
**Gujarat Micro,
Small & Medium
Enterprises Report 2013**

Gujarat Micro, Small & Medium Enterprises Report 2013

Sponsored by:
Gujarat Industrial Development Corporation



ISED Small Enterprise Observatory

Institute of Small Enterprises and Development

ISED House, ISED Enclave, ISED Road, Cochin -682 028, India

www.isedonline.org

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Published by P.M. Mathew, for Institute of Small Enterprises and Development. Printed and bound in India by Paico Printing Press, Cochin-682016

Series: State MSMER
ISBN - 978-93-80830-16-2

Gujarat MSME Report 2013 is the pioneering initiative in exclusive State-level reporting on India's micro, small, and medium enterprises. At the national level, the ISED Small Enterprise Observatory (ISED-SEO), at the Institute of Small Enterprises and Development (ISED), has been bringing out the annual *India MSME Report*, under the MSMER Series. Based on the MSMER experience, the need for State level reporting has been increasingly felt by State governments, entrepreneurs, financial institutions, and various other stake holders. Prepared against the background of the 'Vibrant Gujarat Investment Summit 2013', this Report looks into Gujarat's enormous potential on the MSME front. The Report should be useful to policy makers, development practitioners, administrators, financial institutions, and especially for, those are interested in Gujarat's growth story.

KEY PARTNERS



Gujarat Industrial Development Corporation(GIDC) is the nodal agency of the Government of Gujarat for building the industrial backbone of the State. It is a 100% Government- owned statutory undertaking, set up under the Gujarat Industrial Development Act,1962. Its objective is to identify and develop locations suited for industrial purposes, and making them tailor- made for entrepreneurs' needs.



Established in 1927, the Federation of Indian Chambers of Commerce and Industry(FICCI)is the largest and oldest apex business organisation in India. A non-government, not-for-profit organisation, FICCI draws its membership from the corporate sector, both private and public, including SMEs; it enjoys an indirect membership of over 2,50,000 companies from various regional Chambers of Commerce. FICCI is Event Partner of the 'Vibrant Gujarat MSME Convention'.



Institute of Small Enterprises and Development (ISED), a Permanent Member of the Indian Association of Social Science Institutions (IASSI), is an interdisciplinary Knowledge Institution with small enterprises as its key constituency. Along with research, policy advice, advocacy, communication, training, and consultancy, the Institute is a participant to policy dialogue in the subject area in India and globally. It offers a variety of products and services: comprehensive reports, study materials for students, practical info for entrepreneurs, tips for the bankers, inputs for the media, and much more. Part of ISED, the parent organization, ISED Small Enterprise Observatory (ISED-SEO) is a knowledge platform, membership-driven, and is governed under the collective wisdom and guidance of an international Special Advisory Team.

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Preface

In the design and implementation of public programs, information and statistics *per se* cannot be very useful. They need to be translated into knowledge- base. The term ‘knowledge’ itself is often misconstrued.’ Knowledge’ cannot emerge simply from good research. The findings of research, to be useful for policy purposes, need to be grounded on field realities. This two- way process is the crux of ‘development communication.’ Development communication is a key programme area for the Institute of Small Enterprises and Development.

‘India MSME Communication Programme (IMCP)’, at this Institute, is based on the above perspective. Under the above Programme, ‘India MSME Report’, an annual national exercise in development reporting ,has been on for the last 16 years. Being moulded on an’ inclusive partnership’ mode, various State Governments and other stakeholders are by now convinced on the usefulness of such an exercise at the State level. I am happy to note that, Gujarat, as one would expect, is the pioneer in this regard as well. Naturally, it would be advisable to read this Report, along with *India MSME Report 2012*.

Gujarat has produced some sub-sectoral studies, such as on textiles, diamonds, jari, cloth printing, and electronics. While such occasional studies help us with information on particular subsectors, for design, planning, and implementation of programs, integrated policy- oriented studies are needed. The present Report is an attempt in this regard. Being the first of its kind, it has several limitations. However, the Report provides a methodological approach on policy planning and implementation of programs.

This Report is the outcome of the deep interest evinced by the Government of Gujarat and the Gujarat Industrial Development Corporation, in having a State Report on MSMEs against the background of the proposed deliberations to be held at the ‘Vibrant Gujarat Conclave 2013’. FICCI Gujarat State Council, the Implementing Partner of ‘Vibrant Gujarat’, was highly instrumental in taking the idea forward, and making it happen in a rather short period of time.

Apart from the various official reports, data sources, and special studies, the rich resources of the ISED Small Enterprise Observatory (ISED-SEO) have helped to shape this report in time. Cluster level and subsector level studies were carried out by the Research Team of ISED during October - December 2012. Besides, detailed discussions with key officials of all major financial institutions, public promotional agencies, Chambers, and Associations were initiated.

I would like to admit that, being the first report of its kind, it may have several shortcomings. However, the ISED research team has put in its best efforts to shape a methodology that, we hope, be useful for subsequent Reports in the Series as well.

This Report was prepared by an expert team of the Institute, based at Cochin / Gandhinagar. I thank Dr.JMI Sait and all the other team members for their meticulous work. It is a matter of great pleasure that the GIDC and FICCI have worked closely to be of immense support to this project. A special word of thanks to Shri. B.B.Swain, Vice Chairman, GIDC, and Mr. Param Shah, Director FICCI Gujarat State Council. Several State Government Departments, financial institutions, other agencies,

and professional colleagues have helped this project, with data, insights and perspectives.

I am much indebted to the India MSME Communication Programme (IMCP), for valuable inputs from a cross-section of entrepreneurs and other stake holders that it could bring together under its umbrella over the years. The participant entrepreneurs of the 'India MSME Darshan 2011' Meets, at Ahmedabad and Surat, have forcefully put forward the need for regular reporting on the MSME sector of the State. We are happy that the Government of Gujarat has responded positively to their request by facilitating this Report.

We hope this Report will enthuse other State governments as well, to emulate this initiative of the Government of Gujarat.



Cochin/Gandhinagar
January 10, 2013

P M Mathew
Director
Institute of Small Enterprises and Development

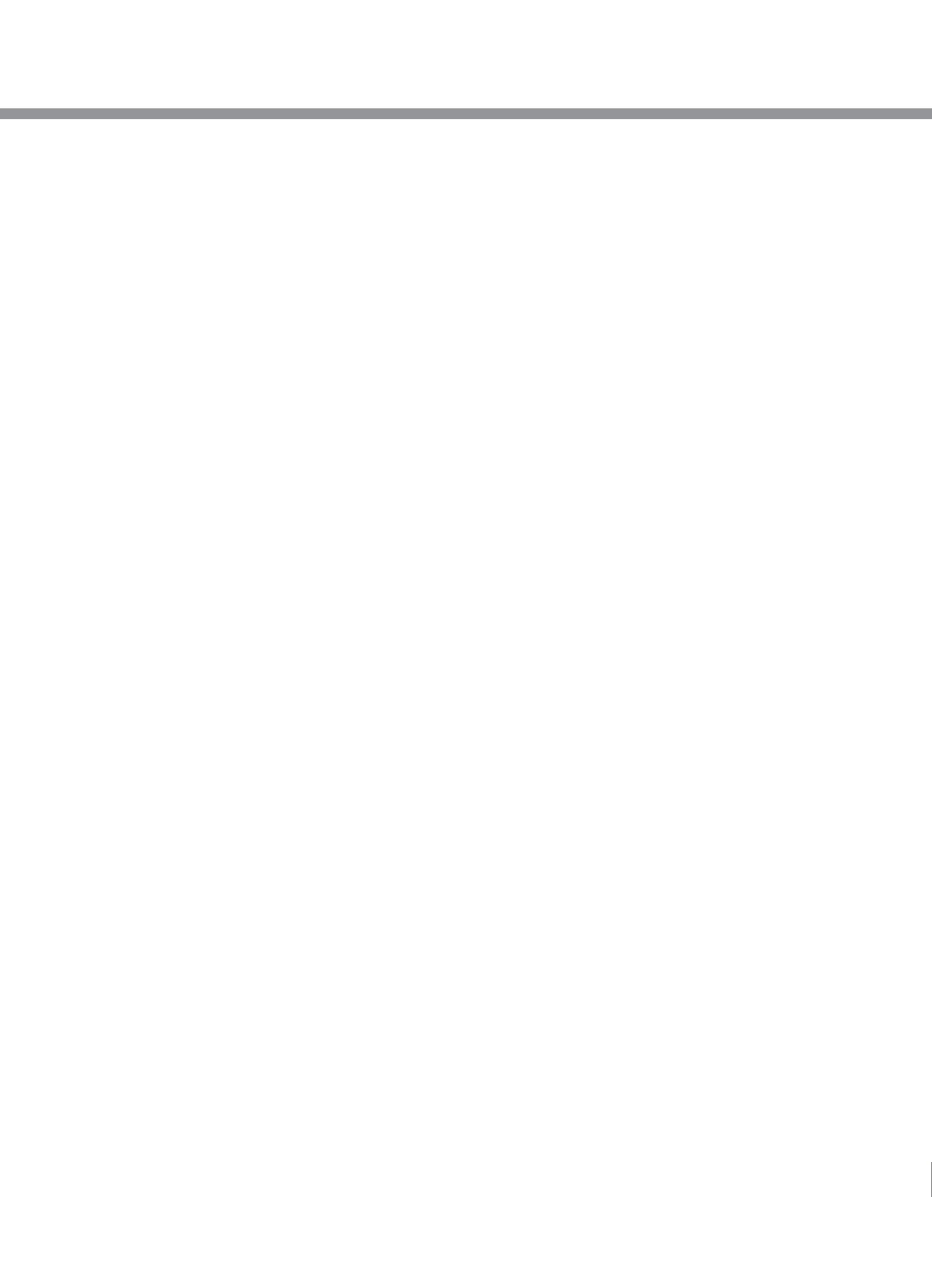
Acronyms & Abbreviations

ABC	-	Adjusted Bank Credit
ADB	-	Asian Development Bank
AGF	-	African Guarantee Fund
AEPC	-	Apparel Export Promotion Council
ASEAN	-	Association of South-East Asian Nations
ASI	-	Annual Survey of Industries
ASSOCHAM	-	Associated Chambers of Commerce and Industry
BDS	-	Business development services
BEE	-	Bureau of Energy Efficiency
BIFR	-	Board for Industrial & Financial Reconstruction
BIMSTEC	-	Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation
BoE	-	Bank of England
BPO	-	Business process outsourcing
BRIC	-	Brazil, Russia, India and China
BSE	-	Bombay Stock Exchange
CAPART	-	Council for Advancement of People's Action and Rural Technology
CBI	-	Confederation of British Industry
CBOs	-	Community based Organizations
CDM	-	Clean Development Mechanism
CFC	-	Common Facility Centre
CGTMSE	-	Credit Guarantee Fund Trust for Micro and Small Enterprises
CMIE	-	Centre for Monitoring Indian Economy
CRC	-	Carbon Reduction Commitment
CRR	-	Cash Reserve Ratio
CSO	-	Central Statistical Organisation
CSR	-	Corporate social responsibility

DC (MSME)	-	Development Commissioner (MSME)
DGET	-	Directorate General of Employment and Training
DIC	-	District Industries Centres
DME	-	Directory Manufacturing Enterprises
DTI	-	Department of Trade and Industry, UK
EC	-	European Commission
ECB	-	External Commercial Borrowing
ECLAC	-	United Nations Economic Commission for Latin America and the Caribbean
ECGC	-	Export Credit Guarantee Corporation of India
EDII	-	Entrepreneurship Development Institute of India
EDP	-	Entrepreneurship Development Programme
ESOP	-	Employees Stock Option Plans
EU	-	European Union
FDI	-	Foreign Direct Investment
FIEO	-	Federation of Indian Export Organisations
FICCI	-	Federation of Indian Chambers of Commerce and Industry
FMCG	-	Fast Moving Consumer Goods
FRBM	-	Fiscal Responsibility and Budget Management
FTA	-	Free Trade Agreement
GDP	-	Gross Domestic Products
GIDC	-	Gujarat Industrial Development Corporation
GTAP	-	Global Trade Analysis Project
HDI	-	Human Development Index
IAN	-	Indian Angel Network
IDRA	-	Industrial Development and Regulation Act
IIP	-	Index of Industrial Production
ILO	-	International Labour Organisation
IMCP	-	India MSME Communication Programme
IPCC	-	Intergovernmental Panel on Climate Change
IPRs	-	Intellectual Property Rights

ISED	-	Institute of Small Enterprises and Development
ISED-SEO	-	ISED Small Enterprise Observatory
JICA	-	Japan International Cooperative Agency
LOHAS	-	Lifestyles of Health and Sustainability
MES	-	Modular Employable Skills
MENA	-	Middle East and North Africa
MFI	-	Micro financing Institutions
MNEs	-	Micro multinationals
MSE-CDP	-	Micro and Small Enterprises Cluster Development Programme
MSME	-	Micro, Small and Medium Enterprises
NABARD	-	National Bank for Agriculture and Rural Development
NAMA	-	Non Agricultural Market Access
NCEUS	-	National Commission on Enterprises in the Unorganised Sector
NCAER	-	National Council of Applied Economics Research
NDME	-	Non Directory Manufacturing Enterprises
NGDOs	-	Non-Governmental Development Organizations
NGO	-	Non Governmental Organization
NMCC	-	National Manufacturing Competitiveness Council
NMCP	-	National Manufacturing Competitiveness Programme
NPA	-	non-performing assets
NPVS	-	National Policy on Voluntary Sector
NREGP	-	National Rural Employment Guarantee Programme
NSAs	-	Non-state Actors in enterprise development
NSDC	-	National Skill Development Corporation
NSIC	-	National Small Industries Corporation
NTBs	-	Non-tariff barriers to trade
NTFP	-	Non Timber Forest Products
OAE	-	Own account enterprises
OAME	-	Own Account Manufacturing Enterprises
OECD	-	Organisation for Economic Co-operation and Development

OPD	-	Outsourced Product Development
PMEGP	-	Prime Ministers Employment Generation Programme
PPP	-	Public-private partnership
RB	-	Responsible Business
RBP	-	Responsible Business Practice
RBI	-	Reserve Bank of India
RGUMY	-	Rajiv Gandhi Udyami Mitra Yojana
RTA	-	Regional Trade Agreements
SBA	-	Small Business Administration, USA
SIDBI	-	Small Industries Development Bank of India
SCORE	-	Sustaining Competitive and Responsible Enterprises
SFC	-	State Finance Corporation
SFURTI	-	Scheme of Fund for Regeneration of Traditional Industries
SIDBI	-	Small Industries Development Bank of India
SLBC	-	State Level Bankers' Committee
SMEs	-	Small and Medium Enterprises
SPV	-	Special Purpose Vehicle
TVE	-	Township and Village Enterprises, China
UAE	-	United Arab Emirates
UNIDO	-	United Nations Industrial Development Organization
WGP	-	World gross product
WIPO	-	World Intellectual Property Organisation
WPI	-	Wholesale Price Index
WTO	-	World Trade Organisation





Introduction

1.0. Background

Small and Medium Enterprises (SMEs) are undoubtedly a significant global presence. People need them because they speak the common man's language. And it is the common man who ultimately shapes history. The word 'ultimate' is crucial. History is shaped by the strenuous initiatives and experiments of the 'common man'. Mostly they fail, but ultimately they win - and that is what history tells us.

Bringing to the limelight the unknown, and documenting it, is the researcher's job. But from the society's point of view, the scientist's job, even with the best of justice he has done to his work, just begins there. He cannot just remain complacent with his research findings. The societal implication of his field comes out only when his research is communicated.

Science and technology are the basic building blocks of the world's achievements today. However, dwindling media coverage of science and technology also places more responsibility on the part of scientists and the professionals for reaching the public directly. Coverage of science and technology occupies only a comparatively small part of the whole news, according to the 'State of the News Media-2008 Report' of the Project for Excellence in Journalism. The Report says that the newspapers and the network T.V. news devote only 2 per cent of their coverage to science and technology and 7% for health

and medicine. These percentages are far lower than for government, foreign affairs, elections, politics, crime and economics and business (Meredith, 2010). In India, 'economics and business', for much of the mainstream media means, "stock market" and "banking". It is against this background that the subject of MSMEs is being discussed.

2.0. Knowledge as the Engine of MSME Growth

MSMEs and their needs demand much more clarification especially in a context where at least three-fourth of the world population experience significant pressures in their day-to-day economic life. The central aim of this report is to position it as a tool of communication in the MSME scenario. Such positioning is visualized against the global economic slowdown, wherein the whole world discusses the role and potential of MSMEs. The world today is in a great learning process. Technology led a sizeable section of the world into an alley of conspicuous consumption. The consumption mania of the 1980s, especially in countries like the USA, which destroyed our balance with nature and ruined people's lives, is fast getting eroded. US household consumption, which was once the sole foundation or anchor of all economic activities and planning declined sharply in the late-2008, marking a significant departure from the until then steady and increasing trend (IMF, 2010). The era of "collaborative consumption" has

Collaborative Consumption: The Catch word of Tomorrow

The theory of 'collaborative consumption' is an addition for historical response to the Marxian theory of commodity fetishism (1867) and Thorstein Veblen's the theory of the leisure class (1899). The logic built up by both the economists is applicable in the context of capitalism in its normal course. However, in a crisis situation there emerges compromises. It is this compromises that emerged in the form of the concept of a "sharing economy". The terms "sharing economy" and collaborative consumption" are both used to describe a fascinating new economic and social phenomenon. They refer to markets for the sharing of products and services between individuals.

come, and that is likely to be the dominant paradigm in the coming years. Such rapid changes have far-reaching implications for the prospects of MSMEs, and that of the common man. Today, there is no dearth of information, but knowledge as a powerful instrument of development, has been sadly left far behind.

The importance of knowledge systems has gained significant appreciation in the modern world. Knowledge and its concentration have proved the success stories of many of the advanced countries of today. However, it is important that knowledge be translated from the abstract to the concrete level. Gone are the days when SMEs were considered panacea for the ills of developing economies. SMEs are recognized as important, no doubt, but now for a different and specific reason. Understanding this specific is important from the point of view of evolving appropriate development strategies and for their meaningful implementation.

In India, our understanding of the MSME sector was too narrow until 1990s. The role of the sector was perceived largely in terms of promotion of employment and balanced regional development. The situation has changed. Today the role of SMEs is perceived in terms of its contribution as a specific sub sector of the economy in shaping a growing economy to perfection. MSMEs today need to be understood in terms of what they are, and what they can. Such knowledge also needs to be communicated for two reasons: (1) to trigger MSMEs into action; and (2) to gain their due respect in the wider society.

3.0. Development Communication for MSMEs.

MSMEs are the lowest layer of the enterprise system

in any country. Being the 'bottom of the pyramid', their potential is substantial. The need for tapping this potential, therefore, is not only a business case, but a wider issue in the overall development agenda of countries, including India, and at the subnational level.

MSMEs in Gujarat are not stand alone. They are significantly influenced by trends in the global and national economy relating to business performance, and developments in technology and trade. Moreover, MSMEs, being a subject in the Concurrent List of the Constitution of India, development programmes in the State need to work within the overall framework and policies at the national level. A discussion on the development agenda of the State should therefore, take all these aspects into consideration.

A development agenda, to be meaningfully implemented, calls for understanding of the common ground by all its stake holders. Not only that it is understood by one and all, there needs to have concerted action for delivering the message. Professor Amartya Sen, on June 8, 2000, while delivering his presidential address in 351st Commencement of Harvard University, made the following remarkable comment on globalization and development: "The productive and economic contributions of global integration can scarcely be denied. But we also have to recognize the enormous inequalities that exist across the globe and often within each country. Doubts about global economic relations come from different ends of the globe, and they are in this sense 'global doubts' - not just an assortment of local opposition. We have to examine the manifest inequalities and disparities that give these global doubts the political salience they undoubtedly have. What is needed is not a rejection of the positive

role of the market mechanism in generating income and wealth, but the important recognition that the market mechanism has to work in a world of many institutions. We need the power and protection of these institutions, provided democratic practice, civil and human rights, a free and open media, facilities for basic education and health care, economic safety nets, and, of the attention it deserves.” Sen’s observation, is highly relevant to the vast constituency of MSMEs that touch upon the lives of millions of people around the world.

Development implies *ipso facto* change. While change, in terms of its long term benefits, is often accepted by individuals and communities, there is also an implicit trade-off between the pains and pleasures of such a transition. Hence, implicit in the concept of development, is also the concept of conflict of interests, because individuals and institutions are interest-driven. It is mutual understanding of the scope of these conflicts that helps one to explore the search for a common ground. The core of all development debates is this understanding of common ground and the urge for working together. Communication of a continuous nature, therefore, is the sine qua non of change in the MSME sector. In fact, unlearning is the foundation of any change, and the process of unlearning is difficult in democratic societies based on traditions. Participative learning needs facilitation among the stakeholders. More can be learnt by interaction among the peers, and realizing that MSMEs, despite the contributions of their Associations, have little time or opportunities

to share their experience and to evolve meaningful actionable strategies. Communication on scientific lines is the answer.

‘Development communication’ is the integration of strategic communication in development projects. Strategic communication is a powerful tool that can improve the chances of success of development projects/ programmes. It strives for behavior changes, not just information dissemination, education, or awareness-raising. While the latter are necessary ingredients of communication, they are not sufficient for getting people to change long-established practices or behaviors.

Development requires some kind of behavior change on the part of stakeholders. Research shows that changing knowledge and attitudes does not necessarily translate into behavior change. In order to effect behavioral change, it is necessary to understand why people do what they do, and understand the barriers to change or adopting new practices. It is not enough to raise awareness of the “benefits”, it is critical to understand peoples’ barriers or the “costs” they perceive such a change would entail.

Meaningful communication is about getting information out to particular audiences, listening to their feedback, and responding appropriately. The idea is to build consensus through raising public understanding and generating well-informed dialogue among stakeholders.

Constraints of Social Learning

Practitioners and policy makers who wish to use or learn from designing or facilitating multi-stakeholder and social learning processes are confronted with four constraints:

1. Lack of a coherent, yet practical, conceptual framework that enriches understanding of potential facilitators;
2. Limited practical examples and lessons from experience, having adaptability and replicability.
3. Lack of facilitation skills, experience and confidence to design and implement appropriate and context -specific processes.
4. Lack of comprehensive and integrated resource materials appropriate to the facilitation of multi-stakeholder and social learning processes.

Well-conceived, professionally implemented communication programs that are tied directly to reform efforts or objectives of a development project that bring understanding of local political, social and cultural realities to bear in the design of development programs can make the difference between a project's success and failure.

4.0. Discovery of Common Grounds

The term 'development' has been widely used in recent literature. However, the context in which it is discussed, and the processes involved are too complex that, from the point of view of clarity of understanding, as also for evolving actionable strategies, a demystification of the concepts involved is a must. While the term 'development' is used in the specific context of MSMEs, such clarification becomes much more important. There is a growing need to facilitate dialogue, joint learning and collaborative action in the area of MSMEs.

Extraordinary problems require extraordinary solutions, and such solutions should be innovative and arrived at consensually among the stakeholders: entrepreneurs, policy makers, enterprise associations, suppliers, donors, non-governmental organizations and consumers. Sustainable development demands continuous dialogue of such a nature.

Even after repeated regulatory measures by the Central Banks, SMEs in most countries complain of inadequate availability of credit. On the other hand, innovations like micro finance, which directly address the problem of timely availability of credit, have not led to more of enterprises that can avail of such opportunities. This mismatch between opportunities and their actual utilization, lead us to the need for approaching the problem from a different angle. This brings us to another perspective: the paradigm of interactivity and dialogue. This combines ideas of systems thinking, (societal) learning, and multi-stakeholder participation. 'System thinking' seems most suitable to study complex dynamic issues that deal with human behaviour. By looking at the whole system of interrelated issues and patterns, it is possible to make effective and sustainable changes for the future.

Stakeholder analysis is performed when there is a need to clarify the consequences of envisaged

Box. 3

Stakeholder Mapping Dimensions

Commonly used 'dimensions' include:

- 1) Power (high, medium, low);
- 2) Support (positive, neutral, negative);
- 3) Influence (high or low); and

changes or at the start of new projects, and in connection with organizational changes generally. It is important to identify all stakeholders and to have an appropriate stakeholder mapping from the point of view of analysis and action. Their dimensions need to be identified and understood.

Development communication, as discussed above, presupposes the presence of effective tools and techniques which can foster a healthy and productive relationship among various stakeholders. Reporting is one such tool which has great relevance in the modern world, where the dynamics of change is significantly complex.

5.0. Development Reporting as a Tool

'Development Reporting', as a relatively new concept, has gained much interest in the modern world, as most development actors, including governments, donors, financial institutions, promotional agencies etc are convinced on its usefulness in forcefully putting forward an agenda of development. Such agenda should be transparent and should be the outcome of a participative process. Development reporting provides such a platform, and comes out with a visible product, an icon triggering debates and action. As such, it is able to contribute to the thought process relating to MSMEs, which many vested interests do not want to happen.

5.1. The ISED Initiative

The ISED Small Enterprise Observatory (ISED-SEO), a specialized knowledge platform at the Institute of Small Enterprises and Development (ISED), has tried to bring to the realm of public

debates, the key issues of MSME development from time to time. The India MSME Communication Programme (IMCP), at the Institute addresses these issues annually in terms of two of its key components: a) India Micro, Small and Medium Enterprise Report Series (in short, MSMER Series); and b) India MSME Darshan Series (in short, Darshan Series). 'India: Micro, Small and Medium Enterprises Report (MSMER) is a series which was introduced as a unique initiative in the country by the ISED in 1997. The maiden issue of the Series was meant to provide a holistic view of the sub-sector in an overall policy context. However, since 1997, major changes have taken place in the global business environment, as also within India. Naturally, as we discuss the MSME sector today, it needs to be against these new and emerging issues. The Report presents an independent and scholarly view of these issues.

Being part of a larger programme of communication, the task before this MSMER is really challenging. On the one hand, it is an attempt to provide a realistic picture of the state of MSMEs in India against the drastic changes in the global economy during recent times. Secondly, it is also an attempt to synergize the perspectives and understanding of stakeholders at various levels, into a scientific mould, but at the same time, in a manner that is understandable to all of them in a reasonable manner. Thirdly, this Report is taken as a tool for a wider agenda of communication and advocacy, which, in fact, is a badly neglected area. In this process, it is also meant as a tool, in order to instigate new demands relating to the content, quality and level of reporting. Given all these four aspects, the mission of the MSMER is unique and challenging. It is strongly founded on various methods of research and analysis. This It is the outcome of the meticulous and strenuous work of various Regional Teams that work simultaneously from across the country, as also the International Teams.

The reporting in a particular year starts with the preliminary Stakeholder Consultations. These preliminary insights and major thrusts, subsequently, lead to the blue print of the Report. The preliminary stakeholder perspectives set the initial priorities of the reporting. On the basis of these insights, a draft outline is prepared and circulated among the

MSMER Special Advisory Team. Considering the comments and suggestions of the Advisory Team, the chapter scheme and the major trusts are finalized and the work starts.

While the MSMER series tries to provide an independent view of MSMEs in a particular year, it needs to significantly focus on a large number of data sources. In the process, all official documents such as, the MSME Census, reports of the Central Statistical Commission, Annual Reports and data bases of the Ministry of MSME, Planning Commission and the Reserve Bank of India, are carefully scanned. The expert Survey Team of the ISED Small Enterprise Observatory Observatory, further, makes an assessment of what is missing and what need to be supplemented. Further, the task of the Team is to facilitate relevant material for these areas demanding further examination and analysis.

Field Teams are deployed in various states and locations in the country, in addition to the specialists who are stationed in the cities of Washington, Jakarta, Botswana and other centres. Primary data of varied forms are collected through mailed questionnaires.

The fifteenth Report of MSMER was formally released at the Commonwealth-India Small Business Competitiveness Conference at Bangalore, on May 29, 2011. 'India MSME Darshan' organised stake holder dialogues in twenty centers across the country during July-November 2011. Arranged on a tripartite mode, involving the government, industry associations and ISED, these Meets were meant to gain significant feedback, as also guidance for the way forward. The comprehensive IMCP Document 2011, summarizing the concerns and aspirations of various stakeholders, and especially of entrepreneurs, was brought out recently, thereby making the knowledge cycle complete.

IMCP 2011 covered 350,000 entrepreneurs, and about one hundred partner institutions, including governments, financial institutions and other stakeholders, spread over 20 centres of the country. How does it all happen? It is an excellent example of cooperation of institutions of diverging interests and backgrounds, on an 'inclusive partnership' mode. The bonding agent is the Institute's innovative

platform, ISED Small Enterprise Observatory, which creates and maintains a knowledge base, which is important and useful for all these stake holders.

Each volume of MSMER, apart from despite reporting of developments in a particular year, tries to focus and initiate discussion on new areas of developmental concern specialised. For the requirements of MSMER 2012, research teams were deployed in various States, and the data and information thus collected framed the national and State-level analysis. Special studies were carried out MSME clusters and on cluster financing. The national report was released at Chennai during July, 2012.

6.0. Framework of the India Micro, Small & Medium Enterprise Report

MSMER, the national report, report supplements a wider comprehensive IMCP document. India MSME Report Series forms part of a larger programme, ie, the India MSME Communication Programme. The term 'communication', in the context of MSMEs, is often discussed in the limited context of use of technology for exchange of messages. However, this limited meaning does not convey the real needs of communication as a vital link in sustainable enterprise development. The term 'communication', in the context of MSMEs, involves essentially two things: a) intra- entrepreneur or intra-firm exchange of ideas; and b) such exchanges of the entrepreneur or the firm with the outside world, ie, with the society and with the state. This integrated meaning of the term need to be operationalized with the help of relevant tools and techniques that can inspire growth and sustenance of enterprises.

6.1. Uniqueness

'India MSME Communication Programme', is a unique model of public-private partnership. Guided by a common goal, the Programme brings together, government institutions and the private sector, and various other actors under a single umbrella. This partnership model has significant potential for scaling up. Such a scaling up is also imperative, from the point of view of the aspirations of entrepreneurs and other stakeholders from various parts of the

country. For instance, a few State governments have come forward and expressed interest in full-fledged State Reports, Gujarat being the leader. In many States, entrepreneurs have expressed interest in having vernacular versions of the MSME Report, as also, summary reports with ready action points. Several financial institutions have expressed interest in particular focal areas. The generation of such diversified interest itself is a major contribution of the project for the last several years. All these indicate the need for scaling up of the project, for which resources obviously is a constraint.

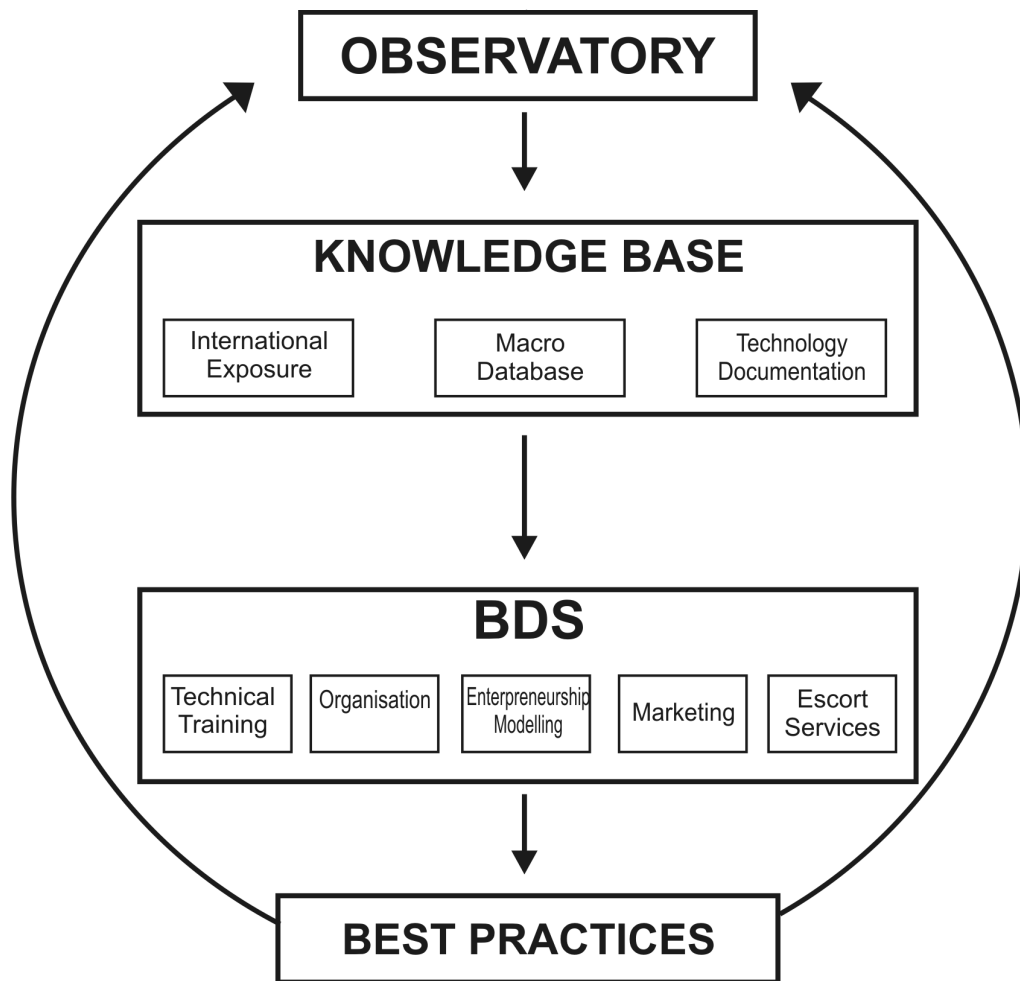
6.2. Coverage of Reporting

Sectoral reporting has a specific purpose. The key purpose is to have an understanding of the micro and meso issues against a macro context. Micro issues and developmental experience are often significantly influenced by macro level experience and phenomena. Therefore, it is necessary to have an understanding of both the micro and macro experience side by side. In India MSME Report, there is a detailed treatment of global economic conditions, developments in MSMEs in selected countries of interest, the national level experience, and experience at the State level, and in specific sub-sectors.

7.0. ISED Small Enterprise Observatory

The two projects of the Institute, ie, India MSME Report Series, and the India MSME Darshan Series, are not stand-alone. They are pitted on a solid rationale and institutional framework. This overall programme framework is provided by the IMCP. The institutional framework that provides it continuity and strength, is the ISED Small Enterprise Observatory (ISED-SEO), a humble, but specialized knowledge platform, which, from time to time, tries to bring to the realm of public debates, much of the above issues and thrusts.

IMCP is essentially meant as an educative programme, for helping entrepreneurs to analyze their own environment. It helps to add, at least in some way, to addressing and articulating the challenges and opportunities of the MSME sector, as also to policies and strategies as they get shaped



from time to time.

The IMCP, as already noted, is a partnership of many organizations. A unique innovative model, it demonstrates that the ‘invisibility syndrome’ that shrouds the MSME sector, is by no means, a problem without solutions. The latent energies of the entrepreneurs at the grass root level are immense; they need to be released and ignited.

Enterprises, in an emerging economy, are the product of the right conditions under which they emerge and prosper. Business development services (BDS) of the right quality, supported by a strong knowledge base, can provide the objective conditions for enterprise development. ISED-SEO offers the knowledge-base and makes it available on the public domain. Best practices elsewhere support and channelize action on appropriate lines; it does also add resources to the knowledge system. The role of

ISED-SEO is to perform this role of a facilitator.

8.0. Special Reports

The MSMER reports have by now acquired the essential characteristic of presenting the national scenario as an aggregate of the regional features which contribute to the making of the whole. Regions vary in their needs and priorities, determine more independently than before on strategies –under a common national policy umbrella – and are able to implement their own development initiatives. With this background MSMER is now developing into the next dimension of regional emphasis. While national reporting remains the central theme, it is considered desirable to document the regional development aspects in greater detail to serve as a tool of immediate relevance to the regional planners and administration. The present volume of Gujarat 2013 is the outcome of this realization.

Gujarat was chosen for the inaugural volume of Regional MSMER for the following special reasons:

1. Gujarat aspires to become a beacon of comprehensive social and economic development
2. Gujarat has a highly diversified industrial structure, with over 800 large industries and about 4,00,000 micro, small and medium enterprises, demanding innovative public policy initiatives.
3. Vibrant Gujarat (January 2013) hosts a large audience of investors for whom this report is expected to be of immense value.
4. Gujarat has significant achievements relating to industrialisation and MSME development which are not properly documented. Such documentation is vital for enhancing their visibility and sustainability.

8.1. Methodology

The methodology of reporting by MSMER Series is unique. In the case of large international knowledge systems such as, SBA, and the European Observatory of SMEs, the methodology involves large-scale collection of data at the national and global level. While such data sources provide a fresh understanding of issues, they involve significant time, and deployment of a very large research team for collection of data and its analysis. The methodology of MSMER involves, supplementing and complementing official data in the country, with detailed and specific enquiries in particular areas. Besides, central to the methodology is an approach by which, new and promising areas are brought into the stream of active discussion from time to time. Considering the latter thrust of reporting, the Observatory has evolved a subsequent stage, India MSME Darshan, as a stage of taking the findings of the Report for stakeholder scrutiny and validation. Thus, the IMCP provides a full circle of stakeholder consultations, reporting, and public scrutiny, all three under a larger framework of continuous consultations and learning.

MSME is a complex subsector of the economy in India. Regarding issues, concerns and perspectives, there are so much of differences of opinion. Therefore, the public policy process is often aided by fact-finding committees in the government, and occasional commissioned studies. Continuous reporting is an exercise which can add great value to these separate commissioned studies. However, reporting need to be owned and validated by the stakeholders. Therefore, the focus of IMCP methodology is to ensure the best participation of stakeholders on a partnership mode. While ISED-SEO itself is a membership platform of stakeholders, the programme of reporting as also the communication part, are ensured to be completely partnership based.

An important mission of IMCP and MSMER series are to dispel doubts in the minds of people regarding knowledge-related activities. India's history of MSME promotion has decimated the role of the private sector in the common man's eye. In fact, the so called common man's eye, which cut across many a walk of life, considers knowledge as luxury, or something that is far from the real world. In the Indian cultural milieu of governance, the government is considered as the focal point of economic governance, and the people are taken largely as 'beneficiaries' of public policy. This approach is totally against a concept of participatory democracy. Participatory democracy involves, a level-playing ground both in theory and practice for all stakeholders, such that policies get shaped as a result of the interplay of these forces. Consider two examples: According to a senior Member of the Parliament," things in the MSME sector happen, exclusively because of the directives of the government and RBI. Banks, as in the past, cannot deny loans to the MSMEs. What then is the role of knowledge systems and reporting? A middle-level officer of a public sector bank who is responsible for MSME finance asks: "what is the role for knowledge regarding MSMEs? From the financing angle, we get all the information and guidelines from RBI and our corporate office."

The whole thing put in the words of an ordinary entrepreneur is simple. According to him, SMEs face a large number of day to day problems, and what we need is solving these problems. Other issues

are all irrelevant. The analytical frame of the India MSME Report is geared to provide a meaningful mix of all the aspirations as outlined above. Good research, popular information, and knowledge are not mutually exclusive. They feed one another. As it is indicated in an early part of this chapter, good research is a meaningful stuff only when it is properly communicated. Therefore, while maintaining the rigour of an analytical report, MSMER 2012 attempts to take it to the stakeholders at the grass root level.

8.2. Going through the Pages

The contours of the Report are drawn against three key imperatives of MSMEs as in 2013:

1. Understanding the sector in a global setting, with focus on local strategies.
2. The need for prioritising MSME development strategies.

3. The perspectives and the imperatives for action.

The first chapter introduces the rationale and context of the report. This is followed by a full-length discussion on the enterprise ecosystem and the position of MSMEs in a global setting, with particular focus on the Indian situation. The Gujarat MSME ecosystem is subsequently discussed in detail. The role of public policy in shaping Gujarat's MSME growth story forms the compass of the next chapter. Finance, the key concern of every entrepreneur, is discussed in chapter V. Gujarat's industrialisation strategy gives a special thrust on innovation and sunrise sectors. A full chapter is devoted to a discussion on this aspect. The Gujarat story of 'inclusive growth', with MSMEs as its focal point, forms the theme of chapter VII. The penultimate chapter discusses the regional landscape of MSMEs. Gujarat's way forward relating to its MSMEs, with imperatives and opportunities in this context, is discussed by the last chapter.



MSMEs: Global and the Indian Setting

1.0. Introduction

“India and Malaysia appear insulated from foreign banks by almost all indicators when compared with all peer groups, except developing Asia and the economies that make up the BRIC group,” said the report released today in which IMF asked if some banking systems withstand international contagion because they are less globally integrated. “Australia, Canada, India, and Malaysia have a relatively low degree of exposure to international banking and also avoided the worst of the effects of the global financial crisis,” the report said. (PTI Sep 25, 2012, 09.13PM IST)

MSMEs in Gujarat are not stand alone. They are significantly influenced by trends in the global and national economy relating to business performance, and developments in technology and trade. Moreover, MSMEs, being a subject in the Concurrent List of the Constitution, development programmes in the State need to work within the overall framework and policies at the national level. This chapter analyses the global and the national scene.)

2.0. Economic Growth and Crisis

Micro, small and medium enterprises (MSMEs) are the basic form of the private sector, and are present in most communities around the world. The context in which the role of SMEs is debated, demand

a much deeper examination of the background, logic, and processes of economic transition. The first wave of modernization theory which appeared in the 1950's and 1960's, attempted to explain the diffusion of western styles of living and technological innovations. The theory was much comfortable with a story argument favouring the so-called modern small-scale industries as against the traditional crafts and non-farm activities then prevalent (Lerner, 1958; Schramm, 1964). According to this theoretical paradigm technology was identified as the key agent of enhancing competitiveness. The technology gap, however, was considered to be significant between the developed and developing countries, leading to the arguments in favour of technology imports. Today, with the advancement of technology in general, and nullification of distance as a critical constraint, the difference between the modern and the traditional sectors, perceived in early literature, is progressively coming down. Thus, the argument that developing countries are technology-scarce, and that modern technology from developed countries is a sine qua non for development, is not tenable any longer.

The more recent experience of economic growth is rather mixed. The Indian economy has grown rapidly, while the US and Europe continue to face serious problems. Many observers suggest that emerging economies and advanced countries may continue to witness different growth rates. Though this may appear to be a short-run phenomenon, in

More Jobs Predicted for Machines, NOT People?

A faltering economy explains much of the job shortage in America, but advancing technology has sharply magnified the effect, more so than is generally understood, according to two researchers, Brynjolfsson and McAfee (2012) at the Massachusetts Institute of Technology, the automation of more and more work, once done by humans, the latest trend in US manufacturing. The central theme of “Race Against the Machine,” their e-book, many workers, in short, are losing the race against the machine. The tone of alarm in their book is a departure for the authors, whose previous research has focused mainly on the benefits of advancing technology. As the employment picture failed to brighten in the last two years, the two changed course to examine technology’s role in the jobless recovery.

The authors are not the only ones recently to point to the job fallout from technology. In the current issue of the McKinsey (2012) Quarterly, Arthur, B (2012), an external Professor at the Santa Fe Institute, warns that technology is quickly taking over service jobs, following the waves of automation of farm and factory work. “This last repository of jobs is shrinking – fewer of us in the future may have white-collar business process jobs – and we have a problem”. (Arthur 2012).

Source: (nytimes.com)

the longer run, it seems, unless deeper problems of industrialized countries are solved, they may pull the whole world, including emerging economies, down with them. India is now deeply integrated into the world economy, much more than most of us think. Sustained high growth in India, therefore, requires a sustained growth in world GDP as well. India needs to be constantly worried about the global developments as has been demonstrated by the global crisis in the last five years. There is still significant uncertainty about the recovery, as deeper problems have yet to be solved. The dollar has to depreciate and the US has to reduce its net imports. Private demand in the US has to rise. Many governments in the euro zone have to do fiscal consolidation. Until now, the recovery has come more from short-term stimuli and the inventory rebound, rather than from structural changes that lead to a new stable equilibrium. The impact on the SME sector has been rather slow, but sustained. The initial banking crisis caused by the collapse of the global housing bubble in the U.S. in 2006, rapidly evolved into a credit crunch situation where the loss of confidence in investments and the drastic fall of the demand adversely affected SMEs in particular. Though the advance of information and communication technologies (ICTs) and the explosion of the social and business networks on the Internet have opened a new range of possibilities

for small organizations to face these difficulties, the opportunities remain limited, considering the very cultural environment of SMEs in most parts of the world.

3.0.Changing Business Ecosystems

Enterprises today are increasingly linked to each other through flows of goods, services, investment, finance, people, and knowledge. At the same time, the global enterprise system is also linked with, and is increasingly impacting, ecosystems elsewhere and on a larger scale. The web of connections linking one ecosystem and one country with the next, is escalating across all scales in both space and time. The world enterprise system got transformed to such an extent that everyone is now in everyone else’s backyard (UNU, 2003).

In the modern world, we are bound together by the nature of the relationships among products, technologies, markets, and innovation. Leveraging these relationships is critical to enhance firm productivity, to protect organizations from disruption, and to enhance their ability to innovate, evolve, and adapt. This means that no firm, product, or technology can be an island: No firm can afford to act alone, and no products can be designed in isolation (Lansiti and Levien, 2004).”

Modelling SME-Friendly Business Ecosystems

While an ecosystem approach to enterprise development has become increasingly fashionable and of current relevance, theorizing and modeling on those lines has become the most recent interest in the area. More recently, Multi-agent Digital Ecosystem models have been developed by, some scholars (see, Lurgi, M, 2012). These tools, developed with the help of IT, permit to create links and collaboration between SMEs, and allow them to offer new services and save resources and money in order to be in a better position for competing against big corporations. This model presupposes that, a world where SMEs prioritize collaboration, knowledge transfer, dialogue, sharing of resources for a mutual benefit, and long-term relationships, could be more beneficial than the current model based on aggressive strategies where SMEs fight to beat each other for an individual benefit. The business domain could be translated in a greater survival of SMEs due to the mutualistic long-term relationships between them. [Lurgi, M, Estanyol. F: (2010)]

A world where SMEs prioritize collaboration, knowledge transfer, dialogue, sharing of resources for mutual benefit, and long-term relationships could be more beneficial than the current model based on aggressive strategies where SMEs fight to beat each other for an individual benefit. Finding innovative ways for promoting collaboration amongst companies should be the central theme of any model. In natural ecosystems, these kind of collaborative environments promote biodiversity and the co-existence of species, what in the business domain could be translated in a greater survival of SMEs due the mutualistic long-term relationships between them. The relationship between sustainable business and markets has, thus, become a new area of interest. The degradation of the world's ecosystems and the services they provide is creating a range of risks and opportunities for enterprises. The MSME sector contributes to ecosystem change, while also depending on the goods and services ecosystems provide.

The understanding of the enterprise space as an 'ecosystem' emerged with two different, but related types of studies: 1) globalization research; and 2) studies on inter- enterprise relationships. Globalization studies focused on the relationship between small and large enterprises essentially from the point of view of their position in the global value chain. These studies emphasize the point that SMEs need to remain competitive as per international standards, so that they can reap the benefits of the global value chains. Studies on

enterprise relationships, which emerged essentially in the context of the informal sector studies of 1970's, explore the specificity of the relationship between small and large firms, either as exploitative or as benign.

Business ecosystems are molded by people. It is the decision making process of millions of investors and producers, that make the eco system what it is. The motives behind such individual decisions range from, livelihoods on the one hand, to hardcore investment decisions on the other. The terms, "livelihood" and "entrepreneurship" are widely used today. "Livelihoods" is a broad term, the meaning of which is not immediately apparent. Basically, it is about how people support themselves. But, this support needs to be sustainable.

From the point of view of macro policy, the livelihood-entrepreneurship distinction has wider significance. It is in this context, that defining livelihoods and entrepreneurship in a development context, and identifying yardsticks for their measurement become crucial. Development planning craves for an agenda of 'inclusive economic growth', but lacks a proper theoretical framework to explain what "inclusiveness" should mean. It is in this context that defining livelihoods and entrepreneurship in a development context and finding yardsticks for their measurement become crucial. Livelihoods and entrepreneurship are part of a continuum. However, from the point of view of macro policy, the livelihood- entrepreneurship distinction has wider significance. The task of development policy

Livelihoods and Entrepreneurship: Do they Differ?

The livelihoods status of an individual varies from situation to situation. There need to be a first cause. The first cause can be spontaneous or induced. The spontaneous option to livelihoods implies that, the individual develops a strategy of supporting himself. If the strategy is designed externally, with or without the participation of the person, it can be called an essentially livelihood strategy. If the strategy is sustainable, and thought out and shaped by the person himself, it can be called an entrepreneurial strategy. An approach, as above, can be called a functional approach. A functional approach explains the degree of entrepreneurship in terms of what it does. In many development discourses, the two concepts are inter-changeably used. While NGOs are often comfortable with the term “livelihoods”, entrepreneurship is a word often used in business circles. In many cases, entrepreneurship is used as an advanced form of ‘livelihood’ as well.

and planning is to distinguish between the two, with the help of relevant tools and techniques.

4.0. Economic Models and Social Implications

It will be interesting to review the various economy models that emerged since the Great Depression of the 1930s.

‘Fordism’, the model of development which characterized the post-war Golden Age in the West, and was partially imitated in models of ‘import-substitution’ in the Third World, It rested on three pillars:

- A particular organization of labour, a 'technological paradigm' called Taylorism that allowed rapid and continuous gains in productivity from the beginning of the century onwards. It rested on the opposition in the workplace between those who conceive and those who execute.
- A macroeconomic (Keynesian) logic (a 'regime of accumulation'), based on the systematic redistribution of productivity gains to every social class, particularly to all workers, in the form of regular increases in purchasing power.
- A 'model of regulation', or, a package of governing rules which, in the context of Fordism, entailed a centralized and rigid system of redistributing productivity gains, stabilized by a network of collective bargaining, social legislation and the welfare state.

Reagonomics: (Thatcherism) The market liberalism in the 1970s in the North which saw the progressive dismantling of the elaborate protective barriers and shifted to integration, making markets increasingly 'free' from state intervention and control.

Neo- Taylorism (Flexible or Liberal Productivist Model) Globalisation.

Much less stable than its predecessor. It is cyclical like capitalism in the nineteenth century, but its transnationalization renders these cycles particularly dangerous. It is this model that has now been described in the popular media, as “globalization”. (OECD, 1996).

Still not relieved from the severe shocks of the recent financial breakdown and consequent depression the European Union has realized the imperative need to equip the emerging economies with the required hard and soft skills necessary for mutually beneficial interactions. Some of the very recent initiatives, mentioned below, reconfirm the EU belief that SMEs, properly equipped with appropriate skill sets, can contribute greatly to all the participating economies.

5.0. Asian Response to the Crisis

Small Business Act, EU business centres helping the EU SMEs to enter third-country markets were established in India and China. Both centers provide business support services including matchmaking, market access assistance, guidance on regulatory issues, IPR.

The Changing Ecosystems - A Historical Perspective

In the 1930s, after growing strongly during the “roaring 20s”, the World economy went into prolonged recession. Output fell by 30 per cent. Unemployment soared high. In 1939 the rate of joblessness went up to 17 % of the workforce. Roughly half of the 25,000 banks in the United States failed. The World War II helped arrest the depression. End of World War, independence and emergence as sovereign nations of the former colonies, the formation of the Communist Block and the destruction caused in Europe and Japan in the course of the World War created an economy led by national development concerns. The Cold War period saw countries opting for the state-led model, or the market model, or the mixed model of economic development depending on their ideological leanings. In all the three models, the state had an important role to play, though its role varied from country to country. Protective barriers - tariffs, subsidies and quotas - were set up to regulate trade. The long-term impact on global value chains is regulated by changes in standards regimes, exchange rates, investment flows and other key determinants like climate change. While trading with fast-growing economies such as China, India and Brazil will become increasingly important, it is questioned whether this will create export opportunities for other developing countries or will it merely divert trade away from the OECD countries towards the emerging economies. This was followed by the Neo Taylorism, differently known as Flexible or Liberal Productivist Model or simply, Liberalization or Globalization, a pattern of cross boarder enterprise activities including international investment, strategic alliances for product development, production, sources and marketing enabling entry into new and mutually advantageous markets to exploit technological, organizational and regional advantages besides reducing business risks and costs. Free Trade Agreements spearheaded by UNCTAD added to the globalization initiatives. In spite of these numerous paradigm changes the Western economy was once again hit by another Great Depression by the middle of the last decade; the entire globe is still not out from the ripples of the shock wielded by it.

- The IPR Help Desk in China has been operational for the last three years delivering a targeted advice on IPR issues to EU SMEs.
- The Enterprise Europe Network continues to enlarge in third countries.
- The Commission established a number of SME policy dialogues both bilaterally (China, Russia) and multilaterally (EU-MED Cooperation, Eastern Partnership) aimed at approximation of SMEs policy framework.
- As a result of the "Market Access Strategy" for European exporters of 2007, Market Access Teams are now operations in 30 key export markets. They bring together trade councilors, European Commission and EU business organizations closely cooperation to inform each other about trade barriers and the way how to tackle them.
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Globalising SMEs: Recent EU Initiatives

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The global economic crisis, as it was broadcasted in September 2008, has subsequently led to a churning of economic structure and processes from within and among countries. Depending upon the particular type of problems and policy perceptions, countries have thought of crisis mitigation packages, with diverging impacts on their economies, and in many cases, to the rest of the world. While the Asian crisis of 1997–1998 started out as a disruption of financial markets, the global crisis was essentially a trade crisis from developing Asia's perspective (ADB, 2010). More precisely, the global crisis did not hit the region with full force until the financial crisis spread to the real economy in the industrialized countries, crimping their demand for imports and hence the

region's exports. Asia's financial systems, unlike in the European Union and the United States (US), continued to function more or less normally, and credit continued to flow to the real economy.

The collapse of external demand and world trade has predictably had a pronounced adverse impact on the output growth of a region, a significant part of which has traditionally relied on exports to power its growth. The impact was especially noticeable for the highly open and generally more successful economies of East and Southeast Asia. The plunge in exports, which climaxed in the fourth quarter of 2008 and first quarter of 2009, also dragged down business and consumer confidence, dampening private investment and consumption.

Policymakers in Asia have usually given much higher priority to maximizing output growth rather than minimizing output volatility. Therefore, the primary role of monetary and fiscal policy has been to provide noninflationary macroeconomic stability, which is conducive for long-run growth.

Despite the severe initial impact on output, most evident in the fourth quarter of 2008 and first quarter of 2009, the region has staged a spectacular V-shaped recovery reminiscent of its rebound from the Asian

Internationalisation of European SMEs

In 2009 the European Commission launched a study to map the level of internationalisation of European SMEs, identify which are the main barriers and advantages of internationalisation and propose policy recommendations. The study analyzed all activities that put SMEs into a meaningful business relationship with a foreign partner: exports, imports, foreign direct investment, international subcontracting and international technical co-operation. The data and conclusions are based on a survey of 9,480 SMEs in 33 European countries.

Findings :

- 25% of EU 27 SMEs export or have exported at some point during the last 3 years. However, international activities are mostly geared towards other countries inside the internal market and only about 13% of EU SMEs are active in markets outside the EU.
- International SMEs create more jobs: Internationally active SMEs report an employment growth of 7% versus only 1% for SMEs without any international activities.
- International SMEs are more innovative: 26% of internationally active SMEs introduced products or services that were new for their sector in their country; for other SMEs this is only 8%.
- Public support goes largely un-noticed: Only 16% of SMEs are aware of public support programmes for internationalisation and only a small number of SMEs use public support.
- European SMEs are more internationally active than US and Japanese SMEs. Overall, European firms are more active than their counterparts in Japan or the US. Even if only extra EU exports are considered they still perform better.
- Most often SMEs start international activities by importing. SMEs that both import and export started with import twice as often (39%) than with exports (18%).

crisis. According to ADB (2010), developing Asia as a whole grew by an estimated 5.2 per cent in 2009, a much better performance than the rest of the world. The region's growth will accelerate further to 7.5 per cent in 2010. Even more remarkably, the People's Republic of China (PRC) grew by an estimated 8.7 per cent in 2009. What is all the more striking about the region's strong post crisis performance is that it has taken place despite the fragile state of the G3—the EU, Japan, and the US.

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According to conventional wisdom, the key to developing Asia's V-shaped recovery lies in the sizable and effective fiscal stimulus measures implemented by the region's governments. Domestic spending has bounced back because the fiscal stimulus in the region was bigger and worked faster than in the West. The stylized facts indicate that governments around developing Asia have, in fact, pursued expansionary monetary and fiscal policy to fight the recession, along with their counterparts in the G3 and in other parts of the developing world. Although monetary policy also contributed to the recovery in some countries, fiscal policy is likely to have played a greater role since it has a more direct effect on aggregate demand.

The relatively healthy state of government finances in developing Asian countries is also widely believed to have contributed to the willingness and ability of governments to implement sizable fiscal stimulus packages. For example, IMF (2010a) notes that the emerging market countries with lower public debt and better budget balances going into the crisis were able to accommodate the economic downturn better by letting their fiscal positions ease more substantially. With the notable exception of India, public debts to gross domestic product (GDP) ratios are significantly lower in the region in comparison with industrialized countries. A core ingredient of the region's success has been macroeconomic stability, and fiscal discipline.

Although the global crisis has rekindled developing Asia's interest in countercyclical fiscal policy,

economists are deeply divided about the effectiveness of fiscal policy as a tool for countercyclical output stabilization. In principle, lower taxes and higher government spending should boost aggregate demand, and thus counter the decline in exports and private demand. In the real world, a wide range of factors may limit the responsiveness of aggregate output to a fiscal stimulus. On their fight against inflation, the Asian central banks have begun a tightening cycle aimed at removing excess credit and attempting to stay ahead of the inflationary curve.

Other visible strengths of Asia were those resulted from South-South Cooperation, Regional Cooperation and Rupee based soft credits which enabled the emerging economies to participate in trading among themselves without subjecting themselves to the vicissitudes of hard currencies. It is not by any means to claim that the emerging economies were free from the credit crunch in the West but to emphasize that they could survive for three especial reasons:

1. Most of the Asian countries have a populous market capable to absorb the production at break-even levels.
2. Savings has been a vital part of their fiscal experience in contrast to the consumerism and living on credit.
3. Fiscal policies converged on major state spending and self sufficiency of food crops.

Up until the 1960s, India was not interested in exporting its goods and services abroad and not ready to open its economy to foreign investments. The aim of its economic policy was to ensure the country's independent development. Its bilateral policy had been heavily skewed in favour of the former communist countries and was oriented towards technology transfer, mutually beneficial relations and partnership for development. For a time India was left out of Asia's economic boom. With the Soviet Union's collapse and the first Gulf War as well as the implementation of the International Monetary Fund's Structural Adjustment Programme, India launched a new policy of privatization, deregulation and globalization and a multifaceted trade policy. (Lawrence Henry in India's International Policy,

September 2008, Institut Francaise des Relations Internationales (IFRI)). India was a founding member of GATT in 1947 and WTO in 1995 and was always influenced by the non-alignment policy. (Chowla, 2003, "India and WTO", Indian Quarterly Journal of International Affairs, Vol. 59 No. 3/4, P 257) Until 2000 India remained isolated from major Regional initiatives, particularly Asia Pacific Economic Cooperation (APEC) and Asia Europe Meeting (AEM). South Asia Association for Regional Cooperation (SAARC) was the first initiative to be followed by Indian Regional Trade Agreements (RTA), which are more in the nature of multilateral agreements than regional agreements. After the Cancun Ministerial Meeting of WTO India entered into an arrangement with like minded nations, in IBSA, India, Brazil and South Africa, March 2004.

The ecosystem change in India is manifest in its relations with European Union and Association of South East Asian Nations (ASEAN), which demonstrates a powerful model for further liberalization and attraction of goods, services technology and investment. The present FDI initiatives should be seen from this perspective. (Narasimhan S., 2005, "India's look East Policy -Past, Present and Future", in Lawrence Henry, 2008).

The most recent trend in Indian Trade Policy is its response to the "Spaghetti Bowl Effect", an admixture of Regional and bilateral agreements. The trend is to evolve and successfully maintain multilateral, bilateral and regional trade agreements. This is well demonstrated by its relationship with USA and EU, the dominant trade partners, increased dealings with Mercado Comun del Sur (MERCOSUR) and Southern Africa Customs Union (SACU) and its bilateral approach to the Asian countries. India's strategy through the various shades of trade agreements has now reached a stage where it can be asserted as a pursuit towards trade and economic liberalization, while ensuring that its interest as a developing and already powerful political entity is preserved.

The liberalization policy provided considerable latitude for the States and Enterprises to deal with foreign trade partners and investors thus established,

subject only to major national policy guidelines. It is in this background of inherent traditionalism and applied liberalism of the Indian economic scenario that the development and progress achieved by any of its institutions should be evaluated. The following chapters make an attempt to assess the progress of Gujarat as an icon of development and the strategies which led to that attainment

6.0. The India MSME Growth Story

The experience of the Indian economy, presents a rather complicated picture, which has important implications from the point of view of economic growth and employment opportunities, the two vital indicators of performance of an economy, are critical to the prospects of MSMEs since they constitute the base of the economic pyramid. In the age of globalisation, no nation can really keep itself aloof from the world economic volatility and India is no exception. The impact of the Great Recession on India can be divided into financial & economic impact, and potential long-term geopolitical implications. The instantaneous financial and economic impact can be witnessed in reversal of portfolio equity flows and the associated influence on domestic market and liquidity position. Coming to the geopolitical impact, because of her geopolitical location in South Asia, the country should be able to exploit the opportunity to consolidate its economic interaction with its neighbours because politically and economically stable neighbourhood is essential to foster its regional and global interests. "Overall, the Indian economy should be able to stand up to the situation with the aid of domestic capital formation accompanied by high savings rates and vastly functional capital markets." (AK BHAGAT: Jun 25 2012, in Financial Express 6th December 2012). According to Montek Singh Ahluwalia, Deputy Chair, Planning Commission India's economic slowdown was a consequence of both domestic constraints and the sorry state of the global economy not just because of the world situation. (*Hindustan Times*, June 18, 2012)

A recent Delhi University study found that "although post US subprime crisis there is no observed causal relationship between India and other economies, but post European debt crisis, the Indian economy

is granger caused by all other economies. Further during pre US subprime crisis period, India did have a long term co-integrating relationship with all other economies but this co integration almost disappeared in post US subprime crisis as well as post European debt crisis period. This low level of co integration despite the presence of short run causal relationship shows that global shocks might destabilize Indian economy in long run. Especially, Impulse response analysis revealed that Indian economy seems to be immune from the shocks created in the other economies of the world for at least first two months and negative effects appear after that only” (Inter-Linkages, Co-Integration and Global Financial Crisis: India’s Experience and Preparedness, Vanitha Tripathi et al., University of Delhi - Delhi School of Economics - Department of Commerce, September 2012)

R&D spending is considered the barometer for the shift from “copy” culture to “innovation and development” culture. According to a recent study by Roland Berger Strategy Consultants total R&D spending in India doubled since 2007 and is now estimated at \$40 billion. Until very recently, innovation was almost exclusively the preserve of advanced economies. That’s no longer the case. India’s standalone contribution to the global pie has improved from 2% to nearly 3%, while US has declined 3% to 24%, Europe about 2% to 24% and Japan by 2.3% to 11%.according to the same report. India and China now account for nearly 20% of global R&D spending, China alone accounting for a global share of 14% of the total worldwide R&D spending.

India has achieved remarkably high growth over the past one decade and emerging as the second large economy in the world. Despite the economic meltdown which had pelt by US subprime crisis, Indian economy showed robustness in crisis period and recovery period. India has been growing at 9.3%, 6.7%, 8.4% and 8.39% in F.Y 2007-08, 2008-09, 2009-10 and 2010-11 respectively. This might be due to strong economic fundamental or less exposure to international trade and finance or both. The growth story comes to an end with steep declines in GDP growth rate to 6.9% in F.Y 2011-2012.

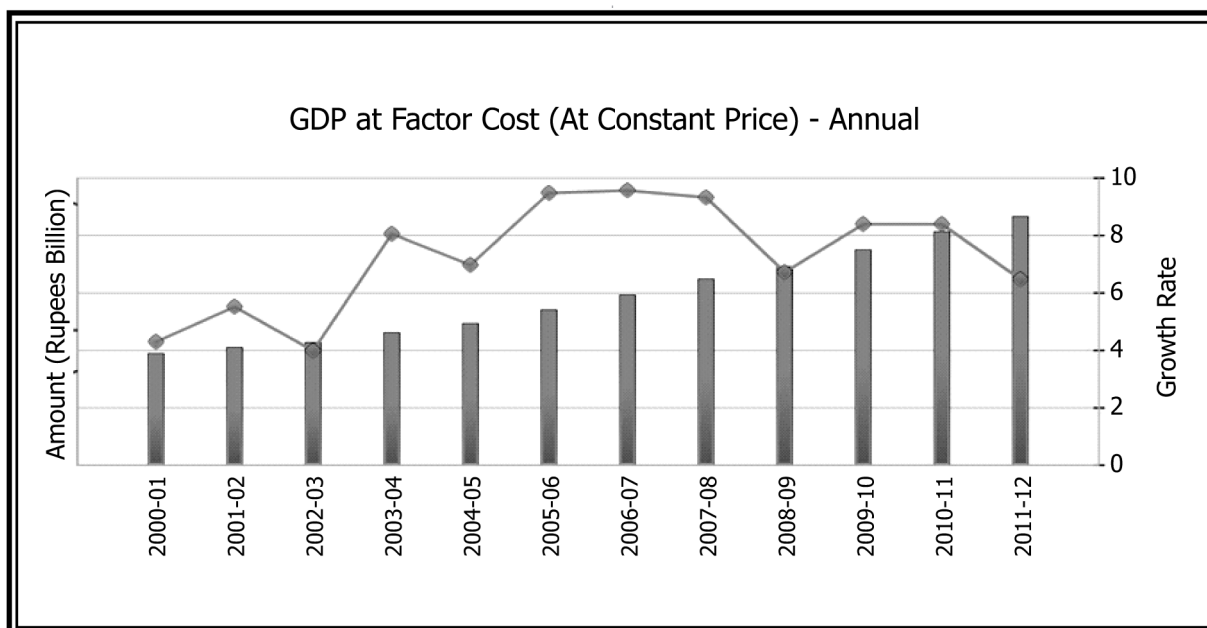
GDP growth moderated to 6.1 per cent during Q3 of 2011-12 from 6.9 per cent in Q2 and 8.3 per cent

in the corresponding quarter of 2010-11. This was mainly due to moderation in industrial growth from 2.8 per cent in Q2 to 0.8 per cent in Q3. The services sector held up relatively well (with growth being 8.7 per cent in both Q2 and Q3 of 2011-12). Overall, GDP growth during April-December 2011 slowed significantly to 6.9 per cent from 8.1 per cent in the corresponding period of the previous year. On the demand gross fixed capital formation contracted in Q2 (-4.0 per cent) and Q3 (-1.2 per cent) of 2011-12. The government’s final consumption expenditure increased by 6.1 per cent in Q2 and 4.4 per cent in Q3. Private final consumption increased by 2.9 per cent in Q2 and 6.2 per cent in Q3.

Growth in the index of industrial production (IIP) decelerated to 3.5 per cent during 2011-12 (April-February) from 8.1 per cent in the corresponding period of the previous year. In terms of use-based classification, while capital goods and intermediate goods sectors registered negative growth of 1.8 per cent and 0.9 per cent, respectively, the growth of the consumer durables sector decelerated to 2.7 per cent. These trends suggest that activity may have expanded slower than 6.9 per cent in Q4 implied in the advance estimates of GDP by the government.

The long-term average annual growth of industries comprising mining, manufacturing, and electricity, during the post-reform period between 1991-2 and 2011-12, averaged 6.7 per cent as against GDP growth of 6.9 per cent. Inclusion of construction in industry raises this growth to 7.0 per cent. The share of industry, including construction, in GDP remained generally stable at around 28 per cent in the post-reform period. Standard deviation of the average share was very small and the coefficient of variation under 5 per cent validates this stability. The share of manufacturing, which is the most dominant sector within industry, also remained in the 14-16 per cent range during this period. The share is modest when compared to that of China (above 40 per cent) and some of the East Asian countries (above 30 per cent).

Employment in the industrial sector increased from 64.6 million persons in 1999-2000 to 100.7 million persons in 2009-10. The share of industry in total employment increased from 16.2 per cent



in 1999-2000 to 21.9 per cent in 2009-10. However, the increase was largely on account of expansion of employment opportunities in the construction sector, from 17.5 million in 1999-2000 to 44.2 million in 2009-10.

Recent industrial growth, measured in terms of IIP, showed a fluctuating trend. Growth had reached 15.5 per cent in 2007-8, and then started decelerating. Initial deceleration in industrial growth was largely on account of the global economic meltdown. There was, however, a recovery in industrial growth from 2.5 per cent in 2008-9 to 5.3 per cent in 2009-10 and 8.2 per cent in 2010-11. Fragile economic recovery in the US and European countries and subdued business sentiments at home, affected the growth of the industrial sector in the current year. Overall growth during April-December 2011 was 3.6 per cent compared to 8.3 per cent in the corresponding period of the previous year.

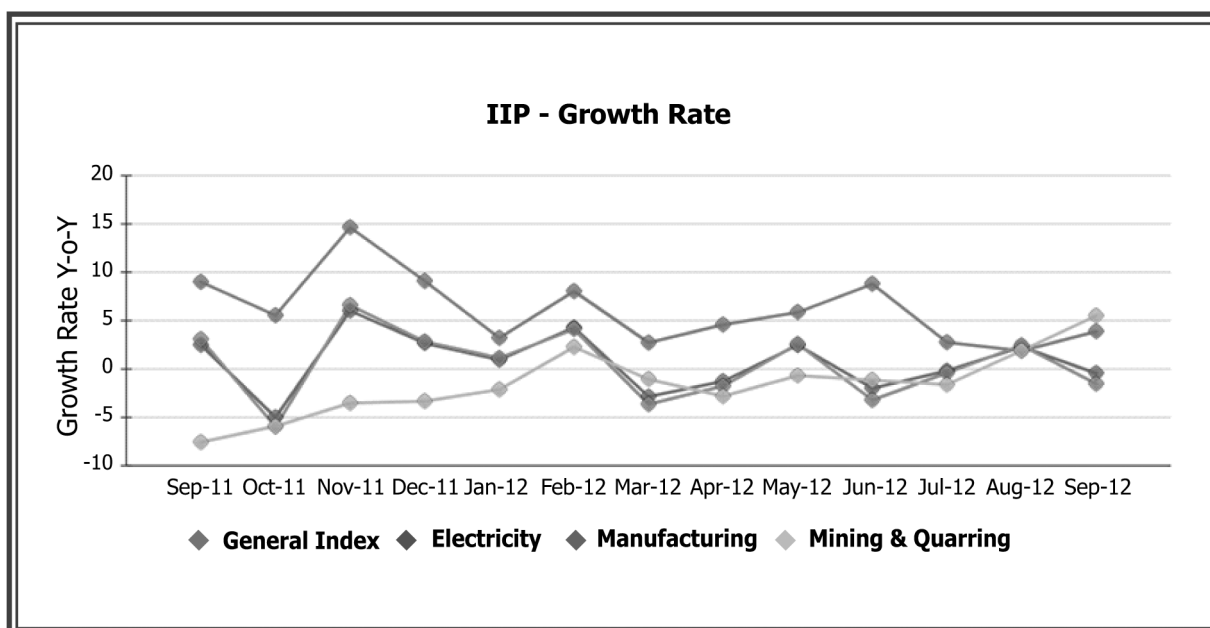
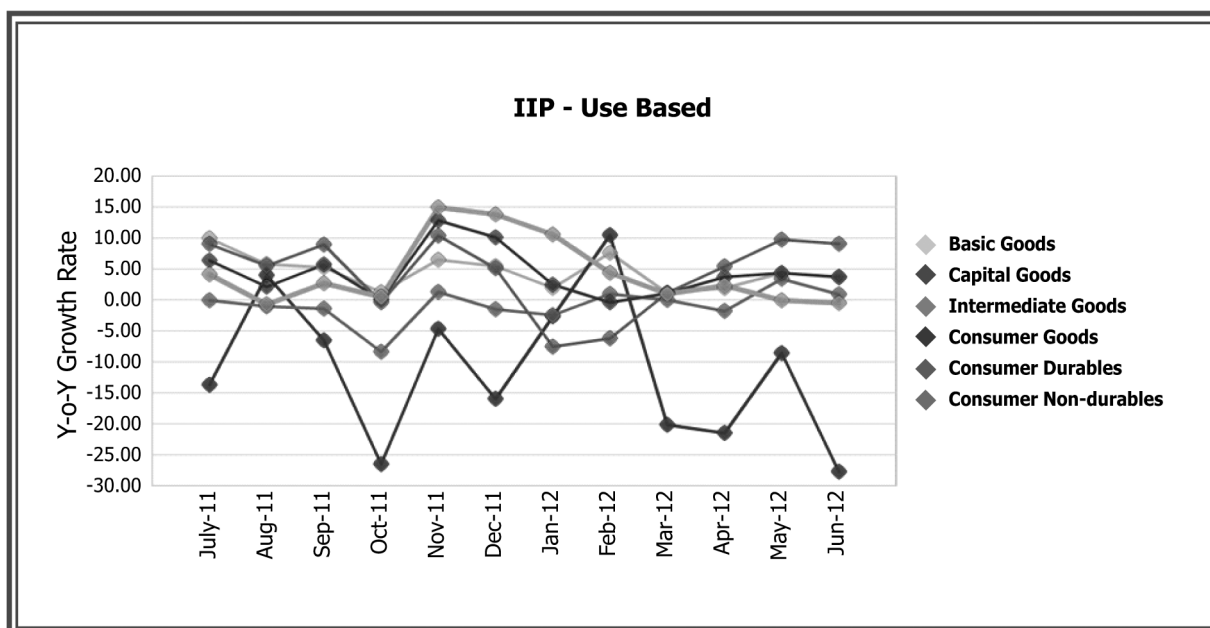
The two charts above show the changes during the twelve month periods July 2011 to June 2012 (Use based) and September 2011 to September 2012, (Growth rate) respectively. It may be observed that the growth rate has been hovering around +/- 5%. It is also interesting to note that the overall growth is moving in consonance with the movements in the manufacturing sector, which is much important to MSMEs.

