MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA: UNFAIR FARE

Keshab Das
Micro, Small and Medium Enterprises in India:
Unfair Fare

Keshab Das

January 2008

Gujarat Institute of Development Research
Gota, Ahmedabad 380 060
Abstracts of all GIDR Working Papers are available at the Institute’s website. Working Paper No 121 onwards can be downloaded from the site.

All rights reserved. This publication may be used with proper citation and due acknowledgement to the author(s) and the Gujarat Institute of Development Research, Ahmedabad.

© Gujarat Institute of Development Research

First Published January 2008
Price Rs. 40.00
Abstract

This paper attempts a critical review of the performance and policy concerning the micro, small and medium enterprises (MSMEs) in globalizing India since the early 1990s whence economic reforms were formally introduced. With an explicit accent upon participating in the global market sphere, the government policies have reoriented focus towards enhancing exports, competitiveness and efforts to be part of global value chains or global production networks. However, an analysis of relevant performance variables clearly indicates an unimpressive fare, with classic constraints like dwindling access to credit and poor product quality persisting. Even the so-called cluster promotion initiatives have left much to be desired. These are additionally burdened by unreliable or inadequate policy-sensitive database on MSMEs. The eminent losers in the process have been most micro and small enterprises, especially those in rural areas or small towns. Moreover, as always, labour continues to receive a shoddy deal in the MSMEs across space and sub-sectors, irrespective of reforms and globalisation.

JEL Classification : L52, L60, L23, O17
Keywords : Micro and small enterprises, Exports, Global value chains, Credit, Industrial clusters, India

Acknowledgements

This paper has been written at the behest of and with excellent comments from Kamal Nayan Kabra, who was also most encouraging. I am grateful to him and to Tara Nair for useful discussions and suggestions that immensely helped improving the quality of the paper. Thanks are due to Kamlesh Vyas at the GIDR Library for being ever supportive. I thank P.K. Viswanathan for his efforts to bring this Working Paper out. I remain responsible for possible errors in information and interpretation.
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abstract</td>
<td>i</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>i</td>
</tr>
<tr>
<td>Contents</td>
<td>ii</td>
</tr>
<tr>
<td>List of Tables</td>
<td>iii</td>
</tr>
<tr>
<td>List of Figures</td>
<td>iii</td>
</tr>
<tr>
<td>1. Introduction</td>
<td>1</td>
</tr>
<tr>
<td>2. Skewed Performance and Dismal Database</td>
<td>2</td>
</tr>
<tr>
<td>3. Labour Lost?</td>
<td>5</td>
</tr>
<tr>
<td>4. Interface with External Orientation</td>
<td>7</td>
</tr>
<tr>
<td>5. Credit: The Classic Constraint</td>
<td>13</td>
</tr>
<tr>
<td>6. Cluster Promotion: Grossly Inadequate</td>
<td>15</td>
</tr>
<tr>
<td>7. Concluding Observations</td>
<td>16</td>
</tr>
<tr>
<td>References</td>
<td>18</td>
</tr>
</tbody>
</table>
List of Tables

1. Growth of Units, Production and Employment in Indian SSIs, 1990–2007 3
5. Bank Credit to SSI and Tiny Sector, 1990–2007 13

List of Figures

1. Aspects of Growth of Small Firms, 1990 - 2007 4
2. Factor Productivity in SSIs, 1990 to 2006 6
3. SSI Exports from India, 1991-2006 11
4. Share of Credit to SSI and Tiny Sector in Net Bank Credit of Public Sector Banks, 1990-2007 14
Micro, Small and Medium Enterprises in India: Unfair Fare

Keshab Das*

1. Introduction

For long, small-scale industries (SSIs), then for sometime, small and medium enterprises (SMEs) and right now, micro, small and medium enterprises (MSMEs) have emerged prominently in the lexicon of relevant policy documents and pronouncements. Over the decades, this sector, manufacturing over an estimated 8000 products, has come to capture the imagination of policy-makers, ‘global’ donors, business associations, non-government organizations, ‘development’ consultants and academics. Even as the Indian economy has taken to reforms and been globalizing since the early 1990s, MSMEs have grown in significance not only due to their continuing contribution to local income growth, job generation and export earnings, but also a unique ability to be responsive to changes in market and innovation, whether in the domestic or global spheres. Moreover, with SMEs emerging as a preferred conduit of bilateral trade and investment agreements, Indian policies on this sector, of late, have been ostensibly oriented to be in tune with the imperatives of internationalization and interdependence in the spheres of innovation, market and business strategies, including the organization of production.

