

Self-reliance: MSME Economy in India and its Capabilities

ISED Discussion Paper

by
P.M.Mathew
&
J.M.I.Sait

Institute of Small Enterprises and Development



ISED House, ISED Road, Cochin - 682028
Email: info@isedonline.org, seo@isedonline.org
www.isedonline.org

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ISED Small Enterprise Observatory
Jointly with
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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, India
URL: www.isedonline.org
Email: seo@isedonline.org

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Preface

The relevance of local capabilities in enterprise development are often felt most when there is a crisis in the economy. This is because, human beings, primarily, live in communities. Despite the best advantages of a technology-driven society, its limits are brought to our mind by pandemics like covid-19. Therefore, a strategy of self-reliance, grounded on human skills and process capabilities, is vital for the Indian economy to move forward. In such a strategic approach to economic development, MSMEs have a critical role. Both for the Gandhian concept of 'Gram swaraj', and 'decentralised smart manufacturing' of the 21st century, knowledge and strategy are the two key words that are commonly relevant. This Paper puts forward the outline of a strategic approach on these lines.

This Discussion Paper, brought out jointly by the ISED Small Enterprise Observatory and the ISED Centre for Enterprise Development, is expected to contribute to the debates on economic policy in India and other developing and emerging economies.

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Cochin

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P.M. Mathew

Director

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Abstract

The relevance of local capabilities in enterprise development are often felt most when there is a crisis in the economy. This is because, human beings, primarily, live in communities. Despite the best advantages of a technology-driven society, its limits are brought to our mind by pandemics like covid-19. Therefore, a strategy of self-reliance, grounded on human skills and process capabilities, is vital for the Indian economy to move forward. In such a strategic approach to economic development, MSMEs have a critical role. Both for the Gandhian concept of 'Gram swaraj', and 'decentralised smart manufacturing' of the 21st century, knowledge and strategy are the two key words that are commonly relevant. This Paper puts forward the outline of a strategic approach on these lines.

Key words: self-reliance, MSME, Covid-19, Capabilities, Entrepreneurship resource mapping, migration, strategic approach

1.0. Introduction

During a pandemic situation, such as Covid-19, the priority of public policy, first and foremost, is to understand the dimensions and magnitude of the problem, and to evolve strategies for containing it. Unlike many other countries, the Government of India, with the active support of the States, has made timely interventions in this area. It is important to understand that, apart from political will, the policy choices are dependent on the epidemiological compulsions, on the one hand, and the budgetary implications, on the other. Having a reasonably realistic understanding of the situation, the next challenge is to keep such initiatives going, without hampering the interests of the economy and of the welfare of the people. Keeping a right balance between the two is the challenge of 'Pandemic Economics' and public policy in general. The vision of a "self-reliant India" being announced, the country is now on a vigorous search for sustaining the health, growth and sustainability of the MSMEs, a sector that really matter in its sustainable development agenda, in terms of output, employment, and opportunities. While sustaining agriculture is vital to ensure that people do not starve during the Pandemic and beyond, the health of the MSMEs is critical to ensure that the local economy is going, and that the Indian economy does not get derailed into second-order problems associated with this Pandemic.

2.0. MSMEs: The Long Forgotten Full Picture

Any discussion on small enterprises and their role in the economy need to be based on the structure and trends in the labour market and the coping system associated with it. As such, it should invariably be based on livelihoods, the ultimate outcome of the labour market. Naturally, the discussion on livelihoods is, alternatively, a discussion on poverty as well.

The problem of poverty is a widely debated subject. There are several narratives on the concept and its measurement. However, the central issue of debate need to be, ways and means to overcome it, and to ensure that the fruits of development percolate, in order to reduce the absolute levels of poverty.