7.0. The National MSME Kaleidoscope

It is estimated that in terms of value, the MSME sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 595 lakh persons in over 261 lakh enterprises throughout the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6,000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India.

The figures brought out by the latest all-India Census of MSMEs revealed the size of the registered MSMEs sector to be 15.64 lakhs. Of the total registered working enterprises, the proportion of micro, small and medium enterprises were 94.94%, 4.89% and 0.17% respectively. This comprises of 67.10% manufacturing enterprises and 32.90% services enterprises. About 45.23% of the enterprises were located in rural areas.

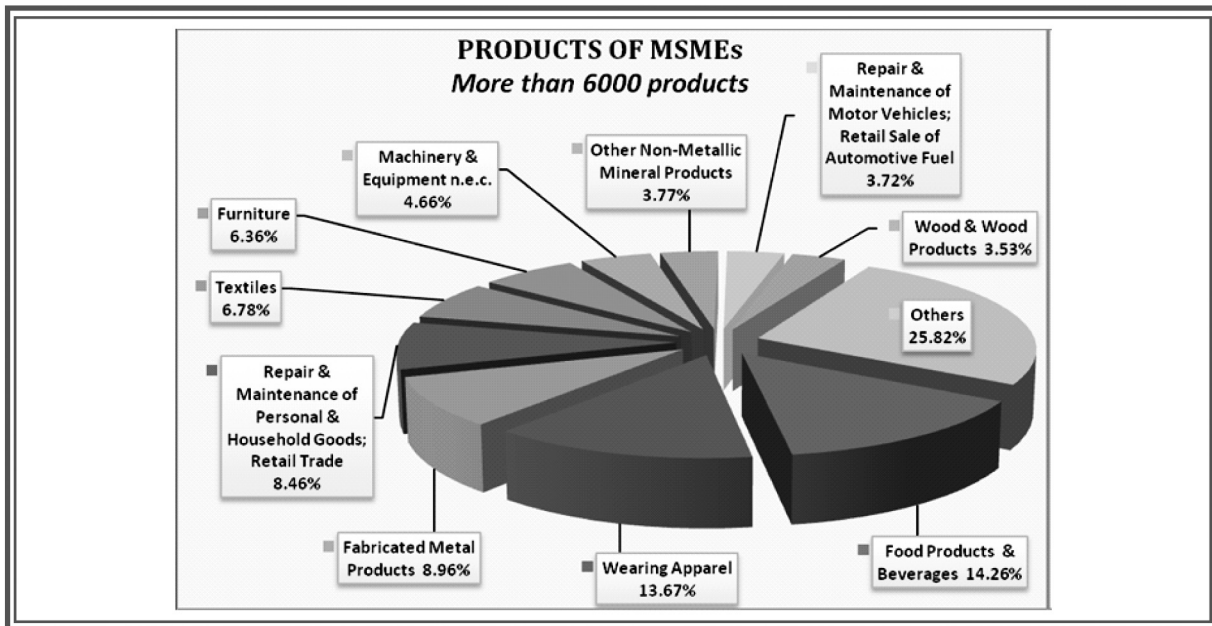
Growth of the MSME sector in the past had been higher than that of the overall industrial sector. It may, however, be observed that, with the change over from SSI to MSME in 2007, pursuant to the MME Act 2006, the comparative figures for the subsequent years are yet to be recomposed and hence not incorporated in the given Table.



The total employment in the MSMEs sector in the country as per the Final Report of the Fourth Census of MSMEs 2006-07: Registered Sector, was 93.09 lakh persons. As per the estimates compiled for the year 2010-11, it was 732.17 lakh persons. 67.10% of the enterprises in the registered MSME s sector were engaged in manufacturing, whereas 16.78% of the enterprises were engaged in the services activities. The remaining 16.13% of the enterprises were

engaged in repairing and maintenance MSMEs being predominantly (94.94 %) micro in size, naturally, 90.08% of them are proprietary enterprises. Table 2.3 shows the distribution of ownership pattern of the registered firms as evidenced in the national census. Table 2.4 shows the main source of power used and Table 2.5 the recorded output of these units.

Table 2.6 exhibits the financial sources used. It is interesting to note that more than 87% of the units,



Source : Fourth All India Census of MSMEs, 2006-07

presumably most of them micro, are operating with their own resources.

In India, the second-order effects of the stimulus packages were visible by mid-2011. The government was forced to adopt austerity measures in its Budget 2012-13. The performance of Indian MSMEs was dull in the last financial year on account of the Reserve Bank of India's tight monetary policy, high costs of raw materials, commodity prices and interest rates. According to a recent assessment by the CRISIL, the performance of the SMEs varied widely depending upon the sector-specific dynamics. Broadly, commodity prices and interest rates had an impact on the financials across the MSME sector. While prices of many commodities continued to remain high during 2011 (in line with the inflationary scene witnessed in the economy), the same affected their turnover as well as profitability. SMEs involved in the business of such commodities reported significant growth in their turnover on the back of rising prices. At the same time, profitability of many MSMEs was negatively affected due to increase in raw material costs coupled with their limited ability to pass on the same to the customers. Increasing raw material costs also meant that the working capital requirements of MSMEs went up due to need for purchase and storage of inventory at higher prices.

This resulted in increase in the incremental working capital borrowings of many firms.

The tight Monetary Policy of the RBI, meant for containing inflation, has led to higher interest rates. This, coupled with the need to fund incremental working capital requirements, led to higher interest costs of MSMEs. Net profit margins of SMEs were thus severely affected during 2011 and 2012. Entities which supported their funding needs through own resources in the form of infusion of equity capital and/or unsecured loans from promoters managed to keep their bank borrowings at lower levels, thereby incurring lower interest costs vis-a-vis others who resorted to bank borrowings. Such entities were viewed favourably from the ratings perspective by rating agencies.

According to the CRISIL study, over 70% of the MSMEs belonging to the MSME space ended up getting a sub-investment grade rating on the BLR scale. This primarily reflects the relatively weakened balance sheets of SMEs, their below average business risk profile and high degree of exposure to industry and macro-economic risks compared to the large corporates. However, deserving MSMEs got better ratings on the BLR scale.

The Reserve Bank of India decided to enhance the Export Credit Refinance (ECR) limit to 50 per cent

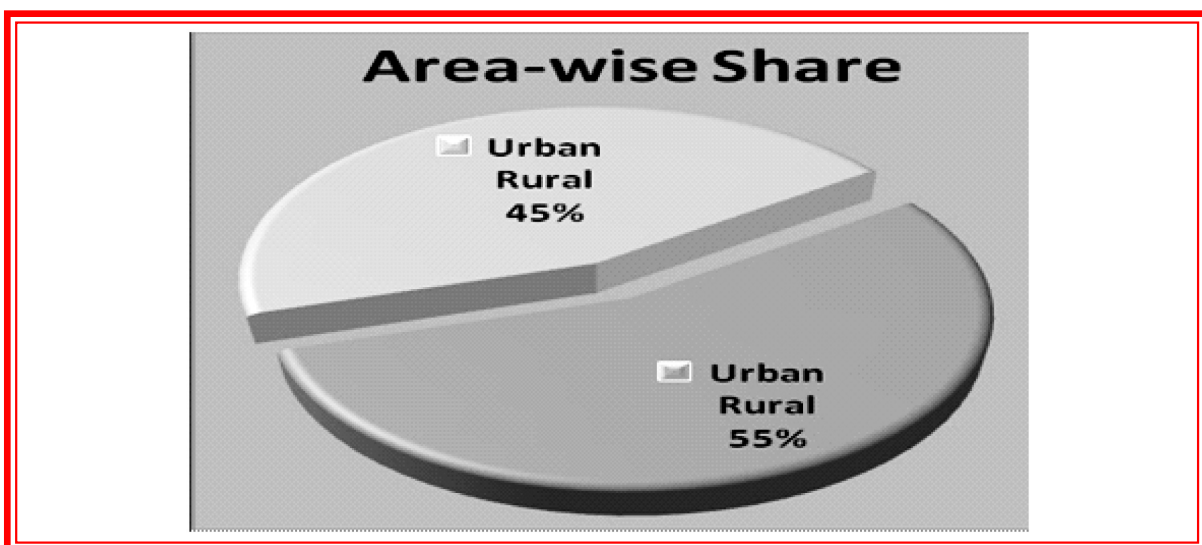
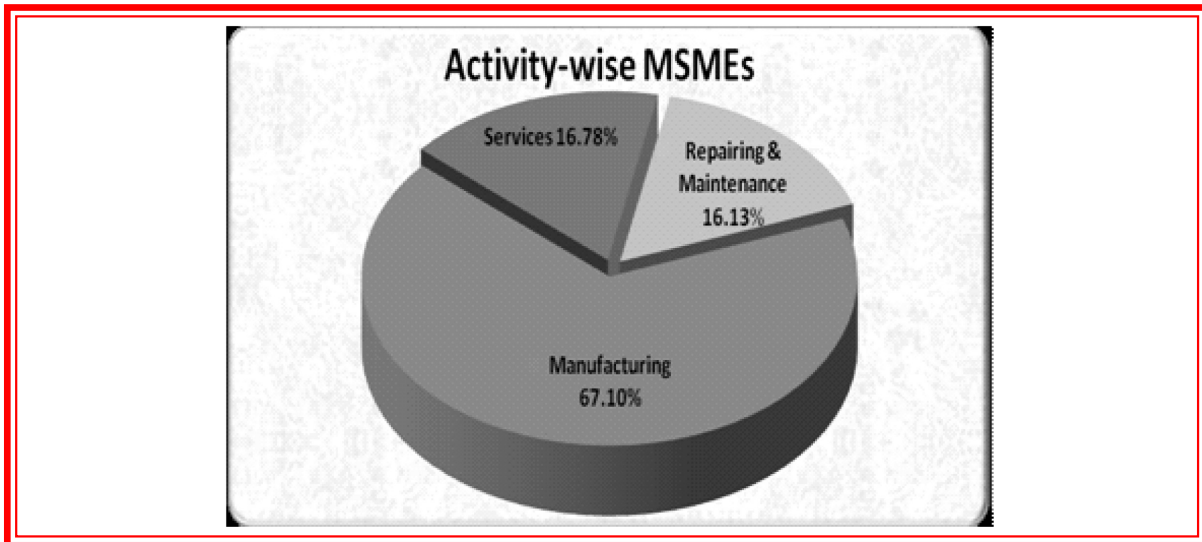
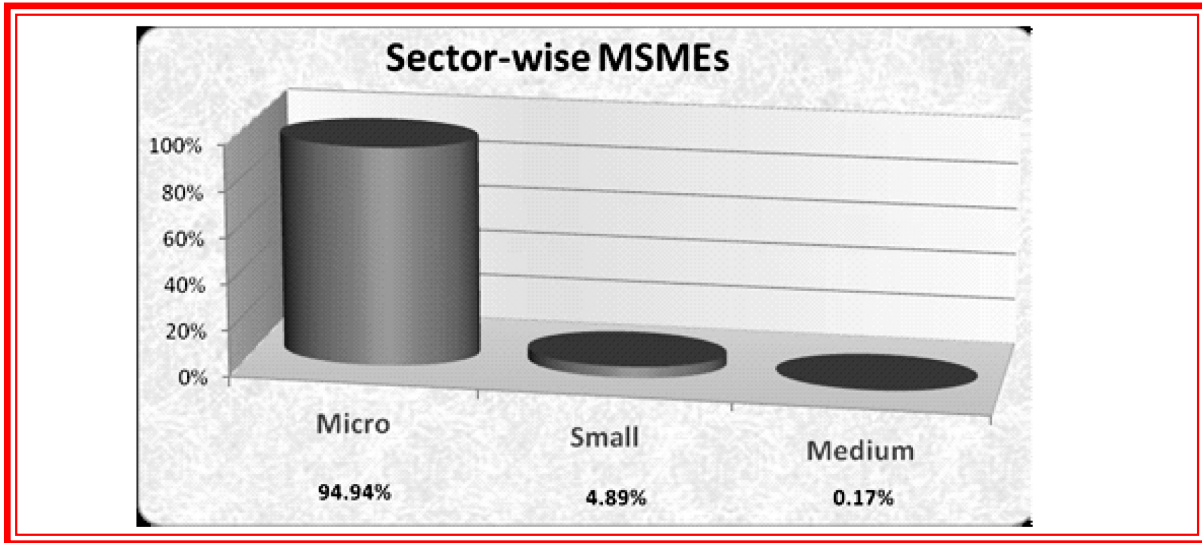


Table 2.1: MSME Performance in India (2001-11)

Year	Total Working MSMEs (Lakh nos)	Employment (Lakh persons)	Fixed Investment	Production (Current Prices) (Crore Rupees)	Exports (Crore Rupees)
2001-02	105.21 (4.07)	249.33 (4.44)	1,54,349 (5.11)	2,82,270 (8.03)	71,244 (2.07)
2002-03	109.49 (4.07)	260.21 (4.36)	162317 (5.16)	314850 (11.54)	86013 (20.73)
2003-04	113.95 (4.07)	271.42 (4.31)	1,70,219 (4.87)	3,64,547 (15.78)	97,644 (13.52)
2004-05	118.59 (4.07)	282.57 (4.11)	1,78,699 (4.98)	4,29,796 (17.90)	1,24,417 (27.42)
2005-06	123.42 (4.07)	294.91 (4.37)	1,88,113 (5.27)	4,97,842 (15.83)	1,50,242 (20.76)
2006-07	261.12 (111.57)	595.66 (101.98)	5,00,758 (166.20)	7,09,398 (42.49)	1,82,538 (21.50)
2007-08	272.79 (4.47)	626.34 (5.15)	5,58,190 (11.47)	7,90,759 (11.47)	2,02,017 (10.67)
2008-09	285.16 (4.53)	659.35 (5.27)	6,21,753 (11.39)	8,80,805 (11.39)	N.A.
2009-10*	298.08 (4.53)	695.38 (5.46)	6,93,835 (11.59)	9,82,919 (11.59)	N. A.
2010-11#	311.52 (4.51)	732.17 (5.29)	773487 (11.48)	1095758 (11.48)	N. A.

Source : Ministry of MSME , Annual Report 2012

Note: The figures in brackets show the percentage growth over the previous year. The data for the period up to 2005-06 is Small Scale Industries (SSI). Subsequent to 2005-06, data with reference to Micro, Small and Medium Enterprises are being compiled. The growth for the year 2010-11 is based on the average growth rate for the previous three years. * : Provisional, # : Projected, N. A. : Not Available.

Table 2.2. Comparative Growth and Contribution

Year	Growth Rates (%)		Contribution of MSEs (%) at 1999-2000 prices in	
	SSI Sector (2001-02 base IIP)	Over all Industrial Sector	Total industrial Production	Gross Domestic Product (GDP)
2004-2005	10.88	8.40	38.62	5.84
2005-2006	12.32	8.00	38.56	5.83
2006-2007	12.60	11.90	45.62	7.20
2007-2008	13.00*	8.70	45.24	8.00
2008-2009	**	3.20	44.86	8.72
2009-2010	**	10.50	**	**
2010-2011	**	7.80	**	**

Source- M/o Statistics and PI website- <http://www.mospi.nic.in>

Note: Projected, IIP – Index of Industrial Production.

Due to revised definition of MSMEs Sector, methodological revisions have been made.

Table 2.3. Distribution of MSME Ownership

Type of Organization	Numbers in Lakh	%
Proprietary	14.09	90.08
Partnership	0.63	4.01
Pvt. Company	0.43	2.78
Pub. Ltd. Company	0.08	0.54
Co-operatives	0.05	0.30
Others	0.36	2.30
TOTAL	15.64	100.00
Women Enterprises	2.15	13.72

of the outstanding rupee export credit for banks, from 15 per cent, a move that will inject Rs 30,000 crore into the system. In order to further augment liquidity and encourage banks to increase credit flow to the export sector, the RBI has increased the limit of export credit refinance from 15 percent of outstanding export credit of banks to 50 percent, which will potentially enhance liquidity of over 300 billion, equivalent to about 50 basis points reduction in the CRR. This is expected to help the banks to

replenish the funds earmarked for the MSME export sector and ensure that funds are easily available to the sector in adequate measure.

8.0. Under the Shadow of a Slow down

Against the background of the global economic crisis, the ISED Small Enterprise Observatory, in its latest Report entitled, IndiaMSME Report 2012, has reported a significant slowdown in the country's MSME sector.

Table 2.4. MSME and Power Supply Sources

Power Used	No. (Lakh)	(%)
No Power Needed	3.79	24.25
Coal	0.25	1.59
Oil	0.53	3.40
LPG/CNG	0.07	0.42
Electricity	10.49	67.07
Others	0.51	3.28

Table 2.5. Gross Output

Type of Enterprise	Gross Value of Production (Rs. Crore)	%
Micro Enterprises	3,12,973	44.24
Small Enterprises	3,18,794	45.06
Medium Enterprises	75,743	10.71
Gross Output	7,07,510	100.00

Table 2.6. Sources of Finance

Source of Finance:	Nos availing finance (Lakh)	%
No Finance/ Self Finance	13.64	87.23
Finance through Institutional Source	1.70	10.87
Finance through Non-Institutional Source	0.16	1.05
Finance through Both Institutional and Non-Institutional Sources	0.13	0.84

The present global economic crisis also impacted on countries already facing major economic problems prior to its onset, and in particular, a number of countries were facing major problems in their manufacturing sectors – poor infrastructure, high import dependence, shortages of skilled labour, lack of competitiveness and limited indigenous technological capabilities, for example. SMEs appear to have been hardest hit by the fall in credit availability. The macroeconomic impact of the crisis on the manufacturing sector is of significance because of the impact on prices (the interest rate, the

nominal and real exchange rate, and the real wage rate), the narrowing of policy space in a liberalized economy (the policy trilemma), and the need for new regulatory structures and institutions.

What does it all mean to the challenges and prospects of MSMEs India? While innovation is considered an imperative, and that SMEs are told to be increasingly innovative, to what extent is the objective setting in India ripe for such a transformation? An answer to these questions needs to be attempted against the more recent experience

in the economy and in relation to how the SMEs are placed in such a dispensation. The year ,2012 was characterised by some major developments. These major developments in the economy obviously have serious implications on the performance and prospects of MSMEs.

Does MSMEs in India face a crisis situation today? There are differences of opinion. One point of view is that, in a relative sense, they do not face major problems. Another, but contrary, point of view is that they face serious problems. Differences in perspectives underlie these arguments. However, one thing is sure: There has been an enhanced pressure on MSMEs to remain alert and to be constantly innovative.

8.1. Dimensions of the Crisis

The key dimensions of SME recession often described are: (1) demand recession; and 2) financial crunch. Demand recession arises from two angles: 1) through the value chain that emerges through the export market; and 2) the second-order effect of an overall contraction in economic activity. In both the cases, there is an enhanced tendency for delayed payments, which in turn, aggravates the working capital problems of SMEs. A financial crunch arises when banks become risk-averse. The question as to the so-called global crisis and its impact on the Indian economy is a key analytical question. But of much greater importance to the compass of our discussion, apart from attempts at measurement, is how the MSMEs are performing in a relative sense. This may be examined in terms of two aspects: 1) foreign trade volatility; and b) structural problems.

8.2. Foreign Trade Volatility

The overall impact of the global slowdown, as in 2012, may be adverse as, this time, both the emerging and developed economies have been affected. The Indian exporters had diversified their businesses to the emerging economies when there was a crisis in the key global markets such as the US and EU. However, the trend is towards a slowdown in the importing emerging economies as well. Therefore, industry associations like FIEO have demanded the Government to revamp its policies including the Focus Market Scheme and

the Market Linked Focus Scheme to enhance the portfolio in the countries where the potential is still strong. Other countries set a better example when it comes to supporting the SME export sector. In India the total budget for market development is merely Rs 200 crore. The FIEO has demanded that the Department of Commerce should frame a scheme with a corpus of 0.5% of the total exports so that there is sufficient fund to provide marketing support to SME exporters.

8.3. Threatening Imports

India has followed a long period of import substitution policy since Independence. However, with the lifting of Quantitative Restrictions, India entered into an era of enhanced exposure to imports. Unlike the highly protected market of the past, a large number of imported products are available in the Indian market today. The discussion in the following pages examines how the enhancement in imports have impacted the various domestic subsectors. However, from the point of view of analysis and policy, it is important to categorise these subsectors according to some broad patterns observed. Three broad patterns are observable in the area of imports: 1) advantage imports; 2) engineered imports; and 3) sandwich imports.

8.3.1 Advantage Imports

Advantage imports are those imports that have helped to tame the domestic market in such a way as to compel domestic industry to innovate and/ or broad- base their activities. Such imports can be direct SME products, or products of the large sector which helps to create backward linkages. Automobiles and telecom are two key sectors which have helped to make a significant impact on ancillarisation and innovation in the MSME sector.

8.3.2. Engineered Imports

This category of imports are, those imports that take place essentially due to unethical practices of the domestic businessmen themselves. Such imports happen largely where exports of final products and imports of components coexist. Bicycle industry in Ludhiana is an interesting case. One of the traditional exporting industry, bicycle industry is now facing a serious threat because of the irrational import of

SME Exports Decline

Some prominent industrial sectors dominated by SMEs registered a strong decline in exports as per reports available in April 2012. According to foreign trade data released by the Ministry of Commerce & Industry, there was a strong fall in exports of some SME- dominated sectors such as gems & jewellery and ready-made garments. The gems and jewellery sector has seen the sharpest decline, with 25.7% contraction in international shipment in the month, followed by readymade garments that saw 9% slip in exports in the same period. The leather sector also witnessed muted demand during April, growing at the 3.2% pace, while exports from electronics and plastic sector posted just 5.4% and 2.7% growth. The economic crisis in major markets – the US and Europe – is hitting India's exports. Both these markets account for about one-third of country's total shipments. The in the country's merchandise exports, which grew by as much as 82 per cent in July 2011, came down to 3.2 per cent in April 2012 due to the demand slowdown.

Source: Government of India, Office of the Directorate General of Foreign Trade

all types of low- quality bicycles and components. More than the threat from the Chinese market, it is the unethical practices of local manufacturers that have led to the brand decline of the industry. This category of imports are generally found in the border states of the country.

8.3.3. Jammer Imports

Major policy distortions at home also leads to indiscriminate imports that are damaging to the local industry. Indiscriminate domestic and trade policy lead to the crippling of a dynamic local industry. Such imports can be termed as 'jammer imports'. Under this category, the large and

medium units as well as unorganised sector coexist, and simply as a survival strategy, smaller units are forced to engage in unethical practices. An interesting case is that of the storage batteries industry. The industry consists of two segments - automotive and industrial. The major players in this industry include Exide Industries, Amara Raja Industries, Amco and Tudor India. With relaxation of import duties and the recent removal of quantitative restrictions, small and medium Indian companies are facing the threat of cheaper imports.

The size of the Indian battery market is estimated close to Rs 2100 crores. The telecom segment is the largest consumer of industrial batteries followed by the railways. The power and UPS industries are

other key user segments. The automotive battery business is estimated at around Rs 1200 crores, including OE (original equipment) and after-market or replacement market segments. The OE market is around 1.2 million units and the replacement market is around 5 million units per annum. The unorganized sector comprises the small-scale assemblers and rebuilders; it is currently estimated to have a share of around 60-65% of the replacement market. This sector largely dominates the tractor and commercial vehicle segments although in some areas of the country they have a significant presence in the car and multi-utility segments too.

Last year there was an increase in imports from countries like China, Japan, Korea and Bangladesh (3.6 million units and 1.9 million units of automobile and industrial batteries respectively). These batteries have a price advantage over batteries manufactured in India as they escape the heavy duty on lead and other raw material like separators and plastic in India.

ARBL, a medium-scale company, being a member of Indian Battery Manufacturers Association (IBMA) filed an Anti Dumping petition for uniform pricing against imports from these countries. An interim order has been passed against imports from Korea, China and Japan. Bangladesh, however has appealed for a de-minimus status, which is under investigation.

8.4. Structural Problems

The MSME crisis in India is more structural than export-led. Therefore, the crisis is more subdued than explicit. A discussion on these subdued aspects is vital from the point of view of analysis and policy.

Some of the recent studies, as also field research by the MSME Research Team have indicated important impacts on the cost side by MSMEs. According to a study by CRISIL, the premier rating agency, covering 3000 MSMEs, a one per cent decline in cost can boost MSMEs profitability by 12.5 per cent. Given that the raw material cost accounts for about 70 per cent of the overall cost of manufacturing for the MSMEs, any positive or adverse movement of raw material prices has a major impact on their overall profitability.

The SMEs operating in engineering, capital goods, textiles and chemical industries are most sensitive to movement in raw material prices. According to this study, the sector could expect decline in raw material prices in the near future. According to Crisil, prices of key commodities, such as steel, cotton, chemicals, plastics and rubber, which constitute a major portion of the SMEs' cost structure, will decline in 2012.

Cotton and rubber prices are expected to move down by around 20 per cent and 9 per cent respectively. Similarly, prices of other raw materials such as plastic, flat steel and commodity chemicals, are expected to decline by 3 to 6 per cent. The recent decline in commodity prices, could ease cost pressures on SMEs. Another key item in the cost of credit. It remains exceptionally high in India, compared to many other countries. Additionally, with the Reserve Bank of India lowering interest rates, SMEs could also anticipate easier access to funds at lower cost of borrowing in 2012, than in the previous year.

The second-order effects of the above macro dimensions are as follows: Credit availability has come down. A rise in key policy rates (Repo and Reverse Repo) by RBI in order to control the inflation has made loans costlier. This has affected the credit available to enterprises for running their operations. Rise in interest rates has also severely impacted

Indian MSME sector, as the loans have become dearer to them by 3.5% in last 20 months, thereby impacting their input costs and profits. The euro crisis has added to the volatility of global financial markets, which in turn has impacted the Indian financial markets too. High rates of inflation have led to increase in interest rates by the Central Bank several times. Further, volatility in the international markets have led to high bouts of risk aversion by the investors and they have responded by investing in relatively safer bullion market thus increasing the price of gold and silver, thereby pushing the inflation rate still higher. This has increased the cost for these small enterprises in turn affecting their profitability. Our examination need to be specific on the services sector on the one hand, and the manufacturing sector on the other.

8.5. Services Sector

The impact on the Country's services sector SMEs can be discussed in terms of: (a) exports; (b) capital flows; (c) depreciation of the rupee; and (d) market volatility.

There has been a slowdown in demand from Europe - a market that consumes 27% of emerging economies' exports. Further Euro has got devalued more than 20% against dollar since November 2009, thereby reducing the profitability of exporting to the European market. European Union accounts for 20.2% of India's exports and the US, for another 10.9%. The slowdown in these two markets that account for almost one third of India's exports, has led to the drop in export revenue of India's services SMEs. Low policy interest rates are being maintained by the European Central Bank because of the Euro crisis. Similarly, low rates in Japan and United States, combined with low growth in Europe, have led to capital inflows in India and other emerging markets, leading to inflationary pressures. While, for the MSMEs, costs of inputs have gone up, they find it difficult to raise the prices of output. This has led to an erosion of their profitability, in relation to larger units. Slow growth in Europe has led to subsequent depreciation of Euro against the US dollar. Investors, rather than betting on recovery of Eurozone, found safe haven in US dollar which enabled US dollar

to appreciate as compared to other currencies. Declining exports, coupled with rising prices of crude oil, created upward pressure on Indian rupee which, in turn, depreciated with respect to US dollar. Indian services SMEs engaged in providing services to their overseas clients, and who had hedged against the dollar at a lower value, have witnessed a reduction in their profits.

8.6. Second-Order Effects

Banks, in India, have been generally risk-averse in forwarding credit to Indian service sector SMEs as the former have found these businesses to be less credible than the manufacturing units. While manufacturing in the country is facing a general slowdown, a contraction in credit flow to the services sector would only help to fuel the pace of the slowdown in the economy.

The global financial crisis, impacts unevenly on industries, countries, regions and firms. Therefore, there is neither just one way that the crisis affects the businesses, nor is there any particular best way to adapt to crisis situation that are applicable to all businesses. Under such uncertain circumstances, there is no particular strategy that can guarantee survival or success. Much of it depends on factors like business resources and relations with business stakeholders - partners, competitors, customers, suppliers, government and others. This leads us to the vitality of extending support for firm-level solutions. However, the track of business development services (BDS) in India need much greater improvements. Reforms at the institutional

and policy levels need much closer examination, and this should lead to a 'National Manufacturing Policy for the MSME sector'.

9.0. Hexagonal Crisis

Following its analysis of the slowdown in the MSME sector, the ised Small Enterprise Observatory reports a hexagonal crisis in the MSME economy of the country. What are the implications for Gujarat? A discussion on this vital aspect is important.

The above discussion lead us to the conclusion that the performance track of the above subsectors have been influenced by a variety of complex factors. From the point of view of analysis and policy, it is important to categorize these factors. Besides, it is important to examine the MSME impacts in a comparative setting, both vertically and horizontally. This is not simply in terms of the usual economic variables that explain a crisis situation. Beyond that, we attempt to explain the situation in terms of six long-run effects on the sector. They are : 1). policy effect; 2). demonstration effect; 3). trade effect; 4). planning effect; 5) entrepreneurship effect; and 6). cultural effect.

7.1. Policy Effect

Impacted by the high interest rates scenario and lack-lustre growth in industrial output, India's real GDP growth decelerated sharply from 8.5% in 2010-11 to 6.5% in 2011-12. The downward revision in the GDP growth rate is mainly on account of lower performance in 'manufacturing' and 'trade, hotels, transport and communication' than anticipated.

MSME Crisis: Turning Partial to Full ?

Box. 8

A slowdown in the manufacturing and services sectors has been the recent experience. Due to the contraction in the European and the US markets, the demand of goods and services from the emerging markets has fallen considerably. Indian SMEs operating in these sectors have got severely impacted due to this slowdown, coupled with high inflationary pressures that increased the cost of raw materials and other input costs. The inflationary pressures have forced the manufacturers and service providers to pass on the cost of price rise on the end-consumers, thereby increasing the cost of the final product. Indian SMEs especially are losing their competitiveness to their larger counterparts due to high price of final products. Further, the slowdown in manufacturing activities has further affected the services sector SMEs who depend on manufacturing sector for their business activities.

The real GDP declined to 5.3% in the fourth quarter of 2011-12, as compared with 9.2% in the corresponding period last year. The real GDP growth is estimated at 1.7% in agriculture, 2.9% in industry, 4.8% in construction and 7.8% in services sector. The economic activities which grew robust are trade, hotels, transport and communication (7%), financing, insurance, real estate and business services (10%) and community, social and personal services (7.1%).

The slowing down of GDP growth, which is a matter of concern, is mainly driven by the slack in manufacturing and mining activities. The major impediment to this sector, as identified by entrepreneurs, both at the level of India MSME Darshan 2011, as also during field research by the MSMER Team, has been: 1) the spiral in input costs; 2) high cost of finance, 3) escalating energy costs; and 4) booming wage costs.

Stagflation is the latest experience of the Indian economy. The high inflationary situation in the country explains the overall rise in input costs. While various steps have been initiated by the Government and RBI in order to arrest inflation, this has not been matched by a discretionary approach that helps to reduce overall input costs. The government delivery channels are often ineffective. While on the cluster mode, there are opportunities of improving the situation, these efforts are more partial than integrated.

In the credit market, the transactions cost of credit still remains relatively high. This is not so in many other countries. A substantial body of research has conclusively established that the MSMEs face

severe bank credit constraints, forcing them to rely on non-market financing, especially trade credit. However, non-market financing typically involves higher transaction costs as well as interest costs than bank finance. Delay in realization of receivables is a key challenge faced by the MSMEs. Credit-related grievance redressal mechanisms have not improved (in UK, for example, there is a transparent redressal mechanism). Institutional mechanisms to reduce the risk perception of MSME credit is yet to be improved a lot.

An appropriate energy solution is something which the MSME sector need to address both at micro and macro levels. Supply of electricity was erratic in most of the subsectors examined by us. Use of electricity per capita remains still low in the MSME sector. Clean energy as a 'responsible business agenda' is yet to pick up. Donors are more interested in developing a trade-related 'responsible business agenda, rather than putting forward a sector-specific approach.

Escalating cost of labour is still a thorny issue. Flagship programmes such as NREGA have created much harm than good to the MSME sector. Besides, migrant labour which is traditionally a source of labour supply to MSMEs, have been scattered and got diverted to other sectors which offer high wages and benefits.

NREGA, the flagship job scheme of the country has contributed to an escalation in the cost and availability of labour. A study by the Institute of Social and Economic Change, Bangalore, based on field research in various districts of Karnataka, indicate that farm production costs have gone up by about 20%. Daily wages of the farm sector have shot

India's Manufacturing Model in Trouble

Box. 9

India's Manufacturing model pursued by the country since the beginning of the Planning era, has some unique features. The so-called Nehru Mahalanobis model has resulted in the growth of a strong manufacturing base, wherein MSMEs had a proud of place. While in the last quarter of 1980s, the top 20 of the corporate sector were manufacturing companies. Major restructuring happened in the 1990s; Of the top 20 slipped out to services sector by year 2000. MSME arcillarisation and linkages also declined drastically. This implies serious consequences on India's unique manufacturing model where MSMEs have a key role. There is need for an MSME - specific National Manufacturing Policy.

up by 50 per cent. While in India, supply of labour in the MSMEs is linked with the cost and availability of labour in the farm sector, an increased opportunity offered by the agricultural sector in terms of wages and working days, has a tendency to escalate wages in general. Besides, labour in the MSMEs being largely migratory in nature, an increase in rural wage rate would imply a backwash effect of rural pegging and decline in the supply of labour for MSMEs.

Regionally, a higher cost of labour in some regions is one of the reasons for the shifting of industries in Northern India. For instance, Punjab has traditionally been a high wage island, drawing migrant labour from Bihar and Orissa. The recent trend, however, has been the reverse. The move may indeed prove to be a problem for Punjab, which has already been rattled by top textile units setting up new plants in Madhya Pradesh where cheap land availability, cheap labour, and host of incentives have lured many units. Pharmaceutical MSMEs have been increasingly migrating to Himachal Pradesh in order to avail of special concessions. More recently, textile units have started moving to Madhya Pradesh, followed by the turn of bicycle industry that is shifting to Bihar now. Big players in cycle industry are moving out to Bihar from Punjab in order to avail of a host of benefits offered by the Bihar government; Bihar is planning to procure 12 lakh cycles from manufacturers for the current year itself, under the Bihar Chief Minister's Balik-Balika Yozana.

Against the recent experience of a slow down in the Indian economy, the government should focus on structural problems like, easing supply side constraints to tackle the price pressures, financing of infrastructure expenditure, lowering the costs of doing business, simplification of the tax structure, improving social sector outcomes, and achieving fiscal consolidation. Speedy clearances, CLUs, NOC/Consents for Green Category Industries etc, automatic clearances for MSEs etc. should be steps in the right direction.

9.2. Demonstration- induced Crisis

'Demonstration- induced crisis' implies the demonstration effect that brings in a crisis into the system. A positive demonstration brings in crisis, and

a negative demonstration brings in the obverse of that. It is a general principle that, the worst crisis in a situation of economic slowdown is the confidence crisis. The emerging perception that the return on MSME manufacturing activities is doubtful, has brought in two types of negative consequences. On the one hand, a large number of manufacturing entrepreneurs turn to service activities. On the other hand, the opportunities of self-employment turning into entrepreneurship, has been critically affected by a 'self-employment crisis', as reported by NSSO 66th round.

Demonstrating best practices is the only solution. This can happen both at the micro-meso levels, and at the macro level. At the micro- meso levels, best practices need to be highlighted and rewarded. At the macro level, there need to be a concrete policy of promoting communication among the various stake holders. This demands, innovative methodologies that suit a particular context. This has been the example set by the India MSME Communication Programme.

7. 3. Trade -induced Crisis

Trade, in the MSME context, has increasingly been in crisis today. While there have been increased import of goods from China, Bangladesh and other neighbouring countries into India which pose a serious threat to MSME products of the country, the export promotion drive got some serious setback due to the current global crisis. The discussion in the previous pages indicate that, the major MSME sub sectors of the economy have been facing significant setback.

On the policy side, export promotion from the MSME sector does not happen at a desirable level. The task is essentially with the Export Promotion Councils today. The role of the various Commodity Boards is limited. The Focus of the Ministry of Commerce and Industry, on Focus Markets and Focus Products as strategies, do not reach MSMEs at the grass root level. Institutions such as the ECGC, and the EXIM Bank, need to reorient themselves in terms of backward and forward linkages of their functional constituency.

7.4 Planning Crisis

The era of liberalization in India has brought the MSMEs into a paradigm set by the forces of the market. The regulatory role of the government has come down. However, though not intentionally, a vacuum has been created in the policy space. If not regulatory, what is the role of the government? The facilitatory role of government often lacks clarity at the national level.

As a consequence, the government practically remains inactive, where the market forces create havoc on the interests of the MSME sector. The imperative in this context is to define the functional role of the government. While in the Indian federal system, MSME is essentially a state subject, though the Government of India has various regulatory and developmental measures in its kitty. In the growth agenda of the country, the focus of the State Government is to attract investments from outside, and more specifically FDI. The assumption is that, capital is the problem, and once investments take place, growth happens, leading to automatic social and economic linkage effects. This is a fallacy of thought. It is a fact that in most of the Investor Meets organized by the State Governments, the focus is on some of the high-growth sectors, whereas MSMEs are considered and discussed as a generic, but less important category. This low priority that is given to MSMEs is reflected in the Five Year Plans of the States as well. While the State Governments often do not have an MSME Plan, the purpose of the MSME component of the Annual and Five Year Plans is nothing but as an instrument to tap the funds involved in the Centrally sponsored Schemes.

7.5 Entrepreneurship Crisis

The focus on entrepreneurship should be an instrument to bring in start-up businesses that decides the vibrancy of the MSME sector. While the focus of public policy in many of the crisis-affected countries is to promote start-ups, in the Indian context this has not gained significant priority. The focus of public policy, instead, has been on strategies in terms of the initiatives of Entrepreneurship Development institutions. However, the focus of these institutions has essentially been on quantities and much less on quality. An 'inclusive entrepreneurship' strategy, as

advocated by the UNIDO can be a meaningful step in this regard.

7.6 Cultural Crisis

A country having a legacy of entrepreneurial communities, India has been facing a serious cultural crisis relating to entrepreneurship and MSMEs. Within the monolithic Indian Government, despite various policy pronouncements, MSMEs is still not a subject of priority. That explains why the subject of MSMEs is scattered over about six Ministries, and that the Ministry of MSME is still not able to assert its position and hegemony. That again explains the debilities of an entrepreneurship movement in the country. India does have a significantly assertive MSME leadership that can influence public policy on its own interest. Naturally, it explains the lack of a significant advocacy platform that may help the policy process in the country. While public policy has been influenced and shaped, either by benevolence or by advocacy initiatives, or both, in the Indian context, both these influences have been found to be weak. The situation is quite different at least in a couple of countries like South Korea, Indonesia, China and South Africa.

The growth experience of the past one decade has seemingly created an illusion in policy circles. It is natural that a growing economy creates illusions in the minds of the people. But public policy need to have discrete understanding of the causatives of the growth story. India's growth story has been woven around its significant manufacturing base, which unlike the rest of the world, has been significantly contributed by the vibrancy and dynamism of its MSME sector. However, this reality was not properly appreciated while chalking

out the MSME policy in the country. Stepping up of investment in the sector has not received the attention it deserves. While crisis mitigation packages in many other countries involved creation of SME-specific infrastructure, this has not happened significantly in the Indian context.

8.0. Beyond 2013

It is, undoubtedly, important to be futuristic on micro, small and medium enterprises, as they shape

the lives of millions of people in India; so too in Gujarat. Given the shape of things emerging as above, it is important to look beyond the developments in the macro economy and of public policy at the national level. The political economy of federalism is getting stronger in the Indian context, demanding a closer look at the policies and strategies at the State level. It is in this context that the Gujarat story of MSME development become interesting to the amateurs and professionals alike.



Gujarat: MSMEs and their Ecosystem

1.0. Gujarat: The Economy and Society

The story of MSMEs in Gujarat is not stand-alone. It is part of the very history and culture of the State. With just over 60 million people, Gujarat accounts for 4.93% of India's population. 2011 Census recorded a 19.7% growth in the States over the decade, registering a density of 308, sex ratio of 918 and Literacy rate of 79.3 (M 87.2, F 70.70). The State constitutes 6.2% of the size of the country. The level of urbanization is 37.4%. In terms of Human Development Index, it is ranked as eleventh in the Country, HDI being 0.527. Providing livelihoods to the millions of people of the State demand, beyond short-cuts, the hard path of enterprise. Gujarat's uniqueness lies in the right realization at the right time.

Gujarat is India's seventh largest State in terms of geographical area with 19,60,924 sq.kms accounting for 6.19% of total geographical area. As per 2011 census (Prov.) the population of the State is 6.03 crore persons. The State has 26 districts and 225 talukas and 18584 villages. The literacy rate in the state is 74.37% (All India 64.84%). The percentage of BPL population in Gujarat is 16.8% (based on URP consumption) as against the all-India percentage of 27.5%. The State falls under the 13th Agro climatic zone which is further divided into eight sub zones. It has the longest coastal line of 1600 km which is about 20% of the country's total coastal line.

Gross State Domestic Product (GSDP) at factor cost at constant (2004-05) prices in 2009-10 has been estimated at '3,31,633 crore as against '3,00,847 crore in 2008-09, registering a growth of 10.2% during the year. Its contribution to the country's GDP during 2009-10 was 7.38%.

Gujarat has the longest coastline of 1600 km, which is about 20% of country's total coastline. Its continental shelf area is 1.64 lakh sq. Km. (33% of country's total)

There is wide variation in rainfall received by different parts of the State. The average rainfall varies from 329 mm in Kutch district to 2475 mm in Dangs district. The State has a workforce of 212.56 lakh (41.95% of population) comprising 170.25 lakh mainworkers and 42.31 lakh marginal workers (2001 census). The literacy rate in the State is 69.14% (All India - 64.84%) National Human Development Report 2001 ranked the State at sixth place in Human Development Index. The incidence of poverty in Gujarat is less than all India. The percentage of BPL population in Gujarat is 14.07% as against 26.60% for the Country as a whole (As per Planning Commission Report 2001). Per Capita Income of the State during 2009-10 at current prices was ' 63961 as against '46492 for all India. The total length of roads in the state was 74,038 km as at the end of 2005-06. The total length of railway lines was 5309 km out of which broad gauge, meter gauge and narrow gauge was 3100 km, 422 km and 787 km respectively.

Table: 3.1. State Income of Gujarat: A Comparative View

Sr. No.	Particulars	Gujarat	India	(%) Share of Gujarat
Gross Domestic Product (GDP) -2009-10				
	(i) At Current Prices (Rs. crore)	429356	6133230	7.00
	(ii) At Constant Prices (2004-05) (Rs. crore)	331633	4493743	7.38
2	Share of different sectors in GDP of the state			
	(i) Primary	18.20	14.60	-
	(ii) Secondary	36.90	28.10	-
	(iii) Tertiary	44.90	57.30	-
3	Per capita income (2009-10)			
	(i) At Current Prices (₹)	63961	46492	-
	(ii) At Constant Prices (2004-05) (₹)	49030	33731	-

Source : Government of Gujarat , Socio-economic Review, 2010-11.

2.0. Industry Profile of Gujarat

Gujarat has registered an impressive industrial development since its formation as a separate state in 1960. The industrial sector at present comprises of over 1200 large industries and over 4,00,000 micro, small and medium industries. As per the results of the Annual Survey of Industry (ASI), 2009-10 carried out by the Central Statistical Organization (CSO), Gujarat accounts for 18% of fixed capital investment, 17.22% of gross output and 15.20% of net value added in industrial sector in India. This Survey further reinforced the position of Gujarat as the most industrially developed state in India in respect of first ranking in industrial investment and second in terms of value of production and value addition in industrial sector.

Over the years, Gujarat has diversified its industrial base substantially. In the year 1960-61, textiles and auxiliaries were the major contributors to the industrial economy of the State. In the span of over 52 years, by 2012, the industrial spectrum has been completely transformed and today 13 major industry groups together account for 83% of factories, 94% of fixed capital investment, 93% of value of output

and 93% of value addition in the state's industrial economy. In the recent years, refined petroleum products has emerged as one of the largest industrial groups having 37% share, followed by chemicals having 14% share. Other important groups are Basic Metals (8%), food products (7.14%), textiles (5%), machinery and equipment (3.36%), non-metallic mineral based products (2.8%), plastic and rubber products (1.81%), fabricated metal products (2.74%). The industries in Gujarat produce a wide variety of products. The products which have substantial contribution relation to national production include: Soda Ash having 94% share, Salt (80%), Processed Diamond (80%), Polyester Filament Yarn (63%), Caustic Soda (42%), Phosphatic Fertilizers (37%), Sponge iron (35%), Textile Fabrics (34%), Refined Petroleum Products (33%), Nitrogenous Fertilizers (19.5%), Cement (10%) and so on.

Gujarat has also succeeded in widening its spatial industrial base. At the time of inception in 1960, industrial development was confined only to four major cities namely, Ahmedabad, Baroda, Surat and Rajkot and some isolated locations such as Mithapur and Valsad. Almost all the districts of the state have witnessed industrial development in

Annual Survey of Industries 2009-10, Highlights on Gujarat

No. of Factories :	India	158,877
	Tamilnadu	(16.9 %)
	Maharashtra	(12.2%)
	Andhra Pradesh	(10.8%)
	Gujarat	(9.8%)
Fixed Capital Share:		
	Gujarat	17.7%
	Maharashtra	14.6%
	Tamilnadu	9.8%
	Andhra Pradesh	9.6%
Employment Share:		
	Tamilnadu	(16.0 %)
	Maharashtra	(12.8%)
	Gujarat	(9.8%)
	Andhra Pradesh	(9.6%)
Emoluments Share:		
	Maharashtra	(19.1%)
	Tamilnadu	(14.3 %)
	Gujarat	(10.6%)
	Andhra Pradesh	(7.3%)
Gross Value Added:		
	Maharashtra	(19.6%)
	Gujarat	(13.9%)
	Tamilnadu	(10.9%)
	Andhra Pradesh	(7.3%)

Source : Government of Gujarat , Socio-economic Review, 2010-11.

varying degrees over time. Such a massive scale of industrial development has been possible on account of judicious exploitation of natural resources, such as minerals, oil and gas, marine, agriculture and animal wealth. The discovery of oil and gas in Gujarat in the 60s played an important role in the setting up of petroleum refineries, fertilizer plants and petrochemical complexes. During the same period, the state government has also established a strong institutional network. Gujarat Industrial Development Corporation (GIDC), established

industrial estates providing developed plots and ready built-up sheds to industries all across the state. Institutions were also set up to provide term finance, assistance for purchase of raw materials, plant and equipment and marketing of products. Later, District Industries Centers (DICs) were set up in all the districts to provide assistance in the form of support services in setting up industrial units. The state also developed infrastructure facilities required for industries, such as power, roads, ports, water supply and technical education institutions. The

Table 3.2 Key sectors and their Output Contribution

Product Group	Output	GVA
Coke and refined Petroleum Products	25.80	25.33
Chemicals & Chemical Product	17.45	23.15
Food Products	11.29	4.36
Basic metals	9.43	4.48
Textiles	5.74	5.48
Other Industries	4.73	2.72
Fabricated Metal products except Machinery and equipments	3.53	4.30
Total	77.97	69.82

Infrastructure and Industry Highlights of Gujarat

Box. 2

- Industrial sector of the State contributes nearly 27 per cent to the national exchequer.
- The State has the highest success rate of projects implemented in the country.
- The first State to enact the Special Economic Zone (SEZ) Act, 2004.
- The First State to enact legal framework for PPP in infrastructure sector.
- Dependable power supply (24 hrs. 3 phase uninterrupted power supply) . Per capita power consumption is 1354 units against national average of 665 units.
- India’s Petro-Capital State with 30% of petrochemicals and 50% of chemicals business.
- Hub of pharmaceutical industry : 42% of national turnover and 22% of exports.
- Manufactures 90% of India’s Soda-ash and 70% of Salt.
- Known as the Manchester of East and Denim City; largest cotton exporting State (60%).
- Contributes to 80% of India’s diamond exports.
- Largest producer of gas in the country.

Government also introduced incentive schemes, from time to time, to promote industries mainly in the under-developed areas of the state to correct regional imbalances. All these initiatives have helped Gujarat to emerge as a highly industrialized state in the country.

Gujarat’s contribution to national value of production was second highest in 2008-09 reckoned at 15.52 % of total national factory production and 12.23 % of Gross Value Added (GVA.) The following seven subsectors were prominent in contributing to the States’ industrial production and augmenting GVA.

Gujarat is one of the leading industrialised states in the country. The major industries are textiles, chemicals and petro-chemicals, pharmaceuticals, dyes, fertilisers, cement, dairy, sugar, engineering, etc. The number of working registered factories in the State has increased from 23942 at the end of theyear 2008(P) to 24453 at the end of the year 2009(P). The value of output at current prices of allregistered factories in State has increased from ‘ 448243 crore in 2007-08 to 508071 crore in 2008-09, showing an increase of 13.35 percent over the previous year. The fixed capital employed by the factory sector in the State has increased from

Rs. 145400 crores in 2007-08 to Rs. 172301 crores in 2008-09, showing an increase of 18.50 percent over the previous year. The employment in all factories, inclusive of managerial, supervisory and clerical personnel has increased from 10.45 lakh in 2007-08 to 11.26 lakh in 2008-09. The percentage share of Gujarat the in all-India aggregates for ASI 2008-09, such as number of factories, number of employees, value of output and net value added, accounted for 9.57 percent, 9.93 percent, 15.54 percent and 11.77 percent, respectively.

3.0. The Legal and Institutional Framework

Historically, there is a growing consensus that most developed countries, including United Kingdom, United States, Germany and France, have intervened actively in their domestic economy through industrial policies. These early examples are followed by interventionist ISI strategies pursued in Latin American countries such as Brazil, Mexico or Argentina. More recently, the rapid growth of East Asian economies, or the newly industrialized countries (NICs), has also been associated with active industrial policies that selectively promoted manufacturing and facilitated technology transfer and industrial upgrading. The success of these state-directed industrialization strategies are often attributed to developmental states and strong bureaucracies such as the Japanese Ministry of International Trade and Industry (MITI) According to Princeton's Atul Kohli, the reason Japanese colonies such as South Korea developed so rapidly and successfully was down to Japan exporting to its colonies the same centralised state development that it had used to develop itself. (Kohli, 2004) Many of these domestic policy choices, however,

are now seen as detrimental to free trade and are hence limited by various international agreements such as World Trade Organization (WTO), Trade Related Investment Measures (TRIM) or Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). Instead, the recent focus for industrial policy has shifted towards the promotion of local business clusters and the integration into global value chains. Despite existing criticism, there is a growing consensus in recent development theory that state interventions are often necessary when market failures prevail. Market failures often exist in presence of externalities and natural monopolies. In practice, these interventions are often aimed at regulating networks, public infrastructure, R&D or correcting information asymmetries. While the current debate has shifted away from dismissing industrial policies overall, the best ways of promoting industrial policy are still widely debated. Of particular relevance for developing countries are the conditions under which industrial policies may also contribute to poverty reduction, such as a focus on specific industries or the promotion of linkages between larger companies and smaller local enterprises.

The legal and institutional framework applicable to MSMEs in the State is derived from the model framework that exists at the national level. Gujarat, based on its history and exigencies, as also the political and social environment of the State, has evolved a policy framework and strategies. An understanding of this framework is crucial from the point of view harnessing investment opportunities, as also for servicing the requirements of the existing entrepreneurs.

Investment Climate, and comparison of states based on such climate catches the attention of the media,

MSME Support through Industrial Policy 2009: Thrust Areas

Box. 3

- Promoting geographical strengths to ensure balanced regional development
- Leveraging existing strengths and resources
- Increasing the efficiency of the institutional catalyzing industrial development
- Improving infrastructure available in the state
- Enhancement of technical competence and manpower
- Creation of labour market efficiencies
- Rewarding adoption of new technologies, business

Road Map Arising out of the MSME Policy: Bankers' Perception

- Government of should develop Central Registry System for MSME's
- All MSME units must be assigned Unique Identity Number
- All clusters identified must develop in time bound plan
- New clusters are to be identified and developed.
- Marketing strategy and incentive schemes for MSME products
- SEZ/SIR/GIDC should grow leading to growth of SME's side by side
- PPP Model should be encouraged
- CGTMSE Guarantee Fee should be subsidized, if needed

Source: Dena Bank

which is more vocal than anybody else. However, there are truths and half-truths, as also untruth, which need to be critically analyzed, and the signals need to be delivered in a professional manner.

How have MSMEs of the State performed during the immediate past? What explains their performance? These are issues of critical concern, both for planning and program implementation, as also for attracting investments. Two major pieces of legislation to regulate the MSME environment are the central Act, MSME Development Act 2006, and Gujarat State Industrial Policy 2009 supplemented by Notification of Rules of MSE-Facilitation Council (MSEFC).

The MSME Development Act 2006 came into effect on 2nd October 2006. Subsequently both the Central and State Governments have taken effective steps towards implementation of the Act. While the Central Government has framed a number of Rules and issued Notifications in respect of the Act; different State Governments have also issued notifications under the Act.

Gujarat has implemented Micro, Small and Medium Enterprises (MSMED) Act 2006 from 2nd October, 2006. During the year 2011-12 (Up to November 2011), 29,089 units have been registered having investment of Rs. 8,465.92 crores and employment generation to the tune of 2,18,054 persons.

The Policy of Reservation of Products for Exclusive Manufacture in SSI (now MSEs) was initiated in 1967 with the objective of achieving socio-economic development, through development and promotion of small units all over the country. This was expected to result in countering the challenges of regional industrial imbalances, employment generation

through self-employment ventures, increased productivity, etc. However, with the gradual opening up of the economy, de-reservation was resorted to for providing opportunities to MSEs for technological up-gradation; promotion of exports and achieving economies of scale. The items are reserved/de-reserved on the recommendation of the Advisory Committee constituted in accordance with Section 29(B) of the Industries (Development & Regulation) Act, 1951. The Advisory Committee makes its recommendations for reservation / de-reservation in the light of factors like economies of scale; level of employment; possibility of encouraging and diffusing entrepreneurship in industry; prevention of concentration of economic power to the detriment of common interest. At present only 20 items are reserved for exclusive manufacture in micro and small enterprise sector.

Gujarat Industrial Policy 2009, aims at making the State "Asian leader" in terms of industrial growth and attracting quality investments. Among other things, it lays emphasis on Small and Medium Enterprises (SMEs), Special Investment Regions (SIRs), and mega as well as innovative projects.

Apart from textiles, gems and jewellery, engineering, chemicals and petrochemicals, where the state has proved its strength, the new policy focused on potential sectors such as agriculture based business, fisheries and informal sector. Emerging sectors, namely, IT/ITEs, Nano Technology, Biotechnology, non-conventional energy resources etc. have been given priority in the policy.

Terming SME sector as the backbone of industries in Gujarat, the Policy offers interest subsidy, venture capital assistance and quality certification to the

Highlights of Gujarat Industry

- Petroleum - largest sectoral share (34%); Chemicals and Pharmaceuticals (27%)
- The world's largest producer of processed diamonds and wall clocks.
- The world's largest gas-based, single-location sponge iron plant.
- The world's largest producer of castor and cumin.
- The world's third largest producer of denim.
- The world's third largest grass root petroleum refinery (at Jamnagar).
- India's largest producer of cotton.
- Home to India's first liquefied natural gas (LNG) port terminal at Hazira

sector to make it more competitive. As part of the Policy, a rehabilitation package was announced, including revival or allowance of exit for sick units. The package has options for the sick units for revival or for peaceful exit. The Policy also provides for financial assistance for the diagnostic studies of such units. Support is also given for market development including initiatives for creation of 'Made in Gujarat' brand by SMEs.

The new Policy also provided for support to develop ancillary and auxiliary industries for value addition while MSME sector continued to receive priority treatment. It seeks to encourage setting up of mega projects in the state, projects having investment of more than Rs 1,000 crore and capacity to provide employment to 2,000 people being treated as mega projects. In order to ensure the development of MSMEs in areas around mega-projects, the Government provides monetary assistance to large industries to support the establishment of ancillary and auxiliary units. The Policy provides for merit-based assistance package to projects in identified sectors, which include auto components, semiconductor fabrication, nano technology, ship building and repairing, aircraft maintenance, repair and overhaul (MRO). Special Investment Regions (SIRs) also received a special focus under the Policy. A 54,000 hectare SIR was already under process in Dholera area in the state when the Policy was announced.

A Technology Acquisition Fund has been established under the Policy to provide financial assistance to MSMEs that wish to incorporate new technologies to improve products and processes. Additionally, to promote innovation in SMEs, the Government has

made provisions to provide Venture Capital Funding through FI/Nodal Banks for projects which adopt innovative technologies.

The Policy recognizes the importance of the 'Cluster Development Method' to advance MSMEs. The Industrial Policy also emphasises interventions such as capacity building of cluster enterprises through earmarked initiatives for marketing, technology up-gradation, quality improvement, training/skill up-gradation, creation of cluster-specific common infrastructure and facilities, creation of an incubation centre, establishment of ITI extension centres and other need-based facilities.

Support is provided to enable MSMEs explore new markets by their participation in trade fairs. An important initiative in this direction is the Gujarat SME Manufacturing Summit, to be held in April 2013, which aims to "equip the manufacturing SMEs to prepare themselves thoroughly for assessing the business opportunities and take necessary actions in developing their enterprises to achieve business goals"

Gujarat was the first state in India to recognize the importance of infrastructure creation as the primary activity needed for industrial development. One of the major reasons for the rapid industrial growth in Gujarat is now acknowledged as the availability of excellent infrastructure facilities in the state. It is the only state in the country to provide 24-hour uninterrupted power supply to all its villages.

Gujarat, from time to time, has given special emphasis on elevating enterprise competition with and learning from successful external business entrepreneurs. Hence, policy efforts have been

translated into encouraging global firms to invest in the state. The State Government has been keenly pursuing promotion of SEZs, considered as 'growth engines' that would enhance manufacturing activities, exports and employment opportunities. Under the Gujarat SEZ Act, 2004, SEZ Rules, 2005 and SEZ Regulations, assistance is provided to the developer of SEZ including tax Regulations, assistance is provided to the developer of SEZ including tax concessions.

Gujarat has also followed the latest thinking relating to flexibility of the labour markets. The State Government has introduced labour reforms and has carried out amendments in some of the provisions of the Industrial Disputes Act, 1947 offering flexibility especially in SEZs. In all, 59 SEZs are approved for Gujarat, including multi-product SEZs and sector-specific SEZs covering textiles, engineering, chemicals, ceramics, gems and jewellery, pharmaceuticals and IT/ITES sectors.

On the infrastructural front, the State government has come up with a series of Industrial Policy announcements, including steps to set up or develop Industrial Estates and Parks (IPs).

The initiatives relating to MSME infrastructure are more recent and pronounced. The Government has identified a total of 83 industrial clusters, traditional and modern, across the districts. The cluster-based developmental approach is based on collective efficiency grounds, and has been perceived to reduce transaction costs and improve competitiveness. Some clusters in Gujarat have been actively participating in the global business transactions and have improved their technology levels and innovativeness. These clusters have been strengthened, with the support of R & D centres and the other specialized business service providers, by creating common facilities, developing market centres and providers, by creating common facilities, developing market centres and brand names, enhanced learning, and improving skill levels.

4.0. MSME Geography

As per estimates of the ISED Small Enterprise Observatory, the State has the First Rank of integrated overall performance of MSMEs at the

national level. According to the Fourth Census of MSMEs, Gujarat stands first in terms of the asset base of the MSME sector.

The State demonstrates a significant tendency of clustering of MSMEs. The older clusters are natural formations of traditional industries, like textiles and diamond polishing, while the newer ones are need based and scientifically laid out establishments. These clusters together constitute 37.6% of all MSME units and 43.5% of investments. Gujarat has 83 identified MSME clusters. The top clusters in the state are located in districts, Rajkot (8), Ahmedabad (6), Jamnagar (3), Vadodara (3). The major clustered industries in the State are Ceramics (4), Oil Mills (3), Embroidery works (2) etc.

A disaggregated analysis of MSME clusters in the State, carried out by the ISED Small Enterprise Observatory, leads up to some important results. Out of the total number of working enterprises, 56.13% are located in the clusters with an employment contribution of 48.92% of the total MSME employment in the State. Out of the total gross output in the MSME sector, the contribution of clusters is 45.84%. Of the total market value of fixed assets, the combined share of units in clusters is 55.20%.

Gujarat has 166 industrial estates established by the Gujarat Industrial Development Corporation for specific sectors such as chemicals, electronics, gems, apparels and granite; 91 are under development.

Key Challenges

The key challenges encountered by the MSMEs can be illustrated by a case study. We have selected Pharmaceutical SMEs as they represent certain extreme problems. Challenges faced by the Pharma SMEs have been identified as follows:

- Regulatory conformance to more rigid product quality norms to offer better quality of medicines to the patients;
- Sustained investments towards technical upgradation to maintain competitive edge related to manufacturing cost;
- Sales and Marketing activities are becoming

more and more expensive, in terms of cost of skilled field staff together with their other consequential and modern day marketing tools/ practices in India together with escalating intermediary remuneration ;

- Stiff competition from local producers of low priced formulations with marginal quality standards, as enforcement of quality requirements are not always uniform or strict in all neighbouring states. This challenge will be even more with the SMEs who do not have enough wherewithals or get the support of the government to face squarely the rapidly changing business environment/demand and falter in choosing the right business models, as applicable to each one of them.

It gives a sigh of relief when the Department of Pharmaceuticals, Ministry of Chemicals & Fertilizers of the GoI has assured taking steps to support the SMEs through various incentives/facilities, as

follows:

- Credit Linked Capital Subsidy Scheme (CLCSS) to SME pharma units, which will help them to upgrade their facilities,
- Issuing a list of pharma products reserved for manufacturing by SMEs
- Identification of around 18 pharmaceutical SEZs, which will offer advantages like availability of developed infrastructure, market access and exports along with various tax incentives

About 1.5% of the SMEs are now engaged only on research & development. In 'India Pharma Summit' held on November 30, 2009, the Department of Pharmaceuticals of the Government of India announced the government was planning to set up a venture fund to promote R&D in the Pharmaceutical sector, especially for the SMEs with a corpus of around Rs. 2000 crores. The Fund will have active stakeholders both from the government and the

Table 3.3. Gujarat: Product Composition of the MSME Sector

Sub sector	Percentage of MSME Units
Textiles	21.39
Machinery Parts other than electrical	7.61
Metal Products	7.49
Chemicals and related products	4.97
Wood Products	4.37
Rubber and Plastics	3.77
Others	50.40
Total	100.00

Table 3.4. Gujarat: Main Characteristics of MSME Clusters

Characteristics	Cluster Units	State Total Units	% Share of Cluster Units
No.of Working Enterprises	129000	229830	56.13
Employment	609000	1244981	48.92
Average Employment	4.72	5.42	
Gross Output(Crore)	17619.44	38438.44	45.84
Average Output	0.14	0.17	
Market Value of Fixed Assets(Crore)	83837.08	151868.8	55.20
Average Market Value of Fixed Assets	0.65	0.66	

Source: Fourth MSME Census; compiled by ISED Small Enterprises Observatory

The distribution of Clusters in major product lines is as follows:

District	Products
Ahmedabad	Dyes and Chemicals, Textile Machinery, Pharmaceutical Machinery, Moulded Plastic Products, Readymade Garments, Diamond Processing, Machine Tools, Castings & Forging, Steel Utensils, Wood work and Furniture, Paper Products, Leather Footware, Washing Powder & Soap, Marble Slabs, Power driven Pumps, Autoparts, Electronic goods.
Anand	Diary and food Processing Machines
Bharuch	Chemicals and Bulk Phamaceuticals
Bhavnagar	Ship Breaking, Steel Re-rolling, Machine Tools, Plastic Processing, Diamond Processing,
Gandhinagar	Powerloom
Jamnagar	Brass articles, parts and components, wooden Furniture
Mahasana	Cotton Cloth Weaving
Morvi	Ceramic Tiles and Sanitaryware
Rajkot	Diesel Engines and parts, Machine Tools, Submergible Pumps, Gold and Silver Jewelry, Salt Processing, Electronic, Watches and Clocks, Oil Mills, Textile Printing, Clay Floor Tiles, Electric Motors, Casting and Forging, Machine Tools and Diamond Processing
Surat	Diamond Cutting and Polishing, Textile Machinery, Powerlooms, Zari, Wood Products and Furniture Surendranagar Textile Machinery, Salt, Sanitary Fittings, Ceramics
Vadodra	General Engineering, Pharmaceuticals (Bulk Drugs), Plastic Processing, Wood Work and Furniture
Valsad	Dyes and Intermediates, Chemicals and Bulk Pharmaceuticals
Viraval	Fish Processing

Table 3.5. Profile of Industrial Estates in Gujarat

Sl. No.	Functional Status	Units	Nos/Area
1.	Functional Estate :	Nos.	166
2.	Estates under various stages of Planning	Nos.	91
3.	Land Acquired	hect.	22,954
4.	Land Developed	hect.	14,272
5.	Sheds Constructed	Nos.	12,291
6.	Housing Constructed	Nos.	12,922
7.	Plots Allotted	hect.	10,265
8.	Sheds Allotted	Nos.	12,104
9.	Housing Qtrs. Allotted	Nos.	11,668

industry. It was expected that the Fund would be operational by the end of 2012.

The Industry was expecting incentives by way of extending the weighted deduction at the rate of 150% of the expenses on R&D for the next five years and duty exemption for imports of specified machinery used for R&D purpose to help the sector to augment its R&D capabilities.

Increasing opportunities in the generic pharmaceutical market both domestic and exports vis-à-vis branded products, will energise the growth of SMEs and enable emergence of robust and focused business models and plans. Besides, rapidly emerging Contract Research and Manufacturing Services (CRAMS) market also throws open a lucrative outsourcing business space for the SMEs in collaboration with the large local and global pharmaceutical companies. Despite the government support and upcoming business opportunities, newer challenges related to the globalization process cannot be overlooked. Education and creation of prompt awareness of the ever changing social and commercial demands for improved quality of medicines and conformance to more stringent environmental and safety standards.

Collaborative approach both with large domestic and global players will be of utmost importance and could be a win-win prescription for growth.

The case of pharma industry, prompts the following observations:

- a. R and D in every aspect of production, design, quality, process and presentation, needs utmost attention by the SME units.
- b. These challenges cannot be fully met by government assistance for two reasons - government cannot comprehend the intricacies of every production line or unit and so the help can only be in the form of general guidelines. Second, the financial requirements for R&D cannot be defined in advance like other business operations, government subsidy comes only after the unit has incurred the expense.
- c. It is therefore imperative that the entrepreneur keeps himself abreast of developments relevant to his product, market and regulatory environment, defines his problem and locates appropriate source for the solution.

Fourth Generation Industrial Policy of the United Kingdom: Some Lessons

The first generation policy adopted after the second world war abandoned laissez faire economics and adopted national planning, picking winners and keeping many 'strategic companies' under state ownership. The second started in 1979 with the election of Margaret Thatcher focusing on privatisation and financial deregulation but run out of steam when that process run its course - and all of it was good. What then followed was a third generation policy - often piecemeal and sector specific but with no coherent strategy in mind as it tended to be reactive. A fourth generation policy argues against picking winners which governments in general are not very qualified to do well - the world is changing so rapidly and technology is advancing to such an extent that opting for one area rather than another carries obvious dangers while globalisation means that sectors can now suddenly move elsewhere with very little warning.

So the fourth generation industrial policy needs instead, to focus on cross cutting policies and sorting out underlying issues to allow the economy to thrive. This is true both in the conventional sense of providing good laws, infrastructure and a well educated workforce, and in the less conventional sense, of government using its might to borrow long and cheap in order to share the risk in new and yet unproven technology areas and help in their development and commercialisation. But the interaction between government and industry is complex and can be done well or badly. All stakeholders need to have clear roles and responsibilities - not just the government. It is not necessarily easy and it requires trust from both sides.

(Vicky Price 2011).

- d. The challenges present opportunities for the development of Contract research initiatives and collaborative association for mutual benefit.

5.0. Investments: Spatial Spread and Industry Linkages

The initiative for investment promotion in Gujarat has had important positive implications for the overall development of the industrial sector as well as for MSMEs in specific. A study by NCAER, for the period March 1999 to September 2008, provides a detailed analysis of firms in the manufacturing sector, based on the NIC 2004, three digit classification, and brings out some important results. The study which was meant for understanding the penetration of foreign direct investment(FDI) into the country, looked into the spread of such firms in relation to registered offices of FDI as well as domestic manufacturing firms. While 400 FDI firms have registered offices spread over 21 States/Union Territories, 4449 domestic firms have registered offices spread over 27 States/union territories.

While Maharashtra and Gujarat adorn the first and second positions respectively, in terms of presence of FDI firms, the same pattern is visible in the case of other firms also. Maharashtra alone has about 19% of the plants, the share of Gujarat is 12%. In the case of FDI manufacturing firms and their plants, Maharashtra has 20% share and Gujarat has 9%. Using Hirschman- Rasmussen Index, the backward and forward linkages in this context were worked out, and it indicates both backward and forward linkages that are highly positive for the State of Gujarat.

6.0. Futuristic Initiatives of Gujarat

Given the specific circumstances prevailing in the country, MSMEs are facing several problems. However, innovation remains the key solution. Gujarat's approach to MSME development is futuristic. And that makes it unique among other States of the country. Despite such uniqueness, MSMEs as a subject is complex. And it requires new solutions that are appropriate to the context of the times. It is these issues that we discuss in the forthcoming chapters.



Public Policy, Programmes, and Performance

1.0. Introduction

Enterprises and entrepreneurial activity, in any economy, need to work within a broad regulatory and institutional framework. This is because, irrespective of the economic system concerned, they bring in social costs and social benefits. Keeping the social costs in control and attempting to maximize the social benefits, is the focus of public policy. Public policy is, by and large, abstract. It needs to gain concrete form in order to be of benefit to various stakeholders. It is this concrete form that takes the shape of the legal and institutional framework relating to the formation and conduct of enterprise activity in a country or region. Hence, as good or bad performance of the MSME sector is reported, the reasons for such performance need to also be examined against the implicit public policy elements.

2.0. Conceptual Framework

All modern governments announce their position on a subject matter of public concern. In some cases, they come in the form of policy statements; in some others, legislative action is initiated. In most countries of the world today, public policy on SMEs gets manifested in either or both of the above forms. A content analysis of policy per se, as also of the policy process, is crucial in order to understand how it affects the lives of the people.

The cornerstone of any policy analysis is the theory of value conflict. The concept, devised by the

American sociologists Fuller and Myers (1941), seeks to relate how value conflict relates to the political system. A crucial question which every policy analyst must confront, relates to the meaning of a public problem. For example, for the native of a community who has a stable job might define growth as “urban sprawl” To him, growth means increased traffic and pollution. On the contrary, for a real estate agent, growth may not be considered as a problem, but rather as an opportunity. In such a situation, who decides if an objective fact is a problem and requires government policy? Generally, interest groups and politicians strategically portray issues in a dualistic manner. However, competing interests can often find compromises, shared values, and shared interests that can be used to create a win-win policy. Fuller and Myers (1941) identify such differing definitions of the “social facts” as illustrative, what they term as “value conflict”.

Value conflict theory centers on objective conditions. The objective condition is an empirical fact (eg. The community is growing in population). The subjective condition is the perception of the objective condition by individuals or groups with different values or interests (i.e., one person sees growth as bad, and another sees it as good). Social problems (public problems) go through a natural history of: 1) awareness; 2) policy determination; and 3) reform (or implementation of policy).

Awareness is the outcome of a clear problem definition by the community. Problem definition

occurs in a highly political environment. For a problem to receive immediate government attention, it must threaten the values and interests of the most powerful in the society, or a significantly large number of citizens, or seem a serious threat to a small but favourably perceived group, or to a group that has traditionally received protection from the government. Problem definition occurs in the context of values, interests and political power, but not necessarily in the context of public interest, the means of politics include trading, compromising, rewarding and coercion.

Even after policies are adopted, value conflict continues in the implementation process, as well as affecting changes in awareness and continued battles over problem definition and what, if anything, to do about it value conflict is a never-ending process.

Public policy is defined by Thomas Dye (1987) as “what government choose to do or do not to do”. For example, if government decides to cut taxes, it is public policy; if not, that too is public policy. Government action, or inaction, is still a value choice. These choices, which can also be termed as

public policy, are determined by political means. In a democracy, the means of politics includes, bargaining, compromise, reward and coercion. Politics is the driving force of what government does. It is the grease of the political system.

Public policy has a key role in shaping the enterprise eco-system. Therefore, a review of the key policy approach and milestones is important from the point of view of an understanding of the eco system.

3.0. Ingredients of an MSME Policy

A characteristic feature of SMEs around the world, is their atomism. Many micro businesses and self-employed persons operate outside the ‘formal’ sector. One of the major challenges to governments in designing institutional, organizational and regulatory frameworks is, therefore, to encourage entrepreneurs to engage in legitimate activity. In pursuing this goal, governments have moved away from earlier, rather simplistic, approaches, recognizing that SMEs not only create jobs but play a wider role in social, economic and political development. They are increasingly seen as central

SME Development Strategies: The Essentials

Box.1

SME development strategies will necessarily be country and context-specific. Each country will have its own challenges, opportunities and priorities for change. Resources available will vary by country, and therefore, results achieved will also be different. Notwithstanding such specificity, some of the SME development lessons which are applicable to most of the countries include the following:

Peace and stability is a key requirement for the development of SMEs and for attracting foreign investment. Studies show that war and crime are main deterrents of private investment, in particular, for foreign investors.