Evidently, much before the formal introduction of reforms and sustained promotion of participating in the bandwagon of globalization, SMEs in certain sub-sectors had developed a penchant for strong external orientation and even partnered with foreign firms. It needs to be noted, however, that the classification of ‘medium’ enterprises, for the first time, has been clearly defined only recently, in October 2006, with the promulgation of the Micro, Small and Medium Enterprises Development (MSMED) Act, “albeit, especially, in certain sub-sectors and regions many dynamic small enterprises had been operating at a much higher level of investment in plant and machinery and market reach” (Das, 2008a: 70).

The latest Third Census of small industries (GoI, 2004) conducted during 2001–02, like the previous one (the Second Census held during 1987–88), confirms the abundant

* Professor, Gujarat Institute of Development Research, Ahmedabad. E-mail: keshabdas@gmail.com
incidence of what are called ‘tiny’ units, i.e., those with a ceiling of investment of Rs. 25 lakh in plant and machinery. As per the Third Census, the estimated size of the sector (both registered and unregistered in manufacturing and service enterprises) is huge, about 1.1 crore units. Of these, that 99.5 per cent of over 44 lakh small enterprises belonged to the tiny category should not be a surprise as India’s small-scale sector has grown with relatively smaller units across space and, more often than not, operates within the constrains of the ubiquitous informal sector. Interestingly, between the Second and Third Censuses, the average employment size of the firm has declined from 6.3 to 4.6, despite a massive growth in the number of small firms; this indicates the rise of smaller of the small firms in a period that includes the first decade of reforms in India. Moreover, going by the time series data provided by the concerned ministry, the per unit employment size since 1991–92 onwards turns out to be a consistent 2.4 (the data seem seriously problematic though when compared with the corresponding Census figures), suggesting existence of huge number of very small-sized units in this sector. It is important to acknowledge this ground reality at the outset, lest we misconstrue the sector’s potential as one that could take on the world!

2. Skewed Performance and Dismal Database

Notwithstanding the hype over the small firms’ dynamism and growth, it is important to examine if this sector has performed well since the early 1990s or so. In Table 1 data on three major variables, namely, number of units, employment and value of output are given for 17 years starting 1990–91. Also presented are their annual growth rates; Figure 1 plots the three sets of growth rates. Whereas with the first glance at the magnitudes of respective variables one may observe a generally upward trend, a closer look reveals a disappointing scenario. So far as the number of units are concerned, as pointed out on earlier occasions (Das, 2006 and 2008b), the steady annual growth at the magical 4.07 per cent is an instance of callousness in data recording a responsible government agency can display.

The fact that such information is simply reproduced in the Economic Survey volumes has been particularly worrying. The employment growth has barely kept up with that of the units; in fact, for five consecutive years (1995–2000) it has experienced a lower rate of growth. However, importantly, the growth rates of output have declined since the early 1990s for a decade before showing an upward trend thereafter. These recent growth rates are yet to catch up with those achieved during the initial couple of years since the reforms began. It is noteworthy that the latest statistics (as available in the
Annually Report for the year 2006–07 of the Ministry of MSMEs) on production in constant prices are based on two different base years; from 1990–91 till 2001–02 at 1993–94 prices and beyond at 2001–02 prices. As strictly these data for the two sub-periods are not comparable, an attempt has been made here to render the data compatible with that of the previous years using 1993–94 as the base year.

