17 months, at 0.5 per cent in November, the outcome of a contraction in manufacturing.

Retail inflation in the country was at a 10 month low of 3.69 per cent in August 2018, while wholesale inflation was at 4.53 per cent.

According to the International Labour Organisation (ILO), India will again see its unemployment rate at 3.5 per cent in 2018 and 2019, the same which was seen in 2017 and 2016. According to the latest data, there will be 18.9 million jobless people in India next year a little more than 18.6 million for 2018.

The bank recapitalisation plan by Government of India is expected to push credit growth in the country to 15 per cent.

India has improved its ranking in the World Bank's Doing Business Report by 30 spots over its 2017 ranking and is ranked 100 among 190 countries in 2018 edition of the report. Private investments in India is expected to grow by 8.8 per cent in FY 2018-19 to overtake private consumption growth of 7.4 per cent, and thereby drive the growth in India's gross domestic product (GDP) in FY 2018-19.

India's ranking in the world has improved to 126 in terms of its per capita GDP, based on purchasing power parity (PPP) as it increased to US\$ 7,170 in 2017, as per data from the International Monetary Fund (IMF).

India is expected to be the third largest consumer economy as its consumption may triple to US\$ 4 trillion by 2025, owing to shift in consumer behaviour and expenditure pattern, and is estimated to surpass USA to become the second largest economy in terms of purchasing power parity (PPP) by the year 2040.

Economic growth is projected to remain strong, though there has been diverging projections on the growth rates. Private consumption will be boosted by expected large increases in public wages and declining inflation. Investment will pick up gradually as excess capacity fades, deleveraging continues for corporations and banks, and infrastructure projects mature.

Inflation is above the long-term target and public debt is high, leaving little room for accommodative policies.

However, some monetary impulse is to come, as recent cuts in policy rates are passed on to consumers and investors. Creating more and better quality jobs is the key to 'inclusive growth', and requires reforms and making further progress in the 'ease of doing business'.

Improving productivity is essential for India's GDP per capita to catch up with higher-income countries. In the agriculture sector, steps demanding farmer confidence, are a major imperative, especially considering the recent farmer's agitations across the country. In the manufacturing sector, reforms in labour and product market regulations need to be explored in to enable firms to expand to an efficient size. But, the fall in investor confidence, especially in the MSME sector, demand meticulous examination. Providing better access to quality health and education systems is also key, both to raise productivity and to ensure its fruits are spread more equitably.

Growth rates do not pick up to our expectations, though on a comparative sense India's position is commendable. Employment position has not picked up significantly. These two indicators pose the challenge of boosting start ups on a massive scale and to ensure the health of the MSME sector at reasonable levels. However, since the banking system sends out signals of mounting NPAs, credit off-take is not likely to pick up, unless the real sector interventions lead to a major confidence building. Therefore, it is critical to review the policies and experience of the past, and some new policy options and strategies are explored.

### **3.0. Focal Themes**

Against the broad global economic trend, as also the developments in the Indian economy, it is pertinent to have a discussion on the focal themes of the year relating to MSMEs. While, these themes, by no means, cover an exhaustive list, an understanding on them may help us to draw the contours of current practice and policy imperatives.

In the changed global scenario, MSMEs in India need to operate in a competitive environment, on par with the large enterprises, except for the limited support measures offered by the government. These support measures belong to the following major functional domains: (1) technology up gradation support; (2) information and facilitation; (3) credit guarantee; (4) infrastructural support; and (5) market development support; and (6) public procurement. While a discussion