SME development requires a cross-cutting strategy, ie. its success depends on the ability of governments to implement sound macroeconomic policies, the capability of stakeholders to develop conducive microeconomic business environments and the ability of SMEs to implement competitive operating practices and business strategies.

Dialogue and partnerships between the stakeholders is essential (public sector, private sector and civil society). Investments in physical infrastructure and business services and the implementation capacity of policy makers, administrators and support structures determine success. Enhancing women’s ability to participate in SME development should be taken into account at every stage, as women account for an important share of private sector activity and contribute most to poverty reduction.

Source: rbidocs.rbi.org.in

to creating a democratic society and developing an 'enterprise culture'.

Governments alone cannot create that 'enterprise culture', but their actions can destroy or facilitate it. A major difficulty is that the SME sector is always highly differentiated and that its power base, if any, is essentially local. This makes a coherent public policy approach difficult. The aim must be to empower 'bottom up' approaches to development within a national framework in a way that rewards and enhances enterprise culture, because in all societies, the independent owner- managed small business is the organizational norm for economic activity.

In shaping a public policy framework it should be recognized that the MSME sector will be healthy when there is a culture of enterprise in society which rewards individual as well as collective initiative and innovation in all its citizens, including the socially excluded and other minority groupings. The first step towards the creation of such a culture lies in education; an economic, political and social climate that encourages a high rate of business start-up and survival, leading to an overall increase of the SME stock; a significant proportion of quality businesses contained in the new stock; an economic and social climate which encourages existing SMEs to grow; and a sympathetic and entrepreneurial stakeholder environment for SMEs.

3.1. Ignorance in Action

"Nothing is more terrible than ignorance in action", goes the saying. MSMEs cannot and do not grow in a vacuum. If the culture of government, education, regulatory authorities, banks, the professions, and the large corporate sector lacks empathy with MSMEs, then it will be difficult for the sector to survive and grow. But, in many countries, the official approach to MSMEs is more of lip-service based on the sheer logic of numbers. The stakeholder environment must be as entrepreneurial as entrepreneurship itself. Stakeholder organizations facilitating and supporting entrepreneurship are key elements in the creation of a "level playing field" and of a solid base for enterprise culture. Official policies for MSME development can be evaluated against their impact upon enterprise culture, start-up, survival and growth of MSMEs, and stakeholder empathy. Each of these

criteria feeds off the others. 'Enterprise culture' will be strong where there are high rates of MSME growth. Where MSMEs are dominant features in the local and regional economic and social environment, stakeholders themselves will be influenced and will adjust their behavior accordingly. This is true of Gujarat.

This template of culture and business, and stakeholder development, may be used in very different country contexts. Each country has different problems and opportunities, and therefore, priorities for change and resource availability will vary. These factors will dictate the coverage and scale at which any programme of change can be pursued.

Targets also move dramatically over time. SME development policies in Western Europe, for example, were focused on employment creation in the late 1980s and early 1990s. By the end of the century, the emphasis had changed to international competitiveness and innovation. As a result, policy targets moved towards technology issues and creation of an enterprise culture. In transition economies, a major focus has been upon creating an enabling environment for the market economy. Hence, much of SME policy has targeted the building of an appropriate regulatory environment, privatisation and restructuring, development of the financial sector, and mechanisms for private and public SME support.

In many countries, governments have adopted full-fledged and comprehensive legislation for small businesses. The absence of an Act does not mean that there is no policy. Countries like France and the UK prefer flexibility in their approach. One problem with Acts is that they may need constant amendments as policy develops. In India, amendments in the MSME Act 2006, from time to time, has been articulated from various sources.

Within the national framework, such enactment may specifically target the local level, as in the case of the German Länder (2007). Such legislation, irrespective of their content, usually includes a declaration of support for small businesses. Besides, such enactment also includes, a definition for public policy purposes and principles on which support for the sector will be based, as also the institutional

Table 4.1.: Broad Indicators of MSME Performance in India

SI.No.	Year	Total Working MSMEs (Lakh numbers)	Employment (Lakh persons)	Fixed Investment (Rs. Crore)	Production (Current Prices) (Rs. Crore)	Export (Rs. Crore)
1	2001-02	105.21 (4.07)	249.33 (4.44)	154349 (5.11)	282270 (8.03)	71244 (2.07)
2	2002-03	109.49 (4.07)	260.21 (4.36)	162317 (5.16)	314850 (11.54)	86013 (20.73)
3	2003-04	113.95 (4.07)	271.42 (4.31)	170219 (4.87)	364547 (15.78)	97644 (13.52)
4	2004-05	118.59 (4.07)	282.57 (4.11)	178699 (4.98)	429796 (17.90)	124417 (27.42)
5	2005-06	123.42 (4.07)	294.91 (4.37)	188113 (5.27)	497842 (15.83)	150242 (20.76)
6	2006-07	261.12 (111.57)	595.66 (101.98)	500758 (166.20)	709398 (42.49)	182538 (21.50)
7	2007-08	272.79 (4.47)	626.34 (5.15)	558190 (11.47)	790759 (11.47)	202017 (10.67)
8	2008-09	285.16 (4.53)	659.35 (5.27)	621753 (11.39)	880805 (11.39)	N.A.
9	2009-10	298.08 (4.53)	695.38 (5.46)	693835 (11.59)	982919 (11.59)	N.A.
10	2010-11	311.52 (4.51)	732.17 (5.29)	773487 (11.48)	1095758 (11.48)	N.A.

Source: Ministry of MSME, Annual Report, 2010-11

Note: The figures in brackets show the percentage growth over the previous year.

support arrangements, types of support to be given, and methods of reporting.

A solid policy framework and its effective implementation, involves five crucial stages as follows:

- 1) Policy Review Process: This stage involves, needs analysis, policy management stakeholder development, development of specialist

institutions, and programme development;

- 2) Strategic Development Plan;
- 3) Definition of concepts; and
- 4) Background Documents.

4.0. National Policy Framework

Industrial policy in India, over the years, have

promoted SSIs through various incentives in order to fulfill socio-economic objectives. These incentives related to financial fiscal and infrastructural measures, and were targeted at achieving the sub-sectoral growth rates in the respective Five Year Plans. Incentives were extended either on a “one time” basis (initial support for setting up of units) or in the form of sustained support for a specific period (protectionist measures, subsidies, etc.). While some incentives were made applicable to all industrial units including the large-scale sector, others were available exclusively for the SSIs.

The objectives of SME policy, from time to time, were one or more of the following: a) creation of wage-employment with growth; b) generation of self-employment; c) creation of productive assets for the poor; and d) welfare-oriented employment programmes of the Keynesian type. The Plan frames which deal with the employment question in India so far, have been provided with an intellectual scaffolding of the Mahalanobis Model and are basically based on the Fei-Ranis thesis (1980). This thesis assumes dualism as a transitory phenomenon and technical change has been given a crucial place in this transition.

Under a democratic system, the legacy of democratic planning offered an inherent strength to the Indian economic system by facilitating economic activities with diverging organisational forms. The mid-1960s marked a watershed in the history of planning in the country: the so called “crisis of planning”. The Chinese aggression as well as the Indo-Pakistan War were highly instrumental in deciding the course of this crisis. What has been described in the economic history of the country as “resource crunch” prompted the planners to streamline the existing developmental programmes and to have a

more target group oriented approach. Hence, the various sub-sectors of the industrial economy of the country got increasingly focused on short run objectives and targets, as against serious exercises in perspective planning.

The Industrial Policy Statement (1977) stressed the wider dispersal of cottage and small industries into rural areas and small towns. It emphasised that “whatever could be produced by small and cottage industries, must only be so produced”. This led to the expansion of the list of reserved items for exclusive production by the SSI sector. The concept of the Tiny Sector was introduced within the SSIs, giving special consideration and extending help by way of provision for margin money assistance. District Industries Centres (DICs) were introduced as a single promotional umbrella.

The Industrial Policy Statement, 1980 focused on integrated industrial development, and suggested the setting up of nucleus plants in those districts which were identified as industrially backward, with the expectation that these would help the spatial dispersal of small ancillary units and the existing network of SSIs would grow faster. SSI units were redefined by raising the ceiling of investment in plant and machinery.

Another major phase of small enterprise development in the country was inaugurated by the mid-1980s. An enhanced shift from an approach based on overall planning, to an increasingly sectoral or project approach, was a remarkable feature of this period. Besides, the process of dereservation become a more pronounced feature of policy. Providing “gainful and high quality employment at least for the additions to the labour force” was one of the targets of the Tenth Five-Year Plan. The Plan envisaged the creation of

From Employment Creation to Employment Creators

Box. 2

The findings of the Third Census of MSMEs indicate wide inequalities among MSME units. Of the total units, 97.7 per cent were in the tiny sector. Consumers of electric power constituted only 73.77 per cent. Number of units with outstanding bank loans was only 14.26 per cent. Units maintaining proper accounts were only 29.43. The picture given by the Fourth Censuses is also broadly the same. These findings emphasize the need for a proactive labour market policy which offers the necessary conditions for grooming job creators.

50 million employment opportunities over the five year period, against a total addition to the labour force of 35 million persons.

The National Manufacturing Policy suggests that industries in National Manufacturing Investment Zones (NMIZs) - should be given flexibility to downsize labour. Likewise, it recommends changes in the environmental norms which come in the way of investment. NMIZs, are mega industrial zones, ment for attracting overseas investments, besides increasing the share of manufacturing in the economy. India aims to increasing the share of manufacturing sector, which contributes over 80 per cent in the country's overall industrial production, form 16-17 per cent to 25-26 per cent of the gross domestic product by 2020.

The idea of a comprehensive legislative framework for the MSME sector, implies a major reorientation of public policy, as it provides a basic legal framework for the sector. The case for such a legal framework was articulated by several industry associations. "Enhancing the competitiveness of the small and medium enterprise" assumes a level-playing field for these enterprises.

The Eleventh Plan recognised the continuing need to facilitate the graduation of these enterprises to higher levels, particularly from the small to medium. Incentivising graduation of micro and small enterprises to medium and larger units, through well calibrated fiscal and non-fiscal measures, forms one of the steps in the Eleventh Plan.

4.1. Legislation

The Government of India came out with a legislation on the MSME sector in 2006. The preamble of the Act affirms to "provide for facilitating the promotion and development and enhancing the competitiveness of small and medium enterprises". This major shift in policy has been reflected in several new measures taken by the Government under its reform programme, proposed by the Bill, such as rationalization of labour laws, reduction of legal stipulations applicable to SMEs etc. Named after the Micro, Small and Medium Enterprise Development Act 2006, it defines various categories of enterprises engaged in manufacturing in terms of

investment in plant and machinery (excluding land and building), and those engaged in service activities in terms of investment in equipment (excluding land and building). The categories are:

Manufacturing Enterprises

- Micro Enterprises: With investment in plant and machinery, upto Rs. 25 lakhs.
- Small Enterprises: With investment in plant and machinery between Rs. 25 lakhs and Rs. 500 lakhs.
- Medium Enterprises: With investment in plant and machinery between Rs. 500 lakhs and Rs.1000 lakhs.

Service Enterprises

- Micro Enterprises: With investment in equipment upto Rs. 10 lakhs.
- Small Enterprises: With investment in equipment between Rs.10 lakhs to Rs. 200 lakhs.
- Medium Enterprises: With investment inequipment between Rs. 200 lakh to Rs. 500 lakhs

Following the enactment of 2006, a few administrative reforms took place. A new Ministry of MSME was set up, by merging the erstwhile Ministries of SSI and ARI. Besides, the all-India SSI Board was restructured and renamed as National Board for MSME.

5.0. Pillars of National Policy

Public policy is an abstract term, and to understand its relevance, one need to have a close understanding of its constituents. We may discuss the implications MSME policy in terms of the following key areas:

- a) macro economic policy;
- b) labour market policy;
- c) regulatory framework;
- d) promotion and development.

While the above four areas form the core of the legal and institutional framework relating to MSMEs in

the country, our discussion in this chapter is confined to only a simple treatment of these issues.

5.1. Macro Economic Policy

How significant is MSMEs in the macro economic policy of the country? Beyond sheer policy priority, it is reflection of a fundamental question of “social choice and individual values”. Kenneth J. Arrow’s (1951) theoretical framework is relevant here. Arrow’s monograph, ‘Social Choice and Individual Values’ (1951, 2nd ed., 1963) and a theorem within it created the modern social choice theory, a rigorous melting of social ethics and voting theory with an economic flavor. Somewhat formally, the “social choice” in the title refers to Arrow’s representation of how social values from the set of individual orderings would be implemented under the constitution. Less formally, each social choice corresponds to the feasible set of laws passed by a “vote” (the set of orderings) under the constitution, even if not every individual voted in favor of all the laws. According to Arrow’s “General Possibility Theorem,” absent restrictions on either individual preferences or neutrality of the constitution to feasible alternatives, there exist no social choice rule that satisfies a set of plausible requirements. The result generalizes the voting paradox, which shows that majority voting may fail to yield a stable outcome.

Unlike in the 1950s and early 1960s when SMEs adorned a central place in the Plan models (eg. Mahalanobis Model), the role of this sector of the economy has now become more incidental. Under India’s reform agenda, the focus today is on growth and competitiveness of MSMEs, and other objectives are subsidiary to this core. In the MSME sector, the growth agenda is reflected through two key steps: (a) measures for enhancing competitiveness; and (b) safety nets, or the so called “inclusive strategies” meant for the so called ‘unorganised sector’.

The thrust on competitiveness in the MSME sector has been addressed through the recommendations of the Manufacturing Competitiveness Council. To help the MSMEs improve their competitiveness, the Government has also launched the NMCP. The schemes under this Programme are aimed

at addressing the technology, marketing and skill up gradation needs of the sector, mainly in the Public-Private Partnership mode. One of the components under this programme is the application of Lean Manufacturing Technologies for increasing competitiveness of firms by systematically identifying and eliminating wastes throughout the entire business cycle. This would tackle the factors inhibiting growth, such as, inefficient use of resources resulting in poor product quality accompanied by hidden high cost due to rejection and rework in the course of manufacturing, building up inventory at the various stages in the form of raw materials, work-in-progress, finished components, finished products, etc. Another component of the NMCP is design intervention through Design Clinic model. The main objective is bringing the SME sector and design expertise on to a common platform and to provide expert advice and solutions on real-time basis, resulting in continuous improvement and value addition for existing products. Other interventions under the NMCP include, assistance for attaining Quality Standards and Certification, improving use of ICT, and enhancing familiarity with IPR compulsions and benefits in the manufacturing sectors.

Several Departments/institutions deal with activities falling within the domain of the MSME sector, and offer a variety of support schemes. However, the benefits accrue largely to a small fraction of units that are registered. The Eleventh Plan Approach Paper advocated a dual strategy to ensure that the unregistered, micro, and small enterprises and units other than cooperatives, are encouraged to get themselves ‘registered’. In fact, the provision of voluntary filing of ‘Enterprise Memoranda’ by micro and small enterprises in the MSME Development Act, 2006, is a step in that direction.

The basic objective of the Twelfth Five Year Plan (2012-17) is “faster and more inclusive, and sustainable growth”. Among the thrusts meant for such an inclusive growth, faster creation of jobs, especially in manufacturing, is a special thrust. The strategy for the industrial sector under the Plan admits that manufacturing performance is weak. The sector should grow at 11-12 per cent per year in order to create two million additional jobs per year. Improvements in the regulatory framework,

reduction of transaction costs, transparency, and thrust on innovation, are important items in the Plan's strategy kit. Productivity enhancement through the cluster mode, and better consultation and coordination in industrial policy making, are key imperatives.

5.2. Labour Market and Policy Interventions

Employment policy is central to economic policy of all modern governments. While labour market interventions help to enhance employability, a much more fundamental purpose is to influence the behavior of the labour market itself, by planning for the human resources. A decision to remain self-employed is a key vocational decision that need to be promoted through policy action. It is this decision which shapes the atomic "bottom of the pyramid" Entrepreneurship Development Programmes have a crucial role to play in this regard. Two Ministries, Ministry of MSME and Ministry of Science and Technology, makes interventions in this area.

While, the labour market issues are similar in both developed and developing countries, the OECD countries have made serious attempts to understand the gravity of the problem through initiatives like Eurobarometer Surveys. These studies examine in detail, the feasibility of self-employment as a policy direction. It has been indicated that, the preference for self-employment by the youth varied between 26 per cent (which is the lowest) in Norway, to 66 per cent in Italy (which was highest). Though India does not collect adequate explanatory data on the labour market, such preference in our country also is quite high, as it is revealed by the responses received for various self-employment programmes.

A policy option of grooming the job creators is a realization of the fact that, the economy, in its present stage of development, is not capable of creating adequate jobs for the additions to the labour force. The Eleventh Plan's target of a faster GDP growth, and the doubling of agricultural growth, on the supply side, is expected to have increased the labour force by about 52 millions during the Plan period. At the 1999-2005 female participation rates, the increase is estimated at 65 millions. Considering a backlog of about 35 million unemployed on a typical day, and

since inclusiveness demands an agri-non-agri shift, the Plan envisages atleast 65 million additional non-agricultural opportunities. This implied the need for accelerating the rate of non-agricultural employment from the 1995-2005 level of 4.7 per cent to 5.8 per cent. The Plan, however, could not achieve this.

While the Eleventh Plan was expected to boost, in particular, labour-intensive manufacturing sectors such as food processing, leather products, footwear and textiles, and service sectors such as, tourism and construction, the significant productivity differences between agricultural and non-agricultural sectors still remain a problem. Labour productivity in the organized sector is seven times that of unorganized non-agriculture. On the other hand, this sector, with its work force being 60 per cent higher now than in 1993, has absorbed over 60 million new workers, mostly after 1990s. The Plan was optimistic to achieve the 65 million target, taking advantage of the higher rural demand from a more rapidly growing agriculture.

The kingpin of the Eleventh Plan's strategy for the unorganized sector was to make it expand. Organised sector employment was expected to more than double, both at a much lesser investment cost and disruption of existing employment, if just 2 per cent of the unorganized enterprises crossed the threshold to the organized sector.

The employment generation schema for unorganized sector in the Eleventh Plan was envisaged as follows: 1) Additional non-farm unorganized sector employment opportunities for a work force of 50 millions ; 2) Most of this employment has to come from the micro and small enterprises sector; 3) additional, a 10 million surplus workforce was expected to move from agriculture to the non-agricultural informal sector.

The new income opportunities in any economy can take two forms: (a) entrepreneurship, or (b) wage labour. While there are no studies available for estimating the first-generation entrepreneurship effect, the Eleventh Plan assumed that, technical training is a critical factor; hence the focus on skill training. Out of a total of 60 million persons, not more than 25 per cent i.e 15 millions can be expected to become entrepreneurs during the

Eleventh Five Year Plan. This meant for 45 million persons, opportunities will have to be created in the form of wage employment. These could be through the micro-small-medium and large enterprises, retail trade, construction activities in the tourism sector or through the NREGP. Taking an average employment of two persons in unorganized enterprises, 15 million new enterprises were expected to create an employment opportunities for an additional 15 million workforce.

With an annual growth rate of 4.8 per cent for non-farm informal enterprises on a base of 41.54 millions, the number of such enterprises by March 2005 as given by the Economic Census was estimated at 45.62 million in 2006-07; this was anticipated to go up to 57.68 millions by 2012. According to NCEUS, same rate of growth is applied for the NSS 55th round data of 44.11 millions (1999- 2000), the figure would be 58.40 millions in 2006-07, and 77 millions by the end of Eleventh Plan. At the 4 per cent growth rate estimated by DC(MSME), the number of such enterprises could be 58.40 millions in 2006-07, and upto 70 million by the end of Eleventh Plan. For the 50million workers to be absorbed additionally in the unorganizednon-agriculture sector, the Eleventh Plan has envisaged focus on labour-intensive manufacturing sectors such as food processing, leather products, footwear and textiles, and service sectors such as tourism and construction. The service sector also includes industry-related services, business and trade (retail trade) transport services, etc. Assuming that not more than 20 per cent of the surplus labour turn out to be entrepreneurs, approximately 10 millions were expected to join the entrepreneurial stream. They, in turn, were to provide employment opportunity for another 10 million people (employment of 2 persons per unit) and the remaining 30 million had to be absorbed in wage employment, like the NREGP.

It is estimated that about 10 million people engaged in agriculture are surplus. Their marginal productivity is zero. Gainful employment opportunities will have to be found for them outside cultivation i.e. in non-farm enterprises either as entrepreneur or workers i.e. either through self-employment or employment outside. Assuming again 20 per cent of these are assisted in setting up enterprises in

the non-farm sector during Eleventh Plan, about 2 million additional enterprises were anticipated to be set up by those persons. Assuming the per unit employment at 2 persons (as per Third Census of SSD), the number of enterprises which exist or needed to be set up as per the then estimate (Base 2005) was be 24 millions, as against the then existing stock of 58 millions.

5.2.1. Need for a Self employment Policy

Self employment, as a policy, is fashionable in the modern world. It appears in different forms in different countries. It is also difficult to draw a scientific line between providing income opportunities of a sustainable nature, and the political agenda of self employment promotion. In many countries, 'zero interest' loans have been offered to socially vulnerable groups. In some states of India, of late, this has become fashionable. While lack of self employment opportunities may seriously aggravate the pains of slow down in the economy, there is no guarantee that self employment will scientifically address the problem. Given these imperatives, it is necessary to have a self employment policy in India. In fact, this policy need to be dovetailed with a labour market policy.

5.2.2. Employability Question

While the 'demand and supply' discussion on employment is usual, employability, of late, has emerged as a key issue. Unemployability appears to be a wider problem than unemployment itself. It states that, skill deficit could be more dangerous than infrastructure deficit as it amplifies inequality." Unless there is a radical overhaul in the education and training system, this issue cannot be solved,"

The skill deficit repairing costs in India has been estimated at Rs.4.90-lakh crores over two years. The current budget covers only 25 per cent of this. The study points out that , 53 per cent of employed youth suffer some degree of skill deprivation but only 8 per cent are typically unemployed; 57 per cent suffer from some degree of unemployability This situation perpetuates inequality of opportunity. Repairing this needs money, but money not accompanied by structural changes, will be ineffective.

The poor HRD regime has been attributed to the demand-supply mismatch with 90 per cent of the employment opportunities requiring vocational skills. Almost 40 per cent of the working youth in the 15-70 age group were found to be illiterate and only 7 per cent in the 15-29 age bracket were found to have received some form of vocational training or technical education. According to some estimates, by spending just 10 per cent of GDP (Rs. 4,90,00 crores) on skill repair, the country would be able to generate extra income of 61 per cent of GDP (Rs. 17,51,487 crore) for the current unemployable youth.

While the 'employability' problem is a much general a phenomenon in a growing economy, it has serious implications for the prospects of MSMEs. As a growing economy the recent tendency in India is towards polarization of development, which also implies much greater migration towards the pockets of development. The enhanced opportunities and greater communication facilities contribute to greater attrition. The impact of attrition can be brought down only through a greater skilling process. This happens only at a much lower rate among SMEs due to: 1) poor capacity of these units to spend on training; and 2) limited incentive on the part of labour to go for such training.

Energising the labour force and making it aware of the constraints and opportunities of the MSME sector, are vital for insuring industrial peace and for enhancing productivity.

5.3. Regulatory Framework

Putting in place, a regulatory framework for the MSME sector, implies, providing the conditions for the orderly development of that sector. Historically, in India, one can find both a proactive and reactive stream of regulation. The IDRA Act (1951) forms the backbone of the regulatory framework applicable to MSMEs in the country. While the Act specifies a specific space for the MSME sector, other legislations relating to labour and taxation are common to SMEs and the large sector.

The policy of product reservation of items for exclusive manufacture in the small-scale sector was initiated in 1967 with 47 items. This policy provided

protection to small-scale units against large/medium scale undertakings, including multinationals, who are not allowed to manufacture these items except under 50 per cent export obligation.

The Government has taken major policy measures since the early 1990's for making Indian industry, including its crucial small scale sector, competitive to unleash its growth potential. One of the crucial measures has been the gradual, removal of restriction in the form of reservation of items to be exclusively produced in the small scale sector. This policy has been undertaken essentially to: 1) increase the competitiveness of industry; 2) facilitate adequate flow of credit; 3) upgrade technology so that the product produced are of world class and competitive in the global market; 4) enable Indian industry to compete with imports; and 5) achieve economies of scale; and 6) promote creation of job opportunities.

The pace for de-reservation of items has accelerated since 2005. In order to provide statutory backing to product reservation, the IDR Act was amended in March 1984, empowering the Government to reserve items. This necessitated the constitution of an official Advisory Committee on Reservations, with the Secretary (SSI) as its Chairman. On the recommendations of this Committee, the Government of India, following several previous notifications, reserved 125 more items on March 13, 2007, leaving only 114 for exclusive manufacture in the MSE sector.

The major strategy to address unemployment in India is through self-employment programmes. While PMRY is a major programme addressed to educated unemployed, the REGP is meant to achieve the same results in the specific context of the rural areas. They have, of late, been merged. For specialised category of unemployed people, such as artisans and craftsman, special programmes have been designed by the Office of the Development Commissioner (Handlooms). Poverty reduction projects implemented through the Ministry of Rural Development and the Ministry of Urban Development are essentially self employment programmes, though they are implemented either on a collective basis or individual basis.

6.0. Some Gaps in National Policy: Ensuring Competition

A characteristic feature of MSMEs is their relative weaknesses relating to competition with large businesses. Therefore, all progressive governments today initiate steps in order to provide them some protective environment. In the era of globalization, where a level -playing ground is generally assumed in all economic activities, the possibilities of discriminatory practices in policy are also limited. While MSMEs are a subject of social priority, and their role in the economy being appreciated, the only possible way of accommodating the MSME concerns is by providing a specific policy space for these enterprises.

In India, the MRTP Act of 1969, specified restrictive practices as they applied to the corporate sector. The Act was replaced by a Competition Act in the year 2002, to which the President accorded assent in January, 2003. The Act has essentially four components: Anti - Competition Agreements; Abuse of Dominance; Combinations Regulation; Competition Advocacy.

The Competition Act provides, keeping in view of the economic development of the country, for the establishment of a Commission to prevent practices having adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers and to ensure freedom of trade carried on by other participants in markets in India, and for matters connected therewith or incidental thereto. The Act was subsequently amended by the Competition (Amendment) Act, 2007. In accordance with the provisions of the

Amendment Act, the Competition Commission of India (CCI) and the Competition Appellate Tribunal have been established. The CCI is now fully functional with a chairperson and six members. The provisions of the Competition Act relating to anti-competitive agreements and abuse of dominant position were notified on May 20, 2009.

To achieve its objectives, the Competition Commission of India endeavors to: 1) make the markets work for the benefit and welfare of consumers; 2) ensure fair and healthy competition in economic activities in the country for faster and inclusive growth ; 3) implement competition policies with an aim to effectuate the most efficient utilization of economic resources; 4) develop and nurture effective relations and interactions with sectoral regulators to ensure smooth alignment of sectoral regulatory laws in tandem with the competition law; and 5) effectively carry out competition advocacy and spread the information on benefits of competition among all stakeholders to establish and nurture competition culture in Indian economy. The Competition Act, however, does not make any mention regarding the MSME sector, and the specific issues in its context.

Much before the above legislation in India, many other countries have identified a space for MSMEs in their competition policy. For instance, the Government of Indonesia has created a policy direction in which, the SME role has been specified as follows:

“Supporting cooperatives and Small and Medium Enterprises by giving facilities selectively especially in protection of unfair competition, giving education

Box. 3

How to Have a Level Playing Field?

The liberalisation policy in India has often been rationalised in terms of creation of a level playing field for the MSMEs. It is often argued to have enhanced the competitiveness of MSMEs. While the evidences available from various sectors and sub-sectors indicate that entrepreneurs today are more aware of the challenges, an objective environment of competition is yet to take shape in the country. It can happen only through an appropriate Competition Policy for the MSMEs. Countries like South Africa, Indonesia and South Korea have already moved forward in this direction.

Source: India Micro, Small and Medium Enterprises Report 2012

and training, business and technology information, capital and location, and creating conducive business climate and providing business great opportunities”.

The above statement is reflected in Law Concerning Small Businesses (Law No: 9/ 1995) and Article 50, of Indonesia’s Competition Law, which exempts small-scale enterprises from the provisions of the Competition Law. Accordingly, article 6 (b) specifies a climate related to a competitive aspect and stipulates law and regulation to:

- (1) increase cooperation among small enterprises in the form of cooperatives, associations, and business groups to strengthen their bargaining position;
- (2) prevent formation of a market structure that create unfair competition environment, such as monopoly, oligopoly and monopsony that will cause disadvantage to small business; and
- (3) to prevent a market monopoly and business centralization by certain groups that are detrimental to small enterprises.

The South African Competition Act 89 of 1998, which became operative in 1999, reflects the Government’s aim to incorporate particular public interest policies that reflect the changing socio/economic and political context within which the Act was promulgated. One of the Act’s explicit purposes is to “ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy”. Such policy considerations are embodied in certain provisions of the Act, which is interesting from the perspective of a developing country with a fledgling competition regime. Nearly five years on, it is useful to examine how the Act has fared.

The Act lists a plurality of goals, including: (a) to promote the efficiency, adaptability and development of the economy; (b) to provide consumers with competitive prices and product choices; (c) to promote employment and advance the social and economic welfare of South Africans; (d) to expand opportunities for South African participation in world markets and recognize the role of foreign competition in the Republic. Primarily therefore, the Competition Act seeks to maximise consumer

welfare by efficiently allocating resources, whilst furthermore incorporating amongst its goals the furthering of certain socioeconomic objectives. (Whish,2001). Two additional purposes of the Act, state specifically: (e) “to ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy; and (f) to promote a greater spread of ownership, in particular, to increase the ownership stakes of historically disadvantaged persons.”

Under the Law, all mergers, above a defined threshold, must be notified to the Competition authorities. The thresholds for parties to notify mergers, set by the Minister of Trade and Industry, are determined by the total assets or turnover of merging parties.

6.1.The Current Status of National Policy

A stock taking of the current status of MSME policy and programmes at the national level is crucial from the point of view of understanding, where they lead us to. Moreover, being a State subject, it is crucial that the national policies get shaped and perfected out of regional experience and lessons, than the other way round. Being the pioneer of MSME development strategies in the country, Gujarat has several learnings to offer to the rest of India and at the national level.

As at the beginning of 2013, the thrust of the national policy is as follows:

1. Cluster focus and focus on collective efficiency strategies;
2. There is a significant realization, though rather late, of the limitations of the post 1990s programme of industrialization, and the slowdown in manufacturing.
3. The National Manufacturing Competitiveness Programme (NMCP) has a thrust on manufacturing, but there has not been a significant thrust on MSME manufacturing.
4. Preferential purchase of products from the MSME sector has been highlighted more recently; however this needs to be geared up.
5. There has been a significant focus on micro

sector of enterprises over the past one decade. But this thrust has not got crystallized into initiatives that help to gear up the capabilities of this sub sector. The focus remains largely on finance.

6. IPR remains a core area of policy attention at the national and sub-national level in countries like China. In fact, even with the initiatives under NMCP, concrete initiatives are yet to come up.
7. External orientation of MSMEs, despite their significant contribution on the export front, has not gained adequate policy attention. It is possible to gear up initiatives in this area.
8. Banks in the country are yet to establish a strong business case with the MSME market. Beyond routine initiatives of business promotion, initiatives relating to product development need to be geared up.
9. There has not been a serious effort to step up financial inclusion specific to the MSME Sector. The numbers of MSME accounts still remain stagnant, though there has been a significant policy thrust on financial inclusion.
10. MSME visibility in the policy space still remains a badly neglected area. Two vital missing links are, communication and advocacy. It is in this context that the role of India MSME Communication Programme needs to be understood.
11. There is much gap between the cup and lip: Development orientation of the 1970s and banking of the new century stand apart. Development banking is practically dead. Bridging this gap is a challenge, both from the point of view of directing development, as also for finding new market opportunities for financial institutions.

7.0. Promotion and Development

Promotion and development is another crucial area being pursued by all modern governments. It implicitly means direct action for orderly development of the sector. Programmes meant

for promotion and development have been of two categories: (a) Direct programme of the Ministry of MSME; and (2) those implemented through the Office of the DC(MSME). Besides, there are also a few programmes implemented through the National Science and Technology Entrepreneurship Development Board (NSTEDB) under the Ministry of Science and Technology, SGSY, implemented through the Ministry of Rural Development, Handloom programmes implemented through the Ministry of Textiles, and the Programme-USEP, being implemented by the Ministry of Urban Development.

Both the Central and State governments have their programmes for MSME development. However, the centrally sponsored programmes are the dominant ones in most states. Industrial Cluster Development Programme has been reported to be the largest centrally sponsored programme in the Country.

Another remarkable feature has been the significantly low share of investment in MSME sector in the Budget of most states. Besides, as an analysis of state budgets show, only 5 states, viz, Gujarat, Haryana, Maharashtra, Punjab and Rajasthan, spend less than 40 per cent of their budget on VSI sector; all others are heavily dependent as the MSME sector. This, alternatively, indicates that public policy at the State level has a crucial role in shaping the MSME sector regionally.

A case for SMEs is often argued in terms of two key objectives (1) employment; and (2) balanced regional development. However, in a globalized environment, these objectives are more indirect than direct. Therefore, a review of these background factors is vital for drawing a progress chart of MSMEs in the country. Besides, progress is also measured in terms of one's own perceptions. Growth indicators (exports, production, employment etc.) have generally been used as indicators of performance. However, the structural changes in the economy are more crucial to be reckoned and examined.

8.0. Gujarat's Track Record of MSMEs

While it is important to examine the track record of Gujarat in relation to public programmes and policies, there is not much secondary data that

is appropriate to the context. Though the figures emerging from the Fourth MSME Census has now become rather dated, it gives some indication on where Gujarat is placed in a comparative setting.

8.1. Outward Orientation

External orientation of firms has been a major focus of industrialization strategy in Gujarat. There is no comprehensive data base on MSME exports. GIDC has provided some data on MSME exports, which indeed is useful for the present discussion.

Based on the level of technology, industries for this discussion can be divided into the following categories: **Category I:** Of higher level of technology, this includes, chemicals, pharmaceuticals, electrical equipments, machinery & equipment and transport equipment; **Category II:** This is a Medium Technology category, including, basic metals, coke & petroleum products, rubber & plastics and other non metallic mineral products; **Category III:** This belongs to a lower level of technology, including food products, beverages & tobacco, leather, textiles, publishing & printing pulp & paper and other manufactured items.

In most of the MSME sub sectors (excepting for foods products , other manufacturing, publishing & printing and textiles & textile products) the proportion of exporting firms has risen between 1990s and the following decade; the rise has been above 10 percent in sectors such as, petrochemicals, leather & leather products, pulp & paper products and transport equipment. In value terms, there has been over seven fold increase in the listed industries. This, to large extent, can be attributed to the remarkable growth in coke & petroleum products, drugs and pharmaceuticals, food products, machinery & equipment and the other non metallic mineral products. Export intensities estimated for the State 's industries show that similar set of industry groups have improved during 2000-08 as against 1990-99 . Coke & petroleum products, basic metal products , chemicals and chemical products, drugs & pharmaceuticals and other manufacturing have been prominent sectors where export intensities have gone up significantly.

The relative position of export performance shows that, mainly the large and medium enterprises

have improved their position of exports; SMEs need to improve their position. However, as one looks into the value of exports during the same period, it is clear that while, essentially, the large firms have performed better, large number of such industry groups came under the medium- tech or low-tech sectors and often engaged in manufacture of intermediate goods. Hence, the emphasis on external orientation has not seemingly encouraged a move towards high-tech manufacturing, excepting mainly for the pharmaceuticals.

9.0. MSME Programmes and Schemes in Gujarat

The objective of the MSME programmes, as laid down at the national level, are: (1) to provide for facilitating the promotion ; and (2) development and enhancing the competitiveness of micro, small and medium enterprises. The public programmes of MSME promotion in India, as already noted, should be viewed in the light of the overall regulatory regime in the country. On lines of the above objectives, there are two broad approaches under the promotional regime: (a) individual efficiency approach; and (b) collective efficiency approach. In addition to this, there are also some general programmes which are not clearly focused on any specific efficiency criteria.

9.1. Collective Efficiency Programmes

Unlike in an individual efficiency approach, this approach focuses on the commonalities of firms operating in a locality (cluster). The total efficiency of these firms, as a group, are enhanced through hard and soft interventions. Both at the stage of production and marketing, these interventions provide economic gains to the group, through initiatives such as common procurement of raw materials and collective marketing. Soft interventions such as common negotiations on price of the finished product and raw materials also help.

A cluster is generally identified by the product (or product range) and the place where it is located. The presently adopted approach for Cluster Development consists of drawing lessons from the experience of successful clusters, and then replicating them through building up of local capabilities with

Table 4.2. Vital Statistics on MSMEs in Gujarat (2006-07)

Sr. No	Item		Unit	Value
1	Coverage :			
	i) Number of Registered Units	Rural	No.	57851
		Urban	No.	229577
		Combined	No.	287428
	ii) Number of Surveyed Units	Rural	No.	46797
		Urban	No.	182941
		Combined	No.	229738
	iii) Number of Closed Units	Rural	No.	7455
		Urban	No.	27490
		Combined	No.	34945
	iv) Number of Not Found Units	Rural	No.	3599
		Urban	No.	19146
		Combined	No.	22745
2	Employment :			
	i) Male		No.	1191213
	ii) Female		No.	98816
	iii) Persons		No.	1290029
		Rural	No.	248379
		Urban	No.	1041650
		Combined	No.	1290029
3	Employment by Social Group :			
	i) SC		No.	144483
	ii) ST		No.	213113
	iii) OBC		No.	385719
	iv) Others		No.	546714
	v) All		No.	1290029

Source: Department of Industries and Mines, Gist of Report on MSME Census, Gujarat (2006-07)

the active participation of various Cluster Actors such as small-scale industrial units, SME Associations, BDS providers, policy makers etc.

Micro and Small Enterprises -Cluster Development Programme (MSE-CDP)' is being implemented for holistic and integrated development of micro and small enterprises in clusters through Soft Interventions (such as diagnostic study, capacity building, market development, export promotion, skill development, technology upgradation, organizing workshops,

seminars, training, study visits, exposure visits, etc.), Hard interventions (setting up of Common Facility Centers) and Infrastructure Upgradation (create/upgrade infrastructural facilities in the new/existing industrial areas/ clusters of MSEs).

Assistance is provided for the following activities under the scheme-

- (i) Preparation of Diagnostic Study Report with Government of India (GoI) grant of maximum

- Rs 2.50 lakh.
- (ii) Soft Interventions with GoI grant of 75% of the sanctioned amount of the maximum project cost of Rs 25.00 lakh per cluster. For NE & Hill States, Clusters with more than 50% (a) micro/ village (b) women owned (c) SC/ST units, the GoI grant will be 90%.
 - (iii) Detailed Project Report (DPR) with GoI grant of maximum Rs 5.00 lakh for preparation of a technical feasibility and financial viability project report.
 - (iv) Hard Interventions in the form of tangible assets like Common Facility Centre having machinery and equipment for critical processes, research and development, testing, etc. with GoI grant upto 70% of the cost of project of maximum Rs 15.00 crore. For NE & Hill States, Clusters with more than 50% (a) micro/ village (b) women owned (c) SC/ST units, the grant will be 90%.
 - (v) Infrastructure Development with GoI grant of upto 60% of the cost of project of Rs 10.00 crore, excluding cost of land. GoI grant will be 80% for projects in NE & Hill States, industrial areas/ estates with more than 50% (a) micro (b) women owned (c) SC/ST units.
 - (vi) The GoI assistance shall also be available to Associations of Women Entrepreneurs for establishing exhibition centres at central places for display and sale of products of women owned micro and small enterprises @ 40% of the project cost.

Gujarat's specific collective efficiency oriented programmes are as follows:

9.1.1. Cluster Development Programme

In Gujarat, there are over 60 geographical clusters covering 30 different types of industries. Some of the important industrial clusters are: (1) Jamnagar Brasparts; (2) Nandesari Chemicals; (3) Surat Diamonds, textiles; (4) Morbi Flooring tiles, wall clocks; (5) Rajkot Machine tools, diesel engines; (6) Unja Mehsana Isabgul; (7) Ahmedabad Readymade garments; (8) Amreli/Junagad Oil; (9) Vallabh Vidyanagar Oil paints; (10) Patan Patola saree; (11) Bhavnagar Salt/ salt based

activities; (12) Jetpur Textile processing; (13) Vapi/ Ankleshwar Chemicals; (14) Valsad Tur dal; and (15) Makarpura Engineering industry

The approach of cluster-based development has helped in improving cost competitiveness of the industries by way of creating common facilities, developing market centres and brand names and promotion of skills. Taking into consideration the role of cluster in generating productive employment opportunities throughout the year as also towards preserving traditional products of the country, it is necessary for all the agencies to make co-ordinated efforts towards the development of clusters.

Traditionally speaking, the handicraft scenario in Gujarat consists of textile based items viz., Artistic Weaving, Patola Sarees, Hand Block Printing on Mulmul, various embroideries on cushion covers, wall hangings, bed sheets, etc. From the field of Non-Textile items, it is Wood Carving, Artistic Puppets making, Pataras, Brass and White Metal Inlay Items, Marquetry Boxes, etc. The 'Ajrakh' resist printing of Anjar and Dhamadka in Kutch are well known. The dominant motif is of the Mother Goddess in her many forms and aspects.

The major handicraft products in the State are Anjar Print, Batic Print, Bandhmi (Tie and Dye), Woolen Hamda, Embroidery, Bead Work, leather tanning, terracotta clay work, pearl work, silver work, wood carving, soft toys, metal work, jewellery etc. The important handicraft clusters in the State are: (1) Dangs Bamboo work Mundra, Kutch Terracota; (2) Idar, Sabarkantha Wooden Toys Nirona, Kutch Lacquer work; (3) Jamnagar: Bandhini work Sankheda, Vadodra Lacquer work; (4) Jasdan, Rajkot: Oxidised Metal work Than, Surendranagar Terracotta; (5) Sabarkantha; and Terracotta Khavada; and 6) Kutch Banni/leather; Embroidery

9.1.2. Gujarat Industrial Policy 2009

Gujarat Industrial policy 2009 seeks to create adequate provisions which aim at upgrading and improving the status of infrastructure in the State. The Policy is an integrated one wherein there is a mix of Centrally sponsored schemes, as well as specific add-on components by the State government. Thus, in order to achieve the goals

Table: 4.3. Basic Economic Variables on MSMEs in Gujarat (2006-07)

Sr. No	Item	Unit	Value
1	Ownership of Units by Sex :		
	i) Male	No.	206109
	ii) Female	No.	23629
	iii) Persons	No.	229738
2	Organization Types :		
	i) Proprietary	No.	191571
	ii) Partnership	No.	7105
	iii) Private Ltd.	No.	8232
	iv) Others	No.	22830
	v) Total	No.	229738
3	Market Value of Fixed Assets :		
	i) Value	Rs. Crore	22084
	ii) Per Unit	Rs. Lakh	9.61
4	Original Value of Plant & Machinery :		
	i) Value	Rs. Crore	16293
	ii) Per Unit	Rs. Lakh	7.09
5	Gross Output :		
	i) Value	Rs. Crore	31240
	ii) Per Unit	Rs. Lakh	13.6
6	Total Input :		
	i) Value	Rs. Crore	16463
	ii) Per Unit	Rs. Lakh	7.16
7	Gross Value Added :		
	i) Value	Rs. Crore	14777
	ii) Per Unit	Rs. Lakh	6.43
8	Net Worth :		
	i) Value	Rs. Crore	18895
	ii) Per Unit	Rs. Lakh	8.22

Source: Department of Industries and Mines, Gist of Report on MSME Census, Gujarat(2006-07)

of the Policy, the Government has announced various schemes such as empowerment of clusters, assistance for quality upgradation, subsidy for R&D activities, interest subsidy to SMEs, organizing of annual Global Investors' Meet etc.

9.1.3.Mission Mangalam

Mission Mangalam, launched on the occasion of the State's Golden Jubilee celebrations in 2010, is basically an integrated poverty alleviation approach

in a demand-driven convergence mode. It aims to channelise the critical mass of resources and mitigate poverty by creating a single platform for stakeholders. The idea is to integrate Sakhi Mandals (self-help groups) into the corporate value chain, thereby generating a win-win proposition for all the stakeholders. In the next three to five years, under Mission Mangalam, the State aims to create livelihoods for about a million people, in the rural sectors, through self-employment.

Table 4.4.: Productwise Distribution of Exporting MSMEs

Product Category	1990-99	2000-08
Basic metal & metal products	41.89	61.82
Chemical & chemical products	60.20	63.70
Coke & petroleum products	58.10	82.17
Diversified	80.56	91.67
Drugs & pharmaceuticals	68.00	77.37
Electrical & optical Equipment	52.26	58.42
Food products, beverages & tobacco	54.77	49.85
Leather & leather products	66.67	88.89
Machinery & equipment	65.60	69.44
Other manufacturing	80.99	73.16
Other non metallic mineral products	65.00	72.17
Publishing & printing	54.81	52.92
Pulp & paper products	17.16	33.51
Rubber & plastics	47.18	51.64
Textile & textile products	59.68	58.86
Transport equipment	59.45	74.13
Wood & wood products		
State's share	57.26	62.29

Source: GIDC(2011)

The aspect of mobilization of the poor people is ensured through Sakhi Mandals or Producer Groups (PGs) or Service Groups; the convergence of developmental activities are taken care of by the Gujarat Livelihoods Promotion Company (GLPC), a PPP (Public-Private-Partnership) company registered under the Companies Act 1956. The GLPC works in tandem with the network of Sakhi Mandals or Self Help Groups (SHGs) and collaborates with large industries. So, strategic partnerships with banks, professional institutions, skill-development agencies, industry associations, etc provide finance, skills and market information to SHGs.

Mission Mangalam has around 2,38,937 operational Sakhi Mandals as on date, covering more than 29 lakh rural households. The bank savings of these

Sakhi Mandals have reached the mark of Rs. 400 crores. Banks have extended credit support to the tune of Rs. 1100 crores. Thus, an overall capital support of Rs. 1500 crores has been made available to the Sakhi Mandals through Mission Mangalam. This has empowered the Sakhi Mandals to undertake economic activities in the form of micro-enterprises, as the average fund availability has increased now to Rs. 62,500 per Sakhi Mandal as compared to just Rs. 18,000 prior to the launch of Mission Mangalam. Around 58,000 Sakhi Mandals have been graduated to meaningful micro-enterprise activities providing livelihood to more than 6 lakh rural households. The remaining are at various stages of social mobilisation activities, trainings and backward-forward market linkages.

Table 4.5: Export Performance of Gujarat (in Rs. millions)

Product Categories	1990-99	2000-08
Basic metal & metal products	1109.29	8413.35
Chemical & chemical products	2417.65	8498.7
Coke & petroleum products	1248.15	45058.72
Diversified	12.41	26.60
Drugs & pharmaceuticals	668.15	2876.87
Electrical & optical Equipment	213.26	748.15
Food products, beverages & tobacco	512.78	1691.13
Leather & leather products	0.25	0.47
Machinery & equipment	380.05	1130.47
Other manufacturing	1699.07	6552.71
Other non metallic mineral products	665.51	1647.81
Publishing & printing	7.23	52.39
Pulp & paper products	14.79	97.04
Rubber & plastics	187.27	653.68
Textile & textile products	1817.65	3922.84
Transport equipment	93.89	505.81
Wood & wood products	11047.47	81876.8
State's share	11047.47	81876.8

Source: GIDC(2011)

9.1.3. Jyotigram Scheme

Gujarat's pioneering Jyotigram scheme envisages ensuring 24x7 domestic electricity to all villages. It has contributed significantly to the growth of existing and new enterprises, generating new livelihoods and jobs. The Project seeks to enhance the daily output of such enterprises, creation of local employment opportunities, and reduction in working capital requirements. While erratic power supply is a major constraint for SMEs in most parts of the country, and even in electricity surplus states like Andhra Pradesh, Gujarat has gained the reputation of having gained great goodwill on this account through scientific management systems.

9.1.4. MSMED Act 2006

The State Government had revised SSI Act as MSMED Act 2006 (Micro Small and Medium Enterprises Dev.) with effect from October 2, 2006. According to official figures, during October 2006 to 31 October 2011, as many as 103591 micro, small and medium enterprises have been registered with an investment of ` 42255.54 crores. and employment generation of 12 lakh jobs.

9.1.5. Special Economic Zones

As per Board of Approval (BOA) in MOCI, Government of India has accorded approvals to 60 SEZs in Gujarat as at the end of September 2009. The total proposed investment by the SEZ Developers would be around Rs. 2,67,374 crores.

Gujarat: Promotional Schemes for the MSME Sector

State level Schemes

1. Shri Vajpayee Bankable Yojana
2. Jyoti gramodyog Vikas Yojana (margin money bankable scheme)
3. Manav kalyan Yojana
4. Carpet Industries Programme
5. Village tannery and flaying centre
6. Gramodyog Vikas Kendra
7. Promotion of co-operative sector (package yojana)
8. Cluster development scheme
9. Handlooms schemes
10. Cottage industries training centres
11. Intensive Handloom Development Program

Centrally Sponsored Schemes

1. Prime Minister's Employment Generation Programme (PMEGP)
2. Centrally Sponsored Schemes for Handloom Weavers
3. Mill Gate Price Subsidy
4. Handlooms Weavers Comprehensive Welfare Scheme
1. Mahatma Gandhi Bunkar Bima Yojana (Mgbby)
2. Health Insurance Scheme

9.1.6 Investment Promotion Summit

'Vibrant Gujarat' is a biennial Summit held by the Government of Gujarat. The event is aimed at attracting investments in the State by bringing together domestic as also overseas business leaders, investors, corporations, thought leaders, and policy and opinion makers. The first such Meet was held in 2003, and the fifth in the series was organised in the year 2011.

9.1.7. District Co ordination and Monitoring System

District Industries Centres (DIC) provide all assistance under one roof to the entrepreneurs and also to the prospective entrepreneurs. At district level, there is "District Industrial Executive Committee" with Member of Parliament or Collector as Chairman. This committee meets periodically to discuss and solve the problems of industrialists.

In order to achieve better coordination, a Single Window Industries Follow up Team (SWIFT) has been constituted in all the districts under the chairmanship of the district Collector. Moreover, under the Citizen's Charter, proper guidance and authentic information is given to applicants. Though the Single Window System is a national pattern as envisaged by the MSMED Act 2006, it is practically much less effective in most other States.

9.1.8. Market Development Schemes

The Gujarat State Handloom and Handicrafts Development Corporation markets the products under the brand name of Garvi- Gurjari through its outlets in various cities across the country. The Corporation also organizes promotional exhibitions in big cities every year. During year 2009-10, the corporation has organised 79 exhibitions and 17 Adivasi melas. The Corporation organised training to 980 handicraft and 2025 hadloom workers. training

to 565 handicraft and 845 handloom workers The Corporation provides market information, new designs and colour matchings to artisans and weavers. To extend promotional and financial support for marketing of products of rural artisans/entrepreneurs through various interventions in the handicraft / handloom sector and agro based products in a more focused way and facilitate marketing linkages for the same, grant assistance has been provided . A total of 43 rural marts have been sanctioned so far in 15 districts of the State with a total grant assistance of `27.51 lakh as on 31 September 2011. 3 Rural Haats have been sanctioned in Bharuch, Navsari and Tapi districts with total grant assistance of `14.40 lakhs in 2010-11 bringing the total number of Haats sanctioned in Gujarat to four.

9.1.9. Other Packages

The other packages that are of a collective nature include the following:

- Common Pollution Control and Disposal
- Quality Certification Assistance Scheme
- Critical Infrastructure Scheme
- Industry Park Scheme
- Training Institutions and trainees for training in apparel production
- Welfare activities for Salt workers
- Kutch Package

9.2. Individual Efficiency-oriented Programmes

9.2.1. Rural Entrepreneurship and Skill Development Programme

The focus has been on greater credit flow and provision of linkages for small, cottage and village industries, handicrafts and other rural crafts and service sector in the decentralised sector in the rural areas. Building an entrepreneurial culture among the rural youth had been the first priority, hence with a view to generate employment and income in rural areas, NABARD has embarked upon conducting a large number of REDPs/SDPs in association with NGOs, ITIs, Polytechnics, and RUDSETIs for rural people in various economic activities by EDPs are being organised by various institutions in the State.

9.2.2. Swarozgar Credit Card Scheme

The Scheme was introduced by in 2003 for facilitating hassle- free availability of credit for meeting investment and working capital requirements of small borrowers/ micro- entrepreneurs. Total number of SCCs issued by the CBs, DCCBs and RRBs were 8585, 9774 and 14088 respectively upto 31 March 2011.

9.2.3. Other Schemes

The other individual efficiency-oriented programmes are the following:

Interest subsidy Scheme

- Research and Development
- Assistance for Technology Upgradation
- Environment Protection

10.0. The Global Crisis and Public Policy

The need for a legal framework for the MSME sector has been increasingly admired by all progressive governments today. Governments in many countries have already initiated separate exclusive legal framework for the sector. The latest in the series of countries is, the MENA countries that are more recent entrants in their SME thrust in development policy. Besides, the European Union has initiated a Small Business Act for the whole of EU, in addition to the legislations by the constituent countries in the past.

What is the relevance of such a separate Law, especially in a context of the current global crisis? More than being a fashion, there are some key questions that need to be addressed:

- (1) The legal framework need to be responsive to the stage of development of the country and of the MSME sector in specific.
- (2) Such a legal framework need to be catalytic rather than inhibiting.
- (3) An SME Law should be a basic platform for triggering a series of appropriate legislations and conventions for continuous reforms in the area.

New Purchase Preference Policy in China

China's Ministry of Finance (MOF) announced that the nation's government departments will allocate at least 30 per cent of their purchasing quota to SMEs from the start of 2012. Meanwhile, 60 per cent of the allocated quota will be reserved for small and micro-sized businesses, according to a new guideline jointly issued by the MOF and the Ministry of Industry and Information Technology.

The latest policy by the Government came after the State Council (Cabinet) in October 2011. The Government pledges stronger fiscal support for small and micro-sized businesses, which includes raising the tax threshold for levying corporate, value-added taxes and business taxes.

The MOF also announced in May 2012 that the country will scrap the collection of up to 22 items of administrative fees from small and micro-sized companies during the Jan. 1, 2012 - Dec. 31, 2014 period. Such fees include charges for companies' registrations and tax invoice purchases.

The new guideline urges relevant units to step up making plans to buy from SMEs in 2012. It also forbids any institution or any individual from impeding or restricting SMEs' access to the government purchasing market. Furthermore, regarding projects that are not especially oriented to SMEs, the Government purchaser or purchasing agency should first implement a 6-10 per cent cut in product prices as reported by SMEs, and use the reduced pricing for bidding in order to give them advantages.

Source: *news.xinhuanet.com*

- (4) It should be a speedy channel which ensures delivery of justice to the entrepreneurs; the entrepreneurs should, thus, own it. The vital needs of MSMEs, especially in a context of a global economic crisis, are two fold: 1) easing of rigidities in operation; and 2) allowing them to grab casual opportunities instantly. The importance of MSME Act 2006 need to be evaluated against this background.

A new statutory National Board for MSMEs, as against a non-statutory SSI Board, implies that vast powers can be exercised through the democratic process. This demands strengthening of the relevant actors. Industry Associations, as the experience shows, have got weakened than got strengthened in the recent past. Declaration of payments outstanding to MSE suppliers has become mandatory for buyers in their annual statement of accounts. However, the practice of payments getting delayed still continues, though there are isolated court verdicts, such as by the Madras High Court. While such instances offer hope for the MSMEs, it is necessary to have strong advocacy role and platforms that can take such issues forward. Given the track of many of the industry Associations today, there is not much hope

in this regard.

The experience of the two recent initiatives, viz, the LLP Act and the SME Exchange, need close examination. The LLP Act was passed in August 2008, but the message need still to percolate. The SME Exchange after long deliberations, become a reality in March 2012. But much need to be done in order to make it a vibrant platform. In the global crisis of today, Indian MSMEs have several opportunities in waiting. However, in order to tap these opportunities, strengthening the legal system in terms of its content and spirit, is vital. The experience elsewhere in the world may be instructive.

10.1. Legislative Initiatives of Gujarat

While State governments often come out with Policy Statements on the MSME sector, the implementation gets weakened due to procedural problems and opposition by interest groups. Gujarat, however, has come out with legislations that find a special strategic place for MSMEs, rather than confining itself to administrative pronouncements. The Special Investment Region (SIR) Act - 2009 is a good example. The State government has

enacted a legal framework for the SIR, which came into effect from 6th January, 2009. This shows the commitment of the Government to set up world class hubs of economic activity on the lines of fast growing countries of the world. The SIR Act empowers the Government to declare Investment Region or Industrial Area and designate them as Special Investment Region (SIR). The Act, a comprehensive one, provides significant operational space and an environment of investment, which backward area development programmes by most State fail to offer to the MSMEs. The question, however, is implementation. If the advocacy role is effectively happens, this can go a long way to the interests of MSMEs.

11.0. Conclusion

Unlike in other economies of the world, public policy in the industrial sector in India, since Independence, has helped the broad-based development of its several sectors and sub-sectors. MSMEs policy in India, though essentially a State subject, work under the overall guidelines of the Government of India. However, a progressive State like Gujarat has several things to offer to the rest of the country. These success stories demand closer examination from the point of view of replication in other states and at the national level.



Finance and MSMEs

1.0. Key Issues in MSME Finance

Finance is probably the most sensitive area of debates relating to MSMEs sector. There are three key issues that need to be discussed and deliberated in the context of finance for MSMEs.

1. The purpose of MSME finance;
2. The business case for MSME finance; and
3. The mismatch or gap between demand and supply, if any, and the causatives.

Does the flow of financial resources into the MSME sector of Gujarat justify the true needs of such enterprises? What is the nature of Equity and Debt markets that operate with a peculiar slant to the State? The following pages cover a discussion on the general scene of MSME finance as it emerges in the context of the current global economic crisis. On the basis of such an understanding, a review of the present state of MSME finance at the national level and in Gujarat has been made.

2.0. The Purpose of MSME Finance

A discussion on why finance is needed for MSMEs, should start from an understanding of two key concepts: a) business finance source; and b) business finance start-up. A 'business finance source' is the way a business can obtain funding, either for start-up or operating expenses. There are many

different types of sources, including sales, loans, and investors, each having different terms, benefits, and disadvantages. Business owners tend to use two or more different sources in order to fund their business.

Business finance sources fall into two main categories: internal and external funding. Internal funding comes from the profits made by the business by sale of products or assets. External funding comes from lenders and investors. In addition to loan financing, MSMEs can collaborate with venture capital investors. Other forms of financing are: leasing, trade credit, and fiscal incentives in the form of tax breaks. The most common external source of finance is loans. Small and long-term loans require borrowers to repay funds at an interest rate for a set period of time. Overdraft loans allow a borrower to spend a certain amount of money, and the lender charges interest on the overdraft amount. Debentures are loans that let business owners pay off all loaned funds at a specified time at a set interest. Business owners consider a variety of factors, before choosing a method, but cost of business finance source usually is the most vital factor considered. Owners look at the interest rates and payment plans to determine the profitability of obtaining a certain funding source. Businesses that have a history financial stability may want to consider an internal source of revenue before opting for an external source. It's also vital to determine how long the business will need additional funding. A small-

term loan would be best for projects that would only take a small time to complete.

'Business finance start-up' implies the cost to start a new business. It includes determining, calculating, and obtaining start-up costs, as well as managing those finances effectively to ensure the profitability of a new business.

There are two major capital market segments within which SMEs operate; 1) debt; and 2) equity financing. SME finance is the funding of small and medium sized enterprises, and represents a major function of the general business finance market - in which capital for different types of firms are supplied, acquired, and priced. Capital is supplied through the business finance market in the form of bank loans and overdrafts; leasing and hire-purchase arrangements; equity/corporate bond issues; venture capital or private equity; and asset-based finance, such as factoring and invoice discounting.

However, not all business finance is external/commercially supplied through the market. Much of it is internally generated by businesses out of their own earnings and/or supplied informally as trade credit, that is, delays in paying for purchases of goods and services.

Although there have been numerous schemes and programmes in different economic environments, there are a number of distinctive recurring approaches to MSME finance.

Collateral-based lending: offered by traditional banks and finance companies, is usually made up of a combination of asset-based finance, contribution based finance, and factoring based finance, using reliable debtors or contracts.

Information based lending: usually incorporates financial statement lending, credit scoring, and relationship lending.

Viability based financing: especially associated with venture capital.

There are several theories on how MSMEs choose among various forms of finance. The Pecking Order theory claims that the cheapest source of finance is used first. The Static Trade-off Theory states that marginal financing costs drive financing decisions;

as a result additional financing is used from various sources in parallel. The Asset side Theory argues that the use of funds (i.e. a firm's asset side) matters for the optimal source of finance. Bartholdy and Mateus (2008) use data on Portuguese firms to test for the relevance of these three theories and do not find support for the first two theories but some support for the third theory.

In the Indian context, choice of forms of finance by MSMEs is a badly neglected area of research. Indian data generally makes a dichotomous distinction between formal and informal finance, the former often being described as access to bank finance. Disaggregated data would be much helpful in order to have insights into the practice and policy of MSME financing.

3.0. The Business Case

The role and importance of MSMEs in terms of a country's economic growth has traditionally been considered in terms of the employment role. In fact, supporting employment creation is often a concern of the government, rather than of other SMEs stakeholders. Faced with increasing competition in their traditional businesses, banks have started increasingly looking into the largely untapped MSME segments. However, their high transaction costs, and undefined risk management strategies often remain as obstacles despite demonstrating successful business models of SME banking through various case studies. According to a sample study by the International Finance Corporation, entitled "SME Banking Best Practices", Return On Assets (ROA) of SMEs is higher than the average ROA of the total portfolios of the sample banks. In the Indian context, this business case has already been understood and established by various banks. As such, during the last five years, a number of banks in the country started vigorously pursuing MSMEs in their financial portfolios as a business opportunity.

Cross-country data on MSME finance, however, present some diverging picture also. The case of transitional economies of Europe is distinct. The (forced) strong dominance of internal financing for small firms hampers firm development in these countries. Surprisingly, banking system reform may even have worsened access to finance for SMEs. In

principle, the entry and operations of foreign banks should bring a transfer of knowhow and increase in the efficiency of financial sector of these countries. However, in practice, foreign banks seems to benefit primarily larger firms, with smaller firms being more or less left out. Furthermore, higher concentration in the banking sector is found to improve financing conditions for SMEs. This is in line with the monopolistic-creditor hypothesis (see Petersen and Rajan (1995)), which states that a quasi-monopolistic situation in banking could help banks to establish a mutually beneficial relationship with firms.

The business case involved in MSME finance should also be examined in relation to the absolute and relative cost of credit. This includes both direct costs and transactions costs. While direct costs, ie, interest rates, are policy-driven and therefore relatively fixed, transactions costs vary from context to context. Reducing transactions costs is as well beneficial to banks and the borrowers.

The empirical evidence that financing constraints and access to external finance are inversely correlated with firm size matches theoretical models that use fixed transaction costs and information asymmetries and the resulting agency problems as basis for financial market frictions (see Levine, 2005). Transaction costs and information asymmetries drive the variation in access to finance across firms of different sizes.

Fixed transaction costs in credit assessment, processing and monitoring result in decreasing unit costs as the size of the loan increases. These fixed transaction costs exist at the transaction, client, institution and even financial system level. Assessing an individual loan request entails costs that are at least partially independent of the loan amount. At the level of the financial institution, fixed costs range from brick-and-mortar branch installations over computer system to legal services and are again partly independent of the number of clients or the size of their loans. Fixed costs might even arise on the financial system level in the form of regulatory costs and the costs of payment and settlement systems, which are up to a point independent of the number of transactions, clients and institutions in the system.

These fixed transaction costs drive a wedge between funding costs of financial institutions and the lending rate they charge borrowers. High transaction costs not only increase the cost of borrowing, but can also restrict access to external finance for some borrower groups. While transaction costs are restraining for all borrowers, there are arguments that they are even more constraining for MSMEs. Their diverse characteristics and their relative opaqueness increases assessment and monitoring costs. Unlike other credit categories, such as consumer credit or mortgage lending, SME lending is still considered a high-cost lending product. More specifically, unlike other lending products that can be reduced to simple transactions, SME lending often still depends heavily on relationships between borrowers and lenders (Berger and Udell, 1998, 2006).

While unit cost of lending remain high, SMEs offer offer an attraction of a wider extend of the market. In a large country like India, this opportunity was not well- perceived by the banks until recently. Hence the business case involved in lending to the MSMEs ,in essence,is striking a balance among three parameters: 1) transactions cost; 2) higher risk; and 3) economies of scale.

4.0. MSME Financing: National and State level Scene.

4.1. The National Scene

Credit delivery to small enterprises in India takes place mainly through 27 public sector banks, other commercial banks in the private sector, and foreign banks. The Regional Rural Banks and Local Area Banks supplement the efforts of the scheduled commercial banks. As per the RBI's directive, the financing of all micro and small enterprises, including the tiny units and traditional industrial activities come under the administrative category of "loans to small-scale industries". Under the banking parlance and under guidelines of the RBI, the term "SSI" includes financing of all small, micro and unorganized non-farm enterprises.

The Reserve Bank of India, under the Banking Regulation Act, 1949, has powers to control advances by banking companies: (i) where the Bank

is satisfied that, it is necessary or expedient in the public interest, (ii) in the interests of depositors, (iii) or banking policy so to do. It may determine the policy in relation to advances to be followed by banking companies generally or by any banking company in particular, and when the policy has been so determined, all banking companies or the banking company concerned, as the case may be, shall be bound to follow the policy as so determined". Without prejudice to the generality of the power vested in the RBI under sub-section (1), the Bank may give directions to other banking companies, either generally or in particular, as to: a) the purposes for which advances may or may not be made; b) the margins to be maintained in respect of secured advances; c) the maximum amount of advances; d) the maximum amount up to which guarantees may be given; and e) The rate of interest and other terms and conditions on which advances or financial accommodation may be made or guarantees may be given. Although interest rates have been de-regulated or market-driven, they are related to the Base Rate that each bank would announce in line with the RBI's Monetary Policy that has two underlying considerations: inflation containment and growth enhancement.

The RBI is also governed by the requirement of the monetary policy to fit in within the overall framework of the economic policy of the country, and by the international codes emerging in the form of Basel I and Basel II and III accords. A Standing Advisory Committee on SSI Credit monitors the flow of credit on a quarterly basis. Regular guidelines, issued to the banks for promoting credit to small enterprises. These Guidelines on lending to the priority sector have been revised by the RBI from time to time, and circulars issued. A master circular was issued on July 1, 2008 for ensuring adequate flow of bank credit to weaker segments of the population and to employment-intensive sectors of the economy. The broad categories that are covered under the priority sector include, agriculture (direct and indirect), small enterprises (direct and indirect), retail trade, micro credit, education and housing, subject to certain limits. Accordingly, 40% of the Adjusted Bank Credit (ABC) was earmarked as total priority sector advances. Advances to small enterprises are reckoned in computing performance of banks under

the overall priority sector target. Forty per cent of total advances to small enterprises should go to micro (manufacturing) enterprises.

The latest revision of guidelines was on November 8, 2009. According to the new guidelines, priority sector would now broadly comprise agriculture, small scale industries, small business/service enterprises, micro credit, education loans and housing loans. Under the new guidelines, the priority sector lending targets and sub-targets for all banks would now be linked to adjusted net bank credit (ANBC-Net Bank Credit plus investments made by banks in non-SLR bonds held in HTM category) or credit equivalent of off-balance sheet exposures, whichever is higher, as on March 31 of the previous year. For this purpose, outstanding FCNR (B) and NRNR Deposits balances will no longer be deducted for computation of net bank credit for priority sector lending purposes.

In order to encourage banks to increasingly lend directly to the priority sector borrowers, the banks' deposits placed with NABARD/SIDBI on account of non-achievement of priority sector lending targets would not be eligible for classification as indirect finance to agriculture/ SSI, as the case may be.

Micro credit has been defined as the provision of credit and other financial services and products of very small amounts not exceeding Rs 50,000 per borrower to the poor in rural, semi-urban and urban areas, either directly or through a group mechanism, for enabling them to improve their living standards. Similarly, loans up to Rs 15 lakh for construction of houses by individuals, (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged houses of individuals up to Rs 1 lakh in rural and semi-urban areas and up to Rs 2 lakh in urban areas would come in the housing loan category.

As per the latest guidelines, the total priority sector advances for domestic commercial banks would be 40 per cent of ANBC or credit equivalent of off-balance sheet exposures, whichever is higher while for foreign banks it is 32 per cent. Out of this, 18 per cent would be for total agricultural advances for domestic commercial banks. The advances to SSIs would be included in computing performance

under the overall priority sector target of 40 per cent for domestic commercial banks, while for foreign banks; it would be 10 per cent of ANBC or credit-equivalent amount of off-balance sheet exposures, whichever is higher.

While export credit will not be a part of priority sector for domestic banks, foreign banks have a target of 12 per cent for the sector. Advances to weaker sections and Differential Rate of Interest (DRI) scheme will have the target of 10 per cent and one per cent, respectively for domestic banks. The guidelines also states that, not less than 40 per cent of the total advances granted under DRI scheme go to scheduled caste/scheduled tribes. Further, at least two third of DRI advances should be granted through the rural and semi-urban branches.

MSME financing is, at a time, a subject of business and a crucial item in the agenda of development. Thus, while financial institutions look it from the angle of a business opportunity, constrained by the limits of development policy of the country, the government has to also ensure that the business opportunity embedded in the actions of the financial institutions, are conducive, as seen from the developmental role of MSMEs. It is this conflicting interest that brings in the dimension of regulation of policies and practices in MSME finance.

From the above angle, the problem of MSME finance, in India, has often been discussed in relation to two of its facets: 1) purpose of finance; and 2) adequacy and availability of finance. The primary task of development policy, therefore, is to ensure that, MSMEs as a key sub-sector of the economy gets finance, and that such finance truly reflects the needs of the subsector. It is the vitality and coexistence of these two dimensions that bring in the element of regulation in MSME finance. The word 'regulation' means a principle, rule or law designed to oversee, and govern conduct, in terms of procedure or behavior. For MSME finance, such regulatory policy and practice has evolved in various stages, and different public authorities have played their role from time to time. During the early days of planning in India, the problem of MSME finance was addressed essentially by the government, through direct institutional arms such as, the KVIC and the NSIC. The regulatory role of

the RBI became more pronounced in the 1970s or post-nationalisation period due to assigning certain priorities for employment-intensive sectors such as agriculture, small industries, retail trade etc . By late 1990s, the Planning Commission started emphasizing the role of this sector, and evolved policy guidelines relating to its overall development (eg: S.P. Gupta Committee). The simultaneous roles of the various actors imply that, the issues and concerns of MSME finance has been discussed much more vigorously.

While the access of MSMEs in India to capital markets is very limited, they largely depend on borrowed funds from banks and other financial institutions. While investment credit to SMEs is provided by other financial institutions, commercial banks extend working capital. In the recent past, with growing demand for universal banking services, term loans and working capital are becoming available from the same source. Besides the traditional needs of finance for asset creation and working capital, the changing global environment has generated demand for introduction of new financial and support services by SMEs.

The development policy relating to MSMEs are framed by the Ministry of MSME, which is the apex policy making body within the Government of India for the sector. While the Ministry has the overall administrative control, the Office of the DC (MSME) is its developmental arm. The latter agency provides different services to the MSME sector like testing, tooling, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits etc. It also provides economic information services and advises the Government in policy formulation for the promotion and development of MSMEs. The field offices of DC (MSME) work as links between the Central and the State Governments.

The institutional support system for MSMEs at the national level has two key agencies: SIDBI and NSIC. SIDBI, falling under the administrative purview of the Ministry of Finance, is the principal financing institution with the objective of promotion, financing and development of MSMEs; it coordinates with other institutions having similar objectives. It

operates from about 100 locations involved in direct and indirect lending to micro, small and medium enterprises. Due to its limited reach and ability in providing universal banking products, SIDBI has largely used the refinancing route through state level institutions and banks. The refinancing route for MSME segment is constrained by the financial health of the state level institutions and the liquidity position obtaining in the banking industry. The refinance availed by banks reduces with improved liquidity position in the banking sector and vice versa.

SIDBI also provides, though in a small way, some support in the form of promotional and developmental services. In order to improve the credit flow to the MSME sector, it has tied-up with eight public sector banks in the country. With these tie-ups, it has covered 150 MSME clusters, out of the total of over 400 clusters identified across the country. It has been requesting for an approval for extending all SME related financing under its roof and function more as a Development Bank with universal banking functionalities. With increased branch network, license to operate at least with some of the commercial banking facilities is likely to provide a single window mechanism to meet all SME financing needs. However, it would have to overcome the challenges involved in financing start-up projects, a function that was earlier largely discharged by SFCs, and continue to maintain a healthy recovery and financial position for itself.

NSIC, set up by the Government of India in 1955, has over the years, emerged as a premier institution for SMEs for providing technology and marketing support. Its main functions are - Machinery hire purchase and Equipment leasing scheme for small scale units, Marketing support programmes under consortia marketing through participation in trade fairs, provide a platform for single point registration scheme for marketing, mainly providing access to the other government departments, Development and training activities, Raw Material Assistance, etc.

Although one of the oldest institutions in implementing and executing GOI schemes directed for the SSIs, NSIC's lending schemes have lagged behind over the years. There is a felt need that NSIC should be provided with additional capital, so as to enable it discharges all its functions effectively and

expand its reach.

Traditionally, industrial development policy in India has been significantly space-focused. In fact, 'micro and small enterprise' has been visualized as an arm to meet the policy priority of development of backward areas. While agriculture is the mainstay of the rural areas of the country, supporting the value chain and rural pegging of labour have been visualized as key policy thrusts. Development of agro related economic activities, other than farming (non-farm activities), thus emerged as an important component of the agenda of balanced regional development. NABARD has been mandated for addressing the financing needs involved, especially through the refinancing route. The SME Exchange initiated by the Bombay Stock Exchange, in April 2012 is a new platform meant for capital market operations.