Table 1: Growth of Units, Production and Employment in Indian SSIs, 1990–2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Total SSI Units (Million)</th>
<th>Change over previous year (%)</th>
<th>Employment (Million)</th>
<th>Change over previous year (%)</th>
<th>Production (Rs. at constant 1993-94 prices)</th>
<th>Change over previous year (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990–91</td>
<td>6.79</td>
<td>--</td>
<td>15.83</td>
<td>--</td>
<td>0.68</td>
<td>--</td>
</tr>
<tr>
<td>1991–92</td>
<td>7.06</td>
<td>4.07</td>
<td>16.60</td>
<td>4.86</td>
<td>0.79</td>
<td>16.18</td>
</tr>
<tr>
<td>1992–93</td>
<td>7.35</td>
<td>4.07</td>
<td>17.48</td>
<td>5.30</td>
<td>0.94</td>
<td>18.99</td>
</tr>
<tr>
<td>1993–94</td>
<td>7.65</td>
<td>4.07</td>
<td>18.26</td>
<td>4.46</td>
<td>0.99</td>
<td>5.32</td>
</tr>
<tr>
<td>1994–95</td>
<td>7.96</td>
<td>4.07</td>
<td>19.14</td>
<td>4.82</td>
<td>1.09</td>
<td>10.10</td>
</tr>
<tr>
<td>1995–96</td>
<td>8.28</td>
<td>4.07</td>
<td>19.79</td>
<td>3.40</td>
<td>1.22</td>
<td>11.93</td>
</tr>
<tr>
<td>1998–99</td>
<td>9.34</td>
<td>4.07</td>
<td>22.06</td>
<td>3.47</td>
<td>1.59</td>
<td>7.43</td>
</tr>
<tr>
<td>2000–01</td>
<td>10.11</td>
<td>4.07</td>
<td>23.91</td>
<td>4.36</td>
<td>1.84</td>
<td>7.60</td>
</tr>
<tr>
<td>2001–02</td>
<td>10.52</td>
<td>4.07</td>
<td>24.93</td>
<td>4.27</td>
<td>1.96</td>
<td>6.52</td>
</tr>
<tr>
<td>2002–03</td>
<td>10.95</td>
<td>4.07</td>
<td>26.02</td>
<td>4.37</td>
<td>2.11</td>
<td>7.65</td>
</tr>
<tr>
<td>2003–04</td>
<td>11.34</td>
<td>4.07</td>
<td>27.14</td>
<td>4.30</td>
<td>2.31</td>
<td>9.48</td>
</tr>
<tr>
<td>2004–05</td>
<td>11.86</td>
<td>4.07</td>
<td>28.26</td>
<td>4.13</td>
<td>2.56</td>
<td>10.82</td>
</tr>
<tr>
<td>2005–06</td>
<td>12.34</td>
<td>4.07</td>
<td>29.49</td>
<td>4.35</td>
<td>2.88</td>
<td>12.50</td>
</tr>
<tr>
<td>2006–07</td>
<td>12.84</td>
<td>4.07</td>
<td>31.25</td>
<td>5.97</td>
<td>3.24</td>
<td>12.50</td>
</tr>
</tbody>
</table>


The most striking aspect of the rise or decline of production (value in constant prices) has been that it has hardly influenced the employment figures, which have grown not only at a much lower pace, but also have actually decelerated during sub-periods of output rise. The data indicate that output growth has not been able to enhance either employment or number of units. It is an experience with the growing influence of neoliberalism that an increase in production caters to a growing market but cares a fig for whether any additional work opportunity is also created alongside. That makes it
abundantly obvious that the rise in production may have a strong reference to that in capital intensity, an issue that needs some extra attention.

As part of enhancing the competitiveness of Indian small firms, the strategy has essentially been to raise the capital intensity of production. However, given the preponderance of smaller or tiny units in this sector, it is likely that a few relatively larger units have emerged competitive by being able to invest in expensive plant and machinery.