Irrespective of the causatives, poverty is a global reality. It is a relative concept. The poor are generally identified in terms of the degree of their deprivation to a basic command over resources(food). However, poverty, as a real-world problem, speaks of the distribution of resources and capabilities. Therefore, an agenda of reduction of poverty need to be grounded on enhancing the access to such resources and capabilities. This distributional aspect has often been perceived differently by development economists and scholars from other disciplines. Therefore, the suggested solutions also differ. For

example, Dr. M.S. Swaminathan presented this in his beautiful quotation: “if we can have a nuclear submarine program, a space missile program, or a cricket sponsorship program by individuals like Sharukh Khan, why can’t we have a program to save rotting paddy across the country.....”.

Apart from the emergence of poverty as a constituency of convergence, it involves three vital, but interrelated, aspects: 1) food; 2) livelihood; and 3) enterprise. Food is a notional indicator of survival. Irrespective of the debates, how public policy behaved in relation to the objective environment of nation States? Survival of the human being involves the necessities of life, ie., food clothing and shelter, as it is put forward by classical economists. The concept of ‘livelihoods’ involves the income opportunities that facilitate access to these. ‘Enterprise’ is an indicator of human capabilities that facilitate access to livelihood. Therefore, ‘enterprise’ is considered to be the *sine qua non* for ‘sustainable development’.

3.0. Changing Objective Environment

The role of technology and productive efficiency has been a long debate. It is this debate that has led to discussions on the ‘Intermediate Regime’ in theoretical discourses. The milestone in this area is the formal accelerated trend in globalisation, specifically since the 1990s. The radical changes in production structure, both vertical and horizontal, has resulted in leaving the basic debates on ‘choice of technique’ and ‘poverty’, into the backyard of development debates. The paradigm of ‘Fourth Industrial Revolution’, and its path breaking potential, has raised questions on the scenario of the labour market, and of livelihood opportunities, especially of the so called “redundant labour”.

While the potential breakthrough in technology offers both opportunities and threats, the global experience presents some radical changes in the objective environment. This, in fact, is both the cause and consequence of the emerging production structure. Since 2016, climate change has emerged as a prominent change factor that has manifested in the form of floods, drought and other calamities around the world. The period also witnessed an experience of chronic epidemics in various countries, which has now converged into a global pandemic, ie, COVID-19. The global economy has been uniformly affected by this disaster. The unique implication is that, the concept of ‘exchange’ itself is getting

constrained, because countries are not in a position to help each other. This, obviously, means that such calamities need to be overcome through collective global actions. However, under most such calamities, the inequalities in income and wealth get widened, and the livelihood opportunities of the masses get increasingly marginalised. The implication is that economic activities, which can summarily be called as ‘enterprise’, get increasingly under threat through technological disruptions, and alienation in the market. While the 1990s witnessed a fast movement towards globalisation of economies, the pace of such movement has increasingly been arrested by external factors. The local economy and its development aspirations are getting increasingly important.

4.0. Food Security and Livelihoods: The Evolving Global Agenda

Looking at food security simply from nutritional standards is a rather a traditional approach. The different definitions and underlying small sample surveys used to determine poverty in India have resulted in widely varying estimates of poverty from the 1950s to 2010s. The movement beyond the above traditional approaches of poverty estimates is based on the emerging ground realities. These ground realities include, the factors that deter or contribute to greater access and adequacy of food. While, traditionally, food was a notional concept that was exclusively deterministic of poverty, it got broad based over time. In broader terms, ‘poverty’ implies a relative concept of deprivation as well. The poor are defined as a social category, the constituency of which is deprived of some basic necessities of life.

Poverty is not just relative, but also absolute. He defined poverty as a failure to achieve certain minimum capabilities; the lack of capabilities is absolute. However, capabilities are not fixed over time or over societies. Such basic necessities, or entitlements thereto, are conditional. It is in the above context that the relevance of the concept of ‘livelihoods’ arise. Today, the relationship between food security and livelihood security has been globally accepted as crucial. For the Food and Agriculture Organisation (FAO) of the United Nations, its unequivocal goal is to achieve a food secure world free from hunger and malnutrition for the present and the future generations. To be truly food secure at all times, according to the FAO, livelihood systems must be economically, socially, and environmentally sustainable. This would require a realistic analysis of

livelihood strategies of communities that provide an adequate understanding of how they live and make a living (FAO, 2020).