4.2. Gujarat Scene

Gujarat State Financial Corporation (GSFC) is a pioneer term-lending development financial institution in the State of Gujarat. It is created under the State Financial Corporation Act, 1951 passed by Parliament. GSFC's mandate is to provide finance to small and medium scale enterprises. Formed in 1960, GSFC has sanctioned loans and advances of over Rs.4400 crores; out of which, it has disbursed over Rs.3,300 crores to 47,000 units in the State. This has created almost 6,83,000 jobs in Gujarat. The Corporation has played a stellar role in creating new and first time entrepreneurs, has provided much needed finance to small and medium scale enterprises, and has played a significant role in the industrial development and growth of Gujarat.

GVFL Limited (formerly Gujarat Venture Finance Limited) is widely regarded as pioneer of Venture capital in India. It is an independent, autonomous Board managed venture finance company based in Ahmedabad, GVFL ushered in the dawn of venture capital in India. Founded in 1990 at the initiative of World Bank, GVFL has supported ventures working on cutting edge of technology as well as encouraged entrepreneurs with innovative ideas. Over the past two decades GVFL has spawned six Funds which have supported 75 companies. Unique feature of GVFL's approach has been

its broad spectrum support to its funded entities that ranged from strategic direction to governance support. Today the company has divested from 57 out of 75 companies

Though GVFL has carved a niche for itself in start-up companies segment, in various sectors it has currently broadened its base and is making investments into early and growth stage technology based companies across India. The focus is on SME sector companies which have proven track record, established businesses and revenue model, sound management, high expected growth and clear visibility of exit.

5.0. Emerging Issues and Opportunities

Two issues that have been repeatedly discussed in various platforms are: 1) adequacy of credit; and 2) timeliness of credit. An understanding of the scope and depth of these two aspects is important from the point of view of analysis and policy.

5.1. Coverage of MSME Finance

The official definition of the MSME sector is a critical factor that influences the access and availability of credit from the financial system. The coverage of the sector has undergone changes from time to time through notifications by the government. To begin with, the subsector was confined to the so-called "small-scale industries", which was defined in terms of the criterion on investment size, limited to plant and machinery. With the passing of the MSME Act 2006, the coverage got expanded, thereby covering both industrial units and services. According to the latest definition, manufacturing and services are separately dealt with the regulatory guidelines of the RBI relating to MSMEs, as applicable to all financial institutions of the country today, are based on the above official definition.

5.2. The 'Time Factor' and the Financing Gap

The difference between the scientifically estimated and actual credit available for MSMEs from the financial sector is known as the 'financing gap'. A major obstacle in MSME development is its inability to access timely and adequate finance. There are

several reasons for low MSME credit

penetration, key among them being insufficient credit information on MSMEs, low market credibility of MSMEs (despite their intrinsic strengths) and constraints in analysis. This leads to sub-optimal delivery of credit and services to the sector.

5.2.1. Credit Access: International Experience

A number of cross-country studies and country case studies show that SMEs face considerable financing constraints, which hamper their growth in terms of profits and turnover. Asymmetric information between the lender and the borrower of firms may hamper lenders' readiness to provide finance, which, in turn, would hamper the borrowers' growth performance. Coluzzi et al., (2008), use survey information collected from firms by the World Bank to capture an indicator of financing constraints for five euro area countries (Germany, Spain, France, Italy and Portugal). The finding of the study is that, while young and/or small firms, in principle, grow faster than larger and older firms, they also face considerably more severe financing restrictions than other firms. Also, firms of the manufacturing and construction sectors are more likely to feel financing constraints, which may be attributable to the high capital intensity of these sectors. As could be expected, increased sales - which reflect better success of the chosen business model - lessen financing constraints. Regarding the impact of financing constraints on growth, the ISED Small Enterprise Observatory find that more cash flow fosters growth. The probability of financial obstacles (proxied by age, size and other firm features) is, generally, found to affect growth. The effect of higher leverage is ambiguous: it fosters growth in some countries (Spain, France and Italy), while it hampers growth in Germany and Portugal. India has a similar experience that would be dealt with at a different point of inflexion.

This latter aspect of the effect of financing leverage on firms' behaviour is further investigated in Huyghebaert (2008). The author argues that higher leverage creates incentives for an entrepreneur to maximize short-term earnings, in order to reduce the risk of adverse credit decisions by lenders and

Table 5.1: Flow of Credit to Small Enterprises in India (Rs. in Crores)

Year	Gross Bank Credit	Growth over last year(%)	Credit to Small Enterprise sector	Growth over last year(%)	Small Enterprises Credit: Gross Bank Credit(%)
1996-97	301698	18.77	38196	11.53	12.66
1997-98	352696	16.90	45771	19.83	12.98
1998-99	399436	13.25	51679	12.91	12.94
1999-00	475113	18.95	57035	10.36	12.00
2000-01	558766	17.61	60141	5.45	10.76
2001-02	680958	21.87	67107	11.58	9.85
2002-03	778043	14.26	64707	(-)3.58	8.31
2003-04	902026	15.94	71209	10.05	7.89
2004-05	1045954	15.95	83498	17.26	7.98
2005-06	1443920	38.05	101385	21.42	7.02
2006-07	1841978	27.57	116908	15.31	6.34
2007-08	1801240				
2008-09	2202890		204892		9.30
2009-10	2602290		259998		9.99
2010-11					

Source: Reserve Bank of India

a possibly resulting liquidation of the firm. This is because, firm survival is a crucial consideration for entrepreneurs who typically hold a largely undiversified investment portfolio and enjoy sizeable private benefits from control. The positive effect of higher leverage on profitability is empirically confirmed for start-up firms in Belgium. This positive effect of leverage is also found to persist, albeit growing at a declining rate, as firm's age.

Savnac and Sevestre (2008), investigate empirically for a sample of French firms, whether small firms and innovative firms are financially constrained. Their study confirms that such firms indeed face a higher interest rate spread than other firms, which reduces their loan demand. Being innovative has a larger negative impact on loan demand for SMEs

than for large firms. As expected, the availability of tangible assets which can be used as collateral facilitates SMEs' access to bank credit. By contrast, an existing high debt ratio acts as an obstacle to further credit.

A survey among Dutch firms (von Dewall, (2007)), much against the above findings, conclude that, external financing constraints are not experienced by conservative, self-constrained firms, while truly expansionary entrepreneurs (a minority in the Netherlands) are likely to face financing constraints. For such strongly expansionary firms, lack of risk capital and the absence of well-functioning venture capital markets hamper growth. But the bigger problem seems to be a lack of skills at various levels: entrepreneurial skills at the level of the firm, lack of

skills of accountants, and lack of skills at banks in the context of their lending and financing decisions. Banks' moving towards automated expert credit information and evaluation systems might further exacerbate this problem, reinforcing the notion that banks are not the best suited institutions to provide risk capital.

Credit constraints may, among other factors, also contribute to a small firm's motivation to join a larger group, i.e. the holding company form. Using a large data set of French firms, Kremp and Phillippon (2008), identify a major shift in the structure of ownership of SMEs over time. In 2006, more than half of French SMEs belonged to a group (i.e. at least half of their capital belonged to another firm), against 80% in 1997. Over the same period, the number of holding companies tripled. Holding companies now account for one third of non-financial enterprises' outstanding bank debt. Membership in a group can strongly affect a firm's financing behaviour, e.g. in the sense that the holding company borrows from banks for the group as a whole, while the group's member firms turn to the holding company for financing. The strong drive towards membership in firm groups is rooted in several motivations: Group membership alleviates credit constraints faced by individual small firms, facilitates access to foreign markets, or can also be the chosen exit strategy in the event of retirement of the current owner or manager. Joining a group is shown to improve SMEs' growth and survival rates, more so even if they join a foreign group.

Optimal growth conditions for enterprises are particularly important in developing countries. It is all the more worrisome that a cross-country study on firms' financing conditions in transition economies (Volz, 2008) finds that firms in transition economies continue to be seriously financially constrained - a large fraction of firms in these countries still have no bank loans, particularly small firms continue to have problems of access to financing.

The literature on gaps and market failures demonstrate that, irrespective of new financial products in the MSME sector, such gap is prevalent. It exists in the market for commercial loan, no-bank debt financing, mezzanine financing, informal capital, institutional venture capital, and market for IPOs. Suppliers of capital, both lenders and investors, have decried a gap in the form of a shortage of investible opportunities and bankable SMEs.

5.2.2. Comparative Experience in 2012

The comparative experience of various countries indicates a common threat: credit crunch. While the nature and magnitude are different, this problem plagues most countries of the world.

SMEs identify financing, especially medium to long-term finance, as their topmost obstacle to growth and investment. According to the IFC-McKinsey study, close to 45 to 55 per cent of the formal SMEs (11-17 million) in the emerging markets do not have access to formal institutional loans or overdrafts despite a need for one. The finance gap is far bigger when considering the micro and informal enterprises, ie, 65-72 per cent of all MSMEs (240-315 million) in emerging markets lack access to credit. The proportional size of the finance gap varies widely across regions and is particularly daunting in Asia and Africa. Closing the credit gap for formal SMEs will be less challenging than for informal SMEs. Close to 70-76 per cent of the formal SMEs (18-22 million) in emerging markets already have a banking relationship via deposit/checking accounts, while only about 30-35 per cent of SMEs (8-10 million) have access to credit. Hence, the key challenge is to support banks in extending credit facilities to SMEs who have a deposit/checking account, but do not yet have access to credit. Risk-sharing facilities, coupled with the introduction of best practice SME lending approaches are key interventions that can help

Box. 1

Key Reasons for Industrial Sickness

“Interest and wage costs are both statistically significant determinants of industrial sickness: increases in such costs raise a unit's probability of being sick. by its very nature, interest payment is not only a more committed cost compared to wages but is also compounded “

Source: BIFR, *The Sick Industrial Companies (Special Provisions) Act, 1985*.

banks provide credit to SMEs. These interventions need to accompany enhancements to the enabling environment for SME lending such as credit bureaus, collaterals and insolvency regimes.

In addition to loan financing, SMEs have the option of collaborating with venture capital investors. Other significant forms of SME financing include leasing, trade credit and fiscal incentives in the form of tax breaks.

The problem of access to finance faced by SMEs has been strongly exacerbated by the global financial crisis as SMEs and entrepreneurs have suffered a double shock: a drastic drop in demand for goods and services and a tightening in credit terms, which have severely affected their cash flows. Governments have responded generally by three types of measures aimed at: i) supporting sales and preventing depletion of SMEs' working capital; ii) enhancing SME's access to liquidity; iii) helping SMEs maintain their investment level. The Euro zone debt crisis has also impacted SMEs adversely. However, in the Indian context, the sharp depreciation of the rupee against the US dollar in recent months has made SME exports more attractive which should, to some extent, help in nullifying the adverse impact of the sharp fall in external demand. In these difficult times on the export front, it is imperative for SMEs to tap the huge demand in the local markets. MSMEs are the best vehicle to create local demand and consumption and also to fight the global meltdown.

At the international level, the G20 is spearheading the work on SME Finance through SME Finance subgroup under its Global Partnership for Financial Inclusion (GPFI, 2010).

Some of the major constraints faced by the MSME sector and the important measures taken by Government of India and Reserve Bank of India to address them, demand detailed examination, for an understanding of the context in which Gujarat is placed in. To ensure enhanced credit flow to the sector, and more so to the micro units, based on the recommendations of the Prime Minister's Task Force on MSMEs, banks have been advised to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises. Advances extended to the MSE sector are treated as priority sector

advances and as per the extant RBI guidelines, banks are required to extend at least 60 per cent of their advances to the MSE sector to Micro Enterprises by 2012-13 and achieve a 10 per cent annual growth in number of micro enterprise accounts. The RBI is closely monitoring the achievement of targets by banks on a quarterly basis and banks have been advised to device strategies to step up their lending to micro units. However, the MSME sector needs to be competitive and should not expect subsidized interest rates as this may not help them much as the cost of credit forms a relatively small proportion of their overall cost.

The problem of access to finance for the MSME sector is intrinsically linked to the problem of financial exclusion in the country. The ability of banks to rapidly increase their coverage of MSMEs through credit facilities would depend on their ability to expand their reach to the hitherto unbanked segments of the country. The problem of financial exclusion is particularly severe in the MSME sector, which is revealed by the data provided by the Fourth All-India Census MSMEs (2007) which indicated that only 5.18% of units had availed finance through institutional sources with a further 2.05% relying on non-institutional sources for finance. However, the remaining 92.77% of units had no access to finance or depended on self-finance. In this regard, the various initiatives taken by the Government of India and RBI, such as adoption of the Business Correspondent (BC) model, relaxation of KYC norms, simplified branch authorization, preparation of board approved financial inclusion plans, mandatory opening of 25% of new branches in unbanked rural centres, preparation of financial inclusion plans by banks, etc. are expected to accelerate the process of financial inclusion in the country and the MSME sector is expected to be among the beneficiaries of the same through better access to bank credit.

5.3. Credit Delivery: The Unsettled Issues

The latest figures that have come out from the Reserve Bank of India, gives reason for concern regarding credit flow to MSMEs in the country. Available indications essentially relate to two sources: First, the latest figures, by the Reserve Bank of India, on non-food credit off take which indicates that,

in the last few months, growth in non- food credit was 16%, as against the annual rate of 18% before August 2011. Secondly, the M.V. Nair Committee Report (2012) brings to the light some of the inside stories of expansion of credit to micro enterprises over the years. The Report clearly points out that financing by banks under the MSE category remains stagnant; progress has been largely in terms of percentage share of credit outflow, and not in terms of number of accounts. The Committee, therefore, has recommended a minimum annual growth rate of 15% in number of accounts.

While figures relating to growth in non-food credit off- take gives a general indication of the biases as reflected by the behavior of credit-deposit ratio, the finding of the Nair Committee Report are more specific. Growth in non-food credit off take slipped to 15.8 per cent at Rs 45.20 lakh crores during 12 months ending February 10, the lowest in this fiscal

year. The off take was Rs 39.02 lakh crores during the year ending February 11, 2011. While until August 2011, the off-take had been growing at over 18 per cent on annualized basis before it started slowing down, in the last few months, the growth has been 16-17 per cent.

High interest rate regime has resulted in slowing down of investment and industrial growth, according to industry sources. RBI raised key lending rates by 350 basis points through 13 hikes between March 2010 and October 2011 to curb inflation which was above the 9 per cent mark for most of the last two years. The MSME experience and impacts in this context need to be analysed.

'Directed lending' is an institutional mechanism for allocating credit to sectors of development priority that has high potential for generating employment and improving livelihoods. Since late 1960's,

Table 5.2: Outstanding Bank Credit to Micro and Small Enterprises (Rs. Crores)

As on last reporting Friday of March	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial banks
1	2	3	4	5
2005	671000	8592	5907	83498
2005	82434 (21.6)	10421 (21.3)	8430 (22.1)	101285 (21.3)
2007	102550 (24.4)	13136 (26.1)	11637 (38.0)	127323 (25.7)
2008	151137 (47.4)	46912 (257.1)	15489 (33.1)	213538 (67.7)
2009	191408 (26.6)	46656 (0.0)	18063 (16.6)	256127 (19.9)
2010	278398 (45.4)	64534 (38.3)	21069 (16.6)	364011 (42.1)
2011 Provisional	376625 (35.3)	87857 (36.1)	21461 (1.9)	485943 (33.5)

Source: Reserve Bank of India

Credit Crunch: The China Story

The failure of a number of small and medium-sized businesses in Wenzhou (2011) region marks the beginning of a much larger wave of corporate bankruptcies across the rest of China, economists warn. Since January, 2012, local media had reported 19 medium-sized corporate bankruptcies in Wenzhou. They accounted for only a small fraction of the 3,993 companies in the southeastern seaboard city known for its entrepreneurial spirit, but the market was concerned the failures could mark the beginning of a credit crisis among SMEs.

SMEs are increasingly borrowing money from non-bank sources at interest rates ranging from 20 per cent to 180 per cent because of credit tightening by banks. It has been noted by some analyses that, corporate failures in Wenzhou would inevitably be contagious and spread to other parts of the mainland. Willing to borrow money at such high interest rates reflects that, they are either desperate for cash or that they are involved in speculation, because no real business can generate that high a return to cover the repayment. "Recent events represent a series of liquidity problems facing SMEs in China" Yao Wei (2011).

Source: China Business Watch

commercial banks have been prescribed targets for priority sector lending. The so-called 'priority sector' includes a variety of activities, the coverage having been redefined by the RBI from time to time. Micro and Small Enterprises (MSEs) form a crucial sub-category. While the MSEs cover 26 million units across the country, only 5% of these units are covered by institutional finance. According to the Fourth All-India Census of MSMEs, 28.5% of all MSMEs are involved in manufacturing activities, whereas in the US and European Union, the corresponding figures vary between 4 to 6%. This gives a true indication of the strategic position of smaller enterprises in the manufacturing landscape of the country. Unlike in the US and EU, this indicates the important role of this sector is contributing to forward and backward linkages in the economy. It is also important to note that, most of the crisis-prone economies of the world today put their hopes on MSMEs, and weave their crisis-mitigation strategies around these enterprises.

5.4. Credit Appraisal: Issues and Challenges

Against the background of the reports on the global economic context, the ISED Small Enterprise Observatory initiated a quick survey of entrepreneurs in April 2012, relating to responses on the broad MSME-specific issues during the past one year. The findings of the survey based on 1620 responses from

across the country, provides important inputs for analysis, policy and corrective steps by the various stakeholders.

A sizeable group of entrepreneurs pointed out anomalies relating to the administration of credit appraisal. Over-specialization within the bank, which is a corollary of new management strategies have done more harm than good. In many cases, the credit appraisal department goes simply by the papers submitted to it, rather than personal assessment of the customer on a one to one basis. Credit appraisal department often do not take the Branch Manager into confidence. This would often lead to risk-rating which may be scientific, but not really proper. 65% of the respondents feel that the power of credit appraisal should be vested with the Branch Manager himself, subject to the powers of review by the Credit Appraisal Department.

5.4.1. Guidelines

Credit appraisal involves independent evaluation of credit worthiness and bankability of proposals and approval by the appropriate authority in accordance with the Bank's scheme on delegation of credit sanctioning powers. Banks have to ensure compliance to KYC (Know Your Customer) norms and the Fair Practices Code (FPC) as per RBI guidelines, irrespective of the loan amount. The

RBI has issued a Master Circular on July 1, 2010, consolidating all its previous instructions relating to the subject.

In terms of periodically stipulated guidelines, the branches/offices examine the borrowal accounts from the point of view of credit risk. The risk rating also influences the view on credit quality and terms of sanction like margin, pricing, etc. The Reserve Bank of India on January 3, 2012 asked banks to mandatorily acknowledge all loan applications, submitted either manually or online, by MSME borrowers. The Central Bank has reiterated the above directive following complaints from industry associations/ chambers that banks are not acknowledging loan applications.

The RBI emphasised that loan application forms have to be so designed that all documents required to be executed by the borrower on sanction of the loan form a part of it. The forms should have a checklist of the documents required to be submitted by the applicant and the formalities to be completed, post-sanction. For micro enterprises, simplified application-cum-sanction form, printed in regional language, should be introduced for loans up to Rs 1 crore. The Central Bank also advised banks to consider introducing a 'committee approach' for sanction of new loans as also rehabilitation cases. This will improve the quality of decision as the members' collective wisdom will be utilised, especially while taking decision on loan applications for green field projects in the sector or rehabilitation proposals.

The banks were also required to give an 'action-taken report' to the RBI on compliance with these directives by the end of the month of the Circular. Responses from as high as 82 per cent of our respondents indicate that, despite earnest efforts by the Banks at the corporate level, the practice is yet to pick up.

On detailed interviews, it was found that the majority of the respondent entrepreneurs were dissatisfied with the credit appraisal norms and their practice. While 92% of the respondents pointed out that KYC norms were followed invariably, the FPC has not been practiced in many cases. The accounts are

reviewed periodically, but not in all aspects. The review take place essentially from the point of view of NPA norms. Aspects such as margin and pricing have not received the attention they deserve.

5.5. Time Norms on Credit Proposals

In line with the RBI guidelines, loan applications from SMEs are to be disposed off by the branches/offices within the specified time frame, provided such applications are complete in all respects. According to the Master Circular of the RBI, banks have been advised to dispose of all loan applications for MSE borrowers up to a credit limit of Rs. 25000/- within two weeks, and up to Rs. 5 lakhs within four weeks, provided the applications are complete and accompanied by a check list (RBI, 2010). Despite the directives, our survey results indicate that delays are prevalent.

Our field research gives us evidence that, no such norms relating to disposal of proposals are felt to the majority of the entrepreneurs. Ten per cent of the respondents, however, did not respond to us. Banks do exhibit a service menu in order to inform the clients about the time taken to encash a cheque, open an account, deposit money etc. But ,it was reported that, there was no such exhibits for the time limit to dispose off an MSME credit proposal. Most respondents were unaware of the time-lines. Over and above this, it was reported that, many bank managers do not issue loan applications unless they decide to sanction the loan. Until then they only collect all particulars unofficially. Hence, there was no question of rejection at all. The M.V. Nair Committee has recommended a register / electronic record, which should be made available for the inspecting agencies. We recommend that, on lines of the international standards, all data which are not of a very confidential nature should be brought on the public domain. This will help to cultivate better understanding between the banker and the customers.

5.6. Credit Risk Rating (CRR)

CRR measures credit risk of various borrower clients with greater reliability and sophistication. The credit risk rating of a borrower is a function of

financial, industry, business and management risks. Banks have stipulated guidelines for identifying the parameters under each of these risks as also assigning weighted scores thereto. The branches/offices subject all the eligible borrowers to credit risk rating as per the guidelines laid down in this regard from time to time. Credit Risk Rating as a minimum hurdle rate/entry barrier for taking fresh exposures is applicable for accounts subjected to CRR under Manual Model and RAM. All the new borrowal accounts beyond Rs.20 lacs are subjected to CRR as a pre-sanction exercise. It is desirable that units located in clusters get rated differently and incrementally over the stand-alone enterprises providing weightage for the cohesion, brand advantage, improved market access and financial discipline so that these units would get preferential rate of interest and other facilities like lower margins on the letters of credits and guarantees issued.

On CRR, 68 per cent of our respondents expressed their doubts. CRR has been perceived more as subjective rather than as an objective system. If the banks favor any customer that customer is given proper rating, and if they for any reason decides to reject a proposal, his proposal is given a negative rating. While this is the dominant practice, we have also noted a smaller number of cases where the CRR has been meticulously used.

It was also suggested by some entrepreneurs that, it is good to get CRR for loans above Rs. 25 Lakhs. While majority of the SMEs are not even aware of accounting norms, and just record the money inflow and outflows, it is very difficult to understand the parameters of a credit rating and then to comply with that. Invariably a below average rating of an unit comes in handy to the Manager to refuse the loan.

5.7. Working Capital Assessment

Different firms have different approaches to finance their working capital needs. After receiving proposals for working capital loans, as a precaution banks need to assess the amount of working capital loan which can be granted and also to determine the interest rate at which the loan can be provided. The RBI and its committees have introduced new methods for the calculation of credit eligibility for the working capital

financing of firms. The newer methods are firmer on the risk management front and also the stability of the economy in case of any excessive default rate. Methods like, turnover method, inventory method, operating cycle method, cash budget method are used for MSME working capital financing, are adopted by banks in the country.

While working capital is an industry-specific subject, the norms and practices of the banks need to be flexible and well-informed. But, it was found that banks generally go by the norms of their HO and/or RBI guidelines. It is not true that all industries need to follow the norms applicable to manufacturing enterprises. This differentiation is not maintained.

5.8. Monitoring of Advances/Loan Review Mechanism

In the most recent practice, credit audit system is done by Regional offices but the basic operations are done by the borrowers at the branch level. So there is a mismatch between reviews by branches and Regional Offices. Some of the entrepreneurs pointed out that the staff of the Regional offices often look down upon the branch managers. Responses available from the northern States indicate that, the entrepreneurs often do not feel the existence of any monitoring mechanism.

5.9. Equitable Mortgage

Principal borrower and/or the guarantor seeking loans beyond Rs.10 lacs are expected to offer security other than the primary security by way of mortgage of property. Such mortgage can be either by simple mortgage or equitable mortgage. Equitable mortgage happens in cases where the mortgage on the property is created by deposit of the relative title deeds. The simple act of depositing the title deeds with a lender (in notified towns), with the borrower's intention that the relative property should be held as security for the loan, creates the mortgage under Section 58(f) of the Transfer of Property Act.

Mortgage of property need not be recorded in the registry of land records. Therefore, if the original property is again mortgaged by a registered deed to another lender, to whom a representation might

have been made, that the relative title deeds are lost or not traceable, the second lender would not be aware of the earlier mortgage. But then, for creating a second equitable mortgage, the borrower has to get back the title deeds from the first lender, but that lender will not part with it, because that Act cancels the mortgage. Fraudulent borrowers, however, often take colour photocopies of the title deeds and pass them off as original to the subsequent lenders. Also, there have been problems in creating mortgage of apartments in multi-storied buildings. In some cases, when the bank officer is ignorant, the borrower creates the equitable mortgage by depositing certified copy of the title deed after swearing by an affidavit and/or publication in newspapers that the original title deeds are lost.

Tamil Nadu Government has considerably helped lenders in the above cases by providing for registration of equitable mortgage on payment of a nominal fee, not exceeding Rs 10,000. All banks and financial institutions in Tamil Nadu have made use of this facility and the fraud cases referred to by the RBI should not arise in the State. In other States, the fee for registration of equitable mortgage is ad valorem and a heavy burden, which the borrowers would naturally avoid.

To circumvent this perennial problem, in India, Section 22 of the SARFAESI Act specifies that all charges (other than pledge) created on properties and assets of borrowers favouring banks, notified financial institutions, and securitisation and asset reconstruction companies shall be registered with a Central Registrar appointed by the Government. To give effect to these provisions, the Central Government, on March 31, 2011, appointed the Chairman and Managing Director of the National Housing Bank (NHB) to hold additional charge of the Central Registrar.

5.10. The Problem of Overdue Payments

The problem of overdue payments continue to be the biggest obstacle for the growth of SMEs. The dimensions of this unfair business practice, were explored by the survey undertaken by the ISED Small Enterprise Observatory. Around 85 per cent of the participants surveyed by the Observatory said,

it took 16 to 60 days to receive their dues. Payment delays by corporations raise the transaction cost of MSMEs, which eventually brings these to the verge of sickness. A major concern for MSMEs that has a bearing on their finances is the long time taken by corporations in making payments for procured items, especially from their ancillary units. The data also indicate that, none of the units surveyed received payments within the first 15 days. And, the smaller units, due to their weak bargaining power, are in no position to seek redress, though there are legal provisions under the MSME Development Act, 2006.

The Union Government had introduced an Act named as “the Interest on Delayed Payments to Small Scale & Ancillary Industrial undertakings Act, 1993”, in 2nd April, 1993, which provides for and regulate the payments of Interest on delayed payments to small scale & ancillary industrial undertakings. It was later repealed upon enactment of the Micro Small and Medium Enterprises Act, 2006.

The banks have been advised by Reserve Bank of India to sanction separate sub-limits within the overall limits sanctioned to the corporate borrowers for meeting payment obligations in respect of purchases from MSME sector. The Companies Act 2000 also insists that all debts above Rs.2 lakhs owed to MSMEs shall be reported in the Company’s Half-yearly and Annual Statements of Accounts. After the introduction of this rule, several companies issue cheques with a request not to present them until advised. Now that the validity of cheques has been reduced to 3months from the date of issue, the delay could come down at least to such reduced validity period. In practice, however, the legislation did not improve the position of MSEs because of their dependence on large businesses for continued business. This problem has to be institutionally tackled by factoring and banks should provide such services particularly for MSMEs.

Provisions to check delayed payments under the MSME Act 2006 may be understood in relation to the following broad steps: Provisions related to delayed payments to micro & small enterprises (MSEs) strengthened. Period of payment to MSEs by

Appeal System for SME Loans: UK Innovation

In the UK, four in ten SMEs win appeal against rejected bank loans, as in Jun 7 2012. Around 40 per cent of SMEs who had their loan requests rejected by a bank have had their appeals overturned, an annual report from the British Bankers Association (BBA) has found. According to the independent review, 2,177 SMEs appealed against a bank's lending decision in the last year since the new appeals process was introduced, with 847 businesses eventually reaching an alternative lending agreement. Available figures revealed that UK banks agreed to the majority (86 per cent) of the 827,000 applications for credit, such as loans, credit cards and overdrafts, from SMEs over the last 12 months. Of the 14 per cent which were declined, only two per cent were appealed against - despite the high number eventually being overturned.

Box. 3

A report by Prof. Russel Griggs conclude that many more businesses would apply for bank loans if they realised how successful the appeals process had been. Griggs, former chair of the Confederation of British Industry (CBI's) SME Council, said: "There is this odd psychology in that the more protection you give people, the braver they will be.

Business groups such as the Forum of Private Business (FPB) are now calling for increased awareness amongst SMEs of the appeals process. The report is right in identifying an over-centralised banking system that relies far too heavily on automated risk criteria and on data from credit rating companies, many of which appear to use wildly different factors to assess a firm's creditworthiness. The FPB recommended that bank managers should understand businesses on a more personal level and make individual lending decisions accordingly. It is also calling for increased competition amongst both larger banks and smaller alternative lenders, and a standardisation of the credit rating criteria.

Source: *wjamesaccountants.co.uk*

the buyers reduced to forty five days. Rate of interest on outstanding amount increased to three times the prevailing bank rate of Reserve Bank of India compounded on monthly basis. MSE Facilitation Council may utilise the services of any Institution or Centre for conciliation and alternate dispute resolution services. Reference made to the Council to be decided within ninety days from the date of reference. Declaration of payment outstanding to MSE supplier mandatory for buyers in their annual statement of accounts. Interest (paid or payable to buyer) disallowed to supplier for deduction for income tax purposes. No appeal against order of Facilitation Council to be entertained by any Court without deposit of 75% of the decreed amount payable by buyer. Appellate Court may order payment of a part of the deposit to the supplier MSE.

In order to curb the growing menace of overdue invoices, many of the respondents have made their suggestions, helping the MSMEs to get their accounts

paid much more quickly while keeping all of their clients happy without facing any confrontation. The constitution of an SME certificate-issuing body has also been hinted as the measure to pause the late payment sequence. Small traders seek the body to have powers to keep a close watch on big firms, conduct audit at frequent intervals, and issue No Objection Certificates (NOCs). The introduction of a 'credit card type system' can also minimise the problem at some extent. A defined credit-period among the parties and in case the period has not been mentioned, it should include the maximum number of days to clear the payments. The system should also include the lenders to offer a collective system of operation of settling the payment and the credit period.

Rating institutions can also help if they downgrade the rating of the companies dealing with MSMEs by giving appropriate weightage to the declaration of dues to MSMEs.

6.0. Credit Flow: Where is Gujarat Placed?

Where is Gujarat placed in relation to the flow of credit to its MSME sector? An answer to this question need to be sought in relation to the absolute and comparative position of States at the national level. The regional pattern of loans from institutional sources give us important indications on the pattern of credit delivery and credit-use in the MSME sector. The broad patterns observed are the following:

- iii) The top ten states of the country show significant flow of credit both from institutional and non-institutional sources.
- iv) But, the top five states do not show any significant pattern in favour of institutional sources.
- v) Despite the change in the definition of the MSMEs, the average MSME loan size remains relatively low.
- vi) There is no apparent relation between CDR and the number of units availing institutional loans for MSMEs.

The flow of institutional credit to the MSME sector in India is, indeed, the sum total of some objective and subjective factors. The effects of these two sets of factors get reflected at any particular point of time through the behavior of some of the variables that are explanatory in nature.

An analysis of the data on the Fourth Census gives some interesting results. The pattern of credit flow from institutional sources at a particular point of time is, the sum total of individual loans sanctioned by the banks. The individual loan decisions are taken by the banks on the basis of scientific criteria laid down under specific guidelines. Given such criteria, one would expect that the bankers' decision regarding the viability of a geographical market segment is based on two key variables that explain the importance of a State from a banker's point of view are: 1) size of capital investment in the MSME sector (proxied by investment in plant and machinery); and 2) size of MSME output. The larger the size of these two variables, the larger the financial resources required for transacting such businesses, and hence the larger the business opportunity for a financing institution.

However, in practice, the actual flow of institutional finance is often influenced by a variety of other factors as well, as mandatory targets, norms regarding preference to particular subsectors and activities, and special commitments of the institution concerned. These various factors, together, are likely to have a joint effect on the individual financial institutions, as also of the banking sector as a whole. An attempt was made to capture this joint effect with the help of a regression exercise.

In order to establish a linear relationship between institutional finance released to the sector as the dependent variable, and seven other related variables that could explain the relationship as independent variables, a regression exercise was undertaken. The independent variables selected for the analysis are given below, which are mostly related to the selected dependent variable.

- v) Number of urban units (NUU)
- vi) Total number of MSME units in the State (TNU)
- vii) Number of micro units as a percentage of total MSME units (MICRO)
- viii) Average employment size (AEMP)
- ix) Percentage of manufacturing units (MANU)
- x) Share of women enterprises (WENT)
- xi) Eleventh Plan Allocation for MSME Sector (PAL).

The results emerging from the regression analysis are explained below:

The ANOVA table shows the F-test statistic at 3.279 with p-value of 0.014. This implies the goodness fit of the regression line to explain the effect of independence variable on the dependant variable. The R-value implies that more than 70 per cent of the effect is implied by the independent variables selected for the analysis. The F-value along with the P-value explains the significance of the variables, which together, are statistically significant at 0.05 level.

The regression results, as above, indicates the following:

- 1) The two positive variables to which institutional

finance responds positively are: a) average size of employment in the MSME sector; and b) the percentage of manufacturing units in a State.

These two findings are quite natural and logical. As the share of manufacturing units go up, there is a natural tendency for a hike in credit off take from institutional sources. Similarly, given the lower average capital-labour ratio in the MSME sector, it is also natural that, the larger the average employment size, the flow of institutional finance go up.

The flow institutional credit in a regional context is influenced by two sets of factors: 1) promotional effect; and 2) growth linkages. The promotional effect is guided by such factors on, the directives of the RBI and the government relating to location, priority sector lending policies, and the overall policy of MSME promotion in the country. These factors can best be captured by variables, such as, number of women units, total MSME units in the region/states, total rural units etc.

Growth linkages, on the other hand, are market driven, and therefore, given a business case with such market signals, the financial institutions will respond either positively or negatively, as the case may be. As investment per unit, exports and output per unit in a region/state go up, there is a natural tendency for financial institutions to sense the opportunity and to respond positively in that region. In a normal situation, a public sector bank would have a mixed response to these sets of factors but it is the hegemony that leally defines the attitude of the banks. Naturally, the other stake holders respond to that either positively or negatively.

The findings, explored through the regression analysis, have important implications for credit policy relating to MSMEs in the country. Following the introduction of prudential norms for banks in the country, it was argued that, the banks need to be offered a level playing ground relating to business opportunities. As we have noted in section 3.0. above, banks need to have a business case in extending credit, to the MSME sector. It is also important to note that unless there is such a business case, banks cannot be incentivized to service the interests of the MSME sector. The regression results indicate that, there is lack of clarity on this

business case. This implies that banks in India are not still convinced on the business opportunities offered by the MSME sector, though most of them express their commitment to the sector through the platform of the Banking Codes and Standards Board of India.

An important factor influencing the flow of institutional finance, is the average employment size, This has important implications for enriching our understanding of the flow of institutional finance, as also the role of government programmes relating to employment promotion and entrepreneurship development. Given the hegemony of public sector banks in the country, two questions are relevant here: (1) Are the public sector banks driven by their social commitments, or by sheer business case? (2) To what extent, the social goals are satisfied, and at the expense of what?

4. The States that are highly ranked in terms of investment and output, are generally not the ones that get largest flow of resources from the institutional sources.
5. The States having the largest number of working enterprises (and obviously larger employment) also do not get a higher share of flow of credit from the institutional sources.
6. Smaller States like Haryana and Punjab, whose output contribution is relatively small, get a more than proportionate share of institutional loans.
- 4) High performance of states like Maharashtra and Gujarat are not matched with their share of institutional finance.
- 5) The above findings, however, need to be further interpreted with great caution. While policy factors may explain the picture to some extent, it is necessary to examine deeply the causatives in terms of the factors that pull and push institutional finance to a particular region. As such, the case of Haryana and Punjab need closer study and analysis.

Although the data is behind by about four effective years, our own survey findings reveal that no significant departure has been there, save a few exceptions, in regard to State-wise analysis. Against

Table 5.3.: Average Size of Outstanding MSME Loans: State-wise (2006-2007) (Rs. in Lakhs)

State/UT Name	Total Working Units	Institutional Sources	Non-institutional	Institutional and Non-institutional	Debt Size (State average)
Jammu & Kashmir	14993	22.38	10.38	59.37	23.53
Himachal Pradesh	11931	43.26	66.96	43.70	43.87
Punjab	48110	46.21	31.16	73.29	50.81
Chandigarh	996	27.94	3	68	35.15
Uttarakhand	23765	12.35	24.76	72.74	18.36
Haryana	33150	37.2	68.39	110.81	46.30
Delhi	3754	24.43	186.64	91.74	40.97
Rajasthan	54885	23.71	33.38	99.51	40.66
Uttar Pradesh	187742	53.24	53.37	123.20	57.67
Bihar	50036	9.44	6.93	60.03	12.55
Sikkim	122	35	28.5	7.33	31.31
Arunachal Pradesh	417	4.33	0	16	4.90
Nagaland	1332	456.31	5	314.4	395.21
Manipur	4492	1.36	4.25	0	2
Mizoram	3715	3.98	2.17	32	4.22
Tripura	1343	4.66	8.67	334.67	14.28
Meghalaya	3010	7.59	3.5	1.33	7.38
Assam	19864	14.08	86.15	78.95	15.78
West Bengal	43259	21.32	12.77	45.34	23.12
Jharkhand	18190	22.47	32.12	153.16	28.70
Orissa	19606	20.90	4.12	93.86	24.29
Chhattisgarh	22768	20.31	6.28	34.75	20.87
Madhya Pradesh	106997	17.74	31.13	160.26	34.90
Gujarat	229830	3.56	7.71	16.16	4.04
Daman & Diu	594	194.34	81.72	405.43	292
Dadra & Nagar Haveli	1716	15.5	0	0	15.5
Maharashtra	86586	24.19	21.28	71.49	26.95
Andhra Pradesh	45692	21.73	33.10	53.06	24.47
Karnataka	136186	12.63	8.63	28.11	13.25
Goa	2621	83.23	22.46	59.17	74.64
Lakshadweep	2	NA	NA	NA	NA
Kerala	150188	13.92	7.68	73.20	15.72
Tamil Nadu	233881	20.45	31.30	99.32	26.47
Puducherry	1451	8.25	7.29	126.53	15.62
Andaman & Nicobar IIs.	750	3.96	7.8	7	4.33
All India	1563974	23.35	23.99	84.84	28.27

Source: ISED Small Enterprise Observatory (Computed from Fourth Census of MSMEs)

Table 5.4: MSME Credit Flow According to Investment Distribution in Selected States (Rs. Crores)

State/UT Name	No. of Working Enterprises			Investment in Plant & Machinery		Output		State Rank of Outstanding Loan Institutional	State Rank of Outstanding Loan Non-Institutional
	Absolute (Rs. Lakh)	State Share (%)	State Rank	Value (Rs. Crore)	State Share (%)	Value (Rs. Crore)	State Share (%)		
Category I States									
Tamil Nadu	2.34	14.95	1	11112.59	10.58	65281.95	9.23	18	11
Gujarat	2.3	14.7	2	42099.26	40.09	38438.44	5.43	33	28
Uttar Pradesh	1.88	12	3	4829.37	4.6	74065.17	10.47	4	8
Kerala	1.5	9.6	4	3408.9	3.25	24122.65	3.41	23	15
Karnataka	1.36	8.71	5	4608.04	4.39	41060.27	5.8	24	27
Madhya Pradesh	1.07	6.84	6	1697.28	1.62	26191.6	3.7	20	5
Maharashtra	0.87	5.54	7	12384.89	11.79	110705.08	15.65	11	17
Category II States									
Rajasthan	0.55	3.51	8	3832.87	3.65	39402.23	5.57	12	10
Bihar	0.5	3.2	9	491.84	0.47	4661.53	0.66	26	19
Punjab	0.48	3.08	10	3825.13	3.64	62099.27	8.78	5	14
Andhra Pradesh	0.46	2.92	11	3641.84	3.47	30102.26	4.25	15	22
West Bengal	0.43	2.77	12	2470.04	2.35	26906.61	3.8	16	23
Category III States									
Haryana	0.33	2.12	13	3179.08	3.03	43762.97	6.19	7	9
Uttarakhand	0.24	1.52	14	801.97	0.76	13370.36	1.89	25	16
Chhattisgarh	0.23	1.46	15	579.64	0.55	6182.27	0.87	19	25
Assam	0.2	1.27	16	1070.39	1.02	9389.2	1.33	22	1
Odisha	0.2	1.25	17	1041.89	0.99	14746.08	2.08	17	22
Jharkhand	0.18	1.16	18	674.19	0.64	4170.1	0.59	13	6
Jammu&Kashmir	0.15	0.96	19	557.65	0.53	14516.78	2.05	14	20
Himachal Pradesh	0.12	0.76	20	741.7	0.71	11786.29	1.67	6	24
Category IV States									
Manipur	0.04	0.29	21	41.73	0.04	199.8	0.03	34	33
Mizoram	0.04	0.24	23	91.57	0.09	309.9	0.04	32	26
Delhi	0.04	0.24	22	63.55	0.06	19471.1	2.75	10	13
Meghalaya	0.03	0.19	24	63.55	0.06	447.31	0.06	28	32
Goa	0.03	0.17	25	404.42	0.39	6627.57	0.94	3	21
Dadra & N. Haveli	0.02	0.11	26	46.97	0.04	2077.14	0.29	21	33
Puducherry	0.01	0.09	27	310.57	0.3	5614.33	0.79	27	7
Nagaland	0.01	0.09	29	111.23	0.11	1396.04	0.2	1	4
Tripura	0.01	0.09	28	94.24	0.09	608.3	0.09	29	3
Andaman & N. IIs	0	0.05	31	20.18	0.02	111.75	0.02	31	31
Arunachal Pradesh	0	0.03	33	31.22	0.03	237.21	0.3	30	29
Sikkim	0	0.01	34	10.83	0.01	51.37	0	8	30
All India	15.64	100		105024.61	100	707510.27	100		

Source: ISED Small Enterprise Observatory (Computed from Fourth Census of MSMEs)

Table 5.5: Overall Test of Significance of the Regression Parameter's ANOVA Results

Source	Sum Sq.	D. F.	Mean Sq.	F	Prob.
Regression	9054.576	7	1293.511	3.279	0.014
Residual	9468.145	24	394.506		
Total	18522.721	31			

Table 5.6.: Test of Statistical Significance of the Variable's Regression Coefficients

Source	Coefficient	Std Error	Std Beta	95% C.I. -	95% C.I. +	t	Prob.
Intercept	56.190	147.298		-247.818	360.198	0.381	0.706
NUU	0.000	0.000	-0.629	-0.001	0.000	-1.431	0.165
TNU	0.000	0.000	0.556	0.000	0.001	1.376	0.181
MICRO	-0.574	1.411	-0.090	-3.486	2.338	-0.407	0.688
AEMP	1.905	1.397	0.327	-0.979	4.788	1.363	0.185
MANU	0.386	0.398	0.217	-0.435	1.208	0.971	0.341
WENT	-1.011	0.424	-0.377	-1.886	-0.135	-2.383	0.025
PAL	-0.101	0.140	-0.114	-0.390	0.188	-0.719	0.479

the above background, the RBI's initiative to have a fresh look at the practice of priority sector lending is laudable. The RBI appointed a Committee under the Chairmanship of Mr. M.V. Nair, on August 25, 2011, in order to re-examine the existing classification and to suggest revised guidelines with regard to priority sector lending. Apart from a visit of the current eligibility criteria for classification of bank loans, and their associated norms, standards and procedures, the M.V. Nair Committee was assigned with two important tasks relating to working out the modalities of ensuring the visibility of the new initiatives, and measures to bring to the limelight, the impacts.

While, according to the Fourth All India Census of MSMEs, all 93.5% of enterprises belong to the bottom of the pyramid, and are micro in nature, impacts can best be measured in terms of the number of units that are addressed by priority sector credit, rather than the volume of credit that goes to the micro enterprises. Loans not exceeding

Rs. 50,000 per head, extended directly by banks to poorer sections of the society, and through the mechanism of self help groups, are classified as micro credit, which again falls under the priority sector. According to the latest figures, micro credit constitutes 0.7% of the priority sector portfolio of public sector banks and 3.67% in the case of private sector banks. It is also important to note that, micro credit and micro finance, having gained substantial importance at the global level as also in India, banks have taken it as an important route of meeting the priority sector targets, the other easy route being RIDF and SIDBI Bonds.

Several expert Committees have looked into the reasons for poor off-take of credit in the MSME sector. The Chakrabarty Committee Report (2007) makes a detailed discussion on related issues, wherein, it explains the rather negative perceptions which are strongly based on the track of historical performance of MSME loan portfolios.

Table 5.7: Some Key Variables Relating to MSMEs in India

State	Average Institutional Loan (Lakh)	No. of urban units	Average investment size (Lakhs)	Total no. of units in the state	No. of micro units as % of total units	Average employment size	% of manufacturing units	Women enterprises as % of total units	Total sick units as a % of total units	Plan allocation to V&SI as % of I&M
Andaman & Nicobar IIs	2.92	344	2.69	750	98.13	7.46	58.67	26.67	12.27	100.00
Andhra Pradesh	16.95	19784	7.97	45692	93.47	8.38	89.53	11.45	8.71	61.96
Arumachal Pradesh	6.21	172	7.49	417	95.68	12.98	86.33	23.81	16.31	68.50
Assam	19.83	7140	5.39	19864	96.85	10.60	67.56	20.49	10.27	46.90
Bihar	7.79	27354	0.98	50036	99.66	2.95	69.27	5.14	5.86	20.79
Chhattisgarh	9.11	5763	2.55	22768	98.39	3.30	50.55	9.18	6.57	12.59
Daman & Nagar Haveli	93.60	602	2.74	1716	97.38	15.43	98.95	2.33	1.17	6.52
Delhi	99.45	3699	9.61	3754	93.50	15.48	94.43	10.13	13.21	40.49
Goa	71.92	774	15.43	2621	91.38	12.72	88.25	12.60	21.06	40.05
Gujarat	4.75	182789	18.32	229830	85.67	5.42	65.92	10.18	1.24	21.14
Haryana	43.20	17634	9.59	33150	92.73	11.52	79.85	4.40	8.35	13.85
Himachal Pradesh	37.83	2409	6.22	11931	96.57	5.46	88.26	10.98	15.81	78.14
Jammu & Kashmir	37.77	7570	3.72	14993	97.19	6.01	75.34	20.61	8.77	38.49
Jharkhand	26.51	12301	3.71	18190	97.30	4.13	63.02	4.12	5.56	46.29
Karnataka	13.30	63224	3.38	136186	98.05	5.80	75.56	19.59	4.61	39.34
Kerala	5.86	42493	2.27	150188	98.87	4.14	70.99	25.50	14.21	61.08
Madhya Pradesh	10.14	43697	1.59	106997	99.07	2.79	49.16	9.51	2.89	43.89
Maharashtra	29.23	59353	14.30	86586	85.39	12.57	92.68	10.37	9.78	51.95
Manipur	7.40	1978	0.93	4492	99.73	4.44	79.85	25.61	3.38	44.52
Meghalaya	6.36	688	2.11	3010	98.74	4.22	75.42	39.53	7.11	30.89
Mizoram	5.02	2925	2.46	3715	98.60	7.01	77.34	34.68	1.80	95.48
Nagaland	23.47	946	8.35	1332	97.45	12.22	95.57	16.54	6.53	52.59
Orissa	21.87	7742	5.31	19606	96.09	8.83	77.84	11.01	15.64	84.28
Puducherry	44.70	860	21.40	1451	87.87	14.53	83.80	22.76	25.22	10.40
Punjab	50.16	31225	7.95	48110	94.25	8.64	70.77	6.26	8.30	100.00
Rajasthan	20.59	27784	6.98	54885	95.18	6.23	70.23	10.91	9.71	13.89
Sikkim	21.55	86	8.88	122	90.16	9.50	86.07	16.67	21.31	42.40
Tamil Nadu	35.37	72858	4.75	233881	96.75	6.10	51.41	23.37	4.95	42.17
Tripura	7.80	602	7.02	1343	96.50	17.25	84.29	11.94	9.83	38.21
Uttar Pradesh	33.27	98405	2.57	187742	98.27	4.02	60.64	4.47	4.69	3.51
Uttarakhand	10.13	8172	3.37	23765	98.25	3.36	56.54	10.22	7.97	91.08
West Bengal	20.04	21677	5.71	43259	95.75	8.33	86.78	10.22	11.48	30.31

Source: ISED Small Enterprise Observatory (Computed from Fourth Census of MSMEs)

Table 5.8: Asset Quality of Select Sectors (as on Mach 2012)

No	Sector Gross NPA ratio	Values in per cent	Share in Banking System Credit	Share in Banking System NPA
1	Priority Sector	4.4	30.6	47.8
2	Retail	2.8	18.5	18.3
3	Agriculture	4.6	10.3	18.2
4	Micro & Small Enterprises	4.8	9.8	17.9
5	Real Estate	1.7	16.7	9.7
6	Iron and Steel	3.2	3.8	4.7
7	Textiles	4.4	2.7	4.5
8	Engineering	2.9	2.4	2.6
9	Chemicals, Dyes, Paints etc.	3.1	2.2	2.6
10	Infrastructure	0.6	11.0	2.5
11	Food Processing	3.4	1.4	1.9
12	Gems and Jewellery	3.8	1.1	1.5
13	Mining	3.6	0.6	0.8
14	Automobiles	1.2	1.0	0.4
15	Cement	1.5	0.7	0.4
16	NBFCs	0.3	3.9	0.4
17	Coal	8.1	0.1	0.3

Source: Reserve Bank of India, Financial Stability Report 2012

While banks in India have large MSME portfolios, the non-performing assets (NPAs) have been cited to be significantly high. The NPAs have gradually come down from 21.36% in 2001 to 5.58% in 2007, but the level of gross NPA has reduced from 15.58% to 2.93% during this period. Thus despite reduction of NPA in small enterprises by 75%, they still stood at double the NPA level in total MSME Finance: Recent Developments and Policy advances as on 31-03-2007. In absolute terms almost Rs 6000 crores of public sector banks were blocked in small enterprises NPAs, according to the Report. A few of the new banks reported very low NPAs in their total SME

portfolio. However, the NPAs of the public and new private sector banks are not directly comparable as the private sector banks have newer portfolios and losses may not yet be recognizable.

The Chakrabarty Committee makes concrete recommendations, such as, centralized processing of MSME loans beyond Rs.1crore, as also a 'Committee Approach' in order to minimize individual risk perceptions relating to accountability. Its recommendations also include sensitizations of bank staff to the needs of the MSME sector through appropriate training interventions, opening up of more specialized MSME branches, new financial

How a Loan Account Becomes NPA?

A sub-standard asset requires a provision of 15 per cent on secured portion and 25 per cent on the unsecured exposure. After 12 months as Sub-Standard Asset, it gets classified as Doubtful Asset 1 (DA1) and requires a provision of 25 per cent on secured portion and 100 per cent on the unsecured portion. Once the account crosses one year as DA1, it becomes Doubtful Asset 2 (DA2-1 to 3 years) and requires a provision of 40 per cent on the Secured portion and 100 per cent on the unsecured portion. Once it crosses three years, it becomes Doubtful Asset 3 (DA3) and requires 100 per cent provision irrespective of the availability of security. Unsecured loans such as clean loans, and educational loans attract 100 per cent provision even at DA1 stage.

Accounts classified as fraud need not go through all these stages and will require 100 per cent provision as soon as it is classified as NPA. Such provisions have to be made out of the profits of the year, thus eroding the bottom-line.

Source: Reserve Bank of India.

products and services, post-sales facilities, and institutionalized services, such as, factoring and stock exchange. These obviously are innovative recommendations. However, even after the submission of the report by the Committee in 2007, the situation has not changed to any significant extent. Of course, banks have started centralized processing of loan applications, personnel training programmes take place as usual. Specialized MSME branches are there. But, as rightly pointed out by the Chairman of a leading private sector bank, changes need to happen at the ground level. But for things to happen at the ground level, the middle and lower level officials need to get much more education and sensitisation. The higher-ups need to have the right will to ensure that things happen at the ground level. Motivation holds the key, and it makes things start moving in the right direction.

There are some key questions which still remain unaddressed and unresolved. Usha Thorat Committee (2011) has rightly discussed these points under a neat classification of credit delivery to MSMEs in relation to two key thrust areas: (1) credit services; and (2) non-credit services. Non-credit services essentially mean the so-called Business Development Services. Business Development Services, again, are of two categories: (a) operational; and (b) strategic. Appropriate policy environment and institutional structures have their vital role in this regard.

Based on the Fourth MSME Census, a detailed analysis relating to the flow of credit to the MSME

sector of Gujarat was carried out by the ISED Small Enterprise Observatory. It leads us to some important results. The average loan outstanding from institutional sources was Rs. 1.05 lakhs in the Micro sector. In the Small and Medium sectors, it was Rs.7.55 lakhs and Rs.145.61 lakhs respectively. The average loans outstanding from institutional sources for the MSME sector as a whole was Rs 3.56 lakhs, whereas the average size of MSME loans outstanding from all sources was Rs 4.04 lakhs. The Credit-Deposit ratio of the State, as in 2010, was 65.28. The credit-deposit ratio (CDR) of banks in Gujarat for the last four years present interest 15 % of the country's total MSME units housed in Gujarat may be impacted.

While Gujarat does not get its due share in terms of institutional finance, the more recent phenomenon has been an absolute fall in borrowings by entrepreneurs. According to data provided by SLBC, MSME borrowings in the State during 2010-11 fiscal reached close to Rs 16,000 crore by June 2011, while in fiscal 2010-11, borrowings by MSME sector stood at Rs 24,825 crore. Rising interest rates joined with low domestic demand and adverse global economic conditions has put micro-small and medium enterprises (MSME) in tight spot. Following the frequent rate hikes by the RBI during the past two years, industry players fear a sharp rise in the non-performing assets (NPAs) especially in the MSME segment as the economic condition continues to deteriorate. The fall in credit offtake reflects this.

There are also significant regional variations in the CDR among districts. At present the CD Ratio in eight districts is below 40% where the Banks, according to the latest meeting of the State Level Bankers Committee, are required to put in special efforts to reverse this trend. These districts are, Anand, Dangs, Kheda, Kutch, Navsari, Porbandar, Dahod, and Tapi.

The Ground level Credit flow (GLCF) in the State for priority sector which stood at Rs. 23663.00 crores during the year 2009-10 increased to `31578.00 crore in the year 2010-11 registering a growth of 33%. For the year 2010-11, the achievement of `31578.00 crore fell short of the State Credit Plan target of `32747.00 crore by 3.57%. The ground level credit disbursement target for the year 2011-12 is set at `38441.00 crore.

6.1. Projections and Perspectives on Finance

According to the latest SLBC report, Ground level Credit flow to the industries sector for the three years by various categories of financial institutions is Irrespective of the recent increase in the enhanced flow of credit from the commercial banks, the potential of these banks relating to industrial finance, and especially MSME finance, remains much higher.

The potential envisaged under Non Farm Sector by banks in Gujarat for the year 2012-13, including working capital requirement is Rs.6513.68 crores.

The areas of concern and strategies for improving the credit flow to the sector, as perceived by the State level Bankers' Committee, are varied. The GLCF under Non-farm Sector was sought to be increased through joint efforts of bankers, State Government and NGOs/Training institutions. The development initiatives of various agencies, viz. GIDC, GSFC, GAIC, Director Rural Development and Panchayats, Director Employment, SC/ST Corporation, KVIB, KVIC and DIC, need to be coordinated and consolidated and reviewed periodically.

The level of NPA in MSME sector has almost remained stable with slight increase from past fiscal. The NPA in MSME segment for the year 2010-11

was recorded at 0.55 per cent to the gross advances, while in the current fiscal till June, 2011, the NPA stood at 0.56 per cent. RBI raised the repo rate and reverse repo rates by 25 basis points each, at 8.25 per cent and 7.25 per cent respectively.

Gujarat is home to nearly 400,000 MSME units employing over 3.5 million people. The State which houses about 15 per cent of the country's total MSME units, is fearing a sharp increase in the NPAs in MSME segment during the high rate regime. The MSME Associations perceive that, with rates being revised every quarter, it is getting tougher to sustain a business model for the small industry. Demand is shrinking, which is prompting units to operate at lower capacity utilisation. Further, export scenario is also no longer attractive, hence there is less incentive for small industries to expand production. MSME Associations of late, advocate an insurance scheme for MSME entrepreneurs.

Echoing similar sentiments, bankers in the state seem to be distressed about a probable rise in the NPAs in medium and large industries segment. According to banking sources, there is a likelihood of a possible rise in the NPAs of medium enterprises, which are more prone to default due to their high capital requirement. In priority sector, NPAs are feared to rise especially in the sponsored programmes.

7.0. Sickness and Insolvency

The terms, insolvency and bankruptcy are often used interchangeably; but they are two different concepts. Insolvency is a state of affairs in which the financial difficulties of a business unit are such it is unable to run its business at its current pace. These difficulties are manifested in terms of drop in sales, delay in payments, erosion of share capital and increasing reliance on credit. Insolvency is gauged in terms of: 1) "cash flow" test (where it is unable to pay debts); and 2) "balance sheet" test whereby the liabilities, including contingent and prospective, exceed the realisable assets. Very often a company may have considerable assets, but illiquid, or the balance sheet reflects solvency, yet the company is unable to honour its debt obligations. The line of difference is thin, bankruptcy being a legal option, if the insolvency is not addressed properly.

Table 5.9: Asset Quality of Select Sectors (as on March 2012)

No	Sector	Values in per cent		
		Gross NPA ratio	Share in Banking System Credit	Share in Banking System NPA
1	Priority Sector	4.4	30.6	47.8
2	Retail	2.8	18.5	18.3
3	Agriculture	4.6	10.3	18.2
4	Micro & Small Enterprises	4.8	9.8	17.9
5	Real Estate	1.7	16.7	9.7
6	Iron and Steel	3.2	3.8	4.7
7	Textiles	4.4	2.7	4.5
8	Engineering	2.9	2.4	2.6
9	Chemicals, Dyes, Paints etc.	3.1	2.2	2.6
10	Infrastructure	0.6	11.0	2.5
11	Food Processing	3.4	1.4	1.9
12	Gems and Jewellery	3.8	1.1	1.5
13	Mining	3.6	0.6	0.8
14	Automobiles	1.2	1.0	0.4
15	Cement	1.5	0.7	0.4
16	NBFCs	0.3	3.9	0.4
17	Coal	8.1	0.1	0.3

Source: Reserve Bank of India, Financial Stability Report 2012

Insolvency can be managed or resolved; a company does not have to declare bankruptcy. Most developed economies have recourse to debt management, consolidation or restructuring schemes as alternatives to bankruptcy. Bankruptcy laws are more rehabilitation-oriented.

The Indian bankruptcy regime, still rooted in the Companies' Act, 1956, has processes that are sluggish and cumbersome; very often productive assets lie dormant and eventually perish. The archaic Provincial and Presidency Towns Insolvency Acts which pertain to individual insolvencies, continue to govern SMEs. The Sick Industrial Companies' Act (SICA), 1985 defines

"sickness" to apply only to industrial companies employing at least 50 workers, the criteria being a track record of erosion of net worth over a period of five years..

The SARFAESI Act brought relief to a class of secured creditors in enforcing their security, but it's not a substitute for an 'insolvency regime'. In fact, finding the balance between bank recoveries and revival of companies has effectively blurred the purpose.. If the existing framework is unable to provide effective rehabilitation or speedy recovery, then it needs to be trashed

While relying on global best practices for guidance, they have rejected the Indian committee-centered

Table: 5.10.: Gujarat: Ground level Credit Disbursements in the NFS Sector (Rs. crore)

S.No.	Sector	Achievement for the years			Target for 2011-12
		2008-09	2009-10	2010-11	
1	Non-Farm Sector	4545.53	4799.24	7240.00 (5.58%)	5851.00 (51%)
2	Total Achievement	19239.39	23662.35 (22.98)	31578.00 (33.45)	
3	Target	20202.00	27374.52	32747.00	38441.00
4	Achievement(%)	95.24	86.43	96.43	

Source: State level Bankers' Committee

approach, as well as the English management takeover model, adapted the American model regime to local needs with fast track timeframes, early exit options, e.g. permitting vulture sales, and most importantly treating government dues at par with unsecured debts.

While several Committees of the RBI have gone into the question of sickness in the MSME sector, the issue still remains unsettled. The Chakrabarty Committee made a detailed analysis of the situation, and made some concrete recommendations. The practice still remains far away, such that, only 2 per cent of the units have got rehabilitated during recent years. Of late, the Reserve Bank of India wants the definition that classifies industrial units in the micro, small and medium enterprise category as 'sick' changed. The proposal to revise the definition is aimed at detecting signs of incipient sickness among MSME units so that preventive measures could be taken by all stakeholders, including banks, to nurse them back to health. The thinking of the RBI is

that, as per the current definition, a unit is classified as sick when there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent. In practice, by the time the units reach this stage they are nearly dead in MSME credit. The Standing Advisory Committee is looking into the possibility of making a change in the very definition of sickness.

The overall lack lustre performance of banks in India, especially the public sector banks, during the first half of 2012 has important implications for the performance and prospects of MSMEs in the country. Banks have taken a hammering on several fronts, including profits, which have shrunk in the case of several banks, due to a variety of factors. The main culprit has been the alarming increase in non-performing assets (NPAs). Data, as on March 31, 2012 indicate that, while a credit growth recorded 16.3% in the current year, the NPA growth was by 43.9%. Gross NPA ratio was 2.9% as against 2.4 in March 2011.

Table: 5.11 : Gujarat: Ground level Credit Flow to Industries(Rs. crore)

Industrial categories	2008-09	2009-10	2010-11
Commercial Banks	4460.85	4512.36	6921.65
Regional Rural Banks	17.86	19.51	34.56
Cooperative Banks	66.85	267.37	284.10
Total	4545.56	4799.24	7240.31

Source: State level Bankers' Committee

Once an account is classified as a NPA, banks cannot recognise interest from it. Further, interest debited during the previous period, and not collected yet, will have to be reversed. This will dent profits for the current period. The reduction in interest will also affect the net interest income (NII) and net interest margin (NIM). Substantial provisions will have to be made for this impact from the profit for the current period. This will again have an effect on the net profits and result in lower return on assets (ROAs). The maintenance expenses on such accounts include recovery charges, legal charges, and inspection charges. Expenses towards insurance and security of assets will also have to be met by the bank. These charges can be recovered only during final recovery. This amount is often insufficient to cover the principal and interest, let alone the above charges.

NPAs, which is a critical redline in banking parlance in India, has been rising over the years. During the financial crisis in 2008-2009, various stimulus packages were announced by the Government and the Reserve Bank of India (RBI) to turn around ailing industries, having NPA implications of banks. These included restructuring of impaired assets along with interest and concessions held by banks. Banks in the country resorted to restructuring a large number of impaired assets and retaining them as 'performing assets'. The restructuring programme was based on financial projections which failed in most cases. These accounts may now have to be classified as NPAs.

There are some other reasons as well for accounts getting classified as NPAs. A few accounts have been technically-classified so because of delays in commencement of commercial production despite interest and installments being paid. The delays have been attributed to cost- and time-overruns. A large number of educational loans, mostly given on liberal terms as per prevailing guidelines of the Union Government, are showing signs of going sour. Many of these loans, especially those below Rs 4 lakhs, are also now turning into NPAs. In the case of large consortium advances, the position is more complicated. While the fixed assets are under first charge to the term lenders, the working-capital bankers hold second charge over the fixed assets and first charge over the current assets.

8.0. Financial Exclusion: Structure and Dimensions

With the enhanced growth of the economy, there has been an increase in financial deepening. However, there is a need to leverage the present stage of development for an increase in the breadth and coverage of formal finance, that the MSME sector really lack. Finance at the bottom of the pyramid has often been discussed under the rubric, 'inclusive finance'. The 'Dr C Rangarajan Committee on Financial Inclusion' (2008) has opined that "access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. 'Financial inclusion' denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. Its objective is to extend the scope of activities of the organized financial system to include within its ambit people with low.

"Inclusive growth", is a little more than just the benefits of growth being distributed equitably and evenly; it is the participation of all sections and regions of society in the growth story and their reaping the benefits of growth. The two basic supply-side issues to address the concerns of inclusive growth are. (i) effective credit delivery system to facilitate productive investment in employment impacting sectors especially, agriculture, micro, small and medium enterprises and (ii) large scale investment in infrastructural facilities like irrigation, roads, railways, communication, ports, power, rural/urban reconstruction and in social infrastructure such as health care, education and sanitation. Programmes, in this context, impacting on MSMEs can be of two types: a) direct; and b) indirect. In fact, many of the so-called inclusive policies of today are not directly impacting on MSMEs.

The economic activities are expanding and new ones are being created leading to improving income levels in both rural and urban areas. Riding on the growth momentum, corporate profitability has also exhibited sustainable trends. At present, our financial depth is much lower than that of peer group, although it has picked up in the recent past. While there is evidence of an increase in financial deepening, particularly during the current decade, there is a need to leverage the present stage of

development for an increase in the breadth and coverage of formal finance. Deepening the financial system and widening its reach is crucial.

The two basic supply-side issues to address the concerns of inclusive growth are. (i) effective credit delivery system to facilitate productive investment in employment impacting sectors especially, agriculture, micro, small and medium enterprises and (ii) large scale investment in infrastructural facilities like irrigation, roads, railways, communication, ports, power, rural/urban reconstruction and in social infrastructure such as health care, education and sanitation.

What started as an experiment for financial inclusion of the vast majority having no access to banking facilities has now become a movement.

The Chakrabarty Committee recommended that the performance of the banks indicates the need for a concerted approach. Basic Statistical Returns compiled by RBI for March 2006 reveal that RRBs have 13908 offices in rural and semi urban areas and the average number of accounts and credit per branch is 919 accounts and Rs 2.41 crores respectively. The relevant data for all scheduled commercial banks is 46081 offices and 1082 accounts per branch with credit exposure of Rs 6.02 crores per office. Thus the RRBs need to strengthen their role as development catalysts for the rural areas.

The Reserve Bank of India addresses financial exclusion in the MSME sector in multiple ways. Besides the expanded role of RRBs and cooperative banks, other modes like use of business facilitators/ business correspondents, opening of more MSME branches, capacity building for the MFI Institutions, assisting in building of forward and backward

linkages etc. may be used. For inclusive growth, the banks shall have to reach out to its constituents physically, for which the banks shall have to introduce innovative ways like use of draught animals or barefoot banking. Such radical approach shall have to be backed by technology, so that all services normally used by such remote constituents are made available right at their doorstep.

There has been a decline in credit to enterprises with investment in plant and machinery upto Rs 5 lakhs. It has come down from 23.3% of small enterprises advances in 2002-03 to 17.07% in 2005-06. As a percentage of GBC the figure has come down from 1.94% in 2002-03 to 1.19% in 2005-06. Thus, the pattern of funding by the banks remains skewed towards larger firms. Financial exclusion in small units is very high notwithstanding the compliance of guidelines on financial inclusion by all commercial banks. The promoters of tiny micro enterprises normally are neither skilled nor educated.

enhancement either by collateral security or by credit guarantee gets accentuated in these accounts. However, most such entrepreneurs, being very small, have little collateral security to offer. Further, the premium for credit guarantee coverage at 1.5% as initial fees and 0.75% as annual service fees (proposed to be reduced to 1% and 0.5% for loans upto Rs 5 lakhs in the Union Budget for 2008-09) adversely impacts the marginal viability enjoyed by such units. In order to encourage financial inclusion, we suggest that the Government may explore the possibility of bearing the entire credit guarantee fees for micro enterprises.

The incidence of NPAs in small enterprises as regards the public sector banks (which contribute more than three fourth of the total lending to this

Gujarat Scene of NPAs of Banks

Box. 5

According to data provided by SLBC, MSME borrowings in Gujarat have reached close to Rs 16,000 crore by June 2011. In fiscal 2010-11, borrowings by MSME sector stood Rs 24,825 crores. As per the SLBC report, NPA in MSME sector has almost remained stable with slight increase from past fiscal. The NPA in MSME segment for the year 2010-11 was recorded at 0.55 per cent to the gross advances, while in the fiscal 2011-12, till June, 2011, it stood at 0.56 per cent.

sector) is 5.58% vis-à-vis 2.93% for the system as a whole. This high level of NPAs makes the lender averse to lending to this sector. There is a need for strengthening the risk taking capability of the banks, especially for micro enterprises. We suggest that the risk coverage under CGTMSE may be raised to 80% for all micro enterprises.

With the objective of bringing more and more micro and small enterprises under the formal credit delivery system, the Government has suggested, in its Policy Package (2005), that each semi urban/urban branch of the commercial banks (including regional rural banks) should provide credit cover on an average to at least 5 new tiny, small and medium enterprises per year. The banks may set higher targets for themselves so that they may finance at an average of at least 10 accounts per semi-urban/urban branch per year. New branches or branches in residential areas may not be able to achieve this growth and therefore other branches would have to fill in the gap to achieve the targets.

More recently, the RBI has called upon banks to set up financial management advisory desks to help MSMEs with non-core functions such as accounting, taxation and financial management. Banks could charge a reasonable fee to provide these services to the enterprises. According to the Central Bank, the top management of banks should show their commitment to the MSME sector by clearly spelling out the targets for expanding the MSME portfolio at the branch level and closely monitoring them. Further, to ensure transparency, banks should disclose the interest rates they charge their borrowers segment-wise in the balance sheets. Despite the wide ranging discussions on Business Development Services (BDS) following the Donor Committee Report (2000), there are several cultural factors in India that hold back the development of BDS markets in the country. These factors need to be overcome.

All these would demand banks to tighten their credit appraisal standards. They should not relax their standards just because credit guarantee institutions such as the CGTMSE and the ECGC will pick up the tab should loans turn bad. A proactive policy would imply that, entrepreneurs should be encouraged to experiment with business ideas. If the entrepreneurs

fail in their ventures, they should have an easy exit policy.

9.0. Finance at the Bottom of the Pyramid

The business case for MSME finance can be woven neatly into a responsible business paradigm. Finance at the bottom of the pyramid implies both a responsibility and an opportunity. Therefore, the discussion on financial inclusion should necessarily imply a business case as well. If it does not the whole exercise of attempting at financial inclusion, becomes a cost on the economy.

It is a well expected fact that, energizing the rural economy of India, contributes significantly to the growth process in the country. But to what extent this process of energizing take place is dependent on the speed and manner in which resources flow in the rural economy. The greatest trigger, obviously, is financial resources.

Rural credit as a subject has gained significance policy attention and institutional attention over the past several years. However, extending finance to the unserved, and finding a demand for credit are two different subjects, which public policy has not been able to address properly. For the rural and urban poor, there are very limited livelihood options, where the crucial input is his own labour. Given his basic arithmetics, the key source of financing is trade credit and advances from the landlord. Programmes such as SGSY, have not yet been able to break this web of feudal relationships, under which the rural enterprises function (eg: handlooms of Varanasi).

While the availability of credit is guided by the particular social structure and relations, rather than by the availability of banking services, strategies of reaching such enterprises through branch expansion and extension of technology will not serve the purpose. The solution lies in progressively breaking the clutches of such informal financing arrangements through real services. It is in this context that the vitality of business development services (BDS) and communication techniques arise.

The Chakrabarty Committee suggested that a scheme for utilising specified NGOs for providing the following services to tiny micro enterprises may be launched by the Government.

10.0. Policy Imperatives

Credit delivery to MSMEs, in essence, means enabling access to financial products and services from mainstream financial institutions. This requires creating a conducive environment for banks to provide adequate and timely finance at reasonable rates. It is often argued that, such an environment could be created either through incentives for banks or through specific regulations that are designed, by intention, to attain the objective of economic development (RBI, 2010). However, the challenge for an emerging economy like India need to be something more than this conventional approach. India's unique position of its large MSME base, as also its huge banking network, offers significant business opportunities for both the parties. The key concern should be how to tap these opportunities on a win-win basis, so that ultimately, the economy itself is benefited. The above discussion lead us to the need for a focus on the following policy areas :

10.1. Institutional Synergy

The history of MSME promotion in India has witnessed the creation of an elaborate institutional network that, among other things, cater to the needs of financing the sector. The State Finance Corporations, set up under the SFC Act, as also the SIDCs set up under the Companies Act, imply

a significant state level network. SIDBI was set up in 1991 as an apex bank meant for financing this sector. It has been alleged that both SIDBI and the SFCs do not satisfy the interests of MSME financing in a significant manner. While both SIDBI and the SFCs fall under the purview of the Ministry of Finance, and the constituency being taken care of by the Ministry of MSME, the vital policy synergy and co ordination of activities often do not take place. It is advisable that the SFCs are merged with SIDBI so that there could be one entity taking care of the financial needs of the MSMEs. It is also important that the Planning & Development portfolio of SIDBI be significantly enhanced, so that the apex Bank can better rationalise its existence. As on today, SIDBI's compass is spread over a variety of activities, with no significant focus on any one.

10.2. Decentralised Promotional Structure

The state level EDIs, SIDCs and the TCOs perform a role that is more complementary than competitive. Merging the three institutions can help to create a larger decentralized promotional structure.

10.3. New Role for SLBC

The Usha Thorat Committee on SLBC has advocated converting Banker's Committees them into professional bodies with high powers. It is really

New Financial Products : Examples from UAE

A new model of finance is 'Bartercard' (www.bartercard.com), a unique service network that is not funded on a cash basis but by goods and services exchanged or bartered with other Bartercard members. Unlike traditional credit, debit cards or cheques, a Bartercard transaction requires member businesses to exchange goods and services with each other for 'Trade Dollars'.