In order to obtain a realistic picture regarding the relative ascendancy of the larger (of the small) units, data on gross value added (GVA) per unit have been presented across three categories of enterprises in the unorganized sector, for four time-periods spanning 1984 to 2006, when the relevant Rounds of the surveys of the unorganized manufacturing had been conducted by the National Sample Survey Organisation (NSSO) (Table 2). It is clear that the DMEs occupying a miniscule share of the total number of enterprises have been achieving a faster (and bigger) growth in the GVA; the gain has been especially sharp since the mid-1990s or so. From a modest rise (as between the four survey periods, by time point only) of about one per cent during 1984–95, the GVA per enterprise for the DMEs (the largest of the unorganized size categories) has zoomed to over 84 per cent during 2000–06. The respective figures for the OAMEs (the tiny ones, which galore) have been about 41 per cent and 11 per cent. The point is amply made, the tiny has tumbled.
Table 2: Gross Value Added per Enterprise in Unorganized Manufacturing, 1984–2006

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DMEs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Units (%)</td>
<td>2.4</td>
<td>4.5</td>
<td>3.8</td>
<td>4.0</td>
</tr>
<tr>
<td>GVA per Unit (Rs.)</td>
<td>61252</td>
<td>62008 (1.2)</td>
<td>87811 (41.6)</td>
<td>161945 (84.4)</td>
</tr>
<tr>
<td><strong>NDMEs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Units (%)</td>
<td>10.9</td>
<td>11.0</td>
<td>10.0</td>
<td>10.4</td>
</tr>
<tr>
<td>GVA Per Unit (Rs.)</td>
<td>12863</td>
<td>17808 (38.4)</td>
<td>25544 (43.4)</td>
<td>34592 (35.4)</td>
</tr>
<tr>
<td><strong>OAMEs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Units (%)</td>
<td>86.6</td>
<td>84.5</td>
<td>86.1</td>
<td>85.6</td>
</tr>
<tr>
<td>GVA Per Unit (Rs.)</td>
<td>2969</td>
<td>4189 (41.1)</td>
<td>5033 (20.1)</td>
<td>5568 (10.6)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Units (%)</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>GVA Per Unit (Rs.)</td>
<td>5470</td>
<td>8286 (51.5)</td>
<td>10252 (23.7)</td>
<td>14877 (45.1)</td>
</tr>
</tbody>
</table>

*Notes:* Gross value added figures are estimated at constant (1981–82) prices.
DME – Directory Manufacturing Enterprise (hiring 6–10 workers)
NDME – Non-Directory Manufacturing Enterprise (hiring 1–5 workers)
OAME – Own Account Manufacturing Enterprise (no hired workers)

*Source:* NSSO Reports, relevant Rounds.

As argued in Das (2008b), at least since the mid-1980s there has been persisting efforts at raising the investment limit for defining the small enterprise. Between 1985 and the most recent late 2006, the defining ceiling value of investment in plant and machinery has been subject to upward revision as many as six times. From a limit of Rs.3.5 million it has been taken to a height of Rs.50 million, displaying a clear bias towards larger enterprises and/or with strong export orientation. ‘The post-reform period has, hence, witnessed a significant policy shift that emphasizes the predominance of larger, modern SSI units and those geared towards the export market as well as business service (as different from manufacturing) units. Such a policy move has been justified on the grounds that it would result in the decline of the dependence of small enterprises on state subsidies and other concessions by the state. The fact remains however that the small firms are still almost entirely characterized by very low level of investment, far lower than the latest limit prescribed’ (Das, 2008b: 216–217).

3. Labour Lost?

Very unlike the conventional emphasis upon supporting the small-scale sector with a clear purpose of promoting participation of labour (as the sector serves as a vital source of large-scale job generation and has tremendous potential to improve labour productivity), the policy mechanism has been driven by the interests of a small set of enterprises who would be keen on augmenting the machining capability of their units so as to be able to join the wider global market. While such an aggressive reorientation has hardly helped accelerating the growth of total output (which has declined after
1992–93 and moved in a cyclical manner) from the small firm sector during the last decade or so, it has led to an undesirable situation whereby the pace of rise of capital productivity (as expressed through the capital-output ratio) has far out-stripped that of the labour productivity since the 1990s (Figure 2).