The perception of the FAO on the importance of the relationship between food security and livelihood security demands complimentary approaches that focus on these two concepts. They have a high level of commonality in relation to: 1) cross sectoral contact 2) people centred measures and outcomes; 3) dynamic and process oriented analysis and approaches; 4) micro macro linkages; and 5) context-specific actions. The very first corporate strategy put forward in the strategic framework of FAO(2000-2015), is contributing to the eradication of food insecurity and rural poverty, aiming at ensuring sustainable rural livelihoods and more equitable access to resources.

The FAO perception has its reflections in the whole United Nations program on sustainable development. The “triple bottom-line principle”, which is now universally accepted, demands sustainability as a holistic concept focused on its three pillars, i.e., economic, social and environmental. As of today, the historic changes in the climate arena, and the spill over that has reflected in the form of the series of epidemics, and with Covid-19 as a watershed in history, brings to the forefront, livelihoods as a critical subject that is going to shape the future world order. Irrespective of the relative positions of countries and continents, the global world order is being redrawn in terms of people’s relative access of resources. The global GDP has crumbled in an unprecedented pattern. Massive decline in GDP and employment, globally, has been predicted by all multilateral agencies.

In the history that is familiar to the present generation, it was the Second World War that contributed to massive disruption in global economy. But today, we have a more flatter world, where loss in output and jobs are much more widespread, to be put on track within a short time. At the same time, the distributional consequences are likely to be far greater. The reason is that, unlike during the Second World war, technology has emerged as a major third force that determines the distribution of income and wealth. Besides, while translating of business ideas into income opportunities, scope economies, rather than scale, is the most relevant factor, though scale still continues to be significant. While, during the given conditions people’s savings alone can be the nutrient for income opportunities of tomorrow, such savings have already been eaten away by the present

global crisis, which is characterised by the inter play of an economic slowdown, further accentuated by the ongoing disruption created by the pandemic.

‘Livelihood’ can best be defined as the means and methods of making a living in the world. The concept revolves around resources such as land/property, crops, food, knowledge, finances, social relationships, and their interrelated connection with the political, economic, and socio-cultural characteristics of an individual community. A livelihood consists of capabilities, assets, and activities that are required for living. A sustainable livelihood is defined by the UN Economic and Social Commission for Asia and the Pacific (UN-ESCAP) as having “the ability to cope and recover from unexpected events, while at the same time enhancing current and future capabilities” (UN-ESCAP, 2008). This definition interlinks the definitions of resilience, sustainability, and livelihood, as each affects the others. This means that there needs to be a heavy focus on reducing vulnerabilities of the community, including reducing poverty levels, building capacities and coping mechanisms, and focusing on community resilience (UN-ESCAP, 2008).

There are five primary assets or capitals in the sustainable livelihoods framework that can influence sustainability and community resilience, as they can all be affected during disasters. These assets are human, social, natural, physical, and financial capital. Collectively, this is referred to as the *Pentagon model*. *Human capital* includes the skills, knowledge, and wellness that collectively allow people to pursue livelihood. *Social capital* consists of the specific social resources that are necessary to pursue one’s own unique livelihood. These can be fostered via establishment of networks, trusting relationships, and membership of formalized groups. *Natural capital* consists of the natural resource stocks from which resource flow and sources are derived; these natural resource stocks include such elements as nutrient cycling and erosion protection, both of which are useful for maintaining livelihood. *Physical capital* represents the resources available to support viable livelihood. This may include clean water, adequate sanitation, and effective shelter; these items are often encompassed by basic infrastructure. *Financial capital* consists of the financial resources that are required if people want to fulfill their livelihood objectives (UN-ESCAP, 2008).