These Trade Dollars are credited to the member's Bartercard account when goods or services are exchanged. Members can then utilize their Bartercard Trade Dollars to purchase goods and services from any other Bartercard member. Members save valuable cash flow and boost their profitability by taking advantage of the Bartercard network.

'Bartercard' is committed to helping SMEs grow and achieve financial success by facilitating a trade exchange network that offers dynamic and effective ways of conducting business. Although the concept of barter is thousands of years old, bartering through Bartercard is the most innovative way of combining modern technology, a community of businesses, and indirect and direct marketing channels to improve customer base, sales, profit and cash flow.

Source: arabianbusiness.com

Box. 7

Tang Model of China: A lesson for Cluster Development in Gujarat

As in many other countries, Chinese SMEs also are hindered by lack of capital. Thomas Tang, a spokesman for SMEsD and Director, Bureau of Development Planning at the Chengdu National High-Tech Industrial Development Zone (HTIDZ), has long sought a way to help SMEs resolve their difficulties in financing.

Understanding the limited awareness of SMEs and their difficulties, Tang tried several times to act as a go-between for the SMEs and banks ; but banks were reluctant to provide funding without substantial collateral. Tang proposed a trapezoidal financing model after analyzing SMEs' management, the role of financial institutions, the government's support of legislation and regulatory issues. Based on enterprises, financial institutions and the strength of the government, he defined a way to solve the financing problems .

SMEs in different periods need different financing solutions: the seed stage, they need government support funds; in the growth stage, venture capital; in the expansion phase, debt financing; and in the mature stage, equity financing. Tang's model stresses that the Government's leading role is to promote the establishment of a financial support system. Using this model, Chengdu HTIDZ has helped SMEs obtain more than 200 million in loans and avoid bad debts.

Source: India MSME Report, 2012

Box. 8

Key Challenges of a Banker

The latest challenges of MSME financing for banks constructing robust business model and lending programmes that are profitable. Designing a marketing programme that suits credit products that can be effectively sold into the SME market. Mitigating critical risks that hinders the growth businesses - Uncovering the hidden key to SME growth. Strategically engaging the MSME market. Upscaling credit analysis methodologies to stimulate SMEs to be more bankable Intensifying relationship management capabilities to enable greater access to SMEs. These are two challenges before bankers today.

felt that, the inadequate quality of deliberations by SLBCs has resulted in failure to provide a clear direction to bankers. It is high time that the SLBCs are converted into professional bodies by including outside professionals as well.

10. 4. MSME Development Fund

The MSME Act 2006 has provided a legal status to MSME policy in the country. However it is important to note that, in absence of an MSME Fund, it is difficult to operationalise the decisions taken at the state level. Naturally, the State Governments have a tendency to significantly depend upon centrally sponsored schemes. The Fund can be set up on the

basis of a Center State- Resource sharing formula, which will enable to enhance the receptivity of State Governments in relation to central funds and FDI in a meaningful manner. The banks also can contribute to this Fund, thereby making them a significant stake holder in government programmes. At present a Fund exist, but under the exclusive control of an apex Bank, SIDBI, the lending policies of which are highly centralized.

10.5. 'Missing Middle' Problem

While there has been some focus on start-ups, the 'growth' aspect of MSMEs in India is still confined to the policy space. It has become imperative to focus on growth significantly. Creation of a 'Financial

Inclusion cum Growth Fund' can be a meaningful step towards ensuring credit flow and bridging the "Missing Middle" problem.

10.6. Cluster Financing

Available evidences indicate that, the cluster financing strategy has yielded significant results, neither in terms of reducing the cost of credit, nor in terms of enhancing credit flow to the MSME Sector. The banks operate largely through specialized MSME branches. Besides, the coordination among banks also is limited. It is advisable to have networking among banks in a local context. The concept of 'State Level Small Business Finance Hubs' can be a meaningful first step in ensuring concentrated action by the banks in a local setting and to enhance financial inclusion. The 'Small Business Finance Hubs' can act as an operational hub of the SLBC. These Hubs can meaningfully impliment a project called 'Finance Park'.

10.7. MSME Insurance

MSME Insurance is a badly neglected area. It is advisable to set up an MSME Insurance Corporation of India (MICI), on lines of the Export Credit Guarantee Corporation of India.

10.8. Delayed Payments

Delayed payments is a major problem haunting the MSMEs today. Regulatory measures, as experience shows, have not been very successful in the Indian Context. It is advisable to bring in a voluntary compliance system. This will have much greater acceptability both among the lenders and the borrowers.

11.0. Conclusion

In most discussions on small enterprise development, finance comes up as a key bone of contention. Such debates often confine to one area: adequacy of credit. It is time to discuss other aspects of credit, such as use of credit as well, and appropriateness of financials. Between micro finance and venture capital, there are much more issues that need to be debated. Such a debate implies not only enhanced flow of credit, but also, a well-articulated business case for lending to the MSME sector. Beyond policy pronouncements and directives by the Central Bank, what is needed for the public sector banks is an enlightenment for analysing the ground level situation and to evolve a strong business case for lending to the MSME sector. While Gujarat has successfully established significant synergies among various promotional schemes, it is important that they be supported by innovations in the financial sector.





Innovation and New Economy Enterprises

1.0. Introduction

The concepts of ‘innovation’ and ‘new economy’ create a lot of illusions. But a crucial question relates to their contribution in an inclusive growth strategy. Gujarat has demonstrated a significant success story of MSME growth and performance of the new economy. What are the lessons that Gujarat offer to the rest of the country? This chapter discusses the new currents in the economy of the State, especially in the context of SEZs, dynamic Clusters and ICT.

2.0. Innovation and ‘New Economy’: Key Concepts of the Day

The terms ,innovation and new economy are the two key concepts that guide economic growth today. Therefore, it is important to discuss these concepts in order to have an understanding of where the MSME debate is placed today. High-growth industries that are on the cutting edge of technology are central to the modern debates on economic growth today. The term ‘new economy’ is a buzzword for this.

The concept of a ‘digital economy’ emerged in the last decade of the 20th century, in the context of the high- tech tools, such as the internet, and increasingly powerful computers, began penetrating the consumer and business marketplace. Nicholas Negroponte (1995) used a metaphor of shifting from processing atoms to processing bits.[1]

He discussed the disadvantages of the former (e.g., mass, materials, transport) and advantages of the latter (e.g., weightlessness, virtual, instant global movement). In this new economy, digital networking and communication infrastructures provide a global platform over which people and organizations devise strategies, interact, communicate, collaborate and search for information.

From the investor’s point of view, the thought that a “new economy” had arrived, was evident in the hysteria surrounding the tech-bubble of the late ’90s and early 2000s. Without fully considering macroeconomic factors, investors and financial institutions bid up stock prices to unprecedented highs. Although the tech bubble has long since burst, the remaining firms have remained very innovative and at the forefront of technology.

What is the relevance of these two concepts to the context of MSMEs? It is widely accepted that the growth of the digital economy has widespread impact on the whole economy. Various attempts at categorising the size of the impact on traditional sectors have been made.[11] [12] The Boston Consulting Group discussed “four waves of change sweeping over consumer goods and retail”, for instance. [13] Deloitte ranked six industry sectors as having a “short fuse” and to experience a “big bang” as a result of the digital economy. [14] Telstra, a leading Australian telecommunications provider, describes how competition will become more

global and more intense as a result of the digital economy.[15] . Increasingly, the “digital economy” is intertwined with the traditional economy making a clear delineation harder.

Given its expected broad impact, traditional firms are actively assessing how to respond to the changes brought about by the digital economy. For corporations, timing of their response is of the essence. Banks are trying to innovate and use digital tools to improve their traditional business. Governments are investing in infrastructure.

Companies in the new economy are heavily involved in the internet and biotech industries, but the ripple effects of new technologies has spread out to all other industries as well. The new economy is also an economic system based on e-commerce.

3.0. Innovation: The Old and the New Debates

The term ‘innovation’ was formally brought into the discourse in economics by Schumpeter, and therefore, the Schumpeterian definition of innovation remains widely quoted. Schumpeter defines innovation as “the introduction of new goods (...), new methods of production (...), the opening of new markets (...), the conquest of new sources of supply (...) and the carrying out of a new organization of any industry” (Schumpeter, 1961)

In the modern world, there has been an explosion of millions of products in substitution and complementary roles, and new products are added every day. Besides, there is a new way of doing the same thing more effectively and efficiently. This has been facilitated, to a large extent, by the spurt in Information Technology.

Innovation, in simple terms, means, ‘to make something or to do something in a new way’. But, ‘business innovation’, by definition has to also include the concept of improvement; it is not simply to do something differently, but to do or make something better. Business innovation involves developing new products or improving existing technologies, processes, designs and marketing to solve problems and reach customers.

The twenty-first century is not only the era of knowledge-driven development, but of sustainable development as well. The challenge of enterprise

development today is to achieve the “triple bottom line”, where environmental sustainability has a paramount role. Technology has to ensure that India’s MSMEs remain both green and clean, while helping to achieve the social and economic goals expected of it. The emerging world-orientation towards green business offers both opportunities and threats to our MSMEs, which need to be addressed in an integrated frame work of policy and strategies.

Globalisation, technological change and the levelling of access to information bring new opportunities for SMEs, but also pressures, risks and transition costs. Compared to large firms, SMEs are less able to undertake research, and have smaller margins to manage volatile cash flows due to market turbulence or late payments. At the same time, SMEs enjoy key advantages in the form of greater adaptability and freedom from the legacy of entrenched technologies or relationships. Today, many SMEs are widening their horizons and reaching out to global markets or partners. This is in part occurring through new forms and ways of networking, which allow SMEs to combine the advantages of small scale and strong local presence with the economies of scale and scope provided by networks.

In this new playing field, it is more important than ever for SMEs to innovate, and this applies to new and traditional sectors alike. Innovation can take many shapes: commercialization of new technologies as well as changes in how firms organise themselves, manage and train their employees, serve their customers and markets.

In SMEs, and particularly in semices, innovation can take unpredictable forms, which are seldom covered by traditional public policies. Novel innovative efforts may also arise from, and are in fact a prerequisite for, successful networking among SMEs.

‘Clusters’ or ‘industrial districts’ can strengthen the ability of small firms to compete successfully at the international level while continuing to exploit their local strengths. Clusters are production networks made up of firms become strongly interdependent and grow together, e.g. through synergies in the value-added chain, market strategies, mutual learning and beneficial specialisation. In industrial districts,

Knowledge: The Key Source of Comparative Advantage

Confronted with lower-cost competition in foreign locations, producers in the high-cost countries have been confronted with five strategic options in responding to globalisation: i) change nothing and suffer losses of profitability and market share; ii) reduce wages and other production costs sufficiently to compete with low-cost foreign producers; iii) substitute equipment and technology for labour to increase productivity; iv) shift production out of high-cost and into low-cost locations; and v) shift into knowledge-based economic activities. In the emerging boundary-free world, the last option is becoming increasingly crucial.

this occurs through firms opting to locate and operate in (1) physical proximity. Often, clusters encompass (2) alliances with universities, research institutes, knowledge-intensive business services, bridging institutions (e.g. consultants) and customers. For various reasons, clusters may not evolve spontaneously, and their development is affected by various national and local policies, institutions and infrastructure.

Going online, exploiting the Internet and engaging in electronic commerce represents another proactive strategy to reach new customers and suppliers, cut costs and expand in international markets. Knowledge can easily be transferred, allowing opportunities to be rapidly embraced by firms and individuals anywhere in the world. However, going on line also raises problems and obstacles. SMEs must deal with issues such as managing expanding information flows, cross-border taxation, authentication, transaction security and dispute settlement, and must be able to build public recognition and trust beyond national borders. The cost of acquiring the required technologies and skills can be disproportionately high for smaller companies. An understanding of the role played by public policy and various stakeholders, is important, as they are decisive in shaping the direction of change.

4.0. MSME Innovation: A System Approach

The term ‘innovation’ has been widely used in development literature, as also in the context of industrial development. However, in the context of SMEs, it has a special relevance and scope. While innovations are vital for economic development, they can happen only within some critical constraints. Economic and social costs and benefits need to be weighed before policy initiatives are thought of.

The concept of national system of innovation has been used as an analytical tool since the late 1980s. The system approach, according to Gault (2010), involves three components: a) activities; b) linkages; and c) outcomes.

4.1. Activities

Who are the actors in the system? This is the primary question involved in a system approach. The primary actor, of course, is the entrepreneur’s themselves. The entrepreneurs themselves are a heterogeneous group in the Indian context.

At the one end, there is a small group of dynamic SME, mostly urban centred, who are the one subgroup having the highest functional visibility. The business case of the MSME sector is often perceived by the other stakeholders like financial institutions and promotional agencies on them. The large majority of unorganized sector units however, do not have such functional visibility, and a business case is often poorly built upon them.

The next question relates to the nature of the activity engaged in by the actors. This is essentially a demand-supply question. The needs of the entrepreneurs, and the perception of such need by other actors, determine the nature of the activities initiated. In fact, it is the escalating transactions costs involved in doing business is a key constraint of SMEs in India today the term transactions costs, however, is a generic term, which need to be spelled out. Reducing transactions costs, as a problem, has often been addressed in terms of two things: a) systems; and b) services. The single window system, practised by state governments are meant to be a system that addresses these problems. Besides, various actors, including the governments, donors

etc. facilitate BDS in various forms. Including the cost to the actor? What knowledge is produced? What knowledge is used? The setting of the activity, ie, where the activity is happening, is also crucial. Firm-specific innovations are limited in their scope, as the opportunities of further innovations lie exclusively with that firm. On the other hand, cluster level or region level innovations have a much greater opportunity of scaling up. This enhanced opportunity has been widely appreciated around the world, and that explains the rationale of collective efficiency models in theory and practice. Why an actor initiates an innovation programme is also a central question. Institutions and programmes having a long term and national vision, may contribute much greater for a national system of innovation than others. Here, the objective of the actor is a crucial factor. The history of energy efficiency and renewable energy programmes in India are a classic example. These programmes originated essentially as government programmes, though they were projected to be meant for greater innovation. On the other hand, the IT sector innovations were primarily triggered by the active role of the private sector, and turned out to be much more successful. Thus, the objective of the actors behind the innovation are crucial in shaping their contribution to the innovation system.

4.2. Linkages

Another question relates to what resources have been committed to the activity which involve other actors? These include, expenditure, materials, energy, human resources, capital investment and knowledge transmission.

Linkages, obviously, are a question of prioritization. Given the basic goal of the firm (maximising profit)

commitment of resources on a particular activity is, essentially a transformation problem. This transformation again takes place on the basis of 1) the entrepreneur's perception; and 2) critical experience in the past. For instance, unreliable power situation and its high costs may be a reason for going into new energy sources.

Similarly, where enhanced attrition of human resources take place, technologies such as cloud computing may provide better efficiency in office management. Understanding of the problem, as above, by itself is not enough. It is also important to get connected with the right contacts, social organization, and supporting infrastructure. In the Indian MSME sector, linkage is a badly neglected area. But this is often a general problem in many developing countries. While government programmes are the only sources of innovation initiatives relating to the SME sector, the government machinery is not often keen to design such programmes in a state-of-the-art manner. It is a state of knowledge, ie, crucial in programme development. The programme under implementation creates inevitability of acquiring new knowledge. However, at both the ends, the government fails, essentially because of lack of a continuous learning process. Learning is insufficient because of poor engagement of the stakeholders on the basis of a strong knowledge-base. Such knowledge base can happen only through a co-fertilization of knowledge across the government, private sector, and other actors. As a result, though inadequate, there has been, expenditure, materials, energy, human resources and capital investments. But it does not lead to knowledge creation and its transmission. There is also lack of appropriate social organizations and supporting infrastructure that lead to a continuous process of knowledge creation.

Cloud Computing: The New Technology

Box. 2

Mr. Christopher (Tso-Sung) Lai (2011), Director of Business Start-up and Incubation Division in Small and Medium Enterprises Administration from Chinese Taipei, underscores the benefit from applying cloud computing technology to business operation and management in the SME context. As combining virtual cloud computing technology and physical logistic flows, cloud computing is one of the most cost-efficient tools that could effectively improve the logistics structure, transportation quality and security. It is believed that enterprises, by adopting new technology and managerial techniques, can take great advantage on enhancing the flows of information between departments, suppliers and customers.

How to connect and get connected? What are the social organizations, the supporting infrastructures appropriate and relevant to the context?. How can networks and constraints on the linkages of the actors be disciplined? These are issues that demand close examination.

3.3. Outcomes

The outcomes of an innovation initiative are all the more crucial. What are the outcomes in the short-run and in the long-run? In the short-run, an innovation should lead to visible outcomes, like change in the market share skill levels of the workforce, and to more clear expressions of innovation such as , patents and publications, new products or processes. While the unorganized sector is dominant in the Indian MSME sector, a much more important indicator could be enhancements of employment, from part-time to full-time as also in absolute terms. It can also mean a regular income that corresponds to remuneration for wage labour.

What result? What happened in the short term? (change in market share, skill levels of the workforce, patents, publications. New products or processes)

An application of the framework can simply be summarised in the following sentence: For an actor(who) to perform and activity (what) in a location (where) in order to achieve an objective (why), what are the costs (how much), the linkages and incentives (How connected) in order to produce an outcome (what result, over time) in the pharmaceutical sector (where) in order to gain market share (why) is correlated with the size of government contracts, received (How much and connected) and the amount of refundable tax credits received(how much and how connected)

4.0. Key Innovation Issues in Gujarat

While ‘innovation’ as a concept has vast scope, its applicability varies from country to country. Therefore, there cannot be a uniform innovation policy in all countries. Viewed from this angle, it is important to discuss the key MSME innovation issues in India, against the comparative situation that prevails in other parts of the world.

SME innovation policy in Europe, though has a longer history than that of many developing countries, has taken an accelerated role in the

Box 3

Global Dimensions of SME Innovation

There has been enhanced political consensus around the world on the role of SMEs relating to innovation. According to Pia Gjellerup, Minister for Trade and Industry, Denmark, “an important task of governments is to ensure that social returns on innovation are reaped to the maximum possible extent. Therefore, there is clearly a role for governments in promoting new technologies. But how should it be done? The full benefits of the new economy are only reaped if new technologies are implemented in an efficient way throughout society. Only then will overall productivity start to rise and general welfare for society improve significantly. In order to achieve this, we need a new policy that focuses on speeding up technology diffusion and the extension of technology to all segments of the economy. SMEs will play a key role in that diffusion. The dynamism of SMEs is crucial in extending and transferring the benefits of new technologies to society.”

The organizational dimensions of innovation has been noted by Mr. Gwillermo Rozeems Tweet, Special Advisory, Ministry of Economy, Argentina as follows:

“We must use SMEs to capitalise on the benefits brought about by globalisation by transforming them into a link between the global and the local market. It is absolutely unix-railye that we find the means to improve the quality of institutions and increase the density of their interactions, at both the cultural and the economic level, if we are to promote a local development which is sustainable.”

Source: OECD, 2010

MSME Innovation Fund of Gujarat

The Government of Gujarat, on the eve of 'Vibrant Gujarat 2011', launched an SME Innovation Fund with a corpus of around Rs 60 crores. The measure was rationalised in terms of the strategic position of the MSME sector, in relation to the large investments in the manufacturing sector. According to the Chief Minister, in 2007-08 and 2008-09, of the total number of jobs created in the state, 78 per cent were by SMEs and the agriculture sector.

recent past, especially in the context of the global economic crisis. Funding innovation activities, especially for research and experimentation, has become common. The EU has special funds not only for innovation studies in Europe for targeting the emerging markets. Germany for instance, has set up a 'High-tech Start-up Fund' as a part of a variety of innovation funding instruments, which it has set up for SMEs.

Keeping pace with technology trends, is another constant challenge to innovation policy. Various countries of the European Union have given specific thrust on this area, with focus on ICT, biotechnology, nano-technology, medical technologies including pharmaceuticals, and knowledge-intensive services. Adjusting MSME innovation, and placing it as part of the educational system is yet another policy thrust. The focus on vocational training is an important link in this context. Besides, industry-science linkages have been promoted through thematic R& D programs. Germany, for example, has a Central Innovation Programme for SMEs (ZIM), involving both public and private actors.

Innovation policy governance is another focal area where specific institutional structures have been created. At the strategy level, a major thrust area of SME innovation in Europe is the focus on SME clusters and high technology focused strategies.

In the Gujarat context, the key MSME innovation issues that need to be discussed are the following:

1. organizational and managerial;
2. energy saving and clean energy issues; and
3. sun- rise business opportunities.

4.1. Organizational and Managerial Innovation

Organizational and managerial issues do not often get due importance in discussions on innovation. On the other hand, the focus largely has been on

new technologies, and their introduction. In fact, in developing and emerging economies, the process of innovation cannot be as smooth as it could be in many of the developed countries. Institutions are often not well-developed in a relative sense, and the absorption capacity of MSMEs also is relatively less. The issue, therefore, is how to change the existing order of things in a demand-driven manner. This requires significant sensitization and education of the entrepreneurs, as also of other stakeholders.

From the level of sprouting of a business idea, up to the stage of growth of the enterprise, there need to be a chain of innovation. In the modern world, MSME clusters have been considered as the seed beds of innovation. Therefore, the thrust is on such collective efficiency-based strategies. Another important area relates to start-up, which begins with the questions relating to successful start-ups and grooming of enterprises. It is in this context that the concept of 'incubation' has emerged.

With the globalization of Indian economy, the traditional sectors as well as hi-tech areas are in immediate need of fresh technological inputs, and associated managerial practices and support systems that can ensure their sustenance. The emerging technological and knowledge-based ventures seek nurturing of ideas from professionals, for which one need to go beyond the traditional venture capital activity. Such entrepreneurial ideas have to be fostered and developed in a supportive environment, before they become attractive for venture capital. This process of grooming is the role of incubators.

There are primary and secondary target groups in an incubator. Persons who would like to become an entrepreneur or have founded an enterprise, need much initial support. Groups of researchers (around universities/research Institutes) who are partially financed by an industrial partner in-charge and who develop products adapted to this partner's

Green Impact: An Innovative Programme from UK

‘Green Impact’ is a university based, ‘green’ programme for SMEs. It is a programme originally run by NUS which is used to cut carbon emissions in universities and colleges. In the Green Impact Universities and Colleges Scheme, each department has a workbook that one work through which sets one, certain goals (for example to re-use envelopes) with the end goal of becoming more eco-friendly. With this scale up to SMEs, the goals will be specific to businesses and will be imperative in cutting carbon emissions.

The benefits of Green Impact for a business are, lower carbon emissions; saving of money; and awareness in the workplace. Besides, it is free of cost. The Programme was rolled out from Sheffield, UK.

Source: www.greenimpact.com

needs, also need help and advice. Students, or ideally potential employees of start-ups, need practical training in the industry. People who have an established credibility in the industry, and would subsequently like to start product development on their own, also can form the primary target group.

The secondary target group includes, investors, who financially commit themselves to researchers’ groups as well as to the start-ups at the Incubator, clients and sales partners who are interested in cooperation with researchers’ groups and start-ups at the incubator, and industrial enterprises, universities and private training institutions who are interested to transfer their know-how within the qualifying offers of the incubator and mediate their clients.

The concept of incubators emerged in the developed countries of North America and Europe in the 1980s. It started operating alongside many other generic business development services for a small select group of companies. Subsequently, developing countries picked up the concept, and now there are more incubators in the latter countries than in the pioneer countries.

Evolved in India thirty years back, incubators have, of late, gained significant acceptability in policy circles. The Technology Development Board, under the Ministry of Science and Technology, has evolved a scheme for seed support to Technology Business Incubators and Science and Technology Parks. Incubators in India belong to different sectors. Some of the examples are discussed below. Recognizing the importance of information technology and

its contributions towards export earnings, NSIC established its first Software Technology Park at Okhla in 1995. The Park has met its objectives in terms of facilitating establishment of business units within minimum lead time and creating the complete business environment conducive to software exports. Based on the experience gained, a Technology Business Incubator in IT sector is being established at Okhla. This initiative is also aimed towards backward integration of the existing NSIC- STP objectives. The objective of the NSIC Incubator is to create sustainable entrepreneurship development in the area of ICT especially first-generation entrepreneurs, and to nurture innovative ideas to commercially viable business propositions, and encouraging commercialization of R&D outputs into commercial ventures.

In the agri-business sector, the NIABI aims at creating a synergy among ten Business Planning and Development (BPDs) units spread across the country, facilitating the commercialization of the innovative agro-technologies through agri-business development, and thereby benefitting the farmers. The BPDs are setup by the NAIP of the ICAR and co-ordinated by the Agri-Business Incubation Programme of the Agri-Business and Innovation Platform (AIP) at ICRISAT. So far, 40 technologies have been successfully commercialized. Start-up incubation holds significant importance in a country like India where entrepreneurs often start businesses without proper planning. For the uninitiated, business incubation programmes/centers provide support functions, mentorship and resources to individual entrepreneurs or entrepreneurial setups.

Building the Green Economy with SMEs in Canada

Canada has a higher percentage of SMEs than most OECD countries. Combine that with the fact that SMEs are a strong source of innovation in Canada, and it is expected to lead the move to position Canada at the heart of global clean-tech opportunities. Clean technology is emerging as a key dimension of the global economy, given its potential to create new revenue streams, and provide efficiencies that save money, leading to higher profitability and competitiveness. This improved productivity, with new or better ways of producing goods, has the potential to revitalize industries, boost profitability and simultaneously improve businesses' environmental performance.

This enables them to get all the expert advice and technical guidance that they need to survive for a longer time.

In India there are about 100 incubation centers supported by the ISBA which is the apex Indian professional body supporting business incubators. Private incubators are a handful, but gradually growing.

Gujarat has its contributions as follows: Centre for Innovation, Incubation and Entrepreneurship (CIIE), at IIM Ahmedabad was started as an incubation initiative in since 2007. CIIE does not provide physical space for business incubation. They want entrepreneurs to build their ideas from wherever they are stationed, so that the local economy benefits from its growth. From the time it started, CIIE has incubated more than 50 companies, only a handful of which were owned by IIM students. It has been incubating businesses in the areas of internet and mobile technology, clean technology, social sector start-ups and healthcare. Mentoring clinics, art exhibitions, global warming initiatives, and social enterprise funds, are some examples of the CIIE initiative.

Energy holds a predominant position in any discussion on MSME innovation. In fact, the prosperity of a nation is often measured in terms of the per capita energy consumption in addition to GDP. While the use of energy is such a significant indicator of industrial activity, the type of energy used is a critical factor influencing energy security and well being of the people. Therefore, both the extent of energy used, and the type of energy that has been in use are central to any discussion on enterprise development.

4.2.1. Energy Saving and Clean Energy Issues

In the context of MSMEs, the discussion on energy- use is relatively new. Such discussions were largely triggered by donor organizations, who have articulated a case for cleaner production systems, essentially from a welfare angle. The European perceptions on Asian industry is largely of 'sweat shops' and environmental degradation, affecting quality of life adversely. Therefore, from the point view of labour standards, several donor agencies and international organizations have entered into projects and programmes meant for development of cleaner production systems in India. A second, but more recent, interest in this area is on cleaner or green energy, itself as a commodity. Therefore, the more recent discussions are anchored on the production and consumption of such forms of energy and their applications. In fact, a synergy of these two streams of interest and investigations have gained much greater importance in the context of the current debates on global warming.

India has made a major commitment of investment tune of Rs.74,000 crores in cut backs on CO2 emissions. This is based on initiatives to improve energy efficiency and cut carbon emissions from its power sector. The overall investment required to flow for achieving this energy efficiency targets has been estimated at Rs.74000 crores by 2015. Indian economy, though considered to be one of the least energy- intensive among the world, the government has projected a 20 to 25 per cent cut in emission intensity by 2020. These targets would obviously imply that the two lines of initiatives mentioned above, i.e. energy saving, and green energy production, should be significantly supported by the MSME sector as well. Therefore, a key

Gujarat: Asia's Largest Solar Park Attracts Green Giants

Lanco Solar, a fully owned subsidiary of Lanco Infratech Limited - the fastest growing business conglomerates in India with interests in EPC, Power, Solar, Resources and Infrastructure, announced that it has completed a total of 56MW Grid connected Solar Photovoltaic Power Plants in Gujarat, completed its 56MW Solar Photovoltaic Power Plant in Gujarat, in April 2012. These Power Plants will generate up to 90 million units of green electricity annually resulting in reduction of CO₂ emissions by 85757 tonnes annually. This includes three plants of 35 MW owned by Lanco Infratech Ltd and additional 21 MW built as turnkey EPC for other developers - the Gujarat Power Corporation Ltd (5MW), GSPC Pipavav Power Company Ltd (5MW), GHI Energy Pvt Ltd (10 MW) and Gujarat State Electricity Corporation Ltd (1MW).

Lanco is housed at Gujarat Solar Park, Asia's largest Solar Park in Gujarat, which was dedicated to the nation on April 19, 2012. The Park is reported to be the first of its kind in the world, being the largest, multi-developer, multi-facility Park to encourage investment in the sector. GPCL partnered with Lanco for its 5 MW PV Project in Solar Park. Lanco also happens to be the first developer to deliver a 5MW solar project in Gujarat.

Source: India Infoline News Service / 09:55, Apr 18, 2012

question of public policy is, how to integrate our MSME programmes with the overall agenda of reduction of carbon emissions.

The political economy of global warming is explicit. Naturally, its implications in the context of SMEs also should follow in line. There is now an enhanced realization of the role of "green" elements in SME development, the world over. The reason is: (a) the spread of SMEs; and (b) the ease with which simple green technologies can be introduced. The opportunity is much greater in developing countries today.

The issue, in essence, is as follows: Industrialisation leads to pollution, which need to be minimised. On the other hand non-polluting processes and products should be newly introduced. The former is a relative question, and the latter, an absolute one.

The environment trend has been around and it is the best time for MSMEs in India to go green. As the problems of global warming gaining urgency, a massive number of companies, both small and large, from all over the world, are showing interest to implement a green strategy into their business to address climate change.

What does the term 'green' exactly refer to? When energy from the sun heats the earth's surface, the earth radiates back a part of that energy again. A

part of this is trapped by clouds and by atmospheric gases (greenhouse gases or GHGs) to retain the heat like a greenhouse. As a result, the earth get warmer. Scientists are of the view that the layer of greenhouse gases has been increasing at a rapid pace for the last fifty years due to different forms of human activity and primarily as a result of rapid industrialization. Now the Mother Earth needs to be taken care of, and we can do it turning 'green' - a term that is used to refer to products, services, companies, systems and lifestyles which help to reduce negative environmental impacts compared to those using today's technologies.

Green business, for the economist, is essentially an opportunity-cost calculation. What are businesses going to lose or gain implementing a 'green' strategy into their business? Let us take an example: it is estimated that a company with 1,000 employees and \$100 million in revenue uses 30 million pages of paper a year. It equivalent to cutting down 1,369 trees and producing approximately 300,000 pounds of CO₂ every year. If the company uses e-papers instead of papers, they can not only save a huge sum of money but also contribute keeping the environment cleaner. So, going green is about saving the environment and saving money.

The term 'Green Business', therefore, is a comprehensive one, involving the principle of "triple bottom line", a sustainability concept. It

should be acceptable not only on environmental terms, but on social and economic terms as well. In other words, all the three elements of the bottom line are mutually reinforcing. Hence, introduction of environmentally sound production processes would also mean that the output becomes economically viable in the long run, and socially justifiable as well. This is the rationale of green production. On the other hand, an enhanced entry into the production of environmentally sound products, processes and services, would mean that, either in the short run or in the long run, its sustainability could be established.

4.2.1.1. Recent Global Experience

The global perspectives on green business relating to SMEs has emerged through a series of deliberations. An understanding of some of the recent initiatives is likely to be useful for understanding of such initiatives in a proper context.

“Green growth” denotes the enhancement of an economy’s growth potential based on low carbon emissions, which implies going green “defensively” by responding to climate change. “Green industrialization”, on the other hand, means going green “aggressively” by creating new markets, using green technologies and environmentally friendly business models which will create a virtuous circle between environmental protection and economic growth (Lee, 2011).

In the “green market” (still in its infancy) major countries are focusing their capabilities on securing “first-mover” advantages. In Japan, the so-called “Fukuda Vision” (June 2008) concentrated on the development of new core technologies for greater energy efficiency and renewable energy (power generation and transmission, transportation, innovative technologies for materials and steel-making, public livelihood - energy saving housing and buildings - for example). China, stigmatized as a major polluter, is fostering the new renewable energy sector, and has rapidly adopted leading technologies (solar power-based cooling and heating products, solar cell production and wind-power turbines) (Lee, 2011).

Wad (2009) argues that automotive firms in developing countries have a unique opportunity

to become part of a “green revolution” aimed at increasing fuel efficiency and renewable energy, lowered emissions, reduced fuel insecurity and more complete recycling of scrap. Some of the companies in developing countries will be able to achieve these goals on their own, without joint ventures, technology agreements, further FDI in the sector, etc. However, government support is required in terms of promoting R&D, economic incentives, investment in green infrastructure and ensured markets. Suppliers of auto components must be encouraged to become more innovative and competitive and the industry must be inserted into “...a sustainable and comprehensive transport sector enabling increased mobility of people and goods together with decreased environmental degradation, depletion of non-renewable resources and global warming” (Wad, 2009, p.1).

A study in the case of the Philippines paper recycling industry (Chiu, 2009) argues that there are opportunities to promote the more efficient utilization of recyclable materials and to reduce solid waste in their production activities. Enterprises need to put greater emphasis on their capabilities for independent innovation, energy savings and emissions reduction, with the objective of enhancing core competitiveness. Government can play a key role by creating appropriate institutions to deal with market failures and creating appropriate incentive mechanisms. In another study, Chiu (2009) refers to the development of the Chinese pulp and paper industry, which has progressed, driven by innovation and internationalization. Innovation has happened in terms of scale, machine supply levels, environmental protection and quality standards, largely due to technology changes.

Moving towards “green industrialization” in the manner outlined above is not easy for all countries. Governments need competence and commitment to introduce and enforce appropriate policies and incentive structures, enterprises need key competencies, there needs to be a commitment to R&D and education and training. Governments and the private sector have to work together in order to reach the frontiers of global technology. The UNIDO plays a key role in this area.

New EU Scheme for Waste-reducing SMEs

A new EU scheme will provide support and funding to SMEs that take steps to minimise their waste production. SMEs taking steps to increase their resource-efficiency and minimise waste, are to benefit from a new EU eco-action plan, called ‘EcoAP’. Under this, funding, training and subsidies will be available to businesses that take steps towards resource efficiency, or push products and services that aim to reduce environmental impact. Products that increase the use of recycled materials, for example, will be eligible for the scheme, as will companies that take steps to reduce the amount of water used by employees, and in the production process. The EU, which sees eco-innovation as crucial to Europe’s economic competitiveness, said the plan aims to reduce commercial pressure on the environment and bridge the gap between innovation and the market.

Several initiatives on clean production have taken place in the context of Asia. The ASEM Forum on Green Growth(2010) , attended by more than 700 senior government officials, experts and business people from Asia and Europe, discussed national and regional policies for green growth, technology action plans for climate change mitigation, opportunities and challenges for SMEs related to green growth, best practices of green innovative SMEs, and implications of the green growth economy for Asia-Europe co-operation on SMEs.

An increasing amount of help and advice is given to European companies that wish to sell their goods and services in emerging markets such as China and India, where renewable energy and green technologies are seen as major areas for growth. According to the EU agenda, internationally active SMEs are expected to yield better results, who noted that SMEs with international activities are able to expand and create jobs more quickly than those only serving customers in their own domestic markets (Tajani, 2011). Establishing business centres in both China and India is, therefore, considered extremely beneficial for enterprises because there they can find strong support helping them to enhance their competitiveness and become more sustainable in the long term. Karnataka, and Kerala, innovative financing and development models can be explored.

5.0. Going Green: Sunrise Business Opportunities for Gujarat.

There is no hard and fast rule as to how an SME should go the green way. There is also no rule as

to when they can do so. However, it is possible to delineate three distinct aspects of green business as follows:

4. The Compulsive Sequence of Cleaner/ Greener Production
5. Green Energy Business Opportunities; and
6. Backward Linkage Activities.

A discussion on these lines would be immensely illuminating, as it would throw light upon how the green way, as it relates to MSMEs in India and elsewhere, have evolved over time.

5.1. The Compulsive Sequence

Most discussions on SME productivity in developing countries, end up in the issue of outdated technology, and arguments for the latest technologies which are often imported. The relevant question in the Indian context is not that of having the latest technology, but a technology that is consistent with sustainable development that is specific to the Indian context. Therefore, a rejuvenation programme for many of the crisis industries and sub sectors should give due importance to energy issues and options.

Energy efficiency in the MSME sector assumes importance, primarily because of the prevailing high costs of energy and supply-related concerns. In general this sector lacks in accessing technology due to poor consultancy support/services for technological information, non availability of skilled man power, lack of awareness among entrepreneurs, emphasis on production and production cost,

lack of managerial skills and poor adaptability to changing trade and trends. A discussion on energy conservation addresses, energy, environment and supply related issues.

Though, large numbers of MSMEs, located in clusters in various states of the country, have potential for energy savings, there is not much authentic information and data available with respect to their energy consumption and energy saving opportunities. Majority of MSMEs are typically run by entrepreneurs who are leanly staffed with trained technical and managerial persons to deploy, and capture energy efficiency practice to reduce manufacturing cost and increase competitive edge. Therefore, it will be useful to build their energy efficiency awareness by funding/ subsidizing need-based studies in large number of units in the MSMEs and giving energy conservation recommendations including technology upgradation opportunities. It is envisaged that, such interventions supported by diagnostic studies and pilot projects at cluster level, focusing on energy/resource efficiency, energy conservation and technology upgradation, would be helpful in addressing the cluster specific problems and enhancing energy efficiency in MSMEs.

A radical shift in production process in order to enhance their productivity and profitability, is vital for MSMEs at the national level and in Gujarat. However, there also exist some critical constraints such as inadequacy of capital, smaller size of the market, and limited perceptions of the entrepreneurs regarding the need for such changes. However, even with such critical constraints, the role of some exogenous factors such as the interventions of the legal system regarding pollution (eg: the Supreme Court Orders) and the compulsions brought in by product and labour standards through trade, act as compulsive sequences for a change in the existing order of things.

A number of large multinational companies like Vestas, Suzlon, Philips and Siemens, around the world, and even some small start-up businesses taking the 'green' issue seriously and willing to offer a helping hand to tackle climate change and ensure a healthy planet for ourselves. But while a negligible number of Indian corporates, and mainly the European businesses are showing their eagerness to

go green, the situation in India is far from satisfactory. A few businesses are doing it willingly, others, particularly those that are energy-intensive, have the requirements to do so to some extent, as a result of government legislations. The green concept is not gaining enough popularity in the country - neither among the large businesses, nor among the SME community - partly because of a lack of awareness and social responsibility, and partly because of inadequate realization of the problem of climate change and global warming.

Indian businesses, sooner or later, will have to change their attitude and rectify their procedures. Legislations and social responsibility may contribute much less to such a change. Growing awareness by customers is likely to be the trigger. A new group of customers classified as LOHAS (Lifestyles of Health and Sustainability) is emerging at a rapid pace in many parts of the world, especially in Europe. These groups of customers make their purchasing decisions depending upon how a business operates itself. They have a profound sense of social responsibility, and are most likely to buy environmentally responsible products. In India, we lack such customers till now, but days are not far away when Indian businesses will have to deal with such consumer groups. The internationalization of Indian firms would bring in such compulsions both in the markets abroad and in India. And when it comes to the SMEs, engaged in export, particularly to the European countries, they are already in a race against time, to turn green and tap into the wielders of a new economic power - the LOHAS.

5.2. Energy Sources and Consumption

In general, MSMEs lag behind larger industry benchmarks in terms of energy efficiency, technology upgradation and productivity. There are many energy intensive MSME sub-sectors like grey iron foundry, brassware, brick, ceramics, glass, food products, dairy etc. that offer substantial scope for energy conservation through the adoption of improved, energy efficient technologies. In order to plan and implement energy efficiency initiatives in an entire MSME sub-sector, it is essential to have comprehensive and dependable baseline energy consumption data; for, only with such data can

benchmarks be set for specific energy consumption (SEC) in the sub-sector, thereby providing a basis for assessing the scope for improving energy efficiency and identifying suitable technological options for the different clusters within that sub-sector.

BEE has initiated an analysis of energy consumption data in about 25 energy-intensive MSME clusters under its 'SME Programme', and engaged a set of organizations to identify potential areas for energy conservation. Also, energy data has been gathered on a number of MSME clusters by agencies that have undertaken cluster-level energy efficiency initiatives like PCRA, SIDBI, UNIDO, UNDP, KFW, JPAL, APITCO, ITCOT, GITCO, TERI, etc. However, no specific study has so far been conducted to quantify and/ or analyse the levels of energy consumption in different sub-sectors of the Indian MSME sector as a whole.

In this context, the Agence Francaise de Development (AFD), a bilateral agency, has initiated a project to map and benchmark the energy consumption in different MSME sub-sectors based on the data collated by different agencies. The overall purpose of the project is to provide a comprehensive database on energy use in different MSME sub-sectors, which would enable the formulation of targeted energy efficiency interventions.

The Fourth MSME Census has come out with some interesting results on energy sources of MSMEs. It shows that the main source of power for the working enterprises in India was electricity and 67.07 per cent of enterprises used electricity. Only 0.19 per cent of enterprises used non-conventional energy as source of power. However, it is also ironical that power shortage is a critical problem facing MSMEs in most States.

5.3. Programme Level Initiatives

The MSME Energy Efficiency Programme of SIDBI consists of a credit line of EURO 50 million and an accompanying grant component of EURO 0.5 million for technical support; the MSME Cleaner Production programme involves a credit line of EURO 38.5 million and a grant of EURO 0.2 million for technical support.

SIDBI has signed a loan agreement with Japan International Cooperation Agency (JICA) involving a loan for 30 billion yen (Rs.1, 500 crore, meant to be used by SIDBI for financing the MSMEs for energy saving and environmental-friendly projects. The funding will also benefit these enterprises to accumulate carbon credit points. The JICA loan money meant for on-lending to MSMEs will be made available to SIDBI in three to four tranches, depending upon the utilisation of credit for the aforesaid purpose. Capacity building and equipment purchase are the target areas of intervention.

The loan amount will be used by SIDBI in four main programmes. It will utilise the loan amount for providing credit directly to the enterprises. It has also identified nine NBFCs (non-banking finance companies) for offering resources support. It has also identified 30 commercial banks, which do on-line lending to micro and small medium enterprises and also provide them technical support. The JICA loan credit could be used as a fund for energy efficiency equipment, which would generate carbon points.

5.4. Multilateral Programmes

Multilateral agencies, so far have not entered significantly in the promotion of green business in the country. The UNIDO proposes to initiate US \$ 5 million GEF Investment Grant project involving various national SME promotion agencies. The proposal to be submitted in February 2010 switched to ease co-funding for activities: such as: a) Grant for sweetening loans; b) Add to SIDBI/WB risk guarantee scheme; c) Stand-alone revolving fund; and d) Equity/service company.

In addition to the above, there exists a number of multilateral and bilateral technology cooperation programmes exist. GTZ supports the development of State Designated energy efficiency agencies. The total expenditure for this activity was 7.55 Crores in 2007-8 (USD 1.6 million), including 2.95 Crores from GTZ (around USD 0.65 million). The World Bank has developed a project for 500 projects in 5 clusters. The GEF grant for this activity is USD 11.3 million. The present UNIDO project, discussed above, is the second largest, with a contribution of USD 7.2 million. UNDP is developing a project for

removal of barriers in re-rolling of steel, with a GEF contribution of USD 6.8 million. UNDP operates a GEF energy efficient motors manufacturing programme with a budget of around 0.4 M per year for three years. The co-funding for these five projects is USD 112 million. USAID provided for TA grant of about USD 25 million over the last 10 years. This has resulted in establishment of a loan fund moderated by ICICI through Energy Conservation and Commercialization (ECO) and Greenhouse Gas Abatement Program (GEP) USD 10 million and the application of a Development Credit Alliance (DCA) mechanism of USD 5 million, currently operated by YesBank. The total contribution of multilateral and bilateral technology cooperation programmes is in the order of USD 10-20 million per year.

6.0. Public Programmes

The Energy Conservation Act (2001) articulated a number of policies to promote development of renewable energy sources and investment in energy efficiency improvements. The Act established the Bureau of Energy Efficiency (BEE) with a mandate to enhance awareness of energy efficiency, establish standards and labeling conventions for energy efficient equipments, develop building codes to promote efficiency, and certify auditors. BEE programs, meant to accredit organizations and certify individuals to conduct energy audits, are intended in part to help ESCOs and energy auditing businesses by increasing bank and venture capital interest and confidence.

Despite recent reductions in the overall energy intensity of the Indian economy, the MSME sector still faces a challenge to meet industry benchmarks in technology upgradation, pollution control and energy efficiency. Given the critical contribution of MSMEs to the Indian economy in terms of output, employment and exports, adoption of environmentally friendly, cleaner production techniques by MSMEs is key to achieving high growth rates that are at the same time low-carbon and environmentally sustainable.

Public programmes, geared to promotion of green business were, so far, largely demonstrative rather than business-oriented. The renewable energy programmes of the Ministry of Non conventional

Energy Sources (MNES), and of the KVIC, have played a significant role in the demonstration phase.

Though there are significant external economies in green business, the key question of choice of energy sources remain a badly neglected area. The clean energy movement in India, triggered by the MNES, for quite a long period, had the basic task of propagating alternative energy sources, rather than promotion of business opportunities. Therefore, an induced approach to alternative energy is still to emerge in our country in a significant manner. For example, the finding that biomass can be utilized for as a feed-stock for energy, ipso facto does not lead to enterprises based on them. It requires a series of end-uses for the energy so generated. The case of biomass energy developers in Andhra Pradesh is an interesting case. While the kharif crop failing due to drought last year, the price of husk went up significantly, which in turn, affected biomass production in the State? Andhra Pradesh has the highest number of biomass power plants in the country, with a majority of them having six MW capacity.

6.1. National Programme of Energy Efficiency

Bureau of Energy Efficiency (BEE) is implementing a national program to improve the energy performance in 25 selected SME clusters. The objective of the program is to accelerate the adoption of EE technologies and practices in the chosen SME clusters through knowledge sharing, capacity building and development of innovative financing mechanisms.

The project, driven by market based mechanisms that include facilitating knowledge creation at the local level, capacity building of local service providers and technology providers, and thereafter implementation of energy efficiency measures through collateral funding by Lead Banks.

The project strategy focuses on uptake of EE technologies and practices in the SME clusters through market-driven mechanisms. This implies creation of knowledge products through a technology and energy use analysis, building of capacities of local service providers/technology providers, and creating or co-opting innovative financing mechanisms for the

uptake of technologies / best practices. The project will conduct situation assessment of a maximum of 35 clusters in the country to assess the situation vis-à-vis the number of operating units, energy usage, potential for saving energy and probable impact of intervention. This will lead to identification of 25 clusters for intervention.

In addition, to accommodate priorities of other participating agencies like the UNDP or the WB (which have proposed working with BEE in this initiative) a list of 10 more clusters will be developed. In a 5 years time-frame, it is intended that by the end of the project, market forces take up the challenge of taking this initiative on EE forward. The project will focus on developing both technical expertise and business/managerial expertise in these clusters. The capacity building programme will focus on implementation capability in the cluster, as also development of financing material/expertise including service and technology providers.

The BEE project will focus on facilitating investments by the MSMEs, wherever required, by funding of collaterals and not by any kind of hardware subsidies. The project will also provide software support in the form of development of bankable DPRs and project reports in cases where they are required.

The project will pool available resources as those from WB and UNDP, and thus will limit drawing of GoI to such levels as may be required after financing from WB UNDP-GEF has been made available.

The activities identified under this program are: i) Current energy use and technology analysis; ii) Situation analysis of SME clusters; (3) Energy use and technology audit; (4) Introductory workshops and follow up dissemination work; (5) Preparation of case studies on best practices; (6) Preparation of cluster manuals; (7) Preparation of bankable DPRs in clusters on the identified technologies; (7) Capacity building of local services providers (LSPs) to implement EE projects; (8) Facilitation of financing EE projects; (9) Capacity Building of banks to evaluate EE projects; and (10) Conducting LSPs Workshop. The project will also ensure linkages with similar programs of MoMSME and SIDBI.

The work of BEE, along with donors such as SDC, and with the Ministry of MSME, resulted in the

creation of a knowledge platform called the “ Co ordination Platform for Energy Efficiency in the MSME Sector”(SAMEEKSHA) in the year 2010.

7.0. Gujarat's Special Initiatives

Government of Gujarat has some special programmes on energy efficiency and new energy.

7.1. Investments

The government of Gujarat has chalked out a massive plan to add about 7,000 Mw of renewable energy in the next three to four years, attracting substantial investments. Gujarat is already among the top four states using renewable energy, having an installed capacity of about 1,400 Mw. The State government has come out with a separate Solar Power Policy under which it proposes to purchase 500 Mw of solar power every year at an agreed cost. In the solar energy segment, the state will see investments to the tune of Rs 45,000 crores.

The State government offers tariffs of Rs 11 and Rs 13 per unit for solar thermal and PV cells, respectively. This tariff is given for a period of 12 years, after which a tariff of Rs 3 per unit is offered for another period of 13 years.

In wind power, the state currently ranks third but is aiming to overtake Maharashtra and Tamil Nadu in the next two to three years by generating over 5,000 Mw of wind power. Tamil Nadu has touched 4,000 Mw, but has reached a saturation point. It can install only about 5,000 Mw. Currently, Gujarat has an installed capacity of 1,500 MW. The state is expected to draw investment to the tune of Rs 40,000 crore in the wind energy sector. The players that are likely to sign MoUs include Sydney-based Abellon Bioenergy for a 1,000 Mw wind farm project with an investment of Rs 5,500 crore, Suzlon's Rs 9,000 crore investment for producing 1500 MW, NTPC's Rs 3,000 crore investment for 500 MW and Enercon's Rs 3,500 crore project for producing 600 MW of wind power.

7.2. Energy Audit

The Government of Gujarat has introduced a Scheme for Mass Scale Walk-through Energy

Audit of SMEs in the State. The industrial sector of Gujarat is a major energy consumer – both thermal and electrical energy. The industrial sector constitutes more than 35% of the energy used in the state. The SMEs account for a large share of energy consumption and energy cost forms a big portion of the total manufacturing cost. Reduction in the energy consumption through efficiency improvement in SMEs could enhance the profitability and cutting edge of the SMEs. At present there are around 3 lakh SME units in Gujarat and their share exceeds 30% of total manufacturing and exports of the State. Some of the important SME clusters in Gujarat, having energy efficiency implications are:

1. Readymade Garments, at Ahmedabad
2. Drugs & Pharmaceuticals, at Ahmedabad
3. Dyes & Intermediates, at Ahmedabad
4. Re-rolling Mills at Bhavnagar
5. Plastic Industry at Dhoraji;
6. Brass Parts at Jamnagar;
7. Chemicals at Nandesari, Vapi & Ankleshwar;
8. Ferrous Castings, at Rajkot
9. Wrist Watch & Components at Rajkot;
10. Power looms, Diamonds, Gems & Jewellery, Jari at Surat;
11. Pottery & Ceramics at Surendranagar (Than) & Wankaner;
12. Ceramic Products at Thangadh and
13. Petrochemicals at Vadodara.
14. Diesel Engines, at Rajkot
15. Electric motors, at Rajkot
16. Machine Tools, at Rajkot

With rapid globalization, SMEs are facing business risks where cost of manufacturing is going up every day and competition is bringing down the selling price of their products. This demands for an innovative approach to cut down input costs on recurring basis so as to remain competitive. This would require a focused approach for improving productivity and efficiency, adoption of newer technology, capacity building of human resources, innovative financing options, and cluster based projects on Research & Development etc. One of the primary input costs for SMEs is energy; therefore, conservation of energy

demands utmost importance to remain competitive on a global scale.

Energy Audit Scheme for SMEs of Gujarat

Some of the early experiments in energy conservation in India have resulted in state level and regional level initiatives. Of these, some have turned out to be very successful. The case of Gujarat Energy Development Agency (GEDA) that has a long history of experiments in energy conservation and sensitization, is an example. As part of its energy conservation programme, state-run GEDA conducted energy audits of over 1,000 SMEs by March 2009. GEDA has been conducting energy audits of the SME clusters. Energy audit is an inspection, survey or analysis of energy flow in a building, process or system to understand the energy dynamics of the system. It is aimed at reducing energy consumption without affecting the output. It had projected energy audits of over 1,000 SME's in the State by the end of March 2009, under the newly launched scheme-Mass Scale Walk Through Energy Audit (MSWTEA) of SMEs in Gujarat.

It is a scheme to create awareness amongst the SMEs on energy conservation. At present, there are around three lakh units of SMEs in Gujarat and their share exceeds 30 per cent of total manufacturing and exports of the State. The Agency has short listed 14 SME clusters such as diamonds, gems and jewellery, petrochemicals, readymade garments, drugs and pharmaceuticals, dyes and intermediates, brass parts, ferrous castings and others to begin with energy audits. The energy audits are scheduled to be conducted by Bureau of Energy Efficiency (BEE) certified auditors, empanelled by GEDA. The agency has 40 energy auditors registered with it till now, and is in the process of empanelling more to meet its projected targets.

Under WTEA scheme, it was proposed to carry out a 500 walk-through energy audits during the year 2010-11. GEDA deputed its approved Energy Auditors to carry out the assignment, the entire cost of which shall be borne by GEDA. Other benefits to the SMEs included:

1. Invaluable energy consultancy & guidance at “no cost”.

Major Solar Power investments

The Government of Gujarat had set a target of 10 per cent renewable energy for 2014. However, looking at the liberal policies in wind and solar power, and favourable investment and business climate, it is expected to be accomplished in 2-3 years. AES Corporation, a US-based Fortune 500 company, has firmed its plans to invest about Rs 6,000 crores for setting up “world’s largest solar project in the state by 2010” after going through the new policy, sources said. The size of the plant would be about 1,000 Mw. The Clinton Foundation, which has initiated trials in Kutch with the Tata Energy Research Institute (Teri), is mulling a 5,000 Mw solar project in the state at an investment of over Rs 70,000 crore. The companies that have confirmed their intentions through the Vibrant Gujarat Summit include Moser Baer for setting up a 650 Mw project, Swiss Park (100 Mw), OPG Energy (100 Mw), Par Solar 300 (Mw), Acme group (110 Mw), Welspun group (100 Mw), US-based Next Gen Syndicate (310 Mw) and Essar Abengoa Solar (40 Mw).

2. Documented information on options and opportunities for energy saving in the industry. Concise report of WTEA with pinpointed quickly implementable EC measures would be submitted to the industry for further implementation.
3. List of qualified vendors for procuring EE Technologies to help the SMEs in the procurement and EC implementation process.
4. Based on the findings of the WTEA SMEs would be selected for conducting Detailed Energy Audit (DEA) under the GEDA Industrial Energy Audit Subsidy Scheme during the subsequent year. Interested SMEs are invited to register their names, for FREE Walk-through Energy Audit under the Scheme. Registration of SMEs would be on “first come first served” basis.

8.0. Solar Energy Mission

The Jawaharlal Nehru National Solar Mission “Solar India” envisages bringing about price parity between solar and grid power by 2022, when the Mission ends. The Mission with an initial investment of Rs.4337 crores, seeks to establish a single-window investor-friendly mechanism that, while reducing risks, will also provide an attractive, predictable and sufficiently extended tariff for the purchase of solar power for the grid. The Mission recommends the implementation in three stages leading up to an installed capacity of 20,000 MW by the end of the

Thirteenth Five Year Plan, in 2022.

This mega solar power plan is meant to ensure that the country has a capacity addition of one lakh MW by 2030, and two lakh MW of solar power by 2050. It would also seek solar power cost reduction to achieve grid tariff parity by 2020. It seeks to reduce the cost of solar power generation to Rs. 4-5 per kWh by 2017-20. The objective of the mega plan would be to achieve rapid scale up to drive down costs, to spur domestic manufacturing and to validate the technological and economic viability of different solar applications.

As a result of rapid scale-up as well as technological developments, the price of solar power is expected to attain parity with grid power at the end of the Mission, enabling accelerated and large-scale expansion thereafter. The Cabinet has approved setting up of 1,100 MW of grid solar power and 200 MW capacity of off-grid solar applications utilising both solar thermal and photovoltaic technologies in the first phase of the Mission. In addition, the Mission will also focus on R&D and HRD to develop and strengthen Indian skills and enhance indigenous content to make the Mission sustainable. The Mission is meant for establishment of single-window, investor-friendly mechanism, which reduces risk, and at the same time, provides an attractive, predictable and sufficiently extended tariff for the purchase of solar power for the grid. The focal point, for the next three years, will be the NTPC Vidyut Vyapar Nigam (NVTN), which is the power trading arm of the NTPC.

How far is the Mission relevant to the context of MSMEs? An answer to this question need to be sought in terms of the past experience and future projections. While solar energy is often perceived and discussed in terms of a simple solar panel for lighting, its potential in relation to MSME development should be examined in relation to its diversified applications today.

Solar energy, today, is used to power computers to assist learning in schools and hostels, Management Information System (MIS) to assist better management of forests in MP, powering milk chilling plants in Gujarat, empowering women Self Help Groups (SHGs) involved in tussar reeling in Jharkhand, cold chain management for Primary Health Centres (PHCs) are some examples of new areas, being tried successfully in the country. The Mission would consider up to 30 per cent capital subsidy (which would progressively decline over time) for promoting such innovative applications of solar energy and would structure a non-distorting framework to support entrepreneurship, up-scaling and innovation.

The manufacturing capabilities and their potential need to be examined against this context. Currently, the bulk of India's Solar PV industry is dependent on imports of critical raw materials and components - including silicon wafers. Transforming India into a solar energy hub would include a leadership role in low-cost, high quality solar manufacturing, including balance of system components. Proactive implementation of Special Incentive Package (SIPs) policy, to promote PV manufacturing plants, including domestic manufacture of silicon material, would be necessary.

Indigenous manufacturing of low temperature solar collectors is already available; however, manufacturing capacities for advanced solar

collectors for low temperature and concentrating solar collectors and their components for medium and high temperature applications need to be built. An incentive package, similar to SIPS, could be considered for setting up manufacturing plants for solar thermal systems/ devices and components.

The SME sector forms the backbone for manufacture of various components and systems for solar systems. It would be supported through soft loans for expansion of facilities, technology upgradation and working capital. IREDA would provide this support through refinance operations.

Renewable energy production in India, though having a history of four decades, was almost totally based on import capital equipments and technology. The major constraints were lumpiness of investment and doubtful quality. The Jawaharlal Nehru Mission seeks to overcome these constraints under three major initiatives to achieve this: (i) create volumes which will allow large scale domestic manufacture; (ii) announce a long term policy to purchase power; and (iii) support R&D to reduce material consumption and improve efficiency and develop new materials and storage methods. The implementation of the Mission will proceed on the basis of the technology advancements and cost reduction, which will be necessary for rapid scale-up and to achieve the target of 20,000 megawatts.

Bringing down costs, promotion of Indian manufacturing units, and creating grid parity, are the three pillars. This thrust on local manufacturing

WTEA Scheme: How Does it Work?

Box. 9

GEDA approved Energy Auditors would be deployed to carry out Walk-Through Energy Audits (WTEA) of selected SME units and submit a Energy Audit Report with recommendations and suggestions for reducing the energy consumption in the SME unit audited. A Walk-Through energy Audit is a simple visual investigative audit and table-top survey of the Energy Bills of the manufacturing facility. The WEA report would comprise of the submission of the energy Consumption pattern of the work place and suggestions for Energy Conservation. The WEA would also point out good 'House Keeping' practices relevant to the industry being audited. Depending upon type and size of industry WEA may be carried out in 1 - 3 days.

capabilities, goes along with the thrusts of the National Manufacturing Competitiveness Programme for the MSME sector. The Mission has the potential of achieving the much desired scale factor, and size of the market. This offers enormous potential for the existing SMEs in the sector to achieve larger scale, as also to enthruse start-ups, essentially from the SME category. NVVN will be designated for the purchase of solar power generated by independent producers, at rates fixed by the Central Regulatory Electricity Commission, and for a period specified by the latter. The Government will also provide equivalent MW of power from the unallocated quota of NTPC for bundling with solar power. The utilities will be able to account for purchase of solar power against their RPO (renewable purchase obligations). The Mission also includes a major initiative for promoting rooftop solar PV applications. Solar tariff announced by the regulators will be applicable for such installations.

9.0. Decentralised Programmes

Another model of green business, as it evolved in India, is a corollary of the successful social enterprise models in the country. The Sierra Club in the U.S. was instrumental in initiating a few programmes in the country. The Sierra Club has a grass root base of 1.3 million supporters, of which 750000 are paying members who generate 2/3rds of the budget of US dollars 80 millions. The Club, having many NRIs as its members, has initiated projects with large NGOs such as, Barefoot College in Rajasthan, Ecosphere Spiti in Himachal Pradesh, and SEWA in Ahmedabad. The mission of the Sierra Club, as it perceives, is to take cues from the successful experiments in India Itself, and to develop them as a business model. As such, it finds a significantly large market for green business in the country.

The Club which operates both in India and in China, finds enormous opportunities of a bottom approach, with the involvement of NGOs. The Sierra Club was instrumental in setting up a networking platform called Centre for Green Livelihoods in Mumbai. This largely virtual platform is meant to highlight and replicate success stories in various part of the country.

10.0. Responsible Business Models

There are also other models where innovations in CSR have been experimented by the corporate. For instance, representatives of a Solar Energy Company gave every home a small roof-top solar panel, a little battery and two lights which last for 8 hours, giving them light at night. Also, a bigger solar panel and a TV set have been provided for the village. In these very poor villages, kerosene for lighting consumes a third of their cash income. This necessity has now been eliminated, as they will be using solar cells. Soon they'll want more than two lights. They were basically creating customers by freeing up income.

There are crores of families in India spending Rs 15 a day on kerosene for lighting. But if we set up the right financing models, these same families can purchase a small solar system, which is much better and cleaner, for Rs 10 a day. This is being done - but not yet at scale.

Another variant of the responsible business models is the social enterprise variety of initiatives. Though NGOs, for long, have been propagators of renewable energy technologies, social enterprises offering real services are only few in number, SELCO Solar Pvt. Ltd, a social enterprise established in 1995, provides sustainable energy solutions and services to under-served households and businesses. It was conceived in an effort to dispel three myths associated with sustainable technology and the rural sector as a target customer base:

- 1) Poor people cannot afford sustainable technologies;
- 2) Poor people cannot maintain sustainable technologies;
- 3) Social ventures cannot be run as commercial entities.

SELCO aims to empower its customer by providing a complete package of product, service and consumer financing through grameen banks, cooperative societies, commercial banks and micro-finance institutions.

SELCO has some key features: It creates products based on end- user needs: going beyond just being

a technology supplier but customizing own products based on individual needs. Dedicating regional energy service centers to ensure prompt maintenance and service. It facilitates creating channels for end users to afford systems based on their cash flow.

SELCO currently employs about 140 employees in Karnataka and Gujarat, spread across 21 energy service centers. Since 1995, it has sold, serviced and financed over 100,000 solar systems. It has grown from a solar service pioneer to a sustainable and successful energy service provider, with 21 energy service centers in Karnataka and Gujarat, has Skill force of over 140 employees, and has implemented 100,000 + solar home lighting systems in 13 years. It has implemented the largest solar water heating system (2,00,000 liters for a single client) in India, and is supported by solar entrepreneurs.

For the past fifteen years, SELCO has concentrated on building the necessary parts for a sustainable and scalable model for energy services delivery through its bottom up approach. In the process, it has developed the ability to not only sell and service solar lighting systems, but other energy services to improve and empower the lives of its customers. It has developed and refined a model for bringing rural services to poor families. SELCO has shown that empowering rural customers can be economically, socially, and environmentally sustainable. The Company focuses on its customers and provides them with the best energy products, service, and access to affordable finance.

11.0. Energy Efficiency Financing

India's national programs to facilitate financing of energy efficiency investments are largely operated through various Ministries and financial institutions. They include, risk guarantees, concessional loans, dedicated efficiency credit lines, government subsidy schemes, and tax incentives. Besides, the state governments have programs to promote energy efficiency. These programs generally focus on auditor certification programmes and financial assistance for energy auditor services.

11.1. Risk Guarantees

The World Bank has established a credit guarantee mechanism for India, managed by SIDBI. SIDBI

guarantees up to 75 per cent of the credits of commercial banks for a fee of 100 basis points. This facility has been applied to more than 120000 loans. The mechanism has just been extended with an additional USD 400 million loan to SIDBI for the Small and Medium Enterprises Financing and Development Project (SMEFDP) for the period 2009-2011, on top of the existing USD 170 million facility (of which USD 120 from World Bank) (World Bank, 2009b). The additional financing will scale up the parent project and facilitate an: 1) increase in the geographical coverage of the project; 2) expansion of innovative SME loan products, including possibly loans to smaller SMEs, and receivables financing; 3) expansion of SME lending through other participating financial institutions, subject to demand; 4) exploration of the possibility of providing loans to promote investments in energy efficiency improvement technologies, subject to adequate demand from SME at the SIDBI for such funding; and 5) expansion of the coverage of the innovative Risk-Sharing Facility (RSF) that was initiated under the parent project. In addition, the IFC operates a programme for soft loans to SME banks in India.

11.2. Soft Loans

Because they are often supported by public funds, soft loans are a subsidy of the costs of a bank loan for energy efficiency or renewable energy projects. By reducing the costs of borrowing, soft loans seek to encourage investments in energy efficiency that might otherwise not be implemented due to high financing costs. Often more complicated to set up than a traditional grant, however, soft loan programs are generally less broadly used. However several such schemes are in existence in India.

JICA operates a USD 300 million SME soft loan programme through SIDBI. Also the Government of India provides through SIDBI capital at a 5 per cent rate to banks for energy efficiency loans.

The GOI established the Indian Renewable Energy Development Agency Limited (IREDA), a government-owned non-bank financial institution in 1987. While IREDA's initial focus was on development of renewable energy sources, its present objectives include "providing financial

support to specific projects and schemes for generating electricity and/or energy through new and renewable sources and conserving energy through energy efficiency.” At present about 10 per cent of all IREDA loans are related to energy efficiency. IREDA has successfully operated a revolving fund for energy efficiency, typically at issuing loans with an interest rate of 10 to 11 per cent.

IREDA operated a revolving loan program that provided financing for projects to promote energy conservation and energy efficiency, including projects undertaken by ESCOs and energy end-users for implementation of energy efficiency projects. The fund also financed projects for the production of energy efficiency equipment. The World Bank extended a line of credit to IREDA specifically for developing and financing energy efficiency and conservation projects in India in 2001. That credit line was available through March 2007. Qualifying projects were able to get interest rates below IREDA’s usual rates. IREDA offered grant assistance linked to its energy efficiency and conservation loans. These grants helped loan applicants meet some of the upfront costs associated with identifying energy efficiency projects and preparing loan applications.

A wide range of entities - private and public sector enterprises, non-bank financial institutions and societies, as well as State Electricity Boards - could apply for loans through IREDA. Applicants had to meet certain standards of financial strength and creditworthiness, including being profit making companies with no accumulated losses, having a Debt to Equity Ratio of not more than 3 to 1 (5 to 1 for non-bank financial institutions), not having defaulted to IREDA or any other financial institution, and having no erosion of paid-up capital. IREDA loan guidelines allowed it to consider applications from companies that are loss-making or that fail to meet the standard for Debt to Equity if a guarantee was provided for the entire loan. IREDA offered varying interest rates, depending on the type of project and term of the loan. Energy conservation projects (including Demand Side Management (DSM) projects and projects implemented “in the ESCO model”) were eligible for financing of up to 70 per cent of the project’s cost at interest rates of

10 to 11 per cent for loans with repayment periods of 8 to 10 years, respectively.

Energy conservation/efficiency system and equipment purchases (including DSM purchases) were eligible for financing of up to 80 per cent of total equipment cost, including the costs of an energy audit and detailed project report at interest rates of 9, 9.5, and 11.5 per cent for loans with repayment periods of 6, 7, and 10 years, respectively. If a project qualifies for financing under the World Bank line of credit, IREDA provided a 2 per cent interest rate rebate for project financing loans and a 1 per cent interest rate rebate for equipment financing loans. IREDA also provides a rebate of 1.5 per cent if a borrower supplied a guarantee from a qualified financial institution. IREDA Revolving Fund loans are subject to fairly common collateral requirements. For project financing, acceptable collateral included mortgage on immovable assets (i.e., land and buildings), pledging of movable assets, guarantees from project promoters, deposit of post-dated checks for principal loan and interest, a trust and retention account, or any other securities, as required by IREDA. For equipment financing on projects with a value up to Rs 10 million (approximately USD 215 000), collateral requirements included a Demand Promissory Note for the amount of the loan, pledging of movable assets, a trust and retention account, guarantees from project promoters, deposit of post-dated checks, or additional securities, as required. For equipment purchases with a value greater than Rs 10 million, a mortgage of immovable assets could be supplied, in addition to one of the other acceptable types of collateral already listed. Guarantees from a qualified financial institution could also be supplied in lieu of other collateral. IREDA offered a reward to existing customers and energy auditors, consultants, and ESCOs for referring.

11.3. Dedicated Efficiency Credit Lines

The UNEP-World Bank Three Country Energy Efficiency Project catalyzed the development of “Bank Energy Efficiency Loan Windows.” The main focus of the program was to work with five banks in India to help them develop programs

that would increase investment in energy efficiency projects, through the issuance of large numbers of small loans to SMEs. The five banks participating in the project were: State Bank of India (SBI), Canara Bank, Union Bank of India (UBI), Bank of India, and the Bank of Baroda (BOB).

While each bank developed its own approach for its SME program, some common features included slightly reduced interest rates from the banks' standard rates, assistance with the costs of audits or detailed project reports (though these types of benefits tend to be limited to earliest loan applicants), and waiving of loan processing fees for some customers. Most of the banks are currently offering loans only to existing customers; only one is taking loan applications from new customers. IREDA offers a dedicated line of credit from the World Bank of USD 20 million for energy efficiency.

11.4. Mezzanine Capital

Mezzanine capital refers to a subordinated debt or preferred equity instrument that represents a claim on a company's assets which is senior only to that of the common shares. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies. Mezzanine capital is normally more expensive financing source for a company than secured debt or senior debt. In the event of default, the mezzanine financing is less likely to be repaid in full since it must wait for all senior obligations to be satisfied. In compensation for the increased risk, mezzanine debt holders require a higher return for their investment than secured or other more senior lenders.

Since mezzanine financing is usually provided to the borrower more quickly with less due diligence on the part of the lender than other debt instruments, this type of financing is aggressively priced with the lender seeking a return in the 20-30 per cent range. ICICI Venture is a first mover in Mezzanine in the Indian PE industry. The India Advantage Fund VII (Mezzanine Fund I) is conceptualized as a USD 51 million fund that would focus on Mezzanine investment opportunities. The fund has already concluded its first few investments.

11.5. Government Subsidy Schemes

The National Manufacturing Competitiveness programme, of the Ministry of Micro, Small and Medium Enterprises, contains an action plan with 10 components. Energy efficiency and quality certification support is one of them. 30 clusters have been selected for energy efficiency. About 2 Lakhs of funding is available per cluster. The allocation for 2009-10 is 5 crore (about 1 per cent of the total ministerial MSME support). The Ministry of Commerce and Industry has established an industrial infrastructure scheme. This scheme consists of a grant of up to 75 per cent of investment, and up to 75 crore (USD 16 million) per project. Conditions are that the project should serve more than one company. Only hardware investments are supported. This is a special purpose vehicle. JICA is currently working with IREDA on the development of a new loan scheme, supported by TA.

11.6. Tax Incentives

A number of tax incentives for energy efficiency investments are offered in India. Government of India offers accelerated (80 per cent) depreciation in the first year for specified energy efficiency equipment. Tax concessions are offered on excise and customs duties for "notified" conservation equipment.

12.0. Instruments of Energy Management

2.1. Carbon Credit Trading

Though India has no emission targets as per international agreements, she can enter into CDM projects with significant benefits. The benefits are: (1) technological improvements and related foreign investments; (2) contribution to green house gas emissions; (3) and profits through sale of CERs. The three dimensions of sustainability which need to be met by CDM projects are environmental, social and economic sustainability. Energy efficiency projects in the small and medium enterprise (SME) sector directly contribute to sustainable development of the developing country's economy. There are a large number of products manufactured by SMEs using outmoded energy-inefficient processes. Some examples of such products are clay bricks, glass

items, iron castings (foundries), steel re-rolling, textiles and a variety of food items. The total energy consumption of each of these sectors, taken as a whole, is very significant, simply because of the large number of SMEs. Although individual CDM projects may not be easier for SMEs, it is technically possible to bundle multiple small projects under large regional “umbrella” projects. However, there are several economic and social risks associated with the implementation of small-scale CDM projects. Bundling of energy efficiency projects can be a feasible alternative to address the above situation.

The major reason behind the low participation of SMEs is lack of awareness about CDM and carbon abatement opportunities. Further, the kind of costs involved in structuring a green initiative as a CDM project make one look at it as a challenge and the volume of operations in SMEs makes the CDM structuring process apparently unviable.

A new approach introduced by UNFCCC, called programmatic CDM, provides an enabling environment for energy service companies to emerge and aid SMEs to participate in implementing CDM projects. Programmatic CDM can be seen as an attempt to lower transaction costs of the CDM process to bring in the emission reduction opportunities in small and tiny sectors into the carbon market.

This new initiative by the UN body enables emergence of new entities (called energy service companies) to finance and undertake initiatives particularly for renewable energy and energy efficiency projects in small and tiny sectors, which are marginalised in a CDM market dominated by high-yield, low-cost projects.

A clear road map needs to be prepared by the government and trade organisations to create a strong awareness of CDM and its benefits among SMEs. An appropriate policy for promotion of energy service companies (CDM project bundlers and CDM programme implementers), articulation of carbon credit ownership issues and some fiscal incentives will definitely make significant difference in achieving the higher participation of SMEs in India.