![Figure 2: Factor Productivity in SSIs, 1990 to 2006](image)

Labour has lost out not just in terms of productivity, but also its right to better working conditions or, what the International Labour Organization (ILO) describes as *decent* work. While the widespread violation of labour laws and various anti-labour practices in Indian MSMEs have been recorded time and again, the neoliberal business ethos has relegated issues of growing informality and casualization of labour at workplaces to the background. So much so that the incidence of informal/casual/temporary work even in the so-called registered/organized SSIs has come to be acknowledged. The practices of making payment on piece-rate basis and hiring workers without any formal contract have turned out to be the most convenient to SMEs, which would not accept responsibility towards labour, social security and working conditions.

A recent example may convey the concern effectively. In one of the industrially most dynamic regions, Morbi, in the State of Gujarat that swears by industrial growth and entrepreneurship, six labourers died of asphyxiation while working in a tank at a ceramic tile unit. The contract workers included migrants from Orissa and Madhya...
Pradesh (*ToI*, 2008a: 8; and *IE*, 2008: 1). The tank was used for producing ceramic powder from a mixture of silica, clay and other chemicals that could generate poisonous gas and severely reduce availability of oxygen. Investigations found that the factory ‘was operating without proper license and permission from the concerned departments. (The) Forensic Science Laboratory (FSL) report revealed that no safety equipments such as cylinder and mask (were) being provided to labourers by the factory owners and also there was no exhaust facility inside the tank’ (*ToI*, 2008b: 8). It was also reported that the Directorate of Industrial Safety and Health, which was supposed to ensure safety at workplaces had only 60 Industrial Safety and Health Officers (ISHOs) for 34217 factories in the State. This works out to be one ISHO for 570 units and is far from the norms fixed by the ILO, i.e., one ISHO for 150 units (Kumar, 2008: 1). These are not isolated and rare incidents but afflict labour in MSMEs across the country. A close look at such issues and fixing responsibilities are, of course, not interesting themes in times of globalization and neoliberal approach to industrial growth.

That a privileged stream of capital-intensive enterprises has been rising steadily and with much strength may be seen as the hallmark of the neoliberal style of industrialization that has successfully diverted attention from the serious issues facing what may be conceptualized as subsistence industrialization. Contrarily, swayed by the imperatives of globalization, a certain segment of the SMEs in particular has been actively engaged in or preparing to take up subcontracting/jobworking for multinational enterprises (MNEs), even under terms of subservience and little scope to be innovative or competitive. Moreover, the importance of the vast domestic market is undermined.

4. Interface with External Orientation

With the formal opening up of the economy in 1991, the small enterprise sector, ‘protected’ as it was from external competition for over four decades since the First Plan at least, had to gear up to the impetus of globalization. This implied that the MSMEs needed to develop their capability to engage in external orientation by focusing upon competitiveness, innovative activities and networking with multiple ‘stakeholders’ both within and beyond the domestic sphere. In 1991, the introduction of the new category of Export Oriented Units (EOUs) within the SSI sector and the recognition of the Small Scale Service and Business Enterprises (SSSBEs) were early indicators of motivating the small enterprises to the global business arena. This definite
proclivity towards outward orientation has, in fact, favoured those few units in a
certain subsectors, which have a global market presence and, hence, has left out
massive number of smaller units where the average capital investment has been far low
and the global market has no demand for their type of products.

Moreover, the hype regarding participation in the global value chains (GVCs) or global
commodity chains (GCCs) as the key to success of small firms in developing nations
has acted almost as a bait to getting entrapped in a production arrangement where the
anchor or leading firm engages in what has been termed as ‘rent-poor’ activities,
whereby, typically, labour-intensive and low value-adding tasks are subcontracted to
SMEs in poorer countries, mainly to benefit from cheap labour. Clear incidences of
decline of barriers to trade and foreign direct investment (FDI) have resulted in the
relocation and reconfiguration of processes of production, beyond national boundaries,
especially by the large MNEs. Encouraged further by the rapid progress in the
information and communication technologies (ICTs) and reduction in transport costs,
the global production systems have emerged in a number of modern and often labour-
intensive subsectors, for instance, cosmetics, garments, furniture, furnishing textiles,
leather goods, pharmaceuticals, computer/electronic goods, automobile parts, agro
processing, scientific equipments and so on.