The National Commodity and Derivatives Exchange Limited (NCDEX) has asked the Union Government

to put in place a proper policy framework for allowing trading of CERs, carbon credit, in the market. India has two commodity exchanges trading in carbon credits, MCX, India’s largest commodity exchange launched trading in carbon credits. NCDEX, which launched trading in carbon credit futures in April 2008, is pinning hopes of the necessary changes to allow wider participation in carbon trading futures. The country, at present, has sellers, but Indian law will not permit buyers, based in European markets, to enter the markets.

The Forward Contracts (Regulation) Amendment Bill would widen scope for the market besides defining non-tangibles like carbon credit. Futures market would act as a signal for traders and producers which, if read properly, would make spot markets more effective. Traders and farmers are expected to utilise the NCDEX business platform, as it could be used as a hedge in the light of the high volatility in the prices of lot of commodities.

12.2. Energy Labelling

Our discussion in the following pages indicate that, given the stage of development of the country, and the solemn commitments of India before the international community, as it was outlined at Copenhagen, places substantial responsibilities on us. The challenge primarily is to make all these issues understandable to the common man, and to trigger positively the interventions of economic actors. For example, energy efficiency is a campaign which has been there for the last two decades, and many public organizations try to sensitise the people on these aspects. However, there is much to be desired on the impacts.

The task, therefore, is to offer market signals that work in favour of economic changes. The Energy Conservation Act of 2001 is a step in the right direction. However, energy efficiency labeling in India is very much in a rudimentary state. Energy efficiency labeling is the display of a label on a product, depicting data in a standard format, regarding energy use and a predefined energy efficiency measure for enabling comparison with the energy efficiency of similar products. While in India some effort was initiated in the case of products

like air conditioners, tube lights and refrigerators, it needs to trickle down. As the labeling programmes is poised to expand to many new products, such as TV 's, gas stoves, geysers, ceiling fans etc, it is a good occasion to look at the various options, based on the experience of other countries.

The question that need to be addressed in this context are the following: Firstly, whether the label is a good way to promote energy efficiency, and if yes, what are the products where it should be used. Secondly, whether to have mandatory labels or voluntary labels. Thirdly, whether government or private rating agency should do the labeling. Fourthly, it is also important that labeling should enhanced credibility of the product. Finally, a label should be mandated by law. It is also important to bring it to the lime light that the basis of acceptance of an energy efficient product is that its life time cost is much less.

13.0. Backward Linkages

In most discussions on public programmes, the role of backward linkage effects is not given due attention. Evaluators generally consider only the direct impacts, without due regard to the backward and forward linkages. This is specially true in the case of alternative energy programmes, and programmes on energy conservation.

A recent study on renewable energy industry in South Asia, carried out by Institute of Small Enterprises and Development (ISED), has examined the comparative situation of India and Bangladesh.

While in India, there is a long history of renewable energy programmes, the backward linkage effects are relatively low. However, in contrast, Bangladesh which is a recent entrant, has demonstrated a significant track of backward linkages. Such positive results were the outcome of the active synergy of general development programmes, and renewable energy programmes in the country. The actual experience of such backward linkages should form the basis for an MSME-focused strategy in green business.

13.1. Towards an Entrepreneurship Development Agenda

Apart from the importance of climate change mitigation initiatives being discussed both at macro and micro levels, the acid test of implementation, lies in how effectively a business case is developed for a green business agenda. In other words, in any discussion on greening business, there should be a business case behind it.

The scheme for promotion of energy efficiency and renewable energy in selected MSME clusters is a more recent initiative in which the Ministry of MSME and the Ministry of New and Renewable Energy are participating. Similarly, the Ministry of New and Renewable Energy also has its own programmes in which MSMEs can participate.

13.2. Green Energy Business Opportunities

There should obviously be a case for going green. As per the international signals and indications, green will soon go mainstream, and it is the right time for

Box. 10

Fostering Innovative SMEs: Success Story of Brazil

The story of Brazil stands out as a significant example of fostering SME growth. According to data gathered by Endeavor, SMEs are responsible for 96 per cent of the jobs in Brazil and comprise 98 per cent of all companies in the country. The majority of the country's SME sector is geared towards high-growth ventures, as opposed to companies that form and then remain small. Brazil's government also plays a key role in growing SMEs through the creation of dedicated funding agencies than disperse around US\$65,000 to start-ups focused on innovation. The current aim of these agencies is to aid 10,000 innovative companies over four years, and thereby generate 10 new jobs for each one directly generated by a new company. This clearly demonstrates that the introduction of pro-entrepreneurship policies at government level can be effective in fostering a country's entrepreneurial growth.

Source: news.howzit.msn.com

Indian domestic businesses and exporters - small and big - to capitalize on this phenomenon. The SMEs can even find a lot of opportunities in the 'green' sector. For example, there are enough growth opportunities for SMEs in the organic products sector. Again, they can even consider new uses for a specific garbage item which could be a business in itself. Hence, 'going green' is not just merely about social responsibility or staying top of environmental legislation; neither we should treat the trend as something awkward or lofty. A green strategy helps cost savings through efficiency or productivity gains, offers unique opportunities, and offers a win-win situation.

"Going green," is not an unaffordable agenda for SMEs; with, small steps, SMEs can take to make a start. Green machinery such as wind turbines, solar panels; green fuels such as bio-diesel, biomass power; green production house such as low carbon factories; green transportation means, such as electric vehicle; green office accessories such as papers, fabrics, building materials, packaging materials made of recycled materials; green housing accessories such as bamboo flooring, furniture made of bio-plastics; and many more nobody has even thought of yet - every product, every activity, every industry can have a shade of green. So, small businesses can experiment with anything while taking their first 'green steps'. It will not only help them to reduce global warming emission and save input costs but also to earn immediate recognition from their customers, employees, shareholders and even the media.

There should obviously be a business case to go green. So, where do we start? SMEs are free to experiment with 'going green', as there is no pressures of meeting compliance regulations. Instead of accepting the 'going green' concept as a lofty ideal not practical enough to be implemented into daily operations, businesses should start concentrating upon using raw materials efficiently, choosing renewable raw materials, reducing and recycling of waste, reducing energy use in production and transportation related operations, using alternative energy sources like solar power instead of electricity, and anything that prevents negative environmental impacts.

There are two variants of a business case which can

be discussed and developed in the Indian context. First, apart from the demonstrative value of clean energy, it should become a business opportunity. The feasibility of such business opportunities was examined by a larger South Asia project initiated by the Institute of Small Enterprises and Development (ISED, 2005). This project examined the feasibility of development of a commercial market for renewable energy in order to ensure sustainable development of this sector.

Development of commercial markets, as above, is vital for the sustainable development of renewable energy sub-sector. First-generation entrepreneurship has an important role to play. No country can evolve a strategy of entrepreneurship development based on prefixed models. But an understanding of best practices in countries of similar historical and cultural backgrounds can be useful for evolving more meaningful strategies.

The renewable energy sub-sector, unlike many other sunrise industries, has a significant developmental role to perform, because of the wider product range, and the potential of attracting entrepreneurs from different backgrounds of economic capabilities and skills. Countries of South Asia, and especially India and Bangladesh, have not been able to promote first-generation entrepreneurship in this sub-sector to a significant extent. It is, therefore, important that the status of entrepreneurship in this vital sub-sector is realistically analysed in a comparative setting, and corrective policies are suggested in order to enhance its industrial potential.

The study, based on in depth field research in Bangladesh and India, came out with some important findings which are relevant to the context of most Asian countries as follows.

1. A sizable proportion of the rural population are deprived of conventional energy resources due to uneconomic leads or unapproachable terrain. However, they are unaware of efforts of the governments and other agencies in bringing to their service alternate forms of energy.
- 2) While most of the respondents were aware of the availability of solar and bio mass generated energy, were unwilling to accept them because they were afraid of unaffordable cost.

Innovative EU Outreach Programme for Energy

The Small Business Act (SBA) adopted by European leaders in 2008 explicitly commits the EU and its member states to helping SMEs benefit from the growth of emerging markets in other parts of the world. The SBA says Europe should provide “market-specific support and business training activities” for smaller businesses, and calls for the setting up of ‘European Business Centres’ in countries such as China and India. The Enterprise Europe Network (EEN), which provides support services for SMEs in the EU, also helps businesses to expand into new markets. It has partners in 21 non-EU countries. European SMEs have consistently complained that they find it difficult to break into some foreign markets due to the legal, linguistic and cultural complexities of doing business overseas. Protectionism has also become a growing problem since the outbreak of the financial crisis, with governments making it difficult for foreign firms to access public procurement contracts and economic stimulus funding.

Source: Eur Activ

3. It, however, remains to be seen whether the economies of size could be achieved with larger and wide acceptance of renewable energy. But this requires sub-sectoral costbenefit analysis. Analytical studies on subsectors in terms of their linkage potential is crucial in this regard.
4. Even the go-bar gas plants which, at one time, were installed in large numbers in many villages, and served a good number of households and other establishments, went into disuse with a fall in direct incentives such as subsidies.
5. Availability of hydro electric and thermal power at comparatively low prices has also acted as disincentives. The situation really points out to a lack of coordinated and wellknit energy policy supported by adequate strategies to create effective awareness among the potential consumers regarding the emerging need.
6. Nepal and Sri Lanka have successfully incorporated RE programmes in their Five Year Plans. Bangladesh has attempted to institutionalize renewable energy into the decentralization process, by establishing rural energy departments and similar agencies to deal with the requirements of remote areas.

Though not directly induced by these actions, entrepreneurship developments in RE in these countries have already shown some positive tendencies. Other countries in the area can emulate these examples .

14.0. A Stock-taking

The green agenda for SMEs makes sense for a variety of reasons. Apart from the compulsions of the country as per international conventions, as also the need for modernization of our MSME sector through energy efficient processes, there are several external economies for a green business agenda.

One of the advantages is the enormous opportunities of reaping benefits under carbon credits. Carbon credits offer India a six billion dollar opportunity. The Government of India has approved more than 1400 projects as part of the Clean Development Mechanisms (CDM) that could attract around six billion US dollars into the country by 2012, through sale of CER certificates. The national CDM authority (NCDMA) has accorded Host Country Approval to 1455 projects. These projects have seen an investment of more than 33.7 billion US dollars.

If all these projects get registered, it will earn developers over 600 million (CERS) by 2012. At a conservative price of 10 dollar per CER, the figure works out to a little over 6 billion US dollars. It is important to note that, of the above, 225 projects are in the fields of biomass co-generation, hydro power, and wind power. These estimates indicate the significant untapped potential which need to be seriously looked into. At present, the Indian solid waste management market is witnessing tremendous growth. Currently it is valued at US\$155.55 millions. However, this market remains still to be utilized. Besides, the Indian MSME sector has the bad

Closing the Funding gap - the Role of Technological Rating

Financial institutions, as well as government bodies, have difficulty assessing the risk-profit trade-offs of innovative ventures. Uncertainties about the technical feasibility, the time period of development, the total financing needed, and the probability of commercialisation and possible market size, make financial institutions hesitate before funding venture projects.

To overcome the information gap between entrepreneurs and financing bodies - and thus increase the external sources of financing for SMEs - governments can encourage the development of technological rating instruments and organisations. Technological rating is a holistic method for evaluating the technological feasibility, commercial risk and managerial capacity of an SME and its proposed innovative project. Technological rating organisations can be public or private bodies, and serve a bridging role between the financial sector and potential innovators.

Source: Eur Activ

reputation of being highly polluting, especially in manufacturing operations such as textiles, chemicals, glass ware, metals etc, where the processes could be significantly improved to gain CERs. In many of the rural industries, use of charcoal and coal are significant, and tells upon the potential to be replaced by alternative processes.

The new thrust on innovation in SMEs that emerged in the context of the global warming debates is a new opportunity. The Indian MSME sector has proved to be significantly responding to the need to innovation. The new environment offers a compulsive sequence, which can lead to the twin benefits of both innovation and the green benefits.

Beyond the above discussion, a longman's point of view still prevails: Why should an average entrepreneur, start-up or existing one, opt for a green process or product? For any business opportunity worth to be considered, there need to be a business case. Being a rather unconventional opportunity, the process of decision making should be rather difficult. It is in this context that the role of public promotional agencies arises. From KVIC up to IREDA, several public promotional agencies have played significant roles of mentoring and supporting entrepreneurs into energy saving and clean energy options. However, it is a well known fact that, such promotional activities have not yielded to achieve the scales, as desired. Financial institutions have responded to such public schemes. However, achievement of a sizeable scale, presupposes

achievement of some necessary conditions. Such a necessary condition is the presence of a first-order demonstration effect. Ministry of New and Renewable Energy has demonstrated the feasibility of several renewable energy applications. However, these demos have not been proved/or even generally felt, to be commercially viable models. For instance, street lighting is possible with solar systems, but very few cities in the country have demonstrated commercially viable, functional and efficient models of solar street lighting. An end-use such as street lighting can trigger significant backward linkages that will help SMEs flourish. Achievement of a critical minimum scale is crucial for creating public confidence in such models. There are, however, isolated success stories where promotional agencies themselves play a lead role in piloting success stories. The trickle-down effect, in such cases, is likely to be substantial. Karataka Vikas Gramin Bank, having a large branch network, has virtually initiated a major demonstration, by action at home itself. Seeing is believing!

15.0. Conclusion

While renewable energy was largely considered as a stand-alone programme so far, an integrated approach is yet to emerge. Despite the launching of the Jawaharlal Nehru Solar Mission some critical areas of concern need attention: First, the alternative energy agenda in India lacks clarity on its purpose. Does it mean the outcome of an incidental urge?

Or does it mean a business opportunity? It is true that, the particular circumstances, such as the oil crisis have prompted the search for alternative energy sources? Alternative energy implies a significant business case today, which still remains to be properly articulated in the Indian context. Assuming clarity on the renewable energy agenda as a business agenda, it is crucial to identify and specify the role of various stake holders. Moreover, the mechanisms which help to foster business has to be clearly spelled out. Given the specific stage of development of the country, India has tremendous opportunities in waiting; they need to be tapped. It is in this context that Gujarat's proactive approach to energy conservation and promotion of energy business opportunities stand out.



1.0. Introduction

Sustained economic growth is central to the development agenda of India. Growth, according to the objectives of State policy, need to be equitable and inclusive. Despite the above imperatives, there are limits to economic growth, which arise essentially out of the scarcity of physical resources. However, entrepreneurship is one critical resource that helps to break this barrier. Given the penetration of entrepreneurship skills across the society, the strategies of economic growth can be redefined, and sustained growth can be attempted.

The development of entrepreneurship itself is the outcome of social processes. Exogenous and endogenous factors influence their growth and direction. Public policy, therefore, can play an important role in triggering these social processes in such a way that a broad based entrepreneurship platform is enabled and this, in turn, is used to act as a key tool of economic development. This, in a nutshell, implies that entrepreneurship development policies need to be visualized as participative and inclusive, leading to a larger paradigm of inclusive business. Gujarat has the longest history of initiating such a path of mainstreaming entrepreneurship, though its tempo has witnessed fluctuations over time.

‘Inclusive business’ means, the contribution of business in achieving the objectives of sustainable business growth. Sustainable business growth

MSMEs and Inclusive Growth

demands the involvement of varied stake holders, both vertically and horizontally, such that the benefits of growth get increasingly distributed for common good. Gujarat has inherited a particular path of business growth, which is unique in the country. How sustainable is this growth path? How has the enterprise ecosystem of the State been tuned to accommodate and utilize the ‘bottom of the pyramid’, and MSMEs in specific, as an important agent of inclusive growth? How are the autonomous and induced aspects of enterprise development are crucial in shaping an inclusive growth agenda for the State? These, among other things, form the compass of the present chapter.

2.0. Entrepreneurship: A Public Resource

The terms, ‘MSMEs’ and ‘entrepreneurship development’ are often used in the same vein. However, they are two different concepts. While entrepreneurship often emerges in an atomic form, it is not a necessary condition that all enterprises should emerge in an atomic form. Therefore, it is important to examine the origin and growth of entrepreneurship in a society, from the point of view of evolving policies that may help to expand its base in a scientific manner.

SMEs, as the atomic constituent of the enterprise system, often emerge from the creative ideas of an individuals, who in turn, convert that into business opportunities. It is a network of such creative ideas,

translated into business opportunities, that constitute the mainstay of the enterprise ecosystem. Creative ideas, in the process of getting translated into income opportunities, need to address two types of functions. First, there should be the entrepreneurial function of transforming the idea into a full fledged business idea, and to keep it going in the day today business activities. Second, there need to be the process of actual execution of the routine business, both at the managerial and at the plant level. Hence, a continuous process and synergy of the above two functions make the enterprise an organism. It is this logic of coexistence of different types and scales of organisms that make the enterprise ecosystem, what it is.

An enterprise is significantly sensitive, both to the internal and external environment. Internally, most firms sprout as a 'one-man' enterprise. It is the original ideas of that individual which provide the seeds of a business. The ideas need to get translated into economic functions. It is these functions, and the search for ways and means to perform them, that constitute the human resource core of an enterprise.

While entrepreneurship is a rather abstract concept that often escapes the attention of policy makers, it becomes a key item in the agenda of public policy during times of serious economic crisis. It is this relevance that leads us to an overall look at the state of entrepreneurship development in a global setting.

3.0. Entrepreneurship and Self-Employment

The terms, 'entrepreneurship' and 'self employment' are often synonymously used. They revolve around the existence of an innovative business concept or idea. Entrepreneurs attempt to develop something new. The self-employed, by contrast, typically engage in selling their labor to perform a specific set of tasks that are to some extent routine, but might differ in quality depending on who does them.

In hard-core capitalist countries, due to layoffs, the ranks of the self-employed often get expanded. Many are technical specialists who are simply performing - as subcontractors - the same activities for their former employers as they did when they were

employees. These individuals typically still think of themselves as employees in all but a technical sense; in many cases, they are. By contrast, an entrepreneur's task is to build a business around a new concept or offering.

As indicated by the Kauffman Index of Entrepreneurial Activity, the start-up rate for new businesses in the USA declined in 2011 and new entrepreneurs were more likely to go it alone than hired employees. The annual survey, released by the Kauffman Foundation, showed a 5.9 per cent drop from 2010 to 2011, with approximately 543,000 new businesses created in the U.S. each month last year. Even with the drop, the level of entrepreneurship in 2011 is among the highest during the past 16 years. Business creation over the past four years has been higher than average, given what we have seen since 1996. However, from 2007 to 2010, the rate at which individuals established new firms with employees declined. In 2009, it was at an all-time low. The rate remained flat from 2010 to 2011. This implies that self-employment in the USA is near all-time high, but larger business starts still have not recovered from before the recession.

People entering self-employment are probably using it to meet personal needs, which is not surprising in an economy that is slowing down. But they do not create businesses that are growth-oriented and create further employment opportunities. The branch called 'Business Demography' helps one to have a disaggregated analysis of entrepreneurial behavior.

Entrepreneurship, according to the dominant Schumpeterian delineation, is defined by 'innovation' and 'growth' by individuals who create new organizations. It is an economic function. Self-employment, on the other hand, is a contractual form. Most self-employment is non entrepreneurial. One gets lot of self employment when transaction costs are too high and institutional costs low (eg: Greece). By definition, an entrepreneur is self-employed, but someone who is self-employed need not necessarily be an entrepreneur.

4.0 Enterprise: the Stock-Flow Relation

Unlike other economic activities, enterprise, which forms the base of the secondary sector, is

Global SME Demography: in a Nutshell

Data on the average number of new businesses that start up worldwide each day, is often a puzzle. An estimate by the Global Entrepreneurship Centre is as follow:

“Worldwide, there are about 300 million persons trying to start about 150 million businesses. About one third will be launched, so you can assume 50 million new firm births per year or about 137,000 per day. As firm birth and death rates are about equal, the same number of active firms, say 120,000 probably, terminate trading each day. This is the only source of comparative data on start-up and closure. One can find some data for the US on the SBA, but for most countries, the figures either do not exist or are not compiled.”

a key trait with unlimited potential. Enterprises are the outcome of the creativity of people, and such creativity is, by far, neutral of time and space. Turning such creativity to the requirements of time and space is the challenge and opportunity of countries. From this angle, a primary question that emerges is, what is the size of enterprises in India. How many are added to this stock every year? An answer to this question is, of course, not simple. But perhaps, how the same question is answered in the context of other countries, would be instructive and illuminating.

At the international level, the Global Entrepreneurship Monitor (GEM) is considered to be the authoritative source of data on the subject. According to GEM, total human population of 40 GEM countries is almost 4 billion out of a world population of 6.3 billion; 63% of the world population is represented in this assessment. Among these 4 billions, 2.4 billions are in the age range of 18-64 years, which approximates the working years in most countries. Among this 2.4 billions, about 12% or 297 millions are active in trying to get 192 millions businesses past the initial launch and through the initial three years of operation.

The adult population survey inquires about any ownership of an existing business. By adjusting for the size of the ownership group it is possible to estimate the total number of active businesses in each country. The total for the 40 GEM countries is about 347 millions, from 15 thousands in Iceland to 142 millions in China. Using the same procedures, the number of existing firms that may be considered entrepreneurial can be estimated at 37 millions for all 40 countries, from 1,000 in Iceland to 19 millions in China. While these estimates could be

of as much as 20-30%, they have the advantage of being standardized across a wide range of countries at different levels of development. Extrapolation to the other 37% of the world population not covered by GEM assessments, most in developing countries, would suggest a total of 472 millions nascent entrepreneurs are trying to start 305 millions firms; another 89 millions owner-managers of 58 millions existing businesses are emphasizing an entrepreneurial focus.

People get involved in starting new firms for a number of reasons. One of the most basic distinctions is between those who seek to take advantage of unique business opportunities and those who cannot find suitable work and start a business to survive. The first may be considered “opportunity entrepreneurs” and the second “necessity entrepreneurs.” They were identified across all GEM countries beginning in 2001. Using the formula above, this means that with 472 millions entrepreneurs worldwide attempting to start 305 millions companies, approximately 100 millions new businesses (or one third) will open each year around the world.

According to GEM estimates, the rate of birth and death of firms are almost equal. The ratio is almost one failure for each start-up. Roughly the same numbers of firms start and close each year. The dynamic nature of business is referred to as “creative destruction,” the process through which healthy, vibrant firms create innovations, often to the detriment of those that fail to innovate and stay competitive.

While estimating the the spread of entrepreneurship is rather difficult, it is a growing global phenomenon. According to GEM, there are nearly 400 millions

Entrepreneurship, a Survival Strategy?

“The developing countries of Asia and Latin America are far ahead of Europe in starting new businesses, according to a recent survey of the Global Entrepreneurship Monitor (2002). But few start-ups have the potential to make an impact on jobs and growth, and a negligible number benefit from venture capital, with the vast majority reliant on informal funding. The annual survey by the GEM was carried out across 37 countries representing 92% of world GDP. It finds that 286 million people, 12 per cent of the workforce in these countries, are engaged in starting or running a new businesses, implying a global figure of about 460 millions. According to Paul Reynolds, the GEM Project Co-ordinator, “half of the people in many developing countries are doing it out of necessity because they cannot find work, and that is what drives the rate up so high.”

Source: *Global Entrepreneurship Monitor*

active entrepreneurs around the world. The annual survey polled 140,000 adults ages 18 to 64 from 54 different economies. GEM estimates that 163 millions are women early-stage entrepreneurs, 165 millions are young early-stage entrepreneurs (18 to 35 years old), 65 millions entrepreneurs plan on creating 20 or more jobs in the next five years, and 69 millions offer innovative products or services that are new to the market. The study reviews entrepreneurship based on three standards: inclusiveness, industry and impact. The amount of opportunity entrepreneurs have, their gender, the industry they choose and how they affect their societies also help determine how successful entrepreneurial ventures might be.

Stability and dynamism are two key ingredients of the vibrancy of any economy. All economies want to have some elements of stability, where firms maintain their businesses, despite facing ups and downs in their industry, their businesses or in the economy over time. At the same time, there need to be some dynamism, where new ideas and new firms sprout up and replace in part those that have run their course. (Kelly, D, 2012). The sum total of these two aspects get reflected in the state of entrepreneurship.

Across different economies, potential entrepreneurs may interpret a certain degree of opportunity to start a new business. GEM’s survey shows that even in places like Bangladesh, in which there is a high rate of perceived opportunity to start a business, many believe they do not have the capabilities or have a high fear of failure. Other economies in which potential entrepreneurs showed a high fear of failure or low capabilities included Japan, the Republic of Korea, Singapore and the United Arab Emirates. In

the light of the recent European economic downturn, the survey participants in Greece, Hungary, Portugal and Spain reported to have perceived very low levels of opportunity. Alternately, prospective entrepreneurs in the U.S. showed a moderate perception of opportunity, but great confidence in their abilities and a low fear of failure. At 55.8 per cent, Colombia reported the highest rate of non-entrepreneurs with entrepreneurial intentions, while more than 86 per cent of Brazilians felt that entrepreneurship was a good career choice.

One of the most significant findings in the GEM survey was the steady increase of total entrepreneurial activity (TEA) across all the different economic levels despite a worldwide economic struggle over the past few years. Countries in the efficiency-driven category saw an average increase of 25 per cent. Many of these economies, including China, Argentina and Chile, already had high rates of entrepreneurial activity and saw further increases in 2011. Of the 20 innovation-driven economies, there was an average 22 per cent increase in activity, driven mostly by a big jump in nascent entrepreneurship, which saw almost 36 per cent more startups. Kelley noted that “the talk of job loss and jobs not coming back from the recession may not be painting a complete picture. The GEM results provide some indication that startup activity may be a missing part in these reports.”

Growth projections vary greatly. While most of the 54 economies have a high rate of low-growth projections, several economies, including China and the United Arab Emirates, display significant plans for high-growth potential, in which a company plans to add 20 or more employees over a 5-year span.

Stages of Enterprise Development						
Stages	Level of Intervention	Type of Intervention	Degree of Intervention			
Stage I	Livelihood sustainability Primitive industrialization	Minimal	Low	High		
Stage II	Policy Level	a) Research and Policy Support b) Lobbying	Low	High		
Stage III	Grooming Stage	a) Entrepreneurship education and training b) Microfinance	Low	High		
Stage IV	Scaling-up stage	a) Technology b) BDS c) Finance	Low	High		

Source: Mathew (2010)

5.0. Gujarat's Approach to Enterprise Promotion.

The term 'enterprise' is both a noun and an adjective. Historically, the Gujarati society has strived to promote both. This legacy dates back to the colonial period. It is this legacy, along with governmental initiatives, that explains the State's remarkable progress on the enterprise side today. But beyond this, public policy has acted as an engine of enterprise development in the State. The role of public policy is discussed elsewhere in this report

6.0. The Enterprise Development Cycle

Strategies of enterprise development often remain relatively compartmentalized. Since the agenda of enterprise development in India is essentially driven by the government today, and that the capabilities of other development actors are largely confined to particular functional areas, we need to explore the potential of an integrated enterprise development model.

In the analysis of organizational performance, a methodological approach often used is the so called structure-conduct- performance approach. According to this approach, structure decides

the nature of conduct, and through it, the level of performance of organizations. Alternatively, performance may be predicted from structure, or, as a feature of public policy, that legislative intervention in structure may bring about desirable reforms in conduct or performance. We need to focus on networks involving non-governmental actors, rather than on any single category of organizations (ISED, 2011). The crucial difference between the government organizations and other organisations is that, while in the case of the former, the relationship is rather rigid, in the latter case, it is relatively flexible. A meaningful analysis, therefore, should proceed at two levels: 1) the actors and their roles; and 2) particular linkage models that shape the linkage system. An understanding of the enterprise development cycle, therefore need to be in terms of its stages and functional areas.

6.1. The Stages of Enterprise Development

The first step should be to develop an appropriate methodology that captures: 1) the present state of enterprise development, and the role, if any, of these actors; and 2) to specify the issues to be preferentially solved.

From a primitive state of no significant initiatives for enterprise development (as it is found in some island economies), an active policy of promotion leads to several stages of development initiatives. However, in a vast country such as India, at any particular point of time, this stage of development will vary from state to state. Therefore, it is important to have an understanding of the specifics of these stages. There are different functional areas of enterprise development, and each such area is predominantly related to a particular stage. For example, though business development services are relevant in various stages of enterprise development, they are more relevant in a context of growth and scaling up of enterprises.

According to the three-stage theory of growth of the economy, growth of the primary sector provides the nutrient for that of the secondary sector, either through the demand for wage goods, as also for industrial products. Hence, there is a stage of spontaneous growth of the non agricultural activities, where public policy has no significant role to play. In Stage II, the economy is expected to be on an overall urge to attain the "preconditions to growth" stage. Here, public policy has an active role in enterprise promotion. What enterprises need to be promoted, and how, becomes the key question. An answer to this question demands, much research, articulation, lobbying and policy support. Stage III is a stage of proactive and concrete initiatives. The conviction that, entrepreneurship needs to be nurtured through proactive initiatives, demand an active role of promotion. Entrepreneurship education and training should be planned and implemented. One of the key institutional structures needed at this stage is of finance. Hence, the role of micro finance and venture capital.

A key concern in a growth context is the sustainability of enterprises. Therefore, in order to ensure this, an environment of continuous flow of business development services (BDS) and technology need to be ensured. This also demands, advanced financial intermediation which caters to these emerging needs.

6.2. Functional Areas

As enterprise development initiatives themselves emerge out of the demand for enterprises in the

economy, institutional initiatives in this area also are market-determined. The market opportunities available for such institutional initiatives have resulted in a particular institutional structure, an understanding of which should be useful functional areas are, more concrete operational areas which are measurable and comparable. They are also vital areas in which the performance of various actors in enterprise development can be compared and acted upon. The key functional areas in an enterprise development agenda are the following:

6.2.1. Research and Policy Support

For shaping the policy environment, as also the participation of various actors, public policy has a key role. Policy does not emerge in a thin environment. On the contrary, various influences contribute, either positively or negatively, to the policy process. Research and policy support, involving both the public agencies and the private actors, play a key role in shaping these processes. Public policy, in a particular context, emerges out of an understanding of the situation at the particular point of time. It can undergo changes over time. Besides, these changes are fine-tuned by internal evaluation or by externally directed research work. In the Indian context, though SMEs is a badly neglected area of investigation, there are research contributions from a few organizations which have helped to restructure or fine-tune the existing programs.

In the two highly interrelated areas of research and policy support, the roles of actors other than government, or alternately called 'Non-State actors' (NSAs), are significant. The Planning Commission and the Ministry of MSME have some consultative bodies where the NSAs are involved in a consultative or advisory role. For instance, the VSI Division of the Planning Commission enlist experts and professional bodies in its Plan Working Groups, which deliberate on enterprise development programmes and strategies. Similarly, the Ministry of MSME has a high power consultive body, the MSME Board, in which several NSAs are members. Besides, the Ministry has a specific programme for capacity building of SME associations as well.

Reserve Bank of India has a Standing Advisory Committee on SME Finance, which also has

been represented by NSAs. Besides, a lot of India Development Finance Institutions, such as SIDBI and NABARD, also have advisory committees in which NSAs are represented. Besides, the Government of India, from time to time, appoints fact-finding Committees, in which, representatives of NSAs are accommodated.

Unlike in many other States, Government of Gujarat, and its various agencies for industrial promotion, such as the GIDC, have a proactive approach to informed decision making, and as such, initiates several studies relating to aspects of enterprise promotion. These studies, from time to time, have been initiated with the active participation of various academic institutions and professional agencies. Gujarat is the first State in the country to appreciate and act on the relevance of a concept of a Small Enterprise Observatory, and to commission a State MSME Report under such a platform.

6.2.2. Lobbying/Advocacy

Research inputs provide the nutrient for lobbying activities in favor of the MSME sector. On the other hand, lobbying by itself, may also necessitate research work. However, enlightened lobbying is a neglected area in the Indian environment. In the USA, on the other hand, there is a formal platform: the Office of Advocacy. While the Office of the Development Commissioner (MSME) performs some initiatives in this area, the backbone of lobbying activity, if any, is with the SME Associations. While research forms the nutrient for advocacy, there is neither any formal platforms, nor any programmes to support this. In fact, research by the Ministry is geared to post-evaluation, rather than for development of programmes. While independent research takes place in some research institutions and University departments, they emerge from the specific interest of those institutions, rather than by public promotional initiatives.

Scientific advocacy platforms for the MSME sector within the government is a practice prevalent in some countries today. The rationale is that, in the monolithic government machinery, the interests of the MSME sector are often relegated to the background. It is important that these concerns are scientifically articulated and brought into the forefront of the

public policy space. Two good examples are the U.S. Small Business Administration, and the Social Enterprise Policy of the UK government. In USA,

The Vibrant Gujarat initiative of the Government of Gujarat has a built-in mechanism to promote scientific advocacy within the Government. While each Government Department/agency has the responsibility of taking care of a particular portfolio within Vibrant Gujarat, the interests of the MSME sector are best protected, though in an indirect manner.

6.2.3. Entrepreneurship Education

The view point that training and mentoring can lead to entrepreneurship has brought in entrepreneurship education and training as active areas of interest. This thrust has emerged largely in the context of educated unemployed, where such interventions are expected to draw sizable numbers of people into the stream of entrepreneurship. A corollary of this thinking is that, the mainstreaming of entrepreneurship education will mould several young people into the stream of entrepreneurship. Entrepreneurship education in India has two streams:

6.2.3.1. Supply-side education Programmes:

This category of programmes has emerged from the perception that, the curriculum, as it prevails in the country, is inadequate, and it does not equip the students for any vocation other than jobs. Hence, the programme of entrepreneurship education was kick started in the 1980s by the IITs and the IIMs. Another thinking that came into prominence in the 1970s was, entrepreneurship training for the educated unemployed. Despite the good intentions, these programmes still remain of a supply-side nature, with much less follow up initiatives.

6.2.3.2. Demand-driven Programmes:

The mushrooming private engineering colleges and management Institutions in the country have entrepreneurship as part of their curriculum today. This essentially helps these institutions to find business, rather than making any contribution to entrepreneurship education as such.

The key problem relating to entrepreneurship education in the country is the lack of an integrated approach, where, entrepreneurship education and training are properly integrated with a concrete labour market policy. Unlike in many other industrialized countries, this is one area in which, India has to go forward with a clear vision and strategies .

6.2.4. Technology

Many early developing countries are considered as technology starved economies; thus came the arguments for enhanced technology imports. While at every stage of enterprise development, technology has a significant role, its relevance is much greater in a scaling up stage. More recently, there has been an integrated view of technology development and its diffusion in the country. The efforts of the "National Manufacturing Competitiveness Council" has contributed to the cultivation of such an integrated view. A corollary of technology development and manufacturing competitiveness is the focus on skill development. The Eleventh Five Year Plan gave a special thrust on skill development and vocational training and to enhance the skill base of the economy (GoI, 2006). The thrust continues in the Twelfth Five Year Plan also.

6.2.5. Business Development Services

Business development services (BDS) is a comprehensive term, which covers various stages of enterprise development, from grooming of enterprises up to the scaling-up. However, it is more appropriate and relevant to the context of enterprise growth. The term BDS is more significant today in the context of development of industrial clusters. Clusters belong to a 'collective efficiency model', where several interventions, involving diversified skills, are required to enhance their efficiency levels. Where skill- base of such a diversified nature is not available with the public agencies today, NSAs can contribute much in this regard.

Most NSAs, given their culture and exposure, have only piece meal skills today. Contextualizing such skills demand two things: 1) polishing the skill - base; and 2) providing them opportunities to work with public programmes. While the former

can be achieved through offering relevant training opportunities, the latter demands the nurturing of a serious model of public -private partnership for enterprise development. There is need for a Mission mode intervention in this regard.

6.2.6. Finance

A limited access to finance is often considered a major constraint in enterprise development. Hence the argument for finance as the key to enterprise development. There is often a misconception regarding the role of such access to finance, and therefore, many people fail to distinguish between micro credit and micro finance. While the focus of the former is "credit only services", rather than "credit plus services", the latter covers several after-credit services, including the so called BDS.

With the emergence of microfinance movement, the key question is not the availability of finance or not, but the type of finance that is available. While 'financial inclusion' is the catch word of the day, and the flow of finance has significantly improved in the country through various interventionist measures, the mismatch between finance per se, and the supply of bankable projects still remain an area of serious concern. It is the non-govenmtal, which should play a key role in providing the missing link.

The last two decades have witnessed a mushrooming of micro finance initiatives in the country. While micro finance is only an intermediate stage in initiating livelihood programmes, capacity creation, which is a vital link between the two, is still not up to a desirable extent in the country. The area of BDS, despite significant highlights by the donors, is a significantly neglected area in the country. Organizing the poor under SHGs is not the sole purpose of micro finance; such organization should help them to run economic activities in a sustained manner.

7.0. Human Resource Management

In the enterprise development cycle, as above, there are various stages through which human resources get shaped into direct actors, either as entrepreneurs or as workers. The development practitioners and the

planners have different approaches to deal with the problem. But a synergy of these two approaches is vital for a healthy enterprise development agenda.

7.1. Development Practitioner's Approach

In the initial stages, most SMEs are single-individual driven. At a time when he finds that the need for expansion and diversification demands more hands, he looks at additional hands that are capable of performing particular functions. It is this particular transformation, that Charles Babbage, Father of Modern Computing, describes as the infinite division of labour. In SMEs, the Babbage Principle operates in a distinct manner. Unlike in large enterprises, SMEs often

have the opportunity of using family labour, at least in some of the functional areas of business. Thus, family labour, at a time, performs a supportive role to the entrepreneurial function. Beyond some level, the opportunities attached to family labour also vanishes, or its role is reduced, giving way to enhanced engagement of wage labour. In the SME context, it is the mix of family labour and wage labour, together, that makes its human resource panorama, and of the lower layer of the enterprise ecosystem in general.

A relatively polarized and advanced division of human resources into labour and capital, implies a variety of issues relating to labour use, which has often been discussed by labour economists. Though such discussions are often found in the context of large businesses, for SMEs, this still remains an area to be explored. This is mainly for the reason that, SMEs are often viewed in terms of their social role of employment promotion, and much less on their economic role of value creation and growth. A focus on the latter role would necessarily bring to light, their constraints as economic entities. This will also help them to arrive at operationally meaningful strategies that are relevant to the context of ensuring competitiveness.

7.2. Between Growth and Employment: The Macro Context of Entrepreneurship

While the development practitioner's approach to enterprise and entrepreneurship is clearly focused,

that of the macro economist is relatively complex and difficult. The Twelfth Five Year Plan has a basic strategy triangle, in which the aspects of growth, inclusiveness and sustainability are brought in, in a mutually re-enforcing manner. The scheme of the Plan offers greater opportunities of growth of the economy. But the recent experience, if they are any indication, the prospects need to be examined more carefully.

India's growth trajectory over the last decade has thrown up a direct link between capital flows and GDP expansion. While domestic consumption is a big growth booster, nearly 20 per cent of the country's growth has been fuelled by capital flows-both portfolio and foreign direct investment (FDI).

7.2.1. Skill Gap

While the growth behavior is complex, some of the pre-conditions of growth also show an adverse picture. Even for the present level of growth, there is a serious gap of human resources (Bhupta. M, 2012). According to some estimates, an estimated 83 millions in the country's labour force are either unemployable or inadequately skilled. It has also been estimated that this number would increase by approximately 13 millions every year, unless the skill development initiatives help to reduce this figure. India has added an estimated 1.14 million jobs in the year 2012. However, the net employment expansion over the past five years was only a million jobs; the differential is of the order of 22 million jobs. Skill development initiatives have been suggested as the way out. A quadrupling of vocational training capacities from the present 3.1 million to 12.8 million has been advocated. The question of skill training has often been advocated in the context of the organized sector. What about skill formation in the unorganized sectors? In some of the sectors skills completely vanish due to lack of market incentives, though there are various government schemes to address this issue. In handloom, for instance, there is a tendency of skills simply vanishing, and the handloom workers simply moving to other remunerative employment opportunities. The younger generation do not get attracted to the low paying handloom jobs. This is

a much wider question of policy distortions. While the National Manufacturing Policy speaks of several initiatives for technology up gradation and providing linkages between the small and large sectors, it does not give due attention to the specific problems of the unorganized sector.

There is a unique logical setting against which, the National Manufacturing Policy can be meaningfully put to the context of MSMEs in the country. This specific context is the relatively high size of manufacturing MSMEs in the country.

7.2.2. 'Opportunity De-investment': a New Nomenclature

While most countries of the world today, reeling under recession, witness a phenomenon of enhanced self-employment, and governments attempt to promote it, the Indian story is something different. A variety of macro level and regional factors have turned the Indian experience into a different mould. More and more of self-employed opt for wage labour, a phenomenon which is not visible in most parts of the world. The perceived necessity on the part of unemployed people to become self-employed is on the decline, as the booming economy is facing a serious skill shortage. In fact, in India the 66th Round of the NSSO has shown a significant decline in self-employment. A recent study by German researchers on the Indian experience, tries to empirically examine how regional socio-economic differences increase or decrease the chances that individuals will transition from employment to self-employment. The results demonstrate that, regional level factors (self-employment rates and unemployment rates) have a substantial greater marginal effect on transition from wage employment to self-employment, than do individual level factors. This finding is contrary to the traditional Schumpeterian

perception on entrepreneurship. Their results substantiate earlier studies such as, Acs, Audretsch and Evans (1994) that highlight a necessity-driven "recession-push" hypothesis. It implies that 'necessity entrepreneurship', as revealed by recent empirical studies, is dominant in emerging economies, whereas, Opportunity Entrepreneurship is more prevalent in developed economies (Wennekers et al. 2005). India's experience however, is unique. The necessity for expansion of its entrepreneurship base is yet to be articulated at the policy level. Besides, the opportunities thrown up (by a growing economy) do not get translated into entrepreneurial dynamism, essentially because of policy distortions, such as the too populist welfare programmes.

Modeling of rural skills is a difficult area. But scientific attempts in the area should visualise long-run impacts. The traditional approach of viewing the citizen as "beneficiary" of a particular government programme, need to change. The policy approach need to be, how to unleash the potential of each of these sub categories of people. It would be worthwhile to think of adapting new mapping models, to such specific cases. There can also be an extension of the methodology adopted for the Handloom Census, on a more scientific footing. A greater linkage in the formal sector and fostering value chains is important for the very survival of the unorganized sector. But it is also important to protect the IPR, which is vital in the whole process. While there has been too much focus on skill-gap and labour shortage in the organized sectors, the situation in agriculture has not been properly explored. In fact, the problems of the agricultural sector and that of MSMEs, are co-terminus and mutually re-enforcing.

The National Rural Employment Guarantee Act provides fuel to the serious labour shortage in the agricultural sector. As a result of readily available

Manufacturing capability Mapping: Gujarat's Imperative

Box. 4

According to the Fourth Census of MSMEs, 67.1 per cent of all units in the sector are manufacturing establishments. The key question in this context should be, how to enhance their capabilities. Data available from various sub-sectors indicate that the manufacturing capability in this sector is progressively declining, both at the cluster level, as also in specific sub-sectors. It is important to distinguish, beyond macro figures, the manufacturing capability of the MSME sector. An exercise in 'capability mapping' should be grounded on a base level 'Local Level Skill Mapping' for the State.

work of labourers under NREGA schemes, farm work is suffering. Availability of farm workers has been seriously affected, leading to an enhanced crave for mechanization. While the large farmers alone can afford it, this would lead to a disappearance of small and marginal farmers and of consolidation of agricultural land. This is essentially a question of policy distortion. In fact, the basic logic of the rural labour market need to be put in order to ensure the very survival of MSMEs and marginal farmers, unless there is a quantum jump of productivity in the large sectors.

The rationale for SMEs in developing countries has traditionally been built upon the theory of "unlimited supplies of labour". This theory is based on the concept of 'labour in the abstract', i.e., surplus labour, irrespective of its quality, which is equally likely to be employed, given the wage rate. The above theory, while assumes internal migration as a variable, does not consider the role of external migration. Being at a higher stage of growth, India in general faces the problem of enhanced labour attrition. The findings of field research by ISED in various parts of the country indicate that this is a serious problem in many sub sectors. These findings have been further validated by the stake holder consultations held in 19 centres of the country under India MSME Darshan 2011.

8.0. Choice of Entrepreneurship

Perceiving entrepreneurship as a vocation, just like wage employment, and equipping novices into that stream through structured strategies, is a new line of thinking in development practice. While strategies demand the presence of well-defined concepts and entities, there has been attempts to define particular social groups/categories on the basis of their entrepreneurial potential. While this is essentially a promotion-oriented approach, macro level policy also has increasingly adopted this approach and associated tools.

To be an entrepreneur, itself is a key 'labour market' issue in many developing countries, as also in India. There is mostly a social premium for 'jobs' than for entrepreneurship in many parts of the country, and naturally, SME entrepreneurs end up as a group

of people who cannot find alternative employment opportunities. While this is the pattern observed on the supply side, the demand side also indicates a similar behaviour pattern. Government perceives the need for new entrepreneurs, as agents of new employment and incomes. Hence, it supports mentoring and entrepreneurship development initiatives, though often with doubtful results. The whole exercise, brings us to the area of targeting programmes. This is because, targeted programmes lead to more visible results.

9.0. Human Resources: The Macro Setting

The Employment Trends Survey of ILO has come at with an alarming scene of employment that developed. The challenge of a jobs recovery in particular draws attention to the difficult situation of youth, with figures showing young people having been hit hardest by the crisis. The impact on developed economies such as the EU is made apparent by figures showing that 55% of the increase in global unemployment between 2007 and 2010 occurred in the developed economies and European Union region, despite the region only accounting for 15% of the world's labour force. When this analysis is restricted to youth aged 15-24, the picture is even bleaker: the region accounts for only 10 per cent of the global youth labour force, but for over 72 % of the total increase in global youth unemployment.

Youth unemployment in the EU now stands at record level of 21%. Moreover, the report underlines that labour force participation among youth was strongly affected by the crisis: more than a million young people have disappeared from the labour market. These discouraged young people are not counted among the unemployed because they are not actively seeking work – meaning reality is even bleaker than what the figures suggest. The European Youth Forum finds the figures showing declining youth participation in the job market especially worrying. The Forum believes that there cannot be a competitive, inclusive and socially sustainable labour market in Europe unless it is ensured that young people are an active part of it. Instead of a problem, the energy and dynamism of youth can be a solution, helping to drive Europe towards economic recovery. The Employment in Europe 2010 Report

highlights how young people have especially been bearing the brunt of the crisis, with unemployment disproportionately hitting 15-24 year olds and reaching over 30% in some countries.

The European Commission's 'Employment in Europe' annual publication has served as one of the main tools in supporting Member States in analysis, formulation and implementation of employment policy. Last year's edition naturally focuses on the effects of the onset of the economic crisis. In an analysis of both EU and Member State policy aimed at mitigating the effects of the crisis and supporting recovery, the report highlights the need to reduce segmentation in labour markets in order to improve the job situation of young people. The European Youth Forum notes that, importantly, the report highlights that all too many young people are experiencing difficulties in the transitional period from Education to Employment. The Forum has, for some time, put forward a clear list of priorities and policy actions upon which it calls EU Member States to act in order to minimise the effects of the crisis when it comes to young people's entrance into the labour market, as well as decent working conditions for young people. The European Youth Forum sees it as hugely worrying that the report stresses that it might be some time before there is a clear upswing of jobs for young people in Europe.

In most developing countries, as also in India, structural rigidities still contribute to youth unemployment as a major problem.

Macro policy, in most countries, is not clear on how to utilize the so called "surplus labour". In many of the developed countries, where the social security system is most advanced, there exist a labour market policy which constantly monitors changes in the labour market. These countries also have effective corrective mechanisms relating to employment.

10.0. Entrepreneurship Development Gujarat

Recognizing that a quantitative increase in the number of entrepreneurs and a qualitative improvement in entrepreneurship could considerably accelerate the industrial, and thereby, economic development, the Industrial Development Corporations first

thought of developing small entrepreneurs in a systemic manner long back in 1969. In the year 1970 a small Cell was created within GIIC to impart entrepreneurship training. The pioneering step at the national turned out to be a phenomenal success. Later on, over a period of nine years, 80 Entrepreneurship Development Programmes (EDPs) were conducted and over 50% after completing the training successfully set up their own industrial ventures.

Enthused by the above success in bringing about a perceptible change in public perceptions, the Gujarat Corporations together with the State Government set up in May, 1979, an independent body- The Centre for Entrepreneurship Development (CED). In order to strike a deep and long lasting impact on the State's economy, CED has constantly been on an innovating spree, consistently coming out with imaginative programs aimed at specified target groups.

Entrepreneurship Development Training Programmes were started initially under an EDP Cell within GIIC, and later on the CED was established. In 1982, CED came up with a unique combination of training in specific industrial skills and the concept of entrepreneurship development was targeted at tribal and scheduled caste candidates (priority sector). Entrepreneurship development in the next year targeted in Zero Industry specified areas/locations for uplifting of rural youth. Special purpose EDPs were designed for Science and Technology graduates in 1983, and on behest of the Government of India, CED conducted first such EDP in the country and thus set mile stone. Looking at the overwhelming success in EDP for Science and technology in Gujarat, similar module of EDPs were replicated nationally.

Management Appreciation Programmes were launched in 1984 for existing entrepreneurs to enrich and empower the entrepreneurs on modern management techniques. To sow the seeds of entrepreneurship right from schooling days and budding, grooming and nurturing with the thought of entrepreneurship, CED started conducting Entrepreneurship Awareness Programmes (EAP) at Schools/ITIs,/Colleges and other educational and training institutes in Gujarat. Entrepreneurship as a

subject, is now being taught in HSC/Polytechnics / BE/ B.Tech / B. Schools in the State.

CED conducts need based Human Resource Development Programmes for academic, industry and business group participants to excel in their work performance and aptitude. CED has successfully transformed the message of entrepreneurship to the nook and corner of Gujarat.

11.0. The 'Resource Approach' to People

There is a view that the unsatisfactory growth of employment in India's organized manufacturing is primarily due to labour market rigidities. A report of the World Bank (2010) notes that, by imposing excess rigidity in the formal manufacturing labour market, labour regulation has created disincentives for employers to create jobs. The report presents an estimate, according to which, the Industrial Disputes Act has caused about three million less jobs to be created in formal sector manufacturing. There is, however, a divergent view on whether the Indian industrial firms have actually been facing strong labour regulations. Nagaraj (2007) has questioned the hypothesis that labour market rigidities are holding up industrial growth. According to him, the fine print of exemptions and loopholes built into the labour laws provide sufficient flexibilities to the industrial firms.

The rate of growth in organized manufacturing employment shows a pattern that suggests that job creation in organised manufacturing in different Indian states may be positively related to the extent of labour reforms undertaken. Taking the top five states in terms of labour reforms index, the growth rate of employment in the in the organised manufacturing achieved by these five states combined is found to be 7.5% per annum. Taking the bottom five states in terms of labour reforms index, the corresponding

figure is 3.7% per annum. This is consistent with the idea that labour reforms undertaken by the states had a favourable impact on growth of industrial employment. It may be added that the correlation coefficient between the labour reforms index and employment elasticity is 0.35, and if Andhra Pradesh is dropped the correlation coefficient increase to 0.46, which is statically significant. It seems, therefore, reasonable to argue that the substantial increase in the organized manufacturing employment that has taken place since 2003 is traceable to a large extent to the labour market reforms that Indian states have undertaken.

Among developing countries, the Brazilian thrust on youth employment has recently gained some international attention. Brazil has recently announced its commitment to volunteer as a lead Country of the Youth Employment Network (YEN), in co-operation with the ILO. Brazil joins Senegal, Namibia, Egypt, Sri Lanka, Indonesia, Hungary, and Azerbaijan, in preparing national ways: The ILO provides technical cooperation support for Brazil's Primeiro Emprego (First) programme as a complement to the activities of the other YEN partners, the World

Bank and the United Nations, which also support Primeiro Emprego. The programme hopes to create 260,000 jobs for youth (16-24), and to benefit at least 600,000 more with vocational training courses and assistance in setting up micro-businesses or cooperatives. The ILO is also expected to develop a vocational training programme aimed at improving the employability of young black women from five quilombos communities which represent descendants of runaway slave communities from the colonial period in Brazil.

Since mid-1980s, most of the OECD countries have focused their attention on better employability of the youth through active labour market policies. For

The Brazilian Story on Promotional Agencies

Box. 4

For many businesses, innovation is about risk taking – essential, but risky. According to the Brazilian entrepreneur Ricardo Semler: “a turtle may live for hundreds of years because it is well protected by its shell, but it only moves forward when it sticks out its head”. Not only do I want small businesses to stick out their heads, but also for the Small Business Service and all its counterparts to stick out their own heads as well.”

instance, in Denmark, a policy was initiated in 1994, by which, those failing to find a job during the first two years of unemployment, passed into a process by which they had both a right and a duty to accept a training for the long-time unemployed, as follows:

Ordinary Job- training, giving access to a wage subsidy, for the unemployed who are, in fact, employable for ordinary work in private firms or in the public sector;

Individual job- training, for those who cannot become employed under normal conditions. Individual job- training may take place in private firms or in the public sector (normally in the municipalities)

Education, (including educational leave for the unemployed) with or without a subsidy from the labour market authorities.

Both education and job training activate the work force, and subsequently lower the unemployed. In Italy, a programme of support to youth entrepreneurial activity was initiated in 1986 under the supervision of a public Development Company. Such initiatives have helped to gain an adequate understanding of the potential benefits of youth entrepreneurship as a means of improving youth livelihood, and enhanced and ensured to maintain youth as a live force in economic development, rather than as disgruntled elements.

In Germany there is a dual system of vocational training which highlights the labour market policy of the German government. The aim of vocational training in the dual system is to lay a broad based foundation for vocational training and to equip young people with the skills and competency necessary to perform a skilled occupation from the changing world of work. Successful completion of an apprenticeship is a prerequisite for skilled employment in one of the approximately 340 state recognized occupations requiring formal training. (VIBB 2008)

11.1. Entrepreneurship Education

The most crucial problem of economic development is to provide employment opportunities to the going people. The youth, in any economy, is considered as

offering significant potential, in addition to the threat of negative consequences they offer. Therefore, creation of employment opportunities, as also enhancement of their employability is crucial in the agenda of development policy in any country.

The question of employability is addressed in terms of two forms of intervention: (a) skill generation ; and (b) entrepreneurship development. These two areas are often considered as mutually exclusive, but in practice, they are not.

11.2. Skill Training

It has been estimated that India will face huge skills gap in some job categories due to low employability over the next 20 years and also warned of a looming global labour crisis. Despite high unemployment, the global economy has entered a decade of unparalleled talent scarcity. If left unaddressed, it will put a brake on economic growth in both developed and developing countries.

A report of the World Economic Forum demonstrates the magnitude of an impending global labour crisis by analysing talent shortages across 22 countries and 12 industry sectors and argues that talent mobility can stimulate economies in both developed and developing countries. The workforces of India and Brazil will grow by more than 200 million people over the next two decades. By 2030, the developed world will need millions of new employees to sustain economic growth. Of these, the United States will need 26 million employees, and Western Europe will need 46 million employees.

The global population of 60 years and older will exceed that of 15-years-old or younger for the first time in history by 2050. But, the talent crisis will start much sooner. Barring technological breakthroughs, the United States, for example, will need to add 26 million workers to its talent pool by 2030 to sustain the average economic growth of the two past decades, the report reiterated. Today's high unemployment rates mask longer-term talent shortages that may affect both developing and developed countries for decades.

In most developing countries – not affected by demographic shifts – strong economic growth and

the limited employability of the workforce will lead to large skills gaps in some job categories. Nations and industries will be particularly challenged by the shortages of highly skilled talent. In today's global and fast-changing business environment, access to highly skilled people – not just top talent, but also people who possess essential expertise – is crucial to succeed and grow. Some industries, such as business services, IT and construction, are likely to experience significant skills gaps, regardless of geography. At the same time, certain countries, such as Japan, Russia and Germany, will face shortages of highly skilled employees in many industries.

Increasing the mobility among countries will be a key part of the solution. Contrary to conventional wisdom, greater mobility can benefit not only nations that receive talent, but also sending countries, especially large ones such as India. Countries need to prepare for demographic shifts and a fast-changing labour market environment by defining adequate education and migration policies.

There is a huge disparity between educational system and the demands of the industry. This is the root cause of the skills problem in the Indian labour market. The problem can be tackled by a combined initiative from the government as well as private sector participation. The role and potential of the private sector both in education and skill generation need close examination. However, education still remains the most stifling element on the road to skill development. There is shortage of capacity in the Indian educational system, besides the quality of education. There is a crying need for a closer interface between industry and vocational training. Industry should take leadership in skills training, qualification and assessment as is the case in developed countries. This strategy is pertinent if training had to deliver job-level skills in an increasingly globalised world.

12.0. Entrepreneurship Development

12.1. Institutions and their Role

The values and practices of pure research—discovery, originality, innovation—are the highest expression of American university learning. Entrepreneurship implements innovation. It is the

process that transforms discovery and innovation into enterprises that generate value. In so doing, entrepreneurship yields improvement of goods, services, and institutions that affects large numbers of people. Entrepreneurship's defining trait is the creation of a novel enterprise that the market is willing to adopt.

The common interest in creativity and originality binds entrepreneurship and higher education to one another. Therefore, entrepreneurship should be both a legitimate subject in American undergraduate education and a pervasive approach to learning and to the management of universities. Business is part of society and reflects its values. The very ordinariness of entrepreneurship in American commerce suggests that our society prizes originality and improvement, and the human traits that enable both. Thus, entrepreneurship transcends business practice. It is a distinctive kind of human agency that derives from business but can operate in any realm of human endeavor. Entrepreneurship also is a basic exercise in social responsibility. To suppress or constrain innovation and improvement—and their implementation—ignores a society's needs and wants, holds it back, and diminishes its future. In the above context, the experience of the institutionalization of the entrepreneurship movement in India demands closer examination. Apart from the broadbasing of the institutional base of entrepreneurship development in India, the content of such interventions still remain much to be desired for various reasons: First, there is lack of clarity at the policy level, regarding the role of entrepreneurship in the growth agenda of the country.

Who are the entrepreneurs that need to be targeted in a growth agenda—the corporate sector, the SMEs, the micros? Every state Government has its own vision of entrepreneurship development. But programmes are designed at the national level, and resources for their implementation as well. The actual practice with the States and the various ED institutions is to utilize such resources, and implement programmes without any coordination. Secondly, entrepreneurship development initiatives, being relatively abstract, need to be made concrete and visible. This operational aspect has not been adequately taken care of. Mechanisms are not

To Be an Entrepreneur or Not to Be

While the need for development of entrepreneurship is widely accepted both in developed and developing countries, the factors influencing the choice of an individual to be an entrepreneur (or not to be), has been least explored. In India, the findings of the NSSO 66th Round Report, brings to the limelight this important issue. The Report shows that, a significant number of people in traditional occupations, known generically as ‘selfemployment’, are moving out of such occupations. Where do they go? On the other hand, entrepreneurship development through start-up programmes are very much central to the agenda of public promotional programmes in the MSME sector. Who are the people who get attracted to such programmes? What are their motives? What is the role of institutions and programmes for start-ups that are mushrooming in the country? The academic debates relating to ‘necessity entrepreneurship’ versus ‘opportunity entrepreneurship’, requires detailed examination in the Indian context.

in place, nor do the institutions practice it to a reasonable extent. Third, there is a misconception prevalent in the country, whereby entrepreneurship development institutions are considered as “training institutions”. This misconception, prevalent among the government agencies, financial institutions, and the training institutions themselves, has led to the mushrooming of ‘all-purpose’ training in the name of ‘entrepreneurship development’. While most of the mushrooming private Management education institutions have entered the field, Entrepreneurship Education as a discipline, is yet to take roots in the country.

10.2. Occupational Transition, Entrepreneurship and the Way Forward

While public policy in India, from time to time, has considered entrepreneurship and self employment as crucial items of the policy agenda, the actual status of the same remain.

Occupational transition from wage labour to self employment is generally considered as a factor in development discourses. In fact, over time, this has emerged as a convenient factor under globalization and economic reforms, where the developmental role of government itself got progressively eroded. Occupational transition, from salaried to the self employed, is an issue in developed economies, but is even more critical in emerging economies, as individuals’ occupational choices can drive economic development. Using data on 3637 individuals from India, Wennekers et.al (2005) examine the effect of regional factors on actual and intended transition.

They find that selfemployment and unemployment rates decrease actual and intended transition, and the effects are at least four times greater than that of individual level factors. In addition, they also find that urban versus rural location moderates the effects of income ratios and state GDP, with the effects being greater in rural locations.

In a predominantly agrarian economy, the change, in fact, has to happen in favour of more of nonfarm occupations. Contrary to such expectations, the 66th Round of the NSSO has shown a significant decline in self-employment. Non-agricultural employment has almost halved, and more specifically for female workers. This reaffirms a trend that was reported in the previous survey conducted in 2007-08.

Another major finding of the NSSO Report is that, there has been a 20 per cent decline in selfemployment compared to the previous five years. This should be understood against the fact that even the existing self-employment opportunities are often not viable at all. This decline has been visible both for men and women. Regular employment has increased marginally for both the categories. The decline in unemployment, even during a period of very low aggregative job creation, is a paradox that deserves further analysis. There has been an enhanced substitution effect that shapes the course of self employment in the country today, which essentially leads to a unique phenomenon of ‘Opportunity de-entrepreneurship’. What is visible in this context is not a process of entrepreneurship creation, but entrepreneurship destruction.

Parker's Push-Pull Hypothesis

Parker (2004) points out that, if high unemployment results in a lack of demand for services and products provided by the self-employed, increasing their risk of bankruptcy, individuals are theoretically pulled out of their self-employment, leading to a “prosperity-pull” and vice versa. According to Parker, the ‘push-pull hypothesis’ explains how self-employment behaves during recession and times of prosperity.

Source: Parker (2004)

New-job creation in India has been primarily driven by self-employment, which accounts for half of the total Indian workforce (Ghosh and Chandrashekhar 2007). This may not be an opportunity-driven phenomenon, since nearly half of the self-employed persons report that their work does not provide them with sufficient income (Ghosh and Chandrashekhar 2007). This finding supports the well known “Parker hypothesis”.

The push-pull hypothesis has been substantiated by international data as well. An international comparison of small business employment by John Minch, Nathan Lane (2009), of the Centre for Economic Policy Research, concludes that, contrary to popular perceptions, the United States has a much smaller small business sector in terms of employment, than other countries, at a comparable level of economic development. They observe that the undersized US small business sector is consistent with the view that, high healthcare cost discourages small firm business formation. They also compare and pointed out that while start ups in other countries can tap into government funded healthcare systems. In USA, the risk perception of becoming an entrepreneur is greater, because the social safety nets are lower there. Since the USA does not provide universal health care, and the free market for insurance is prohibitively expensive, many Americans who might otherwise look to start a business, instead, join a company for the tax-deductible employer- provided health benefits (Schmitt and Lane, 2009). In the US, GDP growth has stalled and overall employment has actually dipped in the private sector over the last ten years (Mandel, 2011). The recent debate on the subject throws significant light on global strategies of enterprise development. It also gives lessons for India.

Since the global economic crisis hit, the number of people with jobs, in the industrialized countries, has been steadily decreasing. According to Statistics Canada’s Labour Force Survey employment in Canada ended up growing by around 36,000 jobs in April 2009. The number of jobs in the private and public sectors both declined slightly in April, but a surge of 37,000 newly self-employed people helped the employment numbers rebound. A lot of people are finding it difficult to get jobs at the moment. There are few positions available and even if you do get a job, you may question how secure your position is. This is likely one of the reasons that people are turning to self-employment.

In India, the more recent developments indicate that, this type of an argument has become more realistic and valid. While earlier, public programmes of entrepreneurship development was offered as the only ideal choice for a person who has no opportunity of wage employment, or is not willing to accept such employment, because of lower wages at a particular level of skills. today, the government itself offers options such as, NREGA. The market offers, greater incentives for even the low skilled hands in terms of higher average wage rates. In the Indian context, even in the context of a poor insurance system, these alternative opportunities offer a disincentives for becoming an entrepreneur.

The message that emerges from the above discussion is that, unless programmes such as the NREGA leading to a meaningful process of asset creation and generation of productive employment, the recent trend of rising wage rates, is likely to work as a disincentive for the growth of entrepreneurship in the country.. But unlike occupational choices in the case of wage labour, the typical entrepreneur has very limited choices at his disposal, because of the prevailing exit policy in the country, as also for the

cultural factors by which the entrepreneur remains pegged with his occupation. The most common type of one-man enterprises, found significantly in States like Kerala, Assam and UP, have come into being under government programmes such as, Self employment Programme of the 1970s. These entrepreneurs today are virtually subject to a low productivity-low growth ratchet, which can best be described as an 'entrepreneurship ratchet effect'. It is a matter to be show-cased that Gujarat has been making an attempt to overcome this through greater programme synergies

They often need a loop in order to get out of such ratchet. In states like Kerala and Punjab, such opportunity, though rarely, comes through international migration.

13.0.Perception Pyramid

The key element of discourses on entrepreneurship is the concept of 'achievement motivation'. The term, 'achievement motivation' implies the factors that influence the individual's decision making process in relation to what he perceives to achieve. Different individuals have different perceptions on what they seek to achieve in life. It is this orientation that drive him into action.

The question as to why the number of entrepreneurs is smaller in a country compared to another one, is essentially a question of what the majority of the individuals in that country perceive to achieve. It is this perception that guides an individual to choose a particular occupation and not another one.

On the basis of perceptions, the population in a country can be broadly categorized into three:

1) Those who believe that the country/ the locality offer enough of opportunities. However, the

opportunities, by no means, are fixed, but something which he would like to choose among. This category of individuals are called the 'entrepreneurial class'. Though small in number, they are innovative and dynamic in their approach.

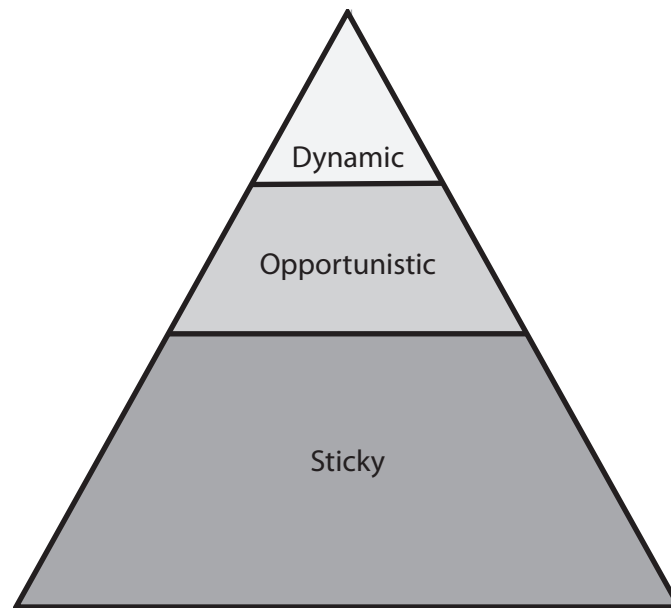
2) A much larger category of individuals consider opportunities as rather blurred. The skill they have acquired does not help them to orient themselves into a particular occupation. On the other hand, they try to grab all forms of opportunity, without having focus on anyone. They have an opportunistic perception on opportunities. For instance, an excellent skilled worker, having a premium of earnings in the labour market, leaves the occupation as and when he gets employment as a peon in the government service. His perception is moulded in terms of a trade-off between job security and levels of earnings in alternative occupations. On retirement, he finds that the earnings he could make during his tenure was much limited, the security in life he could achieve also is insignificant.

3) For a third category of individuals, the perception is clear because of objective reasons. They consider occupations at home as inferior to occupations outside (and for that matter, outside the country). It is such perception that triggers migration in a developing economy. The three categories mentioned above, based on their representativeness in terms of numbers, depicts a pyramidal structure, which can be presented as follows. In the above pyramid, the entrepreneurs are viewed as the dynamic agents of change. The majority belong to the category of those who stick on to their occupations, either because they have an

Youth: The Drivers of Innovation

Box. 7

A special Leaders' Forum on Youth Employment at the 15th Asia and the Pacific Regional Meeting (ARPM) of the ILO, (2011), which opened raised the crucial issues of the prevailing mismatch between the available skills and the demands of current employers and the severe lack of options for the youth, who are left out of decision- and policy-making. The challenges before the youth were huge; close to 60 per cent of the young people in the world lived in the Asia-Pacific region, which accounted for 45 per cent of all the unemployed on the planet



objective assessment of their worth, or because of subjective reasons, they do not want to move out. The group in between the two is highly volatile and they take decisions according to the opportunities.

The structure of the pyramid has implications for public policy relating to entrepreneurship development strategies. The majority of the individuals are bound by both constraints and opportunities. Constraints and opportunities are, to a significant extent, objective than subjective. Therefore, the task of policy should be to identify the specific nature of the objective constraints and tailor them to the requirements of entrepreneurship development. However, for the migrant category, entrepreneurship is quite alien to their perception, and therefore, any programme targeting them are likely to fail. This behavior is visible in the case of return migrants and science and technology graduates in most parts of India. Studies have shown that entrepreneurship development initiatives in both the cases have not yielded positive results, in comparison with other categories of start-ups.

14.0. Segregation of Entrepreneurship

While entrepreneurship is a significant and crucial resource in the development process, it is necessary to have appropriate strategies for its development. Strategizing entrepreneurship development, however,

demands, operationally meaningful concepts and entities. It is in this context that sub sectors on the basis of criteria such as, gender, age, and organizational form, become relevant. Identifying these major sources of entrepreneurship, and evolving specific strategies is vital. This is the spirit of 'inclusive entrepreneurship'.

14.1. Youth Entrepreneurship

The world is experiencing a serious phase of jobless growth. New figures released by Euro stat on 1st February, this year, confirm that youth unemployment remain at record levels of 21% across the EU27. The lowest rates were observed in the Netherlands (8.2%), Germany (8.6%) and Austria (10.5%), and the highest in Spain (42.8%), Slovakia (37.3%) and Lithuania (35.3% in the third quarter of 2010).

EU Employment Commissioner László Andor (2011) recently admitted that the EU is experiencing a "jobless recovery", despite signs that economies in some member states are starting to recover, an upturn in labour markets is still nowhere to be seen. Governments have to prioritise job creation, and especially tackling youth unemployment. The importance of the European Commission's flagship initiative "An Agenda for new skills and jobs", which is part of the EU 2020 strategy, sets out 13 actions aiming to boost the EU employment rate to 75%

by 2020. Most notably it highlights upgrading skills, improving working conditions and job quality, and creating jobs as priorities for member states.

According to ILO's "World of Work Report 2012, employment rates have increased in only 6 of 36 advanced economies (Austria, Germany, Israel, Luxembourg, Malta and Poland) since 2007. Youth unemployment rates, however, have increased in about 80 per cent of advanced countries and in two-thirds of developing countries. Poverty rates have increased in half of developed economies and in one-third of developing economies, while inequality rose in half of developed countries and one-fourth of developing economies. On an average, more than 40 per cent of jobseekers in advanced economies have been without work for more than a year. The majority of developing economies show a decline in both long-term unemployment and inactivity rates. Involuntary part-time employment has increased in two-thirds of advanced economies. Temporary employment has also risen in more than half of these economies.

The share of informal employment stands at more than 40 per cent in two-thirds of emerging and developing countries. In 26 out of the 40 countries for which information is available, the proportion of workers covered by a collective agreement declined between 2000 and 2009. 28 per cent of the selected group of emerging and developing countries implemented policies to reduce social benefits during the crisis compared to 65 per cent in advanced economies. At 19.8 per cent of GDP in 2010, global investment remains 3.1 percentage points lower than the historical average, with a more pronounced downward trend in advanced economies. In all regions, investment in small firms has been impacted disproportionately by the global crisis

The European Youth Forum recently gathered the opinions of youth organisations across Europe to respond to the Commission's initiative. In particular, the Youth Forum was disappointed at the absence of a concrete target for lowering youth unemployment, and therefore, urges member states to commit to such a target in their National Reform Programmes. Young people have the potential to greatly contribute to smart, sustainable and inclusive

growth in Europe, but need an encouraging and reassuring policy framework to do so. The Youth Forum hopes the Agenda for New skills and Jobs can provide the basis for such a framework, and thus help empower young people across Europe. Thus youth enterprise is emerging as an area of concern around the world.

Youth enterprise comprises a range of concepts from, at one end, the promotion of self-employment and the development of businesses through, to a focus on young people being 'enterprising' and entrepreneurial in their personal and collective actions. The latter usually involves cultivating three important traits:

- A readiness to embark on new ventures;
- The ability to identify opportunities and to plan, develop and implement plans of action; and
- The capacity to work as part of a team and to communicate with others.

Individual enterprise that promotes self-employment and business ideas is seen as an employment option that can also contribute to the regeneration of an area. Group or collective enterprise usually involves 'business-like' activities, rather than serious businesses. Most youth programmes work, in some way, to promote personal enterprise or entrepreneurial behaviour in leadership roles and by encouraging a readiness to try out new challenges and grasp opportunities and few organizations working with young people have not learned how to be enterprising in seeking resources.

India's youth population is large in absolute terms. However, its proportion in total population is not particularly high either in comparison to our own numbers in the immediately preceding decades, or in comparison to the numbers of other major countries of the world. It is likely that, given the population trends in other countries, India may begin to acquire a major youth advantage a few decades hence.

The most significant change that has taken place in the age distribution of Indian population is that the proportion the 0-14 age group has declined by about 6.5 percentage points, from 42 per cent in 1971 to about 35.5 per cent in 2001. Corresponding to this

decline of 6.5 percentage points in the proportion of this younger age-group, there has been a rise of about 3 percentage points in the proportion of the young in 15-34 yr age group, and of about 1.5 per cent each in the proportion of higher age groups of 35-54 yrs and above 55 years.

The striking feature of the age distribution of Indian population is not any particularly significant bulge in the 15-34 yr age group, but the rather low proportion of persons in the higher age groups of 55 and above. Though, there is some improvement in the longevity of Indian population, the age pyramids of Indian population still remain rather narrow at the top. Similarly, though there is a significant decline in the proportion of people in 0-14 age group, Indian age-pyramids still look heavy at the bottom. Indian population has not yet made the transition to a healthier age-distribution pattern.

Indian population is also not particularly young compared to the populations of other countries. The USA has 28 per cent of its people in the 15-34 yr age group, compared to 33.5 per cent in India. But, the disadvantage is more than made up in the next higher age-group of 35-54 yrs, where the US proportion is 9 percentage points higher than in India.

India does not seem to have any particular youth advantage compared to China either. The proportion of persons in the 20-49 yr age-group in China was 41 per cent in 1995 and is likely to be 48.5 per cent in 2010. In India, the proportion of persons in this age group was 41 per cent in 2001. With their higher population, the absolute number of people in the 20-49 yr age group in China is likely to be a staggeringly large 600 million in 2010.

The age-distribution of Indian population shows a distinct bulge in the age groups of 15-35 years. The 2001 Census indicated that nearly one-third of Indian people are in this age group of young adolescents and young adults. An effective pro-youth employment effort will, therefore, benefit everyone in the long run. Appropriate strategies to address the main factors affecting youth employment are needed:

1. **Job/employment creation:** Factors that influence job creation, which encompasses aggregate

demand economic growth (macroeconomic policies, appropriate regulations and the promotion of entrepreneurship and enterprise creation and development).

2. **Working conditions:** Factors that impact on working conditions such as legislation, regulations and the business cycle.
3. **Employability:** Factors that address employability, such as education and training, work experience, labour market information and services and institutional structures to integrate youth into the labour market.

According to Robert Litan, at the Kauffman Foundation, which specialises in promoting innovation in America; “between 1980 and 2005, virtually all net new jobs created in the US were created by firms that were five years old or less, i.e., about 40 million jobs. That means the established firms created no new net jobs during that period.”

The message is that, in order to bring down unemployment in a sustainable way, rescuing corporations and public works will not help. A big bushel of new companies have to be set up. It was reported that Social Security in US this year, will pay out more in benefits than it receives in payroll taxes – a red line that is not expected to be crossed until at least 2016.

Against the background of the global economic crisis, entrepreneurship development is a key area of concern for governments today. But, good-paying jobs do not come from bailouts. They come from real start-ups. And where do start-ups come from? They come from smart, creative, inspired risk-takers. Such risk takers often come from socially marginal groups, or those who are school drop-outs.

In USA roughly 25 per cent of successful high-tech start-ups over the last decade were founded or co-founded by immigrants, where, Indians have played a key role. Studies by Kauffman foundation conclude that, if there is a happy coincidence of high-IQ risk-takers in government and a society that is biased toward high-IQ risk-takers, one gets an above-average returns as a country. What is common to Singapore, Israel and America, is that they were all built by high-IQ risk-takers and all thrived – but

only in the US did it happen at a large scale and with global diversity.

In India, programmes such as PMEGP have helped to bring several youth into the stream of entrepreneurship. But unlike in many other countries, it is the market signals that have set the tone and tenor of entrepreneurship development in the country.

14.1.1. Gujarat's Initiatives

The world-class International Centre for Entrepreneurship and Technology' (Icreate) and the Icreate Incubation Centre, near Ahmedabad, set up in November ,2011,is a major initiative for entrepreneurship development. Icreate is meant to produce talented young entrepreneurs who would bring glory to India. It is meant to nurture and develop the boundless creativity and entrepreneurship of the youth, to spark endless energy among them. Infosys chairman-emeritus N. R. Narayana Murthy is the Chairman of the Advisory Board of Icreate Incubation Centre being developed in collaboration with Government of Gujarat on a 35-acre plot near Kensville Golf Club on Ahmedabad-Bavla Road. Gujarat Gandhi Nagar Mineral Development Corporation (GMDC) is a partner to it.

Icreate is the answer to the challenge, to encourage original research in sync with technology. Floated by Gujarat Foundation for Entrepreneurship Excellence, a joint venture between State PSU GMDC and Gujarat Entrepreneurship and Venture Promotion Foundation, this incubation and innovation centre will promote innovative ideas among entrepreneurs, students and micro, small and medium enterprises (MSME). Through Spark-Up Fund,it plans to approach, seek and amplify potential entrepreneurs, students and MSMEs. It also involves going to various colleges, talking about entrepreneurship and trying to create a favourable mindset.

Participants in the Project will be required to submit their innovative ideas that they would be willing to work upon in near future. It identifies upto 50 projects and giving them Rs 50,000 each to work upon their ideas and do something concrete in three

months. It bets on these people who are willing to work upon their ideas. Apart from entrepreneurs and students, iCreate is also looking to tap the MSMEs in the region. The Project reaches to MSMEs to identify fast growth companies, and showcase 25 such fast growth stories from among MSMEs through iCreate.

14.2. Women Entrepreneurship

Women-owned enterprises represented nearly 40 per cent in the United States and employed approximately 27.5mn persons (NFWBO 2001). In China, women outnumber men in doing businesses by at least two times. Since 1990, one third of enterprises have been set up by women in Germany employing more than a million. Women are again 20 per cent business owners in Europe. Women constitute one-fourth of the self-employed sector in UK. During the first decade of the current millennium, women-owned enterprises scaled up from 9.5 per cent in 2001 to a near 18 per cent.

Women are as much adored as abhorred in India. Gender discrimination in property rights left them more insecure than anything and it is not uncommon that for most women starting a new enterprise required still assent from her male spouse if not a guarantee. Notwithstanding the recently announced 50 per cent allotment of Assembly Seats in some States borne out of male chauvinism, and 30 per cent reservation in employment, women find access to finance and infrastructure as the most difficult part for venturing into an enterprise. Mambula (2002) studied SMEs in Nigeria and the problem was no different. Punitha et. al. (1999) studied the constraints faced by women entrepreneurs in Pondicherry Region. Rural women enterprises were worse off when it came to facing competition in producing and marketing better quality products. Watson (2003) study in Australia revealed that the failure rate among women enterprises is higher than their men counterparts. In India while the story of micro enterprises reveals preponderance of women as starters during the last decade, when it came to the question of enjoying benefits from them, men would appear to be usurping their wallets. The other genetic characteristics also work both ways for women enterprises: First, women are more

mature than men in understanding the situation when a problem arises and have better skills in arriving at negotiated settlements. They are also quick in taking management decisions. Second, their productivity in the enterprise suffers due to their biological nature at least for about five days in a month; their attention to family and children due to the caring instinct of wife and mother also takes away their peace at work; post-forty they are likely to face physical strain and illness when, if there is no second level efficient management to take care of the enterprise, it suffers.

There are several issues in most enterprises owned by women. An important feature of youth population in India is that, against 40 million urban men in this age group, there are only 36.5 million women. In rural areas, on the other hand, there is a slight excess of women. This is largely because adult men of this age-group are under greater pressure to migrate to the cities in search of work. The fact that the youth make is largely an urban phenomenon and that young women are concentrated more in the rural areas, has important implications for youth policy, as also for gender policy in the country.

The migration of youth into the urban areas has an important potential from the enterprise development angle. But the crucial question here is why they migrate: as job seekers or job creators? If they largely choose for the latter, then several issues of infrastructure and support systems need to be addressed.

In the case of women, on the other hand, migration to the urban areas is much lower, and most migrations are in favour of employment opportunities. Hence, women entrepreneurship is essentially a rural problem, which need to be addressed largely in the rural setting. This leads us to a discussion on individual versus community enterprises.

14.2.1. Cases from Gujarat

Gujarat is one State where NGO initiatives for women entrepreneurship development has picked up some extent. There are several NGOs, large and small, involved in training, mentoring and support services to women. To empower the rural women and generate their income in rural areas

Self Employed Women's Association (SEWA) has started its seventh Rural Urban Development Initiative (RUDI). This is a processing centre which SEWA has started with MasterCard India at Bodeli near Vadodara, Gujarat.

The initiatives aim at ensuring fair price to the farmers for their produce and safeguard their interests from corrupt middlemen. Farmers can now sell their agricultural produce directly to the processing centre and collect money for their goods immediately. The Centre will process the agricultural produce for cleaning, packaging, branding and coding. With this initiative, farmers will get 20% or more profit for their produce. Under this Center women especially from tribal areas will be provided special training which is expected to help them to gain self efficiency in generating revenue.

In an attempt to encourage the women entrepreneurs, the state government extend the facility of special concession on existing stamp duty to the women in 2005.

14.3. Individual versus Community Enterprise

Individual enterprise can give scope to creativity, develop individual talents and create employment and wealth. Most people who become self-employed start by using their existing skills and talents, their previous experience and training and the resources available in a new way. The danger is that the types of businesses they develop tend to mirror the local economy and where that economy is poor, they are frequently marginal in their viability. Many young people have a perception of self-employment as offering a greater freedom than working for others, and greater rewards. The reality, however, is more usually long hours, little free time and a earnings. Some studies have identified the 'self-exploitation' of self-employment, along with the short-term community enterprises set up, as a feature of the poverty of the local job market and young people's experience of it. Here, self-employment is not seen as an alternative to competing in the local job market, but rather a feature of that job market, contributing to its bleakness.

Enterprise that is 'business-like' is also seen as a 'good' thing for communities and neighbourhoods

because it can lead to the provision of new services, especially those that are marginally viable or commercially non-viable. Initiatives such as credit unions and skill-swap schemes have explored ways of retaining wealth within a community but have also expanded concepts of enterprise beyond wealth generation or retention to ‘trading’ commodities such as talents, skills and resources. For example, in some countries in the West, there are community organizations who have collaborated to ‘trade’ meeting room space for the use of a photocopier, or shared use of a mini-bus.

Youth organizations in many countries have moved into community enterprise through initiatives such as internet cafes where time on the internet can be bought at a low cost, subsidized by grants and income from the sale of refreshments. Information and advice projects may draw in statutory services who pay to have access to the young people that the youth group provides. Schools may buy in the services of a youth worker or youth project to provide an alternative curriculum programme for some pupils which, in turn, will subsidise activities for those same young people in the evenings. There are numerous examples of enterprise at individual, group and organizational level. They provide new opportunities but offer real challenges to those working with young people. The key one is realistic sustainability.

The question of community enterprise, in most countries, emerge as part of an agenda of local economic development. In many countries of Europe, local economic development is an active public agenda in which both the government and local community play a key role. The reason is that, there is a public perception and demand for local regeneration at the grass root level. In India,

14.3.1. Inclusive Entrepreneurship: A New Concept

The term Inclusive Entrepreneurship emerged from a Project led by Syracuse University and its Whitman School of Management/Department of Entrepreneurship and Emerging Enterprises (EEE) together with the Burton Blatt Institute (BBI). It is the result of successful entrepreneurship program for individuals with disabilities and low income

individuals.

The program identified unique tools and process, which walks the entrepreneurs and aspiring entrepreneurs through a 4-staged model of entrepreneurship. Based on its empirical findings, the Project concluded that, successful entrepreneurial practices, ideas, samples, and anything else that will help entrepreneurs and aspiring entrepreneurs access the resources of entrepreneurship, should be shared.

Why is ‘Inclusive Entrepreneurship’ Important?
It goes beyond business ownership. It benefits everyone by fostering a fundamental understating of business, community stakeholders, community collaboration, benefits, and the skills and confidence needed for personal and community success. Community partners are able to save time and money by implementing a seamless process of inclusive entrepreneurship.

It is important to note that the success of ‘Inclusive Entrepreneurship’ as a university and community-based initiative is also based upon the development of key partnerships that are necessary to helping entrepreneurs develop their businesses. These can include the local Small Business Development Center (SBDC) and One-Stop Career Center as well as key local stakeholders that work with low-income individuals, including low-income people with disabilities, to help them achieve economic self-sufficiency.

On the other hand, *panchayathi raj* is essentially an agenda of sharing political power, rather than a platform where issues of local economic development are discussed. The debates on local economic development are more incidental, confined to particular sections of society such as women and backward communities. Naturally, while economic empowerment is perceived as a key instrument that lead to political empowerment, these specific sections of society get particular attention in policy debates. It is against this background that women entrepreneurship gained importance in development debates.

While entrepreneurship among women is rather rare in the Indian context, and that start ups among women are rarer, the question of women entrepreneurship

has been addressed largely as a collective issue. Thus, in the Indian context, community enterprises essentially means entrepreneurial activities initiated by women or for women.

Community enterprises of women emerged in the country emerged as part of social programmes of community development and women's empowerment. In the 1950s, the Community Development Programmes, and the women's co-operatives movement of the 1960s, involved organisation of women into social groups, who in turn, took up economic activities. In the 1990s, such organisational initiatives gained a new form and speed under the State-sponsored poverty reduction missions, which gradually merged with the larger stream of micro finance movement. Despite such broadbasing of the organisational initiatives, it is still ambiguous as to how much of entrepreneurial capabilities were added to the enterprise ecosystem of the country through this movement. The visible manifestations, however, are, some of the key projects like, kudumbashree in Kerala, and the Madhya Pradesh Rural Livelihoods Project.

Individual enterprises of women and women entrepreneurship as such, iaquite small stream in the Indian context. According to the Third All India Census of SSIs, the total number of SMEs managed by women constituted 156753, which was ten per cent of the total number of units covered by the Census. While this is a significant number, it is also to be noted that, while the Office of the DC (MSME) has specific target programmes for women enterprises, the number might naturally have covered a number of name-sake units as well. In fact, no comprehensive study has taken so far on the size, structure of women owned units, as also of the capabilities that are peculiar to such units.

14.3.2. Gujarat's Initiative

Government of Gujarat has launched a State Livelihood Mission - 'Mission Mangalam', with the objective of bringing about an overall improvement in the economic status and standard of living of the poor and thereby improving the human development indicators of the State. In order to implement Mission Mangalam and the recently launched National Rural Livelihood Mission, the State Government has constituted The Gujarat Livelihood Promotion Company Ltd. (GLPC). GLPC seeks dedicated and dynamic individuals and offers them challenges to match their potential and promises at working environment which encourages creativity and rewards for performance. The Company offers a package commensurate with the market.

The primary potential strength of this approach is the readily available manpower of about 25 lakh members organized into approximately 200,000 Self Help Groups, popularly known locally as *Sakhi Mandals*, and spread across the entire state. The second strength is the credit mobilization potential (of the estimated Rs. 10,000 crores) by these Self Help Groups from banks and other financial institutions under various schemes and financial products. Through multi-party MoUs involving Sakhi Mandal Federations, GLPC, Banks and the Promoting Institutions/entrepreneurs, most of the capital investment can be mobilized in the name of Sakhi Mandals from Banks. Only organizing skills, managerial skills and marketing skills would be called for from the Promoters. The promoting companies/entrepreneurs could do strategic business process outsourcing of labor-intensive tasks as job-works, which can be undertaken by Sakhi Mandals in their respective homes or villages.

Gujarat's Socio-Enterprise Promotion Model

Box. 8

'MISSION MANGALAM' is aimed at holistic development in the standard and quality of life of the poor households in the State by linking them with sustainable livelihoods. Gujarat Livelihood Promotion Company Ltd. has, as one of its objectives, bringing in Public-Private Partnership and professionalism into the ambitious tasks of poverty eradication, women empowerment and HDI improvement. It is envisaged that GLPC would bridge the gap between the corporate sector and the collectives of the poor by facilitating mutually profitable business ventures.

15.0. Towards an Innovative Entrepreneurship Policy

Despite several initiatives, entrepreneurship has not received adequate policy attention in India. The country has produced a large network of entrepreneurship promotion institutions and their programmes over the last four decades. In fact, many of the programmes and institutions are working at cross purposes. The state level EDI institutions are largely sinking. The focus has largely been on quantity than on quality. According to data available, the country trains a significant number of entrepreneurs every year.

Where do they go? A routine approach to turnover rates, is by now, discarded, and in professional circles, it has been increasingly accepted that failures also need to be reckoned and followed up.

The criticality of viewing entrepreneurship as a resource, emerges in this context. The crux of this approach is as follows: What does the entrepreneurial activity of an individual add to the economy and to the society? Does it provide incomes and livelihoods to a family? Are such opportunities confined to himself, his employees and their families? Or does it mean a value addition to the system? An answer to these questions shape the perspectives on entrepreneurship and its promotion.

The perspective that entrepreneurship adds value to the system, lead us to the perspective of entrepreneurship as an all-inclusive concept. Hence, when many a social problems arise, we may explore whether entrepreneurship could be a solution or at least a partial solution. This is the perspective that underlies the emerging concept of ‘inclusive

entrepreneurship’.

‘Inclusive entrepreneurship’ is, at a time, a concept and a strategy. The use of the word ‘inclusive’ indicates a belief that entrepreneurship is for all and that the personal qualities and conditions required for entrepreneurship are not the prerogative of a privileged, highly educated few. Millions of people take complex decisions, manage risk, find new innovative solutions, and collaborate with others just to survive in their daily lives. It is about a set of attitudes, competences and skills into project ideas and enterprises in motion. It is about more than starting an individual business. Inclusive entrepreneurship can be applied to self employment, starting or growing micro or small enterprises and to social enterprise using business based approaches driven by social mission. Indeed the personal qualities required for entrepreneurship are essential for success in the knowledge economy – whether this be in the private or public sectors.

‘Inclusive Entrepreneurship’ is also a strategy and process for assisting people with diverse disabilities and/or economic and social disadvantages to become entrepreneurs through business planning, training, use of customized business development goal and support planning, and access to financial resources utilizing the resources of diverse public and private partners working within a consensus-driven, collaborative framework. It is about supporting entrepreneurs from all backgrounds by creating a genuine level playing field. This involves understanding and then overcoming the barriers faced by different people in different places. It is about unleashing the creative potential that people have within them and using this for nurturing the

Box. 9

Towards a National Entrepreneurship Policy

A National Entrepreneurship Policy, under preparation, has recommended creation of a permanent National Commission on Entrepreneurship to institutionalise entrepreneurship development in the country. The Commission would seek to promote new entrepreneurs by spearheading a “national movement”. The Government, it proposes, would make adequate financial provisions on lines of National Skill Development Council (NSDC) to foster entrepreneurship development. Drafted by the Entrepreneurship Development Institute of India (EDI), Ahmedabad, at the instance of Dr Sam Pitroda, Advisor to the Prime Minister, the proposed policy has been supported by the Union Ministry of MSME.

Source: *The Business Line*

entrepreneurship resources of the country. The Entrepreneurship Accounting System proposed by the Institute of small Enterprises and Development (SED) in the context of the Twelfth Five Year Plan deliberations of the country, has the above rationale and approach. A financial asset that does not “perform” become a ‘non-performing asset (NPA)’ over a specific period of time, and automatically gets categorised so. By the same logic, entrepreneurship, as an intellectual asset also need to be categorised on the basis of its performance. Once it gets included in a special category, the onus of finding reasons for its non-performance and reviving it, (if possible), need to be the responsibility of the government as the Government has already invested on it. Ensuring sustained returns on such investment is the responsibility of the government as well. This alternative view of entrepreneurship conservation is in line with the paradigm of viewing entrepreneurship as a scarce resource.

Like any other investment, entrepreneurship is a resource that come under the category of ‘public goods’. In order to bring in such a legitimate treatment to ‘entrepreneurship’ and its rich contribution, it is advisable to think on lines of an ‘entrepreneurship accounting system’ for the country. It will also help to standardise Entrepreneurship development effort and to create a more sustainable future for all of us. The discussion, as above, drives at the importance of entrepreneurship as a rare social resource,

which need to be nourished and conserved. It is in this context that a ‘resource approach’ to entrepreneurship become vital. Ofcourse, there are best practices elsewhere in the world, which India need to critically examine and explore. Major progress on ‘inclusive entrepreneurship’ has been made through the EU’s Equal Community Initiative which included a theme on business creation that was taken up in approximately half the EU Member States. This action research has led to the development of a community of practice on ‘inclusive entrepreneurship’ called COPIE. COPIE developed a series of tools to facilitate the assessment of enterprise support systems from the point of view of a wide range of specific groups (e.g. women, minority ethnic groups, migrants, people with disabilities, young people and older people). Gujarat’s ‘Mission Mangalam’ is, a useful starting point for serious research on evolving an innovative entrepreneurship development model and strategies.

16.0. Towards an Entrepreneurship Development Agenda for Gujarat

In the present stage of its development, Gujarat need to shape a clear policy perspective on the role of entrepreneurship. This critical imperative arises for two reasons: On the one hand, Gujarat’s record of growth over the last one decade has

ISED inclusive Entrepreneurship model: A Synoptic view

S. No	Linkage Potential	Ecosystem	Potential Lead Agency	No.of districts
1	No linkage	Unclear	Professional agencies/chambers	2
2	Remote linkage	Emergent	Professional agencies/chambers	2
3	Active linkage	Emergent	Large units/public sector	2
4	Exploratory linkage	Dormant	Large units/public sector	2

Source: Planning Commission, Twelfth Five Year Plan: Report of the Working Group on Backward Area Development.

created illusions on the self-propelling potential of growth. The general feeling is that, growth, by itself, will create opportunities for many, and therefore, there is not much need for a vigorous initiative for entrepreneurship development. Secondly, the track of performance of entrepreneurship development initiatives in the past has created a feeling, at least in some circles, that expenditure on such initiatives is wasteful and that, what is spent on entrepreneurship development today, could be more meaningfully spent on directly productive investments. This opportunity cost argument, in essence, slows down the pace of entrepreneurship development initiatives in the country.

It is in the above context that a thorough review of the entrepreneurship development initiatives of Gujarat is demanded. We advocate an enterprise ecosystem model for backward districts of the State. It has two key components: 1) a redefinition of the role and relevance of entrepreneurship; and 2) its role as an inclusive concept.

From the point of view of enterprise development, the term 'region' needs to be re-interpreted. What is important is not the geographical space, but the enterprise ecosystem. Gujarat has already created the base for such a thinking. It need to be scientifically articulated. An enterprise ecosystem involves both physical and human resources that, if properly planned and utilized, can lead to capabilities, and ultimately, to enterprises.

Entrepreneurship is clearly related to the human environment. On the other hand, the state of entrepreneurship makes the business environment what it is. The market is the third, but most important, force which again influence the performance of

entrepreneurs, and also the shape of the business environment. This trilateral relationship need to be captured in order to ensure success of any enterprise development programme in a backward region. Subsidies and CFCs can at best contribute to corruption and inefficiency. Stand-alone Skill generation programmes, as practiced by the Rajasthan Mission on Skills and Livelihoods and *Kudumbashree* in Kerala, also are not likely to significantly contribute to entrepreneurship and enterprises.

Similarly, the basic assumption behind the present-day programmes of the Ministry of MSME, are also not applicable in the case of backward regions. The MSE cluster model assumes collective efficiency enhancement through cooperation of entrepreneurs. Where entrepreneurs themselves lack in some basic capabilities, one cannot expect them to join together and work on a cluster mode. This is also applicable in the case of general programmes like PMEGP. Subsidies and CFCs cannot be an answer to this problem. The need for a new model was thus argued as follows:

- i) Government should not have a direct role in regional entrepreneurship development initiatives. It should work through other actors. The capacity of these actors needs to be enhanced. This requires a new model of PPP.
- ii) Entrepreneurial Resource Conservation: The instrumentalities for this also need to be clear. A focus on entrepreneurial resources rather than enterprise themselves will be more illuminating. A new model of entrepreneurial resources budgeting would be

'Inclusive Entrepreneurship': Its Origin

Box. 11

'Inclusive Entrepreneurship' is a Project led by Syracuse University and its Whitman School of Management/Department of Entrepreneurship and Emerging Enterprises (EEE) together with the Burton Blatt Institute (BBI). However, it is important to note that the success of Inclusive Entrepreneurship as a university and community based initiative is also based upon the development of key partnerships that are necessary to helping entrepreneurs develop their businesses.

These can include the local Small Business Development Center (SBDC) and One Stop Career Center as well as key local stakeholders that work with low-income individuals, including low-income people with disabilities, to help them achieve economic self-sufficiency.

more meaningful. Unlike the present 'gender budgeting' and similar targeted programmes, 'entrepreneurship resource budgeting' should be more meaningful. This would also help to target sections such as women, youth and SC/ST communities more meaningfully and effectively.

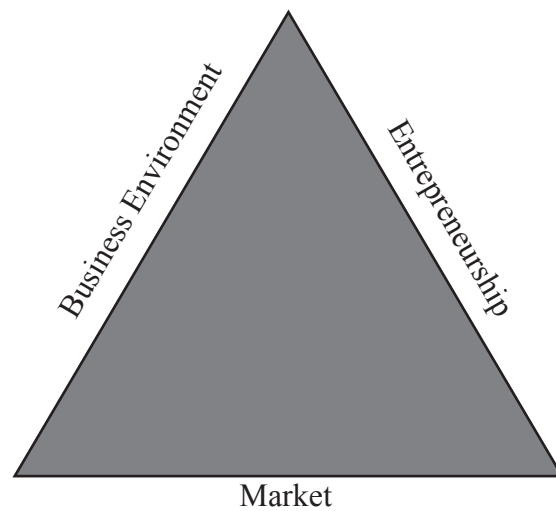
- iii) Zero base budgeting
- iv) Discretionary Strategy: Cluster or individual entrepreneurs, should be targeted based on ecosystem features.
- v) District level Enterprise Observatory: Such a platform need to be created for mapping entrepreneurship resources.
- vi) Recommendations of the Observatory to be seriously debated in official bodies, and strategy finalized.

The focal point of this alternative model is a backward linkage based networking. Why networking? Target districts and their entrepreneurs lack some basic capabilities and skills, which need to come from outside i.e. skills, need to be imparted on the basis of market demand, not on the basis of the understanding of the district collector and the panchayaths. Networking is needed to help them grab market opportunities. Therefore, there is need for a Backward Linkage Networking Model.

The new programme approach envisaged, is based on an 'enterprise ecosystem' as the basis of all programmes. In the ecosystem triangle, the three sides are :

- i) Business environment; ii) market, and iii) entrepreneurship.

In this model, the business environment and the market, influence the state of entrepreneurship. This, in turn, influence the market and business environment. The three together provides the enterprise ecosystem, at any point of time. The government's role should be specific at addressing any of the specific variables that contribute to the



Business Ecosystem: A Synoptic view

ecosystem, rather than just blanket incentives. Understanding the details of the ecosystem in a particular context is a professional task. Facilitating this is the role of an Enterprise Observatory. The ISED model underscores the importance of this and of the role of private initiatives. However, it needs much more learning and fine-tuning of the track record of Gujarat and of other States in the country.

16.0. Conclusion

Conventional approaches to human resource development treat entrepreneurs and workers as two entirely distinct categories. In the modern context of enhanced globalisation, this distinction has been progressively coming down. The worker, in a latter stage of his career, turning to be an entrepreneur, is a phenomenon that is increasingly observed in the IT sector and related sectors like electronics (eg: ESOP). On the contrary, entrepreneurs getting marginalized, and turning to the ranks of workers, is also not a rare phenomenon. Given this reality, the role of public policy should be to maintain a balance between the two, and to preserve entrepreneurial resources as a critical resource. Such an approach demands a fresh look at policies relating to the micro enterprise sector in specific.



The Regional Kaleidoscope

1.0. Introduction

Gujarat, despite being the seventh largest State in terms of geographical size, has significant diversity of resource endowments and overall opportunities. This has also implications for the development of MSMEs in the State. The broad regions of Gujarat have inherited their peculiar history and culture, which have shaped the pattern of industrialization of the State. As of today, what are the specific experiences of SME development in these regions? What are the lessons for the future? These issues need to be discussed.

In order to understand Gujarat's reality of MSMEs, and to plan and strategize for it, one need to have a decentralized view of how the entrepreneurial base and the enterprise story got shaped in its districts, and hubs of enterprise activity. The purpose of the following pages is to facilitate such a grasp. The rich and vital data for this discussion was made available, along with official sources, by the ISED Small Enterprise Observatory. (Investors, researchers, and all those who are interested in more exhaustive disaggregated data and knowledge resources at the national level, and for Gujarat, are advised to seek the help of the Observatory (email: seo@isedonline.org).

2.0. Understanding Regional Imperatives in a Global Setting

The regional imperatives in a global setting should be understood from two angles: a) the hardcore

economic rationale; and b) the logic of shared growth. The first argument, the often repeated one, is shared by economists and management practitioners of the traditional mould. The argument is that, the lives of people in a particular village or hamlet is so much influenced by the pulls and pressures of global value chains. Without having a proper understanding of such pulls and pressures one cannot plan for the small enterprises. The second argument, often shared by anthropologists and sociologists, begins by raising fundamental questions on the very purpose of development of small enterprises. Why for should we plan for these enterprises? On equity grounds? On grounds of poverty removal through livelihoods promotion? Or as a growth primer? This stream of thought ends up in an articulation of the role of these enterprises, on lines of the thinking put forward by Mahatma Gandhi and E.F.Schumacher." Most of us live in neighborhoods, and as we stop thinking of neighborhoods, small enterprises also become irrelevant" (Tully,2011). The hegemony of mainstream economic theory, and the Harvard Management theories significantly influenced the thinking on MSMEs in India. Of late , there has been a re-emergence of the Asian perspectives in some of the fast-growing Asian countries (eg: 'Shared Growth Strategy' of Korea). In the Indian context, the local-national-global nexus need to have a reinterpretation on the basis of a concept of 'shared growth' for the mutual benefit of both large and small businesses. However, in such an alternative paradigm of growth,

Table 7.1: Share of Village and Small Industries in Plan Allocations under the Eleventh Five Year Plan: Gujarat and other States

SL No.	States	2007-08		2008-09		2009-10		2010-11			
		V & SI	L & M	V & SI	L & MV & SI	L & M	V & SI	L & M			
1	Assam	0.56	0.56	0.45	0.93	0.57	1.35	1.95	0.94	0.74	0.82
3	Arunachal Pradesh	0.52	0.01	0.16	0.01	0.30	0.01	0.50	0.14	3.20	0.61
5	Chaattisgarh	0.28	1.84	0.20	1.38	0.21	1.13	0.29	0.79	0.19	0.72
7	Gujarat	0.53	2.66	1.12	2.40	0.89	2.15	0.72	2.56	0.41	2.59
9	Dadra	0.52	0.00	0.21	0.00	0.44	0.00	0.97	0.00	0.72	0.00
11	Delhi	0.48	2.44	0.24	0.00	0.46	0.01	0.20	0.01	0.12	0.04
13	Himachal Pradesh	0.26	1.05	0.76	0.04	0.75	0.04	0.87	0.04	0.78	0.04
15	Jharkhand	0.97	1.13	0.71	1.17	0.76	0.58	0.75	0.63	0.74	0.50
17	Kerala	1.16	0.38	1.99	0.87	3.12	0.00	2.46	1.71	2.03	1.83
19	Madhya Pradesh	0.30	0.48	0.70	0.29	0.60	0.40	0.64	0.97	0.56	1.01
21	Manipur	1.24	0.07	5.39	0.04	0.99	3.59	1.17	2.71	0.94	0.02
23	Mizoram	1.78	0.14	2.64	0.01	1.34	0.01	2.40	0.01	1.56	0.01
25	Orissa	0.52	0.01	0.59	0.15	0.36	0.02	0.61	0.06	0.54	0.05
27	Punjab	0.55	0.00	0.44	0.00	0.10	0.00	0.35	0.00	0.50	0.00
29	Sikkim	1.16	1.88	1.00	0.94	1.03	0.20	0.61	2.17	0.40	0.07
31	Tripura	1.08	2.04	1.17	1.27	0.96	1.99	0.70	0.98	0.61	1.03
33	Uttarakhand	0.52	0.02	0.41	0.00	0.32	0.00	0.33	0.01	0.34	0.01
Total		0.74	1.20	0.69	1.18	0.73	1.91	0.73	2.41	0.64	1.60

Source: Computed by ISED Small Enterprise Observatory, based on Planning Commission, Eleventh Five Year Plan files.

Note: VSI-Village and Small-scale Industries; I & M - Industry and Minerals.

the state cannot simply remain as a passive agent.

The world economy is facing an unprecedented crisis today. Reports available during the last week of December, 2012 indicate the tremors following the eurozone crisis. According to the World Bank, the collapse of Europe could spark a global crisis, as the one faced by United States in September 2008. Germany which was remaining strong and immune from the adverse effects of the European debt crisis, hit a three-year low position in manufacturing activity with a corresponding sharp decline in export orders. According to the World Bank, Europe runs the risk of sparking Lehman-style global crisis that will have dire consequences for the developing nations. Uncertainty in markets is now starting to increase costs for developing countries including India.

3.0. Local Economic Development: Old and New Models

Globalisation poses significant challenges to all countries. Local economic development strategies, being adopted by communities, cities, and governments, around the world, are a response to that. According to the ILO, the Local Economic Development (LED) model means much more than just 'economic growth'. It is promoting participation and local dialogue, connecting people and their resources for better employment and higher quality of life. Against the above background, India, a huge conglomeration of local communities, need to act both globally and locally. How should this local action be? The economic history of States count a lot in this regard. The peculiar historical legacy of Gujarat need to be considered in this context.

United States, the world's largest recipient of FDI, gained US \$ 320 billions as in 2008. Though this is mostly contributed by the developed countries of the world, the US considers China and India as a major threat, and as "powers that should be engaged bilaterally by global institutions" (Hormats, 2010). A reflection of this growing anxiety among the developed countries has recently surfaced in the form of the so-called IPR War in China.

The three great economic blocks of the world - the US, Europe and Japan - are all facing sluggish

growth with no immediate sign of a return to normal. Germany, of late, is following the above three blocks. These problems matter more to India than meets the eye. It is not a coincidence that India's years of unprecedented GDP growth were also years when world GDP was at unprecedented levels.

The prominence given to investment, rather than trade, by the emerging economies, has significant implications for the future structure and pattern of development in the donor countries. Robert D. Hormats (2010) of the Peterson Institute of International Economics points out, "investment in another country means a growing integration into that culture. When investments take place, the donor countries will also be under pressure to follow a rule based system". Whether such a rule based system is helpful to the long term interests of SMEs in the donor countries, is a matter that needs investigation.

Beyond an economic argument, of late, local economic development, is getting shaped into a political movement in Europe and America. Named, 'Buy Local Movement', this has important implications for the export prospects of the emerging economies, including India.

One need to ask two questions in this context: 1) How can India and Gujarat benefit through trade and technology transfer, as also through investments?; and 2) How can the benefits of such growth made more broad-based and inclusive, in accordance with our development priorities? A close examination of the role of MSMEs is important in this context.

The SME question in India is essentially a question of local economic development as well. SMEs are highly decentralized, and in the Constitution, they are a subject in the Concurrent List. Therefore, one has to discuss such issues in the context of particular States of the Union, and their investment and employment policies, though the Union Government sets some broad priorities. The comparative performance of States matter where, they compete each other on attracting investments. In a global situation where SMEs are considered as focal points of development, their role in a local setting need to be meticulously examined. Our

discussion here is on various aspects of MSME experience of Gujarat around its Districts.

The Gujarat economy and society are significantly diverse. Therefore, an understanding of this diversity is important from the point of view of understanding how the MSME sector performs, at a time, as State level and regional entities.

4.0. Gujarat: The Regional MSME Ecosystem

Gujarat's industrial geography has undergone significant changes during the past few decades. These changes need to be understood in relation to the changes in the global economy. Public policy also has played a crucial role in this regard, where the national policies have got shaped both in co operation and conflict with the regional aspirations. Changes in the regional distribution of Indian industry from 1959-60 to 2007-08, is characterized by some remarkable structural shifts and changes.

The western States of Maharashtra and Gujarat continue to dominate Indian industry, together accounting for a share of almost 37 per cent in the total value added by the Country's factory sector in 2005-08. On the other hand, the eastern States of West Bengal, Bihar and Assam have lost their earlier prominence: West Bengal's share in value added by India's factory sector declined from 20 per cent in 1959-62 to 3.1 per cent in 2005-08. A few States lying in the north-west and central regions of

the country, including Madhya Pradesh, Rajasthan and Uttar Pradesh have significantly increased their shares in the country's factory sector, as did the three southern States of Andhra Pradesh, Tamil Nadu and Karnataka (Thomas, 2010).

The regional concentration of industrial activities in India has increased during the post-reform decades of the 1990s. Regional concentration of a particular degree was characteristic of Indian industry at the time of Independence. The three large industrial centres of Bombay, Calcutta and Madras and a few smaller centres such as Ahmedabad and Coimbatore were clearly ahead of the rest of the country with respect to the development of factory industry. Planned development after Independence was expected to mitigate regional differences in industrial growth.

However, as Bhagwati and Chakravarty (1969: 28) noted, early Indian planning models did not address questions of spatial planning adequately. Although there have been some important measures for regional dispersal from the late 1960s - including central investment subsidy and concessional finance schemes to selected backward districts in the country, based on the recommendations of the Pandey and Wanchoo Committees set up in 1968 – their successes have been rather limited (Banerjee and Ghosh, 1988; Das, 1993). Investments by the private corporate sector did not reduce regional imbalances. Instead, regional disparities in India's industrial growth have accentuated during the post-

ISED Resource Centre on Small Enterprises in the States

The ISED Small Enterprise Observatory specifically monitors the small enterprise scene of the States on a regular basis. Such activities are co ordinated under its 'Resource Centre for Small Enterprises in the States', with the following objectives:

- To assist the Government and the planners in the formulation of State level and regional Plans and strategies;
- to sensitise the industry associations, parliamentarians and the civil society on developments in the regional economy, and thereby to support advocacy initiatives;
- To provide demand-driven services to investors, financial institutions, and promotional agencies, with critical information and data;
- To encourage and support researchers with vital data and knowledge resources; and
- To assist and promote curriculum development in management education and other related disciplines (More info: email: seo@isedonline.org)

reform period of the 1990s and 2000s (Thomas, 2010). The combined shares of the western States of Maharashtra and Gujarat, as well as of Goa and the Union Territories of Daman and Dadra in total gross value added by India's factory sector increased by 8.7 percentage points, from 31.6 % in 1991-94 to 40.3% in 2005-08. Correspondingly, the shares of other regions in total value added by the country's factory sector declined or remained stagnant during the period 1991-2008. On the contrary, during the pre-reform period, the share of Western region in India's factory sector output had declined, paving the way for some degree of dispersal of industrial activities across regions. Between 1959-62 and 1991-94, the shares of Southern and Northern regions in India's total gross value added had increased by 7.6 and 9.9 percentage points, respectively

During the post-1990 years, apparently, the spread of industrial activities in India is not across regions, but within regions. That is, during the 1990s and 2000s, there was some increase in concentration of industrial activities to the Western region at the expense of other regions; at the same time, there was increasing dispersal of industrial activities within the western region, to the Union Territories of Daman and Dadra and also to Goa. It may be noted that in 2005-08, Bihar's share in India's factory sector value added was only 0.7 per cent and Jharkhand's share was 3.5 per cent. The corresponding shares of Madhya Pradesh and Chattisgarh were 2.7 per cent each. Uttaranchal has also witnessed an increase in industrial activities with the State.

The regional disparities in India's industrial growth, as above, has been explained by some scholars, in terms of the forces of economies of scale (Thomas, 2011). Potential economies of scale and embodied technical progress can create a cumulative cycle of growth differences between regions within a country, that is, the industrial sectors of a few regions that enjoy autonomous expansion in output achieve faster productivity growth, faster reduction in unit production costs, and faster technical progress. These regions continuously gain, while other regions continuously lose, prominence in the country's industrial sector.

A cumulative cycle of regional growth differences in Indian industry between 1959-60 and 1997-98

has been noted (Thomas, 2003). Some States, particularly Maharashtra and Gujarat, realized the potential economies of scale in their major industries; as a result, the whole factory sectors of these States are characterized by increasing returns to scale. Technical progress, measured by fresh capital investment or Total Factor Productivity growth, is also faster in these States than elsewhere. At the same time, the eastern States of West Bengal and Bihar failed to realize potential economies of scale and these States lost out in the cumulative cycle of regional growth differences.

5.0. State Finances and Growth Prospects

Recognising the need for fiscal consolidation, the Thirteenth Finance Commission (TFC) in 2009-10 set out a roadmap for fiscal correction and consolidation in the medium term, both for the Centre and State governments. In the Union Budget 2010-11, the Central Government announced the process of fiscal consolidation in terms of rolling targets for 2010-11 to 2012-13. The budgets of the State governments for 2010-11 reflect their commitment to resuming the process of fiscal consolidation. Importantly, with the enactment of the FRBM Act in West Bengal and Sikkim, all the States are expected to follow a rule-based fiscal policy, as under the amended FRBM Act.

According to analysis by the Reserve Bank of India, of the 28 States, 17 States have budgeted revenue surplus in 2010-11 as against 14 States in 2009-10 (RE). The Thirteenth FC has suggested a roadmap for medium-term fiscal correction to be undertaken by the State governments. The emphasis has been on achieving higher own revenue receipts through various tax measures, while specific policy measures have been announced to address the rise in prices of essential commodities. The policy announcements made in the State budgets also cover specific initiatives aimed at developing the social, economic and infrastructure sectors on a PPP basis.

Deterioration in State finances was significant, particularly in 2009-10, when revenue deficit re-emerged at a consolidated level after a gap of three years and the gross fiscal deficit shot up above 3 per cent of GDP. Revised estimates available for 2009-10 show further deterioration over the Budget

estimates. However, foreseeing better growth prospects, States have proposed to revert to the path of fiscal consolidation in 2010-11 as reflected in their budget estimates. The emerging pattern of aggregate expenditure, however, shows that growth in development expenditure would be lower than non-development expenditure.

The emerging pattern of expenditure, however, shows that as a ratio to GSDP, development expenditure, capital outlay, and social sector expenditure are expected to be lower in many States, raising concerns about the quality of fiscal adjustment being undertaken at the State level.

The expenditure strategy of State governments, in recent years, is manifested in efforts to control non-development revenue expenditure, mostly administrative services and debt services expenditure, so as to provide more resources for development expenditure in social sectors. Although the level of revenue expenditure increased steadily in absolute terms during 2004-05 to 2007-08, the RE-GDP ratio recorded a decline due to various expenditure reform measures. The RE-GDP ratio, however, increased in 2008-09 due to the upward revision of wages and salaries in some States. An increase in RE-GSDP ratio was seen in all non-special category States except Andhra Pradesh, Bihar, Haryana, Karnataka, Kerala and Punjab in 2008-09. Development revenue expenditure as a ratio to GSDP (DRE-GSDP) also increased in non-special category States; the exceptions were Karnataka and Punjab, which witnessed a marginal decline in 2008-09. Within development revenue expenditure, the expenditure on social services increased substantially, while growth in expenditure on economic services decelerated in many States.

Non-special category States, as a group, exhibited an increase in development expenditure (both revenue and capital) as a ratio to aggregate expenditure (DE-AE) from 2004-05 to 2008-09. Notwithstanding the above, the development expenditure in terms of GDP (DE-GDP) showed a steady increase during 2004-05 to 2009-10 (RE). Although there was an improvement in the DE-GDP ratio at the consolidated level in 2009-10 (RE), a few States, viz., Gujarat, Jharkhand, Kerala, Tamil Nadu, Uttar Pradesh and West Bengal, recorded a decline in DE-GSDP ratio.

An analysis of State finances during 2008-09 to 2010-11 shows that finances in most States were adversely affected by the implementation of the recommendations of the Sixth/ State(s) Pay Commission during 2008-09 and 2009-10. Besides, many States initiated expansionary fiscal measures in the form of tax concessions and exemptions and increased expenditure, particularly in 2009-10, in order to moderate the impact of the overall macroeconomic slowdown. In 2010-11, 17 States have budgeted revenue surplus. In the majority of the States, the RR-GSDP ratio is expected to be higher, even though the RE-GSDP ratio is budgeted to be lower. In 2010-11 (BE), the OTR-GSDP ratio is likely to be higher, while improvement in the ONTR-GSDP ratio is expected in only a few States. Similarly, the majority of the States were expected to receive higher tax devolutions from the Centre, which is reflected in higher CT-GSDP ratios across States. The persistence of the revenue deficit in 11 States indicates that these States would continue to use their borrowed resources to finance their revenue expenditures. 5.41 The emerging pattern of expenditure across States shows that 21 States

The Rationale of Investment Meets

Since the kick-start of economic reforms in 1991, States have greater functional autonomy with respect to, for instance, giving clearances to industrial projects. On the other hand, as discussed above, States have rather limited financial autonomy. Today, Indian States compete with each other to attract investments by large Indian and foreign corporations. This has a number of implications. Private sector investments in India in recent years have largely been directed to relatively advanced regions/cities or to regions that are rich in minerals or other natural resources. Such a pattern of investments by the private sector during a period when public sector investments have been dwindling has intensified regional inequalities in industrial growth. State governments try to outdo each other in giving away tax and other concessions to private industrialists. State governments also show greater laxity in adhering to environmental and labour standards.

Local Economic Development: The New Logic

IPR war has become a reality in the trade relations between the industrialized countries, and the emerging economies. More specifically, India and China are special targets in this global war for knowledge resources. China is the key battle field of an IPR War today. The War takes shape from two angles: 1) efforts by other countries to “manage” IPR in that country to the best interests of businesses in the former countries; and 2) China’s own war on IPR infringements in that country. The six months’ campaigns of the Chinese government targets: a) prevention of production and distribution of pirated goods; and b) prevention of import and export of fake goods. At the other end, Europe and USA are vigorously in the China market, to fight it out. The European Union opens an SME Centre in Beijing, helping European SMEs wishing to export to China. Similarly, SME China IPR Advisory Programme is a new campaign for new companies operating in China, which are initiated by the US Department of Commerce (Mathew, 2011).

have budgeted lower DE-GSDP ratios in 2010-11. Similarly, the decline in the CO-GSDP ratio in 20 States may have implications for raising the growth potential in these States. The fiscal correction through adjustments in development and capital expenditures raises concerns about the quality of fiscal adjustment being envisaged at the State level.

While both the Union and the State Governments, from time to time have highlighted the need for promotion of MSMEs, both from political and economic rationale, the practice of their development have remained far away. Data on allocations under the Five Year Plans for the VSI sector by the State Government, tell a story which is quite different. It shows that, allocations for the VSI sector highly volatile throughout the Eleventh Five Year Plan period. Available data also indicates that the volatility remains much lower for the Industry and Mineral sector as a whole, than for the VSI sector.

The above findings need to be examined against the overall performance of the States during the past half a decade. According to the RBI, the improvement in State finances during 2004-05 and 2007-08 was the outcome of a confluence of factors. While the rule-based fiscal policy adopted by most of the States improved fiscal discipline, the correction in State finances was aided by high growth and the resultant increase in the buoyancy of the States’ own tax revenues as well as Central transfers and the implementation of VAT during this period. With the overall macroeconomic slowdown and the implementation of the Sixth/ State(s) Pay Commissions during 2008-09 and 2009-10, State

finances suffered a setback but needed to revert to a fiscal consolidation path.

State governments have attempted to promote industrial growth and industrialisation by providing the necessary infrastructure facilities and other incentives to industries within their regions. Towards this end, the major policy initiatives include the setting up of micro-level enterprises in every village (Assam), a Margin Money Grant scheme for assistance to entrepreneurs belonging to Scheduled Castes (SCs) and Scheduled Tribes (STs) (Chhattisgarh), a Venture Capital Fund and a Viability Gap Fund to raise capital (Goa), the Exclusive Entrepreneurs Development Programme for women to set up small and micro-enterprises and new emporiums called Haat-cum-shilpgram to sell handicraft items (Goa), road networks linking ports, SEZs and Special Investment Regions (Gujarat), facilitating marketing campaigns of handicrafts during the Commonwealth Games (Jammu and Kashmir), and improving infrastructure facilities to encourage the establishment of small and medium industries in every district (Karnataka). The Maharashtra government envisaged a policy for the golden quadrilateral of Mumbai-Pune- Nashik-Aurangabad as a focal point of agro industries and industrial development. In order to enhance the competitiveness of industries, the State governments of Bihar, Chhattisgarh and Madhya Pradesh have announced exemption/ reduction of entry tax on raw inputs/outputs used by industries.

The political environment in India, as also the economic compulsions have contributed to a

reshaping of the industrial ecosystem of the States. It is argued that during the period of economic reforms, there has been a worsening of the position of States vis-a-vis the Centre in Centre-State financial relations. Fiscal transfers from the Centre to the States as a proportion of the country's Gross Domestic Product (GDP) declined from 5.07 per cent in 1993-94 to 4.02 per cent in 2002-03 (TFC, 2004, p.39). The 1990s also witnessed a decline in the overall tax-GDP ratio in the country. The fiscal situation in a majority of Indian States has started deteriorating from the late 1980s. The debt-GDP ratio of Indian States increased from 21 per cent in 1996-97 to 31.2 per cent in 2002-03 (TFC, 2004, p.41). These factors, together, have put pressure on the financial autonomy of the States. (RBI, 2012)

As a result of the above developments, capital expenditures by the States had to be cut down. It is shown that the share of capital outlay in fiscal deficit declined from 50-60 per cent during the early 1990s to 30-35 per cent during 1998-99 to 2001-02. Importantly, not only the low-income States but also the high and middle-income States have been plagued by the deterioration of State finances (TFC, 2004, p.48). This brought the state

governments to a paradigm shift in economic policy, with wooing investment from outside as its focus, and focused investment priorities of the past, such as, development of MSMEs, taking a back seat.

Economic growth across Indian States is apparently characterized by high degree of increasing returns, i.e., a few States or regions possessing some initial advantages continuously, gain in investments and economic growth ahead of other States or regions in India. There are indications that this process is gaining further momentum during the period of economic reforms. The race to the bottom by State governments, as above, often has serious political implications, as it was noticed in the case of West Bengal, in 2011. The politics of praxis that emerges from such debacles, probably, can lead to much greater policy ambivalence, which can even be antithetical to the goal of inclusive growth, as outlined by the Twelfth Five Year Plan.

6.0. Global Dimensions of Regional Challenges

The old emphasis on regional industrial geography is giving way to a new relevance as it emerged in the

Gujarat : MSME Highlights

- Gujarat is one of the most developed and industrialized States of the country, a preferential destination for the investors over the last decade.
- The State accounts for 5 per cent of India's population, but contributes 7.2% of India's GDP.
- With the manufacturing sector constantly growing, the small and medium enterprise have played a noteworthy role in shaping the manufacturing sector.
- The secondary sector accounts for 35.9 % of the GSDP, juxtaposed with the lower national share (24.4 %).
- Gujarat contributes around 15% of operational MSMEs in India.
- Significantly high MSME birth rate: from 3 lakh registered units (2006) to 3.95 lakh registered units (2011).
- Significant reduction in the number of closed units : from 22.04%(2001-02) to 12.27%(2006-07).
- There are 83 product multi location industrial clusters. Example: Foundry cluster in Ahmedabad and Rajkot, Electrical Engineering Cluster in Baroda, Textile and Diamond Cluster in Surat, Ceramic Cluster in Morbi and Kadi, Cotton-Ginning, Pharmaceutical Cluster in Ahmedabad-Baroda, Celium Husk Cluster in Unjha-Mehsana .
- State Industries Department is setting up Skill Upgradation Centers (SUC) for MSME manpower in GIDC Estates .

Table 7. 2: Eleventh Plan: Ranking of States According V&SI Allocation

Sl. No.	State Name	Total Plan Size (Lakh)	I&M	V&SI (Lakh)	Share of V&SI to TPS (%)	RankShare of V&SI to I&M (%)	Rank	
1	Assam	3145651	62650.72	29384.70	0.93	10	46.90	14
2	Andra Pradesh	18779675.00	318671.43	197451.10	1.05	9	61.96	10
3	Arunachal Pradesh	850707	5800.00	3973.00	0.47	25	68.50	9
4	Bihar	8370000	213711.32	44421.82	0.53	23	20.79	28
5	Chattisgarh	5790048.003	105465.80	13277.71	0.23	33	12.59	31
6	Goa	1143765	30445.35	12194.85	1.07	8	40.05	21
7	Gujarat	12850000	427345.37	90353.95	0.70	18	21.14	27
8	Andaman	450385	3275.00	3275.00	0.73	16	100.00	1
9	Dadra	91455	573.00	573.00	0.63	19	100.00	1
10	Daman	87019	4093.00	267.00	0.31	29	6.52	33
11	Delhi	5553300	38380.00	15541.00	0.28	31	40.49	20
12	Haryana	6056800	160780.00	22267.00	0.37	28	13.85	30
13	Himachal Pradesh	1350000	12263.28	9582.42	0.71	17	78.14	8
14	Jammu	2846297	53839.99	20720.99	0.73	15	38.49	23
15	Jharkhand	4745375	79131.00	36629.00	0.77	14	46.29	15
16	Karnataka	14259149	323598.00	127309.00	0.89	11	39.34	22
17	Kerala	4560547	164127.00	100255.00	2.20	1	61.08	11
18	Lakshadweep	149344	917.00	885.00	0.59	21	96.51	4
19	Madhya Pradesh	8436777.53	109831.62	48208.39	0.57	22	43.89	17
20	Maharashtra	15305296	88890.49	46174.85	0.30	30	51.95	13
21	Manipur	1084431	41997.66	18698.16	1.72	4	44.52	16
22	Meghalaya	967700	19070.00	5890.00	0.61	20	30.89	25
23	Mizoram	630000	13066.50	12476.50	1.98	2	95.48	5
24	Nagaland	691000	22687.00	11930.83	1.73	3	52.59	12
25	Orissa	4830500	30172.02	25430.00	0.53	24	84.28	7
26	Puducherry	1070500	119151.15	12391.55	1.16	7	10.40	32
27	Punjab	4059100	15452.60	15452.60	0.38	26	100.00	1
28	Rajasthan	9446086	78975.13	10971.55	0.12	34	13.89	29
29	Sikkim	516314	9474.32	4017.08	0.78	13	42.40	18
30	Tamil Nadu	9110300	273407.48	115309.51	1.27	6	42.17	19
31	Tripura	816000	18637.55	7121.80	0.87	12	38.21	24
32	Uttar Pradesh	18800000	1275525.00	44731.00	0.24	32	3.51	34
33	Uttarakhand	2955444	12115.94	11034.94	0.37	27	91.08	6
34	West Bengal	7510138	315446.84	95609.00	1.27	5	30.31	26
	Total	177309103.5		1213809.30	0.68			

recent past. This relates to the geography-linked properties of the products and their origins - be it due to geological and environmental factors, or special or traditional skills, or the ability and knowledge of the artisans and workers which make them unique, and recognized as such.

Apart from the thrust on investment promotion and of attracting FDI, India need to have a more focused attention on its IPR regime, with special thrust on the SMEs. The State governments can, and must, play a key role in this regard for their own interest. The Union Government should give special assistance to such initiatives of the State governments under flagship programmes like the NMCP.

7.0. Regional MSME Experience of Gujarat

As in 2012, India has a specific background within which the performance and prospects of its MSME sector need to be examined. The country is slowly moving away from its high growth phase. The global economic scene has adversely affected its export prospects. On a mood of general elections, and where the regional political parties are emerging influential, public policy in the States also is likely to get influenced in particular directions.

The industrial geography of India is characterized by a strong interdependence of the corporate sector and the MSMEs, through backward and forward linkages. However, such linkages are conditioned, to a significant extent, by the contiguity and dispersal of enterprises. Besides, public policy today is largely tuned to the context of industrial clusters rather than firms that are largely stand-alone.

The MSME geography of the country is characterized by the predominance of fifteen States, which, to a significant extent, shape its all-India pattern of concentration. It is important to note that, these states together constitute a major part of the MSMEs, as per the latest all-India Census of MSMEs.

Though having a long tradition of industrialization, Gujarat demonstrates a mixed picture of an MSME demography among its various districts. It is these demographic variables that often give visibility to MSMEs in the State. Visibility, and business demography as a sub discipline, are ill-developed in India. Visibility is often explained in terms of number of units and their employment contribution, and the real value of these variables often change drastically. Cross sectional demographic data for the year,2006-07 are available from the Fourth Census of MSMEs, as given in the following tables:

New Textile Policy to Energise the Textiles Hubs

Box. 5

In the Textile and Apparel (Garment) value chain, development of garment sector in Gujarat is not very impressive. In order to address this Problem the Government has announced the new Textile Policy,2012. The Policy envisages a ' Farm to Fabrics' approach ,with due consideration for the whole textile value chain. To promote spinning activities it is provided Rs.70.46 crores as section-I New Item. With the objective of nourishing the value chain for the overall growth of cotton textiles,on the one hand, and synthetic filament textiles on the other, the State Government intend to provide necessary support. Such support will cover the entire value chain i.e Ginning, Spinning, ,Weaving, Dyeing & Processing, Knitting, Apparel, Garmenting and Technical Textiles, either for new investment and expansion, or for technology upgradation, in order to become internationally competitive.

A key problem, as identified by the Government, is the shortage of skilled man power in the field. The Policy, therefore, intends to extend specific support to develop manpower. The proposed initiative seeks to provide support for setting up Training Institutes, in specific, for weaving & Apparel sectors. It also envisages a Centre of Excellence in the area of hi-tech and Technical Textile to address on product development, incubation, customized training, and services for industries. The proposed initiative is expected to provide new business opportunities and substantial rural women employment in textile hubs like Ahmedabad.

7.1. Enterprise Health and Morbidity

How does a State or the constituent districts perform in relation to the health of its MSMEs? The popular perception often goes along with the rate of new-firm creation. It is also assumed that new firms continue their operation for a sizeably long time. Therefore, industrial sickness and closure of units is often considered, in the popular eye, as an indicator of inefficiency of the government in power. This is not always true.

Enterprise demography explains the dynamics of enterprise structure. Enterprises cannot be created simply through policy measures. The limited role of public policy is to make available the right incentives and market signals to the private entrepreneurs. These incentives and signals will remain clear to the business community only if the demographic variables are properly analyzed, and the changes therein are monitored on a continuous basis.

Demography encompasses the study of the size, structure and distribution population, and how population changes over time due to births, deaths migration and ageing. Likewise, business demography data presents the “stocks and flows” of enterprises as an indicator of business dynamism in a given sector and economy. In addition to the population of

active enterprises, the births, survivals and deaths of enterprises are recorded. Genuine births and deaths are such subsets of the wider concepts of enterprise creations and cessations. A creation is considered as a birth, only if the enterprise is created from scratch. Equally, a cessation is considered a death, only if it is actually closed down and ceases activity. An enterprise is alive as long as it shows activity in terms of employment and / or turnover.

Births do not include entries into the population due to mergers, break-ups, split-off, restructuring of a set of enterprises or addition of new activities. An enterprise creation can be considered an enterprise birth, if new production factors, in particular, new jobs are created. If a dormant unit is reactivated within two years, this event is not considered birth. Deaths do not include exits from the population due to mergers, take-overs, break-ups or restructuring of a set of enterprises. It does not include exits from a sub-population resulting only from a change of activity. According to Eurostat Glossary of Business Demography, an enterprise is included in the count of deaths only if it is not reactivated within two years. Equally, a reactivation within two years is not counted as a birth.

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Box. 5

In the Textile and Apparel (Garment) value chain, development of garment sector in Gujarat is not very impressive. In order to address this Problem the Government has announced the new Textile Policy, 2012. The Policy envisages a ‘Farm to Fabrics’ approach, with due consideration for the whole textile value chain. To promote spinning activities it is provided Rs.70.46 crores as section-11 New Item. With the objective of continuing the leadership in the textile industry with a vision of enhancing the sustainable growth of farmers by way of value addition and to strengthen the value chain for the overall growth of cotton textiles, on the one hand, and synthetic filament textiles on the other, the State Government intend to provide necessary support for entire value chain i.e. Ginning, Spinning, Weaving, Dyeing & Processing, Knitting, Apparel, Garmenting and Technical Textiles, either for new investment and expansion, or for technology upgradation, in order to become internationally competitive.

A key problem, as identified by the Government, is the shortage of skilled manpower in the field. The Policy, therefore, intends to extend specific support to develop manpower in the field. The proposed initiative seeks to provide support for setting up Training Institutes, in specific, for weaving & Apparel sectors. It also envisages a Centre of Excellence in the area of hi-tech and Technical Textile to address on product development, incubation, customized training, and services for industries. The proposed initiative is expected to provide new business opportunities and substantial rural women employment in textile hubs like Ahmedabad.

Table: 7.3. Health Status of MSMEs in Gujarat(2006-07)

Sr	District	Working Units (W)	Closed Units (C)	Untraceable Units (N)	Total (T)	(C+N)	W-(C+N)	W-(C+N)/T
1	Kachchh	4990	752	473	6215	1225s	3765	0.61
2	Banaskantha	5162	1287	389	6838	1676	3486	0.51
3	Patan	2821	655	193	3669	848	1973	0.54
4	Mahesana	5794	1229	570	7593	1799	3995	0.53
5	Sabarkantha	7431	1604	530	9565	2134	5297	0.55
6	Gandhinagar	5748	1437	401	7586	1838	3910	0.52
7	Ahmedabad	48554	1120	12864	62538	13984	34570	0.55
8	Surendranagar	6915	1235	510	8660	1745	5170	0.60
9	Rajkot	25007	5905	1551	32463	7456	17551	0.54
10	Jamnagar	9785	2642	695	13122	3337	6448	0.49
11	Porbandar	1725	302	85	2112	387	1338	0.63
12	Junagadh	6084	1528	554	8166	2082	4002	0.49
13	Amreli	2036	367	260	2663	627	1409	0.53
14	Bhavnagar	9635	1037	1112	11784	2149	7486	0.64
15	Anand	5591	435	1	6027	436	5155	0.86
16	Kheda	7798	1315	657	9770	1972	5826	0.60
17	Panchmahal	3737	413	0	4150	413	3324	0.80
18	Dahod	1417	69	0	1486	69	1348	0.91
19	Vadodara	12948	1375	1	14324	1376	11572	0.81
20	Narmada	992	196	20	1208	216	776	0.64
21	Bharuch	9197	2128	1710	13035	3838	5359	0.41
22	Surat	28444	7391	0	35835	7391	21053	0.59
23	Dang	514	30	0	544	30	484	0.89
24	Navsari	4903	0	169	5072	169	4734	0.93
25	Valsad	11350	429	0	11779	429	10921	0.93
26	Tapi	1161	64	0	1225	64	1097	0.90
	Total	229738	34945	22745	287428	57690	172048	0.60

Source: Government of Gujarat Department of Industries and Mines, Computation by ISED Small Enterprise Observatory

Survival occurs if enterprise is active in terms of employment and/or turnover in the year of birth and the following year(s) in either of the following ways:

- An enterprise born in year xx is considered to have survived in year $(xx+1)$, if it is active in terms of turnover and/or employment in any part of year $(xx+1)$ (= survival without changes).
- An enterprise is also considered to have survived if the linked legal unit(s) have ceased to be active, but their activity has been taken over by a new legal unit set up specifically to take over the factors of production of that enterprise (=survival by take-over).

Based on the above definitions, the key demographic indicators for analytical purposes are as follows:

Birth Rate: Real enterprise births of year 'n', as a percentage of the population of active enterprises of year 'n' Survival Rate: The percentage of all real enterprise births of year 'n' which are still active in year $(n+x)$. Currently, 2-year survivals are observed in the structural indicators; therefore, $x=2$.

Death Rate: Real enterprise deaths of year 'n', as a percentage of the population of active enterprises of year 'n'. Trends in the number of newly created enterprises become more meaningful when transformed into a ratio. The ratio of new firms to the stock of existing firms, called the natality rate, is a rough index of new firm creation. Another ratio often used is the number of new firms (in a sector) as a share of the number employees (in that sector). The ratio of new enterprises per thousand employees is called the fertility rate. The connection with employees has been rationalized in terms of the significant role of the SSI sector in employment generation. SMEs have been growing at 35% annually over the last two years; this is likely to go up by 40%, given some favourable conditions and interventions.

A crucial problem which prevents a meaningful analysis of enterprise demography in India is the lack of relevant and realistic data on business births and deaths. However, we have attempted to arrive at a picture on the net health position of this sub-

sector in terms of a simple variable: number of live units. Data brought out by Office of the DC(MSME) indicates only the total number of units registered in a particular year, as well as the cumulative number. These figures, however, do not tell us how many of the earlier units have survived. In order to arrive at the survival rate, we estimated the death rate for the period 1972-98 with the help of suitable proxies. Four all-India studies on SSIs conducted so far, viz. three Census by the Office of the DC(MSME), and one by Reserve Bank of India, have arrived at the percentage of closed or untraceable units. They are 38% (DCSSI-1972 Census) 40.99% (DCSSI-1988 Census) 39% (DCSSI-2002 Census) and 34.5% (RBI 1977 Census). A weighed average of these three figures (i.e.36%) was used as the proxy, based on which, birth rate was estimated at 43%.

Since 1992-93, there has been a rise in MSME birth rate at the national level. This can be explained largely in terms of enhanced initiatives of the Government through specific schemes like PMRY, and through Entrepreneurship Development Programmes. Besides, there has also been a renewed interest among entrepreneurs to register their units, though the stipulation of compulsory registration was done away with, and the new practice of submitting an 'Entrepreneur's Memorandum' was introduced under the MSMED Act, 2006.

The trend relation to death rate complements the results regarding birth rate. While the birth rate grew during the post-1992 period, as indicated by the estimated value of the birth rate, the death rate also should have gone up. The explanatory variables need to be further looked into.

A satisfactory performance of the SSI sector would imply a significant inequality between birth and death rates. However, the two rate curves, birth and death rates, show a uniform pattern. Where a 43% change in birth over a year corresponds with a 36% death of units over that period, in essence, implies that the effective natality rate is only 7%. This indicates that the thrust of any meaningful SSI policy should be to bring down death rate rather than on enhanced birth rate.

Bringing down the business death rate requires two types of steps:

- Maintenance of a conducive policy environment for the existing enterprises: this should include, interventions both on both supply –side and demand-side.
- Maintenance of enterprise health standards: This requires continuous monitoring of the demographic behavior so that the circumstances under which a unit becomes sick is understood properly and corrective or precautionary steps taken. The present thrust at the national level is largely corrective; it is vital that preventive steps are taken at the appropriate time and manner. All these require significant monitoring of enterprise health on a continuous basis. Scientific models of enterprise development should form the basis of promoting start-ups as also for nurturing growth.

The behavior of natality ratio and fertility rate were analysed with the help of data for the period 1973-74 to 1997-98. The results indicate a one-to-one correspondence of both fertility and natality. This implies that, as new firms get registered, employment also go up. Per unit employment, however, declined significantly.

The results, however, need to be interpreted with caution. While the graphs indicate a normal growth over the period, it does not, indicates much less structural changes in terms of technology or organization. We can, therefore, surmise that, had such structural changes taken place significantly, it would have been reflected in the fertility rate.

In India, the 1990s marked a significant increase in terms of number of SSIs registered. While, juxtaposing this growth curve with the fertility curve and the natality curve, lead us to some interesting conclusions:

- The number of units have increased, but per unit employment over the period 1988 to 2001-02 shows a declining trend.
- The extent of sickness, as per the latest definition of the Reserve Bank of India, (Kohli Committee), shows a declining pattern; it declined by 7% over the period, on an all-India basis

- As the extent of sickness declines, one would naturally expect an increase in employment, unless major technological changes have taken place in the SSI sector as a whole. However, available data and information do not suggest such major changes, especially, when, 99.5% of the units are in the tiny sector.
- The above contradictory situation demands more detailed studies on the crucial demographic variables as well as of the data-collection system as a whole.

Monitoring of enterprise health is a crucial area of planning for enterprise development. Though in India, there are is formal mechanism for such monitoring, the financial institutions keep a watch over the business as which they have financed. According to the prudential norms applicable to banks in the country, the health of businesses is measured with the yardstick called ‘non-performing assets’(NPAs). According to the RBI definition, an asset is classified as a “ non-performing asset(NPAs)”if dues in the form of principal and interest are not paid by the borrower for a period of 180 days. However, with effect from March 2004, default status would be given to a borrower if dues are not paid within 90 days. If any advance or credit facility granted by a bank to a borrower becomes nonperforming, then the bank will have to treat all the advances/ credit facilities granted to that borrower as non-performing.

While the following table does not provide longitudinal data that help a meaningful analysis of business demography, an estimate of average morbidity gives some important indications on the relative health status of MSMEs among different districts of the State. The average morbidity has been estimated with the help of a morbidity index as follows:

$$\text{Health Index} = \frac{\text{Working units -(closed+not found)}}{\text{Total Units}}$$

Expressed as a ratio, the Health Index gives an indication of the probability of an existing unit remaining healthy. The index can also be expressed as a percentage, which gives the indication as to what

Table 7.4: District Wise Employment in MSMEs(2006-07)

Sr. No.	District	Rural	Urban	Combined	Mean Employment
1	Kachchh	0	11969	11969	2.40
2	Banaskantha	7097	6105	13202	2.56
3	Patan	3022	3663	6685	2.37
4	Mahesana	10885	11419	22304	3.85
5	Sabarkantha	29458	17406	46864	6.31
6	Gandhinagar	15904	20880	36784	6.40
7	Ahmedabad	27752	335150	362902	7.47
8	Surendranagar	8855	23018	31873	4.61
9	Rajkot	90682	77318	168000	6.72
10	Jamnagar	6530	17861	24391	2.49
11	Porbandar	1872	4020	5892	3.42
12	Junagadh	5500	16641	22141	3.64
13	Amreli	130	6232	6362	3.12
14	Bhavnagar	1306	21057	22363	2.32
15	Anand	2054	13090	15144	2.71
16	Kheda	34	14121	14155	1.82
17	Panchmahal	5645	9085	14730	3.94
18	Dahod	732	4486	5218	3.68
19	Vadodara	27399	63368	90767	7.01
20	Narmada	90	2915	3005	3.03
21	Bharuch	1175	67493	68668	7.47
22	Surat	672	195440	196112	6.89
23	Dang	1535	0	1535	2.99
24	Navsari	0	10588	10588	2.16
25	Valsad	20	84213	84233	7.42
26	Tapi	30	4112	4142	3.57
	Total	248379	1041650	1290029	5.62

Source: Government of Gujarat Department of Industries and Mines, Computation by ISED Small Enterprise Observatory

Table 7.5: District wise Assets in MSMEs (06-07)

Sr. No	District	Fixed Assets (In Crore Rs.)	Per Unit Fixed Assets (In Lakh Rs.)
1	Kachchh	1417.81	28.57
2	Banaskantha	419.60	8.13
3	Patan	236.30	8.37
4	Mahesana	589.65	10.18
5	Sabarkantha	457.14	6.15
6	Gandhinagar	1064.46	18.52
7	Ahmedabad	3241.97	6.68
8	Surendranagar	1117.46	16.16
9	Rajkot	1830.79	7.32
10	Jamnagar	510.15	5.21
11	Porbandar	176.67	10.24
12	Junagadh	507.94	8.35
13	Amreli	143.55	7.05
14	Bhavnagar	1221.26	12.67
15	Anand	1351.56	24.17
16	Kheda	83.92	1.08
17	Panchmahal	333.47	8.92
18	Dahod	229.68	16.21
19	Vadodara	823.74	6.36
20	Narmada	154.59	15.58
21	Bharuch	373.22	4.06
22	Surat	3542.32	12.45
23	Dang	223.05	43.40
24	Navsari	342.31	6.98
25	Valsad	1612.15	14.20
26	Tapi	75.09	6.47
	Total	22084.28	9.61

Source: Government of Gujarat Department of Industries and Mines, Computation by ISED Small Enterprise Observatory

Table.7.6: District wise Investment in Plant & Macchinery by MSMEs (2006-07)

Sr . No.	District	Plant & Machinery (In Crore Rs.)	Per Unit Plant & Machinery (In Lakh Rs.)
1	Kachchh	1086.75	21.90
2	Banaskantha	307.94	5.96
3	Patan	177.59	6.29
4	Mahesana	441.54	7.62
5	Sabarkantha	347.04	4.67
6	Gandhinagar	775.55	13.49
7	Ahmedabad	2346.20	4.83
8	Surendranagar	852.13	12.32
9	Rajkot	1353.95	5.41
10	Jamnagar	389.40	3.98
11	Porbandar	135.23	7.84
12	Junagadh	366.59	6.02
13	Amreli	109.16	5.36
14	Bhavnagar	915.67	9.50
15	Anand	1036.24	18.53
16	Kheda	45.62	0.58
17	Panchmahal	254.17	6.80
18	Dahod	175.16	12.42
19	Vadodara	511.60	3.95
20	Narmada	118.94	11.99
21	Bharuch	140.12	1.52
22	Surat	2691.61	9.46
23	Dang	171.08	33.28
24	Navsari	263.95	5.38
25	Valsad	1220.35	10.75
26	Kachchh	58.65	5.05
	Total	16293.03	7.09

Source: Government of Gujarat Department of Industries and Mines, Computation by ISED Small Enterprise Observatory

Table 7.7: Districtwise Distribution of Micro, Small & Medium Enterprises in Gujarat (2008-09)

District	Micro (%)			Small (%)			Medium (%)			Total		
	Unit Regd	Invest ment	Employ ment	Unit Regd	Invest ment	Employ ment	Unit Regd	Invest ment	Employ ment	Unit Regd	Invest ment	Employ ment
Ahmedabad	86.12	45.77	65.19	13.56	46.96	29.92	0.33	7.27	4.89	3998	166897.31	53319
Amreli	64.10	15.18	44.11	33.33	62.13	53.93	2.56	22.68	1.96	39	3227	560
Anand	78.33	25.70	50.54	20.42	51.06	38.14	1.25	23.24	11.32	240	10421.16	3613
Banaskantha	91.82	27.39	66.78	8.18	72.61	33.22	0.00	0.00	0.00	220	4507.64	894
Bharuch	74.51	13.80	41.20	22.55	52.40	48.14	2.94	33.80	10.66	408	38054.73	7366
Bhavanagar	79.70	24.09	64.73	20.00	71.80	34.71	0.30	4.11	0.56	335	14379.23	5319
Dahod	95.00	86.17	96.44	5.00	13.83	3.56	0.00	0.00	0.00	20	506.08	281
Dangs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0	0	0
Gandhinagar	70.99	21.77	52.16	27.89	64.18	39.59	1.13	14.05	8.26	355	27490.48	9278
Jamnagar	91.14	59.79	77.46	8.86	40.21	22.54	0.00	0.00	0.00	429	9635.49	4117
Junagadh	72.22	21.34	27.14	27.08	66.91	71.12	0.69	11.75	1.74	144	8517.39	4020
Kheda	74.21	17.46	61.90	23.90	64.14	37.52	1.89	18.40	0.58	318	24640.45	5507
Kachchh	68.00	18.47	46.37	32.00	81.53	53.63	0.00	0.00	0.00	125	10399.1	2409
Mehsana	72.44	15.03	42.90	25.09	48.24	39.06	2.47	36.73	18.04	283	28168.58	5543
Narmada	97.03	72.83	60.68	2.97	27.17	39.32	0.00	0.00	0.00	101	4383.4	473
Navsari	90.55	40.91	58.33	9.45	59.09	41.67	0.00	0.00	0.00	275	5103.52	1771
Panchmahals	76.26	20.61	29.69	23.02	69.32	69.11	0.72	10.07	1.20	139	8234.83	3574
Patan	76.92	23.46	63.77	23.08	76.54	36.23	0.00	0.00	0.00	65	2472	988
Porbandar	88064	76.21	63.46	11.36	23.79	36.54	0.00	0.00	0.00	88	6418.93	416
Rajkot	77.33	26.22	54.87	22.00	64.69	41.73	0.68	9.09	3.40	1473	90779.27	18338
Sabarkantha	65.28	23.07	48.13	32.64	54.02	44.35	2.08	22.92	7.52	144	12445.78	2088
Surat	83.77	40.83	55.71	15.93	49.66	38.32	0.30	9.51	5.97	6643	216789.82	86080
Surendranagar	73.14	18.56	40.73	26.86	81.44	59.27	0.00	0.00	0.00	175	9705.54	2600
Vadodara	75.80	29.24	47.52	23.17	55.38	46.46	1.03	15.38	6.03	1161	73689.6	20511
Valsad	76.16	23.79	40.81	22.88	64.66	54.56	0.96	11.54	4.63	625	47216.72	13192
Total	81.92	33.51	54.98	17.52	54.62	39.66	0.56	11.87	5.36	17803	824084.1	252257

Source: Government of Gujarat, Commissionerate of Industries

Table 7.8 Districtwise Performance of the Micro Enterprise Sector in Gujarat

District	Year	Employment	Investment	No of Units
Ahmedabad	2006-07	5663(42.96%)	13038.46(27.06%)	569(65.78%)
	2011-12	69563(78.83%)	317524.49(62.59%)	12340(93.51%)
Surat	2006-07	9642(52.20%)	15189.94(26.48%)	852(69.55%)
	2011-12	119626(80.64%)	159076.86(48.13%)	22976(93.59%)
Vadodara	2006-07	1159(20.25%)	2762.91(11.34%)	103(33.55%)
	2011-12	15804(67.63%)	37607.35(48.88%)	2235(92.81%)
Rajkot	2006-07	2654(29.80)	8707.04(15.43%)	350(65.78%)
	2011-12	20853(66.83%)	92025.96(40.62%)	3732(84.18%)
Valsad	2006-07	2428(33.17%)	2925.09(9.75%)	136(59.64%)
	2011-12	3775(49.70%)	8960.50(21.04%)	469(79.76%)
Gujarat Total	2006-07	28269(37.14%)	55106.36(17.72%)	2581(62.49%)
	2011-12	272595(75.12%)	707963.61(48.03%)	47478(91.69%)

Source: Government of Gujarat, Office of the Industries Commissioner; computations by ISED Small Enterprise Observatory

percentage of the units are likely to be healthy in a particular district. While business births and deaths happen correspondingly, what is important from the point of view of performance, is not the absolute health/ morbidity. For instance, in an industrially backward district, the number of units may be small, and most of them may survive. On the other hand, in another district, a large number of units may come into existence, and many may be closed down in between. What is important, therefore, is the relative level in which a district keeps its health index, than the absolute value of the index. As per this criteria, three districts, viz., Ahmedabad, Rajkot and Surat, keep their health levels within the range of 0.50-0.60. Hence, it can be surmised that MSMEs in these districts are more healthy than their counterparts in other districts.

7.2. Employment Intensity

Employment intensity is another key criterion of performance. As employment concentration in a particular district implies that the region gets enhanced levels of income, and consequently greater visibility. In a democracy, such visibility has greater implications for policy. The following table

on district wise employment gives some important findings as follows:

1. The per unit employment in the MSME sector of Gujarat is 5.62, whereas the corresponding figure at the national level is 6.04.
2. Only the five focal districts of Ahmedabad, Surat, Rajkot, Valsad, and Vadodra, exceed the national average employment size. The exceptions are Bharuch, Sabarkantha, and Gandhinagar.
3. The much lower average employment size in most districts of Gujarat is a reflection of the predominance of tiny units.

While average employment is a crucial development indicator, per unit investment is a critical variable that explains MSME performance in a regional setting. The tables give some important findings in this regard. It shows that the two functions of MSME development do not necessarily correspond district wise. In the advanced districts some mushrooming of MSMEs has taken place, but in the backward districts, capital intensity is more prominent. Out of the five focal districts, per unit investment crosses the state average, only in two districts, viz., Surat and

Valsad. The indication is that investments in the MSME sector of Gujarat have generally tried to take advantage of the natural advantages of location. This essentially means that industrial dispersal policies are not effective to the extent they are anticipated. Public policy should have important implications for this finding.

7.3. Categories of Districts

Based on the broad patterns as observed, one can identify three categories of districts based on their MSME presence:

7.3.1. MSME Hubs

The MSME hubs in the State are those districts that are characterized by the concentration of a large number of dynamic units. As revealed by the district level distribution of SMEs in terms of number of units, investment and employment, Surat and Ahmedabad account for over half of the units as well as employment created in this sector. Even in terms of investment, they are the two dynamic industrialized districts, offering much significant opportunities for expansion and innovation. Also, they are the districts that demand modernization of infrastructure, as both districts have a significant textiles base, apart from the fact that Surat happens to be the diamond hub of India. The specific features of the MSME Hubs are as follows:

Ahmedabad

Ahmedabad is an industrial hub for textiles and is popularly known as the 'Manchester of India'. Especially due to the presence of several educational institutions, the Ahmedabad - Gandhinagar Corridor has emerged as an innovative technological and R&D hub.

Ahmedabad is developing excellent urban infrastructure for its services economy. The key raw materials such as castor, cotton, cumin, fennel, isabgul, potato, are abundantly available in the District. The focus sectors of Ahmedabad, as identified by the Government of Gujarat are:

- Textiles and Apparel cluster including chemicals & dyes

- Drugs and Pharmaceuticals
- Agro and Food Processing
- Automobiles, Engineering, and Electronics
- Biotechnology
- Information Technology
- Tourism

Ahmedabad is an industrial base for sectors such as chemicals, textiles, drugs and pharmaceuticals and agro and food processing industries. Textiles and Chemicals have been the major sectors of investment and employment in the district, since 1980. Several business conglomerates such as Adani Group, Reliance Industries, Nirma Group of Industries, Arvind Mills, Claris Life Sciences, Cadilla Pharmaceuticals, Shell, Vadilal Industries Ltd., Rasna, BoschRexroth (Germany), Stork and Rollepaal (Netherlands) are present in the district.

According to Industrial Entrepreneurial Memorandum (IEM) filed from 1988 to 2007, Ahmedabad has attracted an investment of Rs. 15,399 crores (USD 3,755.8 million) in industries such as petrochemicals & refinery, engineering, chemicals and drugs and Pharmaceuticals. From 1988 to 1997, investments by in the district amounted to Rs. 8,430 Crore (USD 2,056 million). Some of the major investments were in chemicals, drugs and pharmaceuticals, textiles and metallurgical Industries.

There are many regional growth drivers of Ahmedabad. Increase in the investments in sectors such as textiles, chemicals and agro & food processing over the last 20 years has made Ahmedabad emerge as a thriving industrial centre in the State. By leveraging the existing textile, chemical and base, Ahmedabad is attracting several large multinational giants. The proposed Delhi Mumbai Industrial Corridor (DMIC), Dholera (Special Investment Region) and Gujarat International Finance Tech-City (GIFT) are expected to fuel the industrial growth of Ahmedabad. A newly emerged corridor between Ahmedabad and Pune which connects the district to other metropolitan cities.

Surat

The development in Surat district could be attributed to the presence of a large number of diamond processing, textiles and chemical & petrochemical industries. During 2006-07, Surat contributed a maximum of 11.5% of Gross Domestic Product (GDP) to the State, as compared to any other district of India. Key industry sectors in the Surat district include Petrochemicals, Textiles, Diamond processing, Engineering and Logistics. Surat is emerging as a potential hub for IT/ITeS and Biotechnology industry. There are over 600 medium and large scale industries and over 41,300 small scale Industries based in Surat district. Hazira LNG Terminal project is one of the largest Greenfield projects in India. Some of the key industrial players having large investments in the district are Essar Power, Indian Oil Corp. Ltd., Indian Oil Corp. Ltd., KRIBHCO, Larsen & Toubro, NTPC, ONGC, Reliance Industries, HPCL Indo Burma Petroleum Ltd., etc.

Surat processes 10 out of 12 varieties of diamonds in the world contributing to INR 45,000 crore (USD 10.71 billion), which is approximately 65% of total diamond exports from India.

Surat is considered to be the capital of synthetic textiles, with over 45,000 power looms and provides over 7 lakh jobs. It contributes 18% to the total man made fiber exports and 40% of man made fabric production in India. Surat has been very successful in attracting a sizeable amount of Foreign Direct Investment (FDI) in various sectors like energy, oil, and petroleum. A significant investment of Rs. 3,000 crore (USD 726 million) in Hazira LNG terminal project is one of the largest greenfield FDIs in India.

Based on the enormous opportunities of ancillarisation offered by the large sector, there are over 41,300 small scale industries (SSI) functioning in Surat district. Some of the main industries under SSIs in Surat are textiles, chemicals dying & printing, diamond processing, jhari (Silver) making, and engineering and related activities (manufacturing machineries & equipments). Maximum number of SSI units (24,000 Units) are related to textile industry in the district followed by repairing & service industry with more than 11,000 units.

7.3.2. Emerging Districts

Rajkot, Vadodara and Valsad belong to the catching-up category. They need much significant infusion of infrastructure and credit. The State government has initiated several programmes/schemes focusing on spread of MSMEs into these districts.

Vadodara

Vadodara has proximity to key industrial centers of Gujarat such as Ahmedabad, Bharuch and Surat. Along NH-8 connecting to Mumbai and Delhi could be considered a major driver for growth of the economy. Focus Industry sectors in the district include chemicals, pharmaceuticals, biotechnology, petrochemicals and construction. Savli Industrial Estate, spread across 770 hectares of land located 15 km from Vadodara city is an ideal location for agri-biotech, biotechnology engineering, plastics, export-oriented units and other non polluting industries. Some of major players in the corporate sector include Alembic, Bharat Starch Industries Limited, Gujarat Alkalies and Chemicals Limited (GACL), Gujarat State Fertilizers & Chemicals Ltd. (GSFC), Indian Oil Corporation Ltd. (IOCL), Indian Petrochemical Corporation Ltd. (IPCL), Apollo Tyres Limited, CG Glass Limited, etc.

There are over 18,000 SSI units in Vadodara, the maximum being in the repairing and servicing industry (5,713 units). Other key small scale industries include textiles, metal works, chemicals, equipments, rubber products and food products. As per the Industrial Memoranda (IEM) filed, several sectors showed major increase in investments over a period of last two decades (1988 - 2007) Investments in key industry segments such as Chemicals, Boilers & Steam generating equipments and glass showed a major increase in the past decade (1988 - 1997). The growth in investments in Chemicals excluding fertilizers is almost 98 % over last decade (1988 - 1997). Other industry segments showing growth in investments include sugar, vegetable oils, fermentation industries & transportation. In the last decade (1988 - 1997), maximum investments were observed in the sectors such as Petrochemicals, Chemicals, Textiles, Plastics and Pharmaceuticals. Of these, Pharmaceuticals and Chemicals were highly labour intensive and created maximum employment

opportunities . In the current decade (1998 - 2007) as well, Chemicals and Pharmaceuticals are among the top five investment generating sectors. New sectors with high investments during this period include Infrastructure, Glass and Transportation.

Rajkot

Rajkot city is considered the economic, industrial and educational hub of the region. The district boasts of a stock exchange, which is linked with exchanges in Mumbai, Kolkata & New Delhi. Located in the south-west region of Gujarat, the Focus industry sectors in the district include Engineering, Electronics, Textiles & Apparels, Chemicals and Processed foods. Small and Medium industries are dominated by foundries, engineering & automobile works, gold & silver jewellery, handicrafts, spices, medicines & wall clocks. Rajkot is the largest producer of Diesel Engines, Bearings, Kitchen Knives and other cutting appliances, Watch Parts and Automotive Parts.

Some of the major industrial players having presence in the district are Ajanta Electronics Pvt. Ltd., Atop Food products, Balaji Wafers Pvt. Ltd., Archer Metals Ltd., Gujarat Goldcoin Ceramics Ltd., Echjay Industries Ltd., Atul Auto Ltd., Rolex Rings Pvt. Ltd., Gujarat Agro Industries Corporation Ltd., Samay Electronics Pvt. Ltd.

Engineering and Auto ancillaries are viewed as the growth engines of the district. Textiles and Apparels are also emerging sectors. Ajanta, world's largest clock manufacturer is present in the district. The Focus sectors identified by the Government are: Engineering & electronics; Textiles & apparels; Chemicals; and Infrastructure

The occupational pattern in Rajkot is primarily based on manufacturing and service sector. About 42% of workers are engaged in service activities and 34% in manufacturing activities. Manufacturing activities are concentrated in two main industrial estates - Aji and Bhaktinagar. In the past, Rajkot concentrated around the establishment of cloth mills. The current trend of industrial growth is towards the Engineering and Autoancillary sector. In this sector, diesel engine is the leading business with around 105 manufacturing units operational in the district. The district also

has various manufacturing units for machine tools, industrial equipments, lathe machines, metallurgical industries, electronics, engineering and auto ancillary sector.

Small and medium industries are dominated by foundries, engineering & automobile works, textile related units gold & silver jewellery, handicrafts, spices, medicines, and wall clocks. Jetpur taluka of the district is famous for dyeing and printing business and Paddhari taluka is a centre of forginning and pressing business in the entire State. There are over 30,463 small scale industries operating in Rajkot district in the areas such as Some of the main industries include machinery, textiles, food products, glass and ceramics, and metal products. Maximum number of SSI units (5,283 Units) belong to machineries followed by textiles (4,389 Units) Most of the small scale industries are located at talukas such as Rajkot, Jetpur, Morbi, and Gondal.

Valsad

Valsad district is located at the Southernmost tip of Gujarat, near Gulf of Khambhat in the Arabian Sea. Vapi located in Pardi taluka, is an important hub for chemical based industries. Valsad is home to 10,716 small scale industries, involved in dye stuff and opticals, cotton textiles, chemicals and lathes & machine tools. With over 300 Medium and Large Scale Industries, Vapi is the major industrial center in Valsad witnessing a large number of business activities. Textile, chemicals and food processing sectors have been the other major sectors of Investments and employment in the district. Some of the key players having operations in the district are Aarti Industries Ltd., Atul Limited, GHCL Ltd., Hindustan Inks Ltd., Pidilite Industries Ltd., Ruby Mascot Ltd., Sarigam Steel Ltd., Sun Pharmaceuticals, United Phosphorus Ltd., Vadilal Industries Ltd., Welspun Polyesters India Ltd., Wyeth Ltd.

The Focus industry sectors identified by the Government include chemicals, textiles, horticulture and paper industry . Some of the major tourist destinations in the district help growth of tourism. Valsad is base for sectors such as chemicals, textiles, and paper & pulp industries. Since 1980's, Textile and Chemicals have been the major sectors of

investments and employment in the district. Known for its mangoes, Valsad is emerging as a horticulture hub of the State, witnessing significant production in food grains and crops. With over 300 medium and large scale industries, Vapi is a major industrial center in Valsad witnessing tremendous business activities.

One of the Asia's largest Common Effluent Treatment Plant (CETP) is present in Vapi, owned by Vapi Waste & Effluent Management Company and promoted by Vapi Industrial Association. Over 10,716 units of small and medium enterprises (SMEs), involved in different sectors, such as chemicals, textiles, engineering, and paper industry etc., are present in the district. Several private conglomerates are present in Valsad, including Wyeth, Welspun Polyesters India Ltd., Aarti Industries, Atul industries, Gujarat Heavy Chemicals Ltd. (GHCL), Raymond, Sun Pharmaceuticals, United Phosphorus, Pidilite and Vadilalare Fire Temple, Daman and Lady Wilson Museum Ltd.etc

7.3.3. Backward Districts

Gujarat has eleven districts officially declared as industrially backward. They are, Amreli, Banaskantha, Bhavnagar, Broach, Junagadh, Kutch, Mehsana, Panchmahals, Sabarkantha, Surendranagar & Dang.

The perspective of the Government of Gujarat relating to development of backward districts witnessed a major paradigm shift through the Industrial Policy, 2009. While, traditionally, the GIDC played a key role in creating infrastructure in a top-down manner, the new Policy envisages a facilitatory role for the Government, rather than one of providing infrastructure directly. Special Investment Regions (SIRs) were envisaged as instruments for convergence of industrial, social, and urban infrastructure. The mega projects attracted by these SIRs, in turn, are expected to provide the second-order conditions for the growth of MSMEs. While the short-run effects of such an innovative policy approach is debatable, it is undoubtedly, a scientific policy approach having a built-in sustainability element.

More recent data on the distribution of MSMEs district wise, is provided by the Commissionerate of

Industries, Government of Gujarat, as given in the following table:

The key indication given by the above data is the predominance of micro units. Microenterprises account for about 82 per cent of the MSMEs in the State and vary from 64.1 per cent in Amreli district to 97.03 per cent in Narmada. Nevertheless, SMEs dominate in investment in MSMEs in the State and about 45 per cent of jobs are still provided for by the SMEs. Realising that there is enough potential for the microenterprises to move up as SMEs in the future, active state support has been extended to create business-support facilities as widespread as possible.

8.0. Regional Regeneration and Local Economic Development

While globalization has got intensified, and an economic slowdown has engulfed many of the industrial countries of the West, movements like "buy local" and "real economy first" have become prominent in the North America and in Europe. While these countries form the major export markets of India, Indian exports are increasingly under challenge. All these have important implications for MSME policy in our country. Along with initiatives for attracting investments, Gujarat need to also focus on a new thrust on regional regeneration and local economic development. In fact, various districts of Gujarat demonstrate differing potential relating to modernization and expansion of their MSME base, and to use them as triggers of economic development. The local regeneration process, and modernization of particular subsectors, are mutually reinforcing, and have the potential to offer to the overall economic development of the State.

Regeneration of the textile sector can lead to an expansion of the industrial base of Ahmedabad and Surat. Modernization of pharmaceutical sector, can make a similar impact on Vadodara. The focus on traditional sectors such as handicrafts are likely to contribute to the development of districts like Amreli.

From the point of view of such development potential, MSME in the State can be divided into three subsectors:

8.1.High- share Subsectors

The high-share sub sectors are those subsectors in which Gujarat has a comparative advantage and long tradition of manufacturing. This category includes, textiles, synthetics, chemicals and gems and jewellery. It is important to look into their possibilities of innovation and modernisation, especially in relation to the emerging trends in the global market.

8.2.High- growth Subsectors

This category includes, those subsectors having high growth potential. Pharmaceuticals, auto ancillaries, technical textiles, speciality chemicals are some of the subsectors to be included in this category.

8.3.Emergent Subsectors

Despite the significant presence of MSMEs in Gujarat, the State, for the last several decades faced some major debilities relating to industrial structure, which has adversely affected its industrial performance. The major constraint related to the predominance of traditional sectors such as textiles (13.6 % of units), hosiery and garments (13.6%), and repair and services (18%). The first two subsectors, prominent traditionally, have undergone a decline with the decline of the textile industry in general. Besides, the category, 'repair and services' underwent serious demand constraints, as with the dawn of the liberalisation era, the structure of the demand for repairs and services of popular use, themselves underwent a major change. The Government, during recent years, have woken up to the situation, and have initiated several steps oriented towards structural changes that benefit diversification of the MSME sector. The emergent subsectors, thus, are essentially the result of such policy changes, apart from the play of market forces and signals. Thus, the recent changes may be discussed under the following categories:

8.3.1. Sunrise Subsectors

Sunrise subsectors are those subsectors having a shorter history, and have emerged as an autonomous response to the rapid changes in the economy and responding to new demands. Electronics, IT and

ITES, Tourism, Renewable energy and technologies, modern engineering, biotechnology, etc., belong to this category.

Most State Governments today thrust on some of the modern sunrise sectors like, IT, BT, and autocomponents. However, unlike in many other States, Gujarat's strategy relating to the development of some of these 'sunrise' sub sectors, is innovative. This strategy has two key pillars: 1) leveraging existing strengths and resources to the best use; and 2) to initiate concentrated efforts in the identified subsectors through Special Packages.

The Industrial Policy 2009 visualises that, for sustainable development, it is necessary to ensure that the existing and inherent advantages are identified and put to productive use. The strengths of the State in terms of physical advantages such as long coast line, strong manufacturing base, excellent levels of support infrastructure, high base of entrepreneurial economy, policy-driven government etc, need be used to promote industrial development in the state. The new Policy has identified and developed a strategy which would promote industrial development in the State in a planned manner, and to do so, a few focus sectors have also been identified. These sectors would benefit from special packages which would be extended to them by the Government for encouraging their growth and development further. The focus sectors are, Textiles and Apparels, Gems and Jewellery, innovative projects, mega projects, informal sector, agri-business, fisheries, IT/ Knowledge-based industries, port and related industries and power sector (non-conventional energy). Important interventions which would be needed for each of these sectors have also been identified.

8.3.2.Policy Induced Subsectors

Public policy has triggered the backward and forward linkages in some subsectors. Such backward and forward linkages have resulted in the growth of small scale manufacturing and services in the area. The emerging areas in this category are the following:

- *Textiles*: The state contributes 35% of cotton production and export 60% of the country's total. As per a Government of Gujarat survey

report technical textile is a key emerging area. There is a huge potential for the growth of the MSME in textile sector due to the introduction of the New Textile Policy 2012.

- *Chemicals & Pharma* : The chemical and pharma sector contributes 51% and 45%, respectively, in India's total production. A large number of SME units are present in Gujarat contributing to the State's production. The developments in PCPIR are accelerating which will boost the SME sector in the region.
- *Automotive Sector* : Government of Gujarat has been aggressively supporting the automotive sector through the development of sector specific industrial estates and investment regions. The potential in automotive sector are: auto ancillary SEZ/Parks, assembling and of automobiles, CNG kits for automobiles, industrial automotive bearings, manufactures

of auto component for all types of vehicles and Automobile design center.

- *Electricals & Electronics*: The State government is planning to develop Electronic System Design & Manufacturing clusters in the State to boost the electronic sector. This will add to the opportunities for the SME units to grab the technology and innovation in electronic manufacturing.

8.0. Conclusion

Gujarat has already achieved significant heights in relation to its industrial base in the country. This would obviously mean substantial opportunities for the State, and challenges as well. The challenge today is to build upon its achievements, to nurture quality MSMEs and quality jobs to millions, in an overall context of local level development. This challenge, however, can be addressed only in terms of attaining and consolidating its growth story.



The Way Forward for Gujarat

1.0. Introduction

This chapter looks into the challenges and imperatives of enterprise development in Gujarat, and of MSME development in specific. The modern welfare state offer many things in between “gun” and “butter”; hence came the concept of ‘inclusive growth’ in the semantics of modern welfare theory.

Rapid and sustained poverty reduction requires ‘inclusive growth’ that allows people to contribute to and benefit from economic growth. Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the large part of the country’s labour force. This definition of inclusive growth implies a direct link between the macro and micro determinants of growth. The micro dimension captures the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms. Inclusive growth refers both to the pace and pattern of growth, which are considered interlinked, and therefore, in need to be addressed together.

It is here that the larger context of investment promotion emerges. It often assumes that new investments will lead to growth, and growth, in turn, will lead to enhanced distribution and welfare. Most of the state governments today focus on investment promotion. But investment alone will not lead

to growth. The key question is the state of local capabilities and their progression over time. Gujarat stands out not only in attracting investments, but also in creating such capabilities, with significant focus on its base of micro, small and medium enterprises.

2.0. What is MSME-specific About Gujarat?

Gujarat is on the forefront in relation to its level of industrialization. Among the Indian States, it has a creditable story of industrialization-led growth. The State has become preferential destination for investors over the last decade. In popular perception, at least in some quarters, Gujarat’s economic growth is about this industrial growth, an investment destination for industries, and about Investment Meets that promote such investments. It is about sectors like bio-tech and pharmaceuticals, chemicals and petrochemicals, engineering, automobiles and ancillaries, food and agri-business, gas, oil and power, gems and jewellery and IT. Since 2003, the ‘Vibrant Gujarat Summits’ have been held every two years.

The Industrial Policy of 2009, a fairly liberal one, mentioned clusters, industrial estates, industrial parks, IRs (investment regions) and SIRs (special investment Regions). However, industry doesn’t mean only manufacturing; electricity, gas, water supply and construction are also part of manufacturing. The Planning Commission gives annual average real rates of growth for industrial NSDP (net-State domestic product). Between 2004-05 and 2008-09, this was

12.65% for Gujarat, surpassed only by Chhattisgarh, Meghalaya, Orissa, Tripura, Andaman & Nicobar Islands and Puducherry. As is the case with GSDP growth, a different time-frame or a different method of constructing averages, will change the numbers, but would not alter the essential growth story. Shares in domestic product, GSDP, or NSDP, indicates a combined effect, not of industry alone. Industry's share in Gujarat's GSDP, at constant prices, has increased from 36.5% in 2004-05 to 39.4% in 2010-11.¹⁷ This is an increase, but perhaps not as much of an increase as one might expect. But, growth linkages are a positive reality and experience in Gujarat (Debroy, 2011).

It is the above experience of positive growth linkages that helps the State Government to lay down the foundations of a vibrant MSME sector, and in turn, to use it as the base of inclusive growth in the State. Gujarat accounts for 5 per cent of India's population, but contributes 7.2% of India's GDP. India, of late, has identified its key constraint relating to the growth story: the inadequate catch up on the manufacturing front. But Gujarat, from time to time, has underscored the importance of manufacturing, and have anchored its strategies on the manufacturing front. With the manufacturing sector constantly growing, the small and medium enterprise have played a noteworthy role in shaping the manufacturing sector, a uniqueness that is specific to that State. The secondary sector, which embraces manufacturing, accounted for about 35.9% of the GSDP in FY2011, which is higher than for the country (24.4 India's share FY2010) as a whole. Besides, Gujarat contributes around 15% of all operational MSMEs in India.

The MSME demography of the State also shows high fertility levels, coupled with a relatively low level of mortality, with implications on favourable health standards. There has been a significant rise in MSME registration in Gujarat, from 3 lakh registered units in 2006; today the State accounts for more than 3.95 lakh registered units upto July 2011. There is a significant reduction in the number of closed units from 22.04% during the Third all India Census of MSMEs, in 2001-2002, to 12.27% during the Fourth Census in 2006-07. Besides, the direct initiatives by the Government to promote

enterprise and entrepreneurship at the individual level, with focus on the national standards and social objectives, such as regional development, employment promotion, and strengthening the foreign exchange reserves position through exports, it has gained significant achievements relating to harnessing and unleashing the latent potential of collective efficiency of entrepreneurs and their groups. Thus, a synergy of economic planning and social engineering has helped the State to lay the strong foundations of an MSME base. There are 83 product multi-location industrial clusters in the State, such as Foundry cluster in Ahmedabad and Rajkot, Electrical Engineering Cluster in Baroda, Textile and Diamond Cluster in Surat, Ceramic Cluster in Morbi and Kadi, Cotton-Ginning, Pharmaceutical Cluster in Ahmedabad-Baroda, Celium Husk Cluster in Unjha-Mehsana, to name a few. Besides the State Industries Department, of late, has initiated important synergies in promotional initiatives by setting up Skill Upgradation Centers (SUC) across various GIDC Estates in the State to create industry responsive and readily employable manpower for the needs of MSMEs.

Gujarat has also been making serious efforts at internationalizing its industry through various strategies, wherein MSMEs have a strategic role. Public promotional programmes go much beyond visible indicators of MSME capacity creation; the invisibles also have been taken care of. Under various government policies and programmes, special attention has been given to these invisibles. Technological capacity building, promoting supportive business institutions, and developing relevant economic infrastructure to support start-up, growth, and internationalization, and harnessing and promoting collective efficiency as a critical developmental resource, promotion and backstopping social mobilisation beyond livelihoods, are innovative aspects of MSME promotion that other States and the rest of the world can learn from Gujarat.

Manufacturing sector accounts for about 31 per cent of the State Domestic Product, and the services sector about 42 per cent. The major industries in Gujarat during the last five decades are, chemicals, petrochemicals, pharmaceuticals, cement, ceramics,

textiles, dairy, auto engines, gems and jewellery. An analysis of the sectoral share of net value added (NVA) gives some important picture regarding the industrial ecosystem of the State. Petroleum products, structural metal products, and fabricated metal products have emerged stronger; motor vehicles and rubber products industries have been emergent sectors. Some of the industry groups that, more or less, retained their dominant positions since the early 1980s include, manufacture of basic chemicals, other chemical products (including pharmaceuticals) and textiles. Most of these industries, apart from belonging to the modern sector, also offer significant potential for outward orientation. Moreover, SMEs dominate these manufacturing activities. Apart from these key features, what is specific to Gujarat is the constant effort of public policy to identify the export potential from the MSME sector and to promote it.

Gujarat, thus, has a strategic role in the country's agenda of manufacturing growth and export competitiveness, as outlined by the National Manufacturing Policy. It is in this context that the State's opportunities and imperatives need to be examined. Such an examination need to be grounded on the State's crucial achievements of the past.

Gujarat made subtle and significant changes in its policies to supplement the economic reforms from time to time. During the initial phase of liberalising the industrial sector by the Centre, Gujarat did not have to make any major changes in its policies. The changes in the economic environment made its strategy and policies followed till that point very relevant and attractive for the growth of private enterprise in the state. However, after 1996 when the reform process at the Centre slackened considerably, Gujarat started its major efforts at the state level liberalisation. In this, the state government is constrained by the political consideration to protect the MSMEs from the adverse effects of liberalisation and globalisation. Within the overall strategy of 'growth through private enterprise,' the state wants to achieve high efficiency and productivity growth of resources employed and simultaneously desires to protect some of the less efficient MSMEs from global competition through subsidies. In the mean

time the focus of the development strategy shifted away from organised manufacturing activity to the unorganised sectors.

3.0. Gujarat's MSME Track Record: What does it Mean?

The growth story, as above, is simply not built upon industry, but of the tertiary sector as well. For example, the tertiary sector contributed 44.0% of GSDP in 2004-05 and this increased to 46.0% in 2010-11. The largest segment of the tertiary sector was trade, hotels, restaurants, transport, storage and communications, accounting for 26.6% of GSDP in 2010-11. The primary sector's share dropped from 19.5% in 2004-05 to 14.6% in 2010-11; this was picked up by the secondary sector and the remaining half by the tertiary sector. Manufacturing's share in GSDP also has been almost flat, inching up from 27.3% in 2004-05 to 27.6% in 2010-11, and is accounted for by electricity, gas, water supply and construction. Other than the special industrial "enclaves", the District Industries Centres (DICs) provide a single-window clearance, through SWIFT (Single Window Industries Follow up Team).

Industry does not mean large-scale industry alone; the 2009-10 survey of the Annual Survey of Industries (ASI) shows an increase in the number of factories to 15,576. This implies that 9.8% of India's factories are in Gujarat. At 13.22%, the share is higher in net value added. In decreasing order of importance, these factories are in segments like chemical and chemical products, basic metals, machinery and equipment, non-metallic mineral products, textiles, food products and pharmaceuticals.

There was an increase in the number of factories to 25,206 in 2010, with an employment of 1.3 millions. Both the absolute number of factories and the average employment has increased, from 748 in 1990 to 1,318 in 2010.

As per the Fourth Census of MSMEs, 14.70% of the country's registered and working MSME enterprises and also accounted for 7.04% of the country's registered and closed MSME enterprises are in Gujarat; this is a total of 0.23 million registered and working units. Location wise, 0.13 million MSME enterprises in the State were in 369 clusters,

gaining positive externalities. Many of the units are ancillaries.

To sum up, the performance of Gujarat on the MSME front need to be evaluated at three levels:

- (a) A significant step up in investment;
- (b) Promotion of growth linkages;
- (c) Growth linkages leading to expansion of the base of social infrastructure and welfare; and
- (d) Relief and support measures by the government, as essentially corrective measures in the economy.

Most state governments in the country often ignore growth linkages. A peculiar feature of Gujarat's MSME strategy is the focus on these growth linkages. Public policy touches upon both the higher end and the lower end of MSME development. There are cluster development schemes for khadi, handlooms, handicrafts and skill upgradation and market development schemes. Other than schemes like Sagar Khedu Yojana, Vanbandu Kalyan Yojana, Garib Samruddhi Yojana and even Garib Kalyan Melas, something like Mission Mangalam is also an attempt to integrate animal husbandry, agro processing, food processing, aquaculture, processing of forest products, handlooms, handicrafts, garments, bamboo and timber products into markets, through Sakhi Mandals, self-help groups (SHGs) and other communities of the poor. Gujarat Livelihood Promotion Company Limited (GLPC) was set up in 2010 to implement Mission Mangalam. Part of this inclusion is a financial inclusion agenda.

Structural changes in the economy are fast taking place. People who remain in agriculture move away from producing food-grains to other forms of crop output, such as horticulture. Commercialization and diversification of agriculture is an emerging phenomenon. Instead, there are increases in the share of the secondary sector activities like processing, and the share of the tertiary sector (transportation say). Gujarat is known as a State with a strong manufacturing base and in constant prices, the primary sector's share in GSDP has declined from 19.5% in 2004-05 to 14.6% in 2010-11, a decline that was mentioned before. Private sector has driven the

cotton boom; but public sector has also played an important role. Favorable monsoons, investments in rural roads, active role of public sector through [a] mass based water harvesting and groundwater recharge; [b] reform of rural power system through Jyotigram Scheme; [c] reform of agricultural marketing institutions; [d] revitalized and reinvented agricultural extension system are among the factors that have contributed to Gujarat's impressive performance in agriculture (Debroy, 2011).

The spill over has probably got reflected through new start-ups in the MSME sector. At least for SSIs, there has been a sharp increase in the number of registered units. Earlier, non-registration was described as a conscious choice, not just because of lack of information. Therefore, it is plausible to presume that transaction costs associated with registration have declined, there are greater benefits associated with registration and the tax enforcement machinery has improved. Understandably, most SSI registration has been in relatively more advanced districts. At the lower end of the industrialization spectrum are cottage and rural industries.

4.0. The Opportunities and the Way Forward

A consolidation of the above achievements, and building upon them, is the challenge today. The strengths and opportunities of Gujarat need to be understood in the context of the federal system, of which it is part of. In a multilevel federal democracy, a State often represents a middle level between the Central government and the local bodies. Gujarat had all these three layers of government efficiently functioning ever since inception in 1960. The Constitution of India provides reasonably clear division of the rights and duties of different layers of government for achieving overall development of the country. Within such broad constraints, different State governments in India have been following their own specific development strategies (Dholakia, 1994).

During the process of economic policy reforms and liberalisation, the constraints and regulation on economic activities by the Centre in different segments of the economy got relaxed. While the States found more freedom and flexibility to pursue their own socio-economic agenda,

they took advantage of this increased flexibility according to their physical capabilities, economic environment, and ability to evaluate opportunities and risks involved. States were required to respond dynamically and compete with each other to attract the private sector activities by providing the most conducive economic environment. Thus, following the economic reforms in the Country, Gujarat outperformed all other states in the country in terms of economic growth.

Development strategy in Gujarat State has been very clear and unambiguous ever since its inception in 1960 in according a high priority to industrialisation as can be seen from various State Plan documents and the socio-economic reviews carried out annually. The State had made a clear choice of encouraging the secondary sector activities over the primary and tertiary sectors' activities (see, Dholakia, 1994).

The development strategy of the Gujarat State for industrialisation has been unbalanced growth with emphasis on directly productive activities (DPA) rather than on creating social overhead capital (SOC). While this has its own limitations for the overall development of the State, it has advantages in terms of clarity and consistency of objectives. Since Gujarat is well connected to other states, it has an access to the highly skilled technical and professional manpower, financial capital and physical infrastructure like ports, airports and means of communications from the other states. It has followed "an open door" policy with regard to the factor mobility - particularly the labour mobility in and out of the state irrespective of the political party in power. The endeavour of the Gujarat government has all along been to provide, as far as possible, the most conducive environment to promote business and industry in the state.

According to a study by Dholakia(2009), out of the 17 sectors, 11 sectors show statistically significant acceleration or deceleration in the basic trend rate of growth after 1991-92 in Gujarat. The six sectors that do not show statistically significant acceleration/ deceleration in the growth include agriculture, registered manufacturing, electricity, railways, other transport, and storage. On the other hand, forestry unregistered manufacturing, construction, trade and hotels, communication, public administration,

and other services have experienced significant acceleration in their growth after 1991-92. These are the sectors where the emphasis in the development strategy seems to have shifted during the reform period. Surprisingly, the fishing, mining & quarrying, banking & insurance, and real estate sectors are experiencing a significant deceleration in their growth during the reform period. The first two of these are the natural resource-based sectors where Gujarat has a considerable potential, whereas the other two are the modern financial service sectors in which Gujarat should have substantial advantage given its emphasis on manufacturing and trade. However, significant deceleration in the growth in these sectors implies that the focus of the development strategy in Gujarat is shifting away from the organised manufacturing and services to the unorganised sectors of the economy after 1991-92.

The imperatives of today are the following:

- a. Much greater target of credit flow, especially from institutional sources;
- b. Reforms in legacy sectors such as textiles and diamond.
- c. Addressing industrial sickness through innovative institutional mechanisms; and
- d. Regular monitoring and reporting on the MSME sector, and to have regular institutional and policy instruments on place.

5.0. Concrete Initiatives

The development experience of Gujarat, as described in the preceding pages of this report, lead us to the need for concrete initiatives on the following lines:

5.1. Focus Market Initiative

According to the latest available data, the various districts of the State demonstrate differing degrees of MSME concentration. Detailed assessments indicate the centralization of many of the growth variables in a few of the districts. Five districts of the State demonstrate some specific advantages from the point of view of focused policy intervention, as also business case for the relevant stakeholders. These five districts, viz; Ahmedabad, Surat, Valsad, Rajkot

and Vadodara, together, offer opportunities for intensive promotional activity, as they have already created a significant base of MSMEs.

The concept of 'region' in the context of development has gained significant importance in development discourses today. The relevance of the region arises from two angles: 1) from the point of view of planning for development; and 2) from the angle of tapping market opportunities (the business case). While the spatial argument, to some extent, goes against the conventional concept of 'balanced regional development, it makes sense in terms of the advantages relating to tapping market opportunities in a fast-changing world.

The above 'Focus Districts' approach is a strategic approach, in line with the spirit of the National Manufacturing Policy. It is also very much synergic to Gujarat's SEZ policy. It arises from the finding that, despite years of planning for the MSME sector, available evidences do not indicate convincing explanations on how it has impacted in relation to the objectives of MSME policy. The MSME Census provides only a broad macro picture, which need to be supplemented with deeper qualitative analysis. The National Manufacturing Policy, demands a focused approach, as also a significant thrust on time-bound action. While the MSME programmes of the country have given due importance to the objectives of social policy in the country, such as employment promotion and balanced regional development at the national level, growth and growth linkages have not received the importance and attention they deserve. The evidences on growth linkages of the MSME sector is not sufficient. At this time of a global economic crisis, where the Indian MSMEs are exposed to significant problems, the major task of policy should be to maintain and enhance its vibrancy. It should, thus, give the right signals to the economy as a whole.

The experience, as above, indicates the need for consolidation and concentration of development initiatives in the above Focus Districts. Action should happen at five levels: 1) stepping up investment on a public-private partnership platform; 2) entrepreneurship and employment budgeting; 3) integration with the Focus Market and Focus Region strategies with the MSME Policy; and 4) a Finance

Park concept for ensuring easy flow of credit.

5.2. Finance Park: an Innovative 'Shared Consumption' Model

Banks, of late, have identified MSMEs in Gujarat as a significant market segment. They have also come forward to step up lending. But a co-ordinated strategy approach is yet to emerge. MSME finance has two key dimensions which need to be addressed: 1) lender's perspective; and 2) the borrowers' perspective. While the borrowers' perspectives have been significantly addressed by the government and MSME associations from time to time, the lender's perspective often do not get the same treatment. Therefore, the bankers have often been advised to provide "adequate" and "timely" credit, the business case that triggers flow of credit to the MSME sector in this fashion has not received the attention it deserves. 'Finance Park' is a concept that encourages concentrated action by banks in a particular region. The concept envisages proactive action by banks to work together on a cluster mode. The cluster need to be both functional and spatial. This can be an extension of the 'consortium banking' approach where several banks join together on a large project of common interest. The State Level Banker's Committee (SLBC) can identify selected Parks in particular regions, where co-ordinated action by participating banks in selected industries can yield significant results. The concept of 'Finance Park' envisages horizontal integration of banks with a business case, rather than a single bank targeting a cluster of MSMEs. It implies a paradigm shift: banks trying to tap collective efficiency benefits in the same way as MSMEs do it now.

The concept of 'Finance Park' is essentially meant to reduce the cost of credit, as vital information relating to lending policies is available at a single point. The new concept is in tune with the spirit of the National Manufacturing Policy, as also the recommendations of the Usha Thorat Committee on SLBC. While the Park visualizes the presence of all banks in a compact geographical area, they will share several common facilities, such as high quality business development services at subsidized rates, centralized processing of loan applications, credit advisory services etc. These will help to reduce the unit cost of credit, as also to

ensure value addition per unit of credit availed by the customer.

The 'Finance Park' concept is both a developmental and a CSR concept, as each participating bank has a challenge to demonstrate. This will immensely help to progressively bring the banks out of a regulatory to voluntary compliance regime. It will also help to reduce the regulatory burden of the RBI.

The 'Finance Park' should have a work space where the participant bankers join together to discuss:

1. Status of the manufacturing activity in the context of the industrial climate.
2. Information on the performance of the units in the Park relating to behavioral aspects, environmental and regulatory compliance, and the demands of the enterprises. Some elements of these aspects are already transacted by the bankers through informal platforms such as the Bankers' Clubs, wherever they are active.
3. The Common Facility Centre in a Park, with appropriate staffing, can cater to the enterprises responding to the periodic requirements of the financing institutions in the Park, act as a BPO and can build bridges of understanding between the enterprises and the financing institutions.
4. Periodically organize vendor meetings with participation from the Banks.
5. Liaise with the technology providers and help up gradation where required - again with the participation of the banks in the Park.
6. Provide continuous feedback to the Banks at the weekly meetings.
7. Arrange for credit rating of all enterprises, ensuring that the banks base their facilitation consistent with such ratings. The practice of financing institutions approaching credit rating agents need to be avoided. This would distance the prejudices and preferences of the banks in providing finance at concessionary terms.
8. Comprehensive Bankers' Business Development Services: Chartered Accountants to Audit, Energy and Environmental Auditors, securing Quality Certifications, and providing a team of legal consultants in framing and

reviewing contracts. All these should be based on a transparent menu card and rate list displayed at the Common Facility Centre.

The Banks in the Park are expected to develop such CFC with their funding participation as it would reduce the cost of due diligence and also resolve the major lacunae in financing the sector, namely, information asymmetry.

The case for the concept of Finance Park needs to be understood in terms of the emerging concept of 'shared consumption'. Costs of banks still remain high, and the burden, naturally, is passed on to the customer. Sustainability demands that a new culture of 'shared consumption' should be adopted by the banks. The State Government can play a key role in bringing the banks into this concept through incentives and pressures. Being a State level initiative, the lead role should come from the State Government and the State level Bankers' Committee (SLBC).

5.3. Entrepreneurship Resource Mapping and Budgeting

A fundamental characteristic of entrepreneurship is its capacity to generate employment, offer the promise of more income, and increased wealth. By doing so, it plays a pivotal part in providing individuals a platform, from where they can aspire to a life in which their potentials are realized. Many of the developed countries, over time, have risen to the challenge of crafting such a platform, and the 'business corporation' as we know it today, is a critical component of this idea of advancement. In order to accelerate India's growth, we need to encourage and trigger enterprise, in the broader sense of the term. Finding ways and means to harness the entrepreneurial capability that resides within us, not quite dormant but certainly undervalued, holds the key. An enterprising community is defined by an outward-looking attitude, by a willingness to explore new ideas, as well as to accept exogenous influences. These qualities have been evident in Indian history throughout the centuries. Entrepreneurial behaviour is contagious; it produces a herd mentality, which needs to be promoted. It has been observed that, knowledge industries emerge

through “idea entrepreneurs,” such as consultants, journalists, and scholars. The lesson emerging from the present economic slowdown is that the focus of public policy, hereafter, should be on promoting ‘entrepreneurship’, rather than ‘enterprises’.

Restructuring and redesigning of entrepreneurship development interventions would be vital and appropriate in the context of the present economic slowdown. The concept of entrepreneurship resource budgeting should be introduced in order to take care of entrepreneurship as a critical resource.

A discretionary strategy, with cluster or individual entrepreneurs, is vital. Such strategy need to be based on a clear understanding and documentation of business ecosystem features. A District-level Enterprise Observatory need to do a scientific mapping of the ecosystem. Recommendations of the Observatory need to be seriously debated in official bodies, and strategy need to be finalised accordingly.

5.4. Strategy for the Micro Sector

The micro enterprise sector, in the context of ‘financial inclusion’ deserves more attention than it has been attracting lately. Entrepreneurship and innovation in the rural areas should get adequate attention. On the other hand, with the change in the complexion of consumption and rise of the middle class, there has been an increased tendency of migration of rural artisans from the rural to the urban areas. This has been also fuelled by the MNREGS, with seemingly distorted wage structures. Resurgence of the rural economy is crucial for overall economic growth of the State, and this would depend upon due recognition of the role of micro entrepreneurs. Brands or co-branding of their products can be helpful. Business development services should be facilitated by the government, and innovative strategies of ensuring BDS support need to be explored.

3.7. “Missing Middle” Problem and the Strategy for Growth

The significant global focus, over the last two decades, on the two extremes of micro finance, and high-growth SMEs, has led to the so-called “missing

middle” problem, acting as a constraint on economic development. While Gujarat context does not prove an exception, during the last five years, the trends favoured investments in the medium enterprises and even the credit markets demonstrated their proximity to these enterprises.

Recent studies have shown that in some States, this phenomenon has acted as a setback for the industrialization drive. The concept of ‘meso finance’ gap is now well recognized as a constraint on SME financing. While the SME Stock Exchange is capable of addressing this problem, a transitional developmental focus is vital from the point of view of the imperatives outlined by the new National Manufacturing Policy. The focus on growth and meso finance need to be examined from the point of view of a developmental perspective, rather than as an administrative issue. From the point of view of inclusive growth, it is really important to focus on this critical area. Serious enquiries should lead to innovative financing models for the growing businesses. The creation of a ‘Growth-cum-Meso Finance Fund’, at the state level, is likely to draw the attention of both policy makers and financial institutions to this neglected area. With an initial corpus of Rs. 10 crores, such a Fund should be created by the GIDC, as the GIDC’s mandate is on infrastructure and growth.

5.6. Gujarat MSME Health Service

There is chronic wastage of resources in the MSME sector today in the form of NPAs. Under the existing rehabilitation/ restructuring packages, the track record of units, as rightly pointed out by the Chakrabarty Committee, remains much to be desired. Besides, the relatively small number of units being rehabilitated, these mechanisms do not provide protection to the units from statutory dues or other creditor action. Therefore, alternative mechanisms to re-examine the viability of such units and of time-bound action, has great relevance.

Balancing the rights of creditors and debtors, post failure or closure of business, need to have, apart from simple “debt recovery”, a clear forward-looking developmental purpose. A fair and effective mechanism for insolvency and bankruptcy is considered a prerequisite for inducing risk-taking

and for enterprise creation in an economy. Several problems are encountered in this context:

While a sick firm can apply for rehabilitation to the financial institutions, there is no protection available to it in the interim from other creditors and liabilities particularly statutory ones. The entrepreneur often struggles to revive the unit or in the process of getting himself declared insolvent, because of his inability to pay statutory taxes or settle liabilities. However, he could be sued and penalized under several regulations and can be imprisoned. Most agencies work at cross purposes, as there is no single institutional mechanism which could coordinate with these multiple agencies. The procedures for recovery of statutory dues are under archaic Land Revenue Acts of the States, and arrest and detention is prescribed as only one of the resorts, the provisions are greatly misused because of the lack of effective criteria to distinguish a wilful defaulter from the defaulter by environment or circumstances

Because of absence of an effective institutional mechanism for re-structuring or exit, MSMEs are offers classified as sick and are kept in state of 'suspended animation, adding to the huge backlog of sick units. While a mechanism for State Level Inter-Institutional Committee (SLIIC) was set up for restructuring of sick MSMEs, its jurisdiction is limited to institutional credit only leaving aside restructuring of multi-agency statutory liabilities. There is no doubt that the mechanism is largely ineffective. Therefore, while on the one hand, there is absence of bankruptcy law and specialist courts which can take up cases of stressed units and preside over restructuring or closure, insolvency laws meant to provide the dignified exit to entrepreneurs in case of failure, is dysfunctional.

Here lies the need for a comprehensive national policy approach, which need to be administered under an institutional mechanism called National MSME Health Service (NMHS), as advocated by the India Micro Small and Medium Enterprise Report 2012.. The NMHS is expected to ensure that, the sick unit is rationally defined from time to time based on an evidence-based approach, and that the basic right of an MSME to do business is protected without in any way curbing similar rights of the creditors, subject to a time bound and scientific rehabilitation package.

The Government of Gujarat should undertake a study on this, and should come forward with a model legislation in this regard.

For MSME units found to be unviable by the banks, a district-level administrative mechanism is envisaged under the GM (DIC) to re-examine the viability and implement a rehabilitation package, wherever necessary. The rehabilitation package may comprise, besides additional lending by banks, of relief and concessions in statutory dues by the State Government/autonomous bodies, electricity suppliers etc. Since the promoters often find it difficult to infuse fresh funds to the extent required by the banks, the Rehabilitation Fund could part-finance promoters' margin money requirement. Rehabilitation Fund should facilitate and encourage rehabilitation of potentially viable sick units. A model scheme should be formulated by the Department Industries and Mines in this regard.

5.7. Employment Credit Scheme

Despite the mushrooming of promotional institutions and their initiatives, over the past several decades, the employment aspect of MSME development has not picked up to the extent that is expected of it. The experience so far shows that, while the era of liberalization has witnessed a progressive decline in average employment in the sector, it is important to arrest this trend, especially in the context of the present slow down in GDP. As growth rate comes down, the spillover of employment effect is also likely to come down. Employment promotion measures by the government, such as start-up training, micro finance, and venture finance etc. by themselves, cannot help employment promotion. Such interventions should be supported by some incentive system that operates within the private sector itself. This can best be achieved by a Gujarat MSME Employment Programme (GMEP), using 'employment credit' as an incentivizing tool. 'Employment credit', like 'carbon credit', can be transacted with an assigned value. Companies, NGOs, and other agencies can participate in this scheme, and thereby extend their support to the Scheme. The new system will facilitate monitoring of employment effects of MSME programmes in a scientific way. The proposed Scheme can also be synergic to Mission Mangalam. In the Five Year Plan

discussions, 'employment credit' can be used as a key criterion for demanding Central shares.

5.8. Self-employment Exchange: A Market-based Solution for Employment Promotion

In the context of the global financial crisis, and the crisis mitigation packages for the MSME sector, the importance of investments in self employment and 'social entrepreneurship' measures has been highlighted in most countries. 'Inclusive entrepreneurship' is the emerging strategy option for tackling youth unemployment in Europe. Traditionally, promotion of self employment has been the task of public promotional agencies such as Ministries, development banks, and public corporations/Boards. The layout of institutions in a country is crucial to both political and economic progress of that country (Hutton, 2012). While these agencies are expected to have a social orientation in their approach, the experience often shows limited accountability. It is important that the CSR principle of Socially Responsible Investment (SRI), with focus on its three key elements of "double bottom line, ie, social screening, proactive investment, and shareholder advocacy", need to be adapted and brought into the context of public institutions.

While in many countries, initiatives by the government have led to enhancement of self-employment with doubtful results, in India, there has been a significant decline in self-employment over the last few years. This indicates that, while on the one side, there is great demand for promotion of self-employment, its track record in the country remains far from satisfactory. This highlights the need for institutional reforms; they need to be driven by the right incentives. It is, therefore, imperative to develop a market situation for promotional work under a 'Self-employment Exchange'.

A 'Self employment Exchange' is a trading platform where the scripts of MSME promotional agencies are bought and sold. In the process, the agencies, in addition to their own resources, can mobilize resources from the open market. The concept is on par with the SME Stock Exchange, and would be helpful to service the interests of micro-businesses in

the country. The scripts of the promotional agencies can be exchanged in the market. Promotional agencies, including NGOs, government agencies, and even individuals can invest in this market. Donors can invest using their funds. Given the latest Guidelines of the Ministry of Heavy Industries and Public Enterprises, the PSUs and the public sector banks can productively invest their CSR funds in the Exchange. The Self Employment Exchange can bring in, apart from the yield on individual stocks, the dimension of 'socially responsible investment' as well.

5.8.1. Growth Strategy

While there has been a focus on growth strategy in general, against the fall in GDP rates, a special focus on MSME sector is yet to emerge. A growth strategy for the MSME sector needs to be a comprehensive strategy with due weightage for the macro, meso and micro levels. At the macro level, the NMCP and the National Manufacturing Policy brings in the growth perspectives. At the meso level, the collective efficiency strategies are helpful. At the firm level, it is necessary to focus on the firm in relation to the capability of the entrepreneur. But, above all, it is crucial to have an integrated view of growth relating to the MSME sector. The Entrepreneurship Development Institutes, and programmes of the Government of Gujarat should give a significant focus on Growth Programmes, along with the present focus on start-up programmes.

5.9. Shared Growth Commission

The history of MSME development and its imperatives today fall apart significantly. While, on the one hand, the National Manufacturing Policy and programmes like NMCP consider a benign relationship between small businesses and the corporate sector, the reality remains that many of them are at the mercy of large corporations and even the public sector as regards payment over dues. Though the MSME Act 2006 has come out with strong provisions relating to dealing with delayed payments, MSMEs also stand the risk of losing business against any complaint. But the experience is that complaints registered are very few in number. This implies that, regulation cannot be effective in

dealing with the problem beyond some level. What is needed is a system of voluntary disclosure on the part of the corporate sector. This should happen on the basis of a 'Shared Growth Strategy', wherein the corporate sector and MSMEs should have a clear understanding of their relative roles and should have mutual respect. This strategy should be armed with a 'Shared Growth Index', like the one in South Korea, where the payment delays are tracked on a continuous basis, and payment overdues appear on the public domain. To begin with, the State Planning Department should come forward with a Strategy Paper on the subject, and this should lead to the formation of a Shared Growth Commission.

5.10. Entrepreneurship Policy

Gujarat has the distinction of being India's factory exporting entrepreneurship development Models to the rest of India and to other countries. However, its potential now remains partially utilised. However, its efforts on monitoring and analysing the entrepreneurship scene in the State, and modelling and streamlining entrepreneurship development efforts, is not adequate. It is high time that an inclusive entrepreneurship development model is shaped to the specific context of the State. The State Industries and Mines Department should commission a comprehensive study into the state of entrepreneurship in Gujarat today. This Study should lead to the shaping of an Inclusive Entrepreneurship Policy as also an appropriate Model for Inclusive Entrepreneurship in the State.

5.11. Need for Regular Reporting

The leading financial institutions of Gujarat, of late, have come forward with an agenda of a significant step up in credit infusion into the the MSME sector. While the need is long-perceived, the development of an appropriate and sustainable strategy in this regard is, by no means, easy. There are some suggestions such as a Central Registry of MSMEs, a UID numbering system etc. For the MSME sector, that may help to enhance their visibility in a technical sense. But technical visibility, by itself, will not help to solve the problems of the sector; besides, they can be implemented only with the full co operation of entrepreneurs and their Associations (In fact,

India MSME Report 2008 had made a case for introducing UID in the MSME sector. But based on more practical inputs and feedback from the field, ISED had subsequently withdrawn that recommendation).

Initiatives on a PPP mode, rather than regulations, are likely to bring in more transparency into the MSME sector. Periodic reporting, like the present Report, therefore, has been an internationally accepted strategy today. The Department of Industries and Mines and the GIDC should initiate steps that lead to regular reporting on the MSME sector. Such reporting should also help to provide greater meaningfulness to the deliberations of the SLBC and the various inter-institutional Committees.

5.12. Knowledge & Real Services Synergy System

The MSME constituency has two major debilities: a) insufficiency of institutions that can contribute to knowledge creation; and b) underdeveloped nature of 'real services', and lack of appropriate institutions for that. These two constraints adversely affect the Micro and Small Scale Sectors significantly. It is imperative of Gujarat to have new delivery systems that can channelise the fruits of a knowledge and real services synergy system. The GIDC should take the lead for initiating a PPP model for this purpose.

5.13. Other Suggestions

The following other suggestions also deserve special consideration:

- i. Brokers dealing in MSME manufactured goods to be registered with a central institution and margins to be regulated.
- ii. Investment subsidy should be linked to turnover rather than cost of machinery alone.
- iii. A quality and quantity certification system should be developed under an independent authority in order to avoid buyer-seller disputes, (eg. cotton ginning and bailing)
- iv. Financial literacy of small and micro units to be enhanced.

- v. External rating should be applied to smaller units by reducing the present level of Rs. 5 crore investment.

5.14. Tips for the Entrepreneurs

An economic slowdown is not only a time of constraints; it is one of opportunities as well. Understanding and appreciating this basic principle should be the first lesson for the entrepreneurs. The emerging paradigm in global business is one of 'shared consumption'. Cost cutting for the right reason and in the right manner implies, utilizing the benefits of technology at the optimum level. It does not mean lay-off, but training and motivating the existing manpower to be dependent on technology to a much greater extent. Compromise on quality is no way for cost reduction or for enhancement of productivity.

A crisis situation is also a golden opportunity for organizational innovations. Change involves risks and opposition from within and outside. Like the way public policy is shaped, a crisis can rationalize several bold decisions for change-and change can happen better only in times of a crisis.

MSMEs need to look for optimal solutions for raising finance and should use all measures to lower cost of capital. Besides, they should try to source all possible advantages of technology so that they overcome the challenge of use of low technology which is the case today. They need to combine this with the acquisition of expertise in both finance and marketing, build scale to reap economies, not just in terms of cost of operations, but also in sourcing of finance. They should concentrate on product improvisation, because that it is the only way to compete domestically and at a later stage, globally. They also have to take some initiative in implementing sound business practices and

continuously investing in good internal management systems: in accounting, planning, financial operations and human resource management.

6.0. Conclusion

Against the background of the rapid changes in the global economy, to which India and Gujarat are getting increasingly integrated, the challenges to SME competitiveness have gone up. However, a prerequisite for enhanced competitiveness, is an environment of competition itself. The legal and institutional framework prevailing in the Country and in Gujarat are decisive in providing these preconditions. One laudable achievement of Gujarat is its integrated approach to investment promotion as a key to rapid growth. It requires greater efforts towards developing and branding of clusters, rewarding innovative entrepreneurs, and development of infrastructure, especially, ports, airports, logistic services and industrial estates. Moreover, the state need to strengthen its economic infrastructure, such as, quality testing facilities, incubators, enabling firms conversant with IPR and export procedures/regulations, entrepreneurship development, and design technology. Such an integrated approach helps the State to go beyond the constraints of narrow departmentalism, a malaise faced by many other States of the Country. Gujarat's MSME growth, even while appreciating the focused efforts of the Government, is more of a spill over of overall growth. But in order to help the MSME sector to enjoy the benefits of such growth in a more meaningful way, legal and institutional reforms are vital. For instance, there is the imperative for a Competition Law for the MSME sector, as also a special Fund for its development. But these cannot be realised by the efforts of the State itself. In a federal system, this leads us to the realm of action and advocacy going hand in glove with each other.

Annexure

Gujarat Industrial Policy 2009

Gujarat Industrial Policy 2009

Scheme for Assistance to Micro, Small and Medium Enterprises (MSME)

The Industrial Policy 2009 aims at the comprehensive social and economic development of Gujarat. The Policy focuses on making Gujarat an attractive investment destination of choice, not only in India but also in the world. The primary policy objectives are (1) Facilitating investment in the state (2) Employment generation and employability enhancement (3) Adherence to high quality standards.

The new Industrial Policy incorporates specific interventions for development of Small & Medium Enterprises which contribute significantly to the economy. For this purpose a Task Force Committee was constituted to review existing schemes under the 2003 policy. The Committee analyzed schemes, had discussions with Industries

Associations and came out with suggestions for necessary modifications. The Committee also made recommendations, for new schemes, as well as for the introduction of a modified comprehensive scheme to make Gujarat MSMEs competitive. The recommendations of the Committee have been incorporated in the New Industrial Policy 2009.

Resolution

After due consideration Government is pleased to introduce a “Scheme for Assistance to Micro, Small and Medium Enterprises” which will come into force from the date of issue of this GR. The Scheme will remain in operation for a period of five years.

1 Definitions

1.1. Micro, Small and Medium Enterprises (MSME)

An industrial unit, which satisfies the conditions of Micro, Small and Medium Enterprises as per the definition under the MSME Act 2006 of the Government of India, as amended from time to time, and having acknowledgement of Entrepreneurs’ Memorandum filed with respective District Industries Centre, will be termed as Micro, Small or Medium Enterprise as the case may be.

1.2 New unit

MSME industrial unit, which has filed Entrepreneurs Memorandum Part-I prior to or during the operative period of the Scheme and commences commercial production during the operative period of the Scheme.

1.3 Existing unit

MSME unit defined as above in 1.1 which has started commercial production prior to this Scheme and is implementing expansion/diversification/modernization in the project for carrying out activities indicated in the Scheme.

1.4 Expansion or diversification

Existing MSME unit taking up expansion or diversification with investment more than 50% in its existing gross fixed capital investment.

1.5 Modernization/Technology Upgradation

Existing MSME unit investing more than 25% in the cost of its existing plant and machinery to upgrade technology by way of adopting new technology/ production process and/or improving quality of products.

2.0 Eligibility

2.1 All new or existing MSMEs as defined in para 1 above will be eligible for availing incentives.

2.2 Large Enterprises, Anchor Units, R&D institutions, Industry Associations, Institutions etc. will be eligible only for specific categories of incentives as indicated in the respective category in the Scheme.

3.0 Incentives

Units will be eligible for various incentives as mentioned below for various purposes as indicated.

3.1 Interest Subsidy as per following parameters:-

- All MSMEs will be eligible as per definition of MSME for setting up a new unit or expansion or diversification or modernization in existing unit. The Plant & Machinery to be installed should be new with modern state of the art technology.
- Graded interest subsidy for micro, small and medium enterprises.
- Interest Subsidy @ 7% for micro enterprises and @ 5% for small and medium enterprises.
- Interest subsidy not available for penal interest or other charges.
- 1% additional interest subsidy to youth having less than 35 years of age in case of first project. Woman entrepreneurs will be accorded priority.
- Maximum amount of interest subsidy will be Rs. 25 lakhs per annum, for a period of five years.
- Unit availing term loan from any bank/FI approved by RBI will be eligible. The amount of interest subsidy will be paid to the Bank/FI with intimation to the unit.
- Unit applying within one year of loan disbursement will (first instalment) be eligible.
- If the unit becomes defaulter in repayment to Bank/FI, such default period will be deducted from the period of five years.
- Disbursement will start only after the unit starts commercial operation.

3.1.1 Conditions for Interest Subsidy:-

- (1) Unit will have to observe pollution Control measures as prescribed by GPCB or other competent authority.
- (2) Unit will have to remain in production for 5 years from the date of commercial production.
- (3) Unit will have to furnish information regarding production, employment etc. wherever asked by the Government.
- (4) Unit will have to employ at least 85% of the total employment and 60% of supervisory and managerial employment from local persons.

- (5) Sick units will not get benefits under this category.
- (6) If the unit is defaulter in paying any Government dues, it will not get assistance under this category.
- (7) This Scheme will be supplementary to the Government of India Scheme.

3.2 Venture Capital Assistance

- To promote Venture Capital Funding for MSMEs, for projects, adopting innovative technologies such as Technical Textiles, Nano Technology, Information Technology, Bio-Technology etc., the Government would provide funds to FIs/Banks who have the necessary expertise in operating Venture Capital Funds. The maximum amount to be given to any such funds would be Rs. 10 Crores during the operative period of the scheme. Detailed guidelines for operationalizing the schemes would be issued separately.

3.3 Quality Certification

- Assistance will be granted to the eligible MSMEs for maximum 3 quality certifications, at the rate of 50% of cost of quality certification within overall ceiling of Rs. 6 lakhs in 5 years. The cost for certificate will include:-
- Fees charged by certification agency(excluding travel, hotel & surveillance charges)
- Cost of testing equipments as suggested by BIS.
- Calibration charges of equipment.
- Consulting fees and training charges (excluding travel, hotel & surveillance charges)
- Quality certification scheme will be supplementary to GoI scheme

3.4 Skill Enhancement

50% of fees, subject to maximum Rs. 5000 per person for a minimum one week duration training of skill upgradation in MSMEs in a programme conducted in institutions suggested by an Anchor Institute or specialized institution in specific sector will be reimbursed. The minimum batch size for such training assistance should be of 25 trainees.

3.5 Technology Acquisition Fund

- Assistance for acquisition of appropriate technology in any form to a group of at least 10 MSMEs for a specific product / process will be provided by way of 50% grant subject to a maximum of Rs. 1 cr. Per technology including royalty payments for first two years.

3.6 Support to R&D Institutions

- Need based support will be provided to R&D institutions set up with the State Government support, including setting up of new R&D institution, Testing facilities, incubation center etc. The assistance will be upto 60% of the project cost excluding land cost & building cost.
- Eligible activities will be decided by the SLAC
- Assistance for Contract/ Sponsored research work from any industrial unit / Industry Association to recognized R&D Institution/ technical colleges approved by AICTE, will be considered @ 50% of project cost, excluding cost of land and building, subject to maximum Rs. 50 lakhs.

3.7 Patent Assistance

- Assistance @50% subject to maximum Rs.10 lakhs for necessary expenditure for obtaining domestic patents by any industrial unit /institution.
- Quantum of assistance can be enhanced to Rs. 25 lakhs for international patents by a company.
- Fees paid to patent attorney and patent service centre will be eligible (excluding travel, hotel charges).
- Maximum five patents per unit over a 5 years period will be eligible.

3.8 Energy and Water Conservation

- 50% cost of energy/water audit conducted in a unit by a recognized institution/ consultant subject to a limit of Rs. 25,000/- will be reimbursed to the MSME.
- Group of units/cluster will be given priority.
- In addition, assistance of 20% of cost of equipment subject to maximum Rs. 10 lakhs per project will be considered in a period of five years.

3.9 Market Development Support

- Assistance to MSME for packaging design from recognized institutions @50% of the cost subject to maximum Rs. 2 lakhs, once in a period of five years.
- Assistance to MSME units for participation in International Trade Fair outside India @ 50% of total rent, literature and display material subject to maximum Rs. 5 lakhs, once in one country in five years.
- The unit should not participate in an individual capacity, but only as a part of the Industry Association which would participate in such trade fairs. The assistance would be by way of reimbursement.
- Assistance to Industry Associations @ 50% of total rent subject to maximum Rs. 10 lakhs for participation in international trade fair as Gujarat Pavilion outside India for participation of minimum 5 units in a form of reimbursement.
- Viability gap support to Industry Associations for organizing national seminars / exhibitions in Gujarat, subject to maximum Rs.4 lakhs and for organising international seminar/ exhibition in Gujarat subject to maximum Rs. 8 lakhs.
- Assistance for setting up of Convention Centre/Trade centre by Industry Associations @50% of project cost upto Rs. 5 crore excluding land cost once in a period of 5 years.
- 3.10 Support for Vendor Development v Support for vendor development on the line of PPP model wherein parent unit is to contribute minimum 5% for prototype/new product development besides technical support and commitment for procurement guarantee for 3 years.
- Vendor unit will be eligible for interest subsidy as per the present scheme.
- Parent unit will be supported to develop industrial parks with assistance @ 20% of infrastructure cost excluding land cost subject to maximum Rs. 1 Crore.
- New or existing Medium/large unit can be considered as parent unit to support development of minimum ten vendor units for a new product/ prototype development for eligibility.

3.11 Support to auxiliary industries for value addition

- Large units producing raw materials and promoting auxiliary MSME units to be encouraged to develop Industrial Park for accommodating minimum 20 units.
- Assistance @20% of infrastructure cost excluding land cost subject to maximum Rs. 1 cr.
- Facilitation in purchase of land for the industrial park.

3.12 Cluster Development in PPP mode

- Anchor units, nodal institutions and/or industry associations will be associated in PPP mode in a programme of cluster development.
- Comprehensive support to strengthen cluster units in a programme covering product design and technology, quality improvement, energy & water conservation, common branding and marketing facilities, hiring of an expert /cluster development agent, setting up of demonstration plant, common facilities, incubation centre, CFC, ITI extension centre and other need based facilities.
- Assistance @80% (including assistance from Government of India) in the proposed cost of programme with a ceiling of Rs. 10 crore per cluster for a period of 3 to 5 years. Assistance to nodal institutions/hiring of experts should not exceed 3% of project cost.
- Cluster Advisory Institution (CAI) to be constituted.
- Clusters will be eligible for partial financial assistance as available under the Scheme of Critical Infrastructure.
- Assistance will be subject to preparation, by the project owners, of a Comprehensive Development Plan of the cluster for 5 years.

3.13 Rehabilitation of Sick Units

- Subsidy @ 50% on cost of diagnostic study by technical institution initiated through FI/Bank/Govt. -maximum Rs. 1 lakh.
- Registered Experts in the field of technology, marketing and finance may be engaged to advise sick units. 50% fees (maximum Rs. 1 lakh per unit) will be reimbursed on implementing suggestions given by such registered expert.
- Interest subsidy @ 5% per annum limited to Rs. 10 lakhs per year for three years on additional finance for rehabilitation, disbursed by Bank/Fl.
- One Time Settlement (OTS) on a graded scale for Government dues as well as dues towards Government/Corporations/ Boards for which a separate Government Resolution (GR) will be introduced Other unit taking over a sick unit for rehabilitation will be eligible for assistance as above.

3.14 Awards to Best MSMEs

- Separate awards to be given for Micro, Small and Medium category. Three awards to be awarded in each category.
- Growth in production and profit

- Quality and Environment improvement measures.
- Innovation in technology for new product or process development
- Award in the form of Rs. 1 lakh, cash and appreciation letter .
- Awardees to be given priority in participation of International
- Seminars and incentives under the scheme.
- Independent Credit Rating agency to be appointed to select the best performing MSMEs in the above categories.
- Nominations to be encouraged from industries associations.

3.15 Promotion of specific sector:

Specific sector identified in a district shall be supported with integrated programme of interest subsidy, technology upgradation and quality certification.

4.0 Eligibility for Quantum of Assistance

4.1 All eligible MSMEs as indicated in para 2.1 and other units as indicated in para 2.2 respectively can avail incentives as above under different categories separately or in combination. Assistance will be given only once under each category in five years period unless otherwise specified in the specific category of incentive. For the same investment, assistance/ benefit can be availed under only one category. The unit that has received assistance under this, GR will not be entitled to avail benefit of any other State Government Scheme, unless specifically specified otherwise.

5.0 State Level Approval Committee

5.1 A committee consisting of following members is constituted for sanction of assistance with respect to various proposals/ received under the scheme except the proposals indicated in para 5.2.

Industries Commissioner	Chairman
Principal Chief Industrial Advisor (PCIA)	Member
Representative of Gujarat Chamber of Commerce and Industry	Member
Deputy Secretary (FD)	Member
Deputy Secretary ,Industries & Mines Dept.	Member
Additional Ind. Commissioner (Dev)	Member
Joint Commissioner of Industries (Incentive)	Member-Secretary

5.2 Sanction and disbursement on proposals for Interest Subsidy and Quality Certification will be done by General Manager, District Industry Centre (DIC) in respective district and will be reviewed every

month by a three member committee headed by the Collector. Representative of a District level leading Industries Association will be member of such a Committee and GM, DIC will be the member secretary of the committee.

5.3 The State Level Approval Committee will also monitor the progress of the implementation of all proposals for which the assistance is sanctioned including proposals in DICs.

5.4 In case of any issue regarding interpretation of the scheme, the State Level Approval Committee will be the authority to give clarification / decision , keeping in view the objective of the scheme, which will be final & binding to all the concerned.

6.0 Other Conditions

6.1 A Unit which has applied in any of the earlier schemes as referred in read above in the GR and assistance is not sanctioned, will have to apply afresh in the present scheme provided eligibility criteria are satisfied.

6.2 All previous GRs announced under Industrial Policy 2003 read as above at Sr. No. (2) to (7) stand repealed. GR as at Sr. No.(8) is not in force as of now. The sanctioned cases under these GRs will continue to get benefits as prescribed under them.

7.0 Procedure

- A comprehensive application form for assistance under the scheme will be designed and put up on the website. The check list and timeline will be decided as part of the application form & the same will be binding to all the applicants.
- The applications will be processed as per the procedure laid down and will be placed before the committee every month.
- The detailed procedure for sanction and disbursement will be laid down by SLC and will be implemented by the IC office; which will be binding to the applicants.
- The decisions of the committee will be communicated by IC/DIC office to the applicant.

8.0 Review of the Schemes

All the above Schemes will be reviewed after two years with reference to intended outcome, actual performance and financial burden.

9.0 Budget Provision

9.1 The expenditure on this account will be met from the sanctioned grant of the respective financial ear under the following budget head:

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