Being integrated into these “quasi-hierarchical” value chains, where buyers (MNEs,
typically) from industrialized counting not only determine the specific manner in
which processes to be undertaken, but also practise exclusion by which the local
producers/assembly units hardly have any access to facilities to upgrade, diversify or
even to know the full details of the final output and its market. In a discussion on the
“downside” of the GVC promotion, a recent study notes that, ‘the controversial issue is
whether firms are also able to achieve functional upgrading, and to determine the role
buyers play in furthering, neglecting or obstructing functional upgrading by their
suppliers’ (Knorringa and Meyer-Stamer, 2008: 31). In fact, in addition to the well-
known aspect of such global production systems taking undue advantage of local cheap
labour in developing nations, there are serious issues in the process of participation per
se. The stringent criteria adopted in selecting a particular sub-contractor and also
disallowing opportunity to participate in non-labour or high-tech stages of a given
process are instances of highhandedness in an obviously asymmetrical business
‘partnership’. In the Indian context, the software as well as garment sectors, the two
most typical examples of MSMEs, have been feeling the heat of such blatantly
translucent and essentially exploitative business relationship. In a study of Bangalore’s
famed IT sector boom, attributed to the growing preference by MNEs for this cluster, it has been argued that in terms of knowledge spillover, technological capacity building and moving up in the value chains the MSMEs have gained precious little (Vijayabaskar and Krishnaswamy, 2004).

In the case of garments (that tops the list of export goods from the MSME sector in India), with a vast number of smaller units operating with outdated machines and without reference to legal provisions of production and industrial safety, they have not found favour to be chosen as sub-contractors with global garment giants. Nevertheless, there have been relatively larger local units which have been producing for MNEs and/or exporting themselves. However, this sub-sector that employs a staggering 3.5 million workers has been widely criticized for poor working conditions (including payment of less than minimum wages) and serious compromise of formal status of workers. The growing incidence of contractualization, informalization and casualization of the workers, mostly women, have prompted various labour and social organizations to voice concern over the systematic subversion of workers’ legitimate rights and social security (Das, 2008a: 91–94). The so-called ‘networking’ efforts, under the governance of GVCs, have carefully kept off the labour question. Excepting that there has been a nagging insistence to free labour regulations.

While globalization has favoured only a small privileged section of the enterprises from a few subsectors (typically, garments, pharmaceuticals, electronics and machine tools), one has to be cautious in being euphoric about participating in GVCs as the *sine qua non* for the progress of the MSMEs. Such practices have been encouraging a dependence syndrome in small enterprises and, essentially, been acting against generating an innovative ethos in the domestic arena. In fact, an overemphasis upon external orientation can potentially result in the neglect of the domestic market, which needs various supportive measures, including improving the distribution channels so as to connect remote MSMEs to larger markets within the country and also outside.

A measure of success of globalization forces winning over the MSMEs is clearly the performance of exports; official pronouncements often support a buoyant global market for Indian MSMEs. As, for example, the estimates of Ministry of MSMEs (as on the website) claim that the value of exports from the Indian MSMEs during 2006–07 was an astounding $50 billion (40 per cent of the total exports)! How have exports fared? Table 3 suggests that both in current prices and dollar terms, the exports have risen over the period 1990–2006.
Table 3: Growth of SSI Exports in India, 1990–2006

<table>
<thead>
<tr>
<th>Year</th>
<th>SSI Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In Current Price (Rs. Crores)</td>
</tr>
<tr>
<td>1990–91</td>
<td>9664</td>
</tr>
<tr>
<td>1991–92</td>
<td>13883</td>
</tr>
<tr>
<td>1992–93</td>
<td>17784</td>
</tr>
<tr>
<td>1993–94</td>
<td>25307</td>
</tr>
<tr>
<td>1994–95</td>
<td>29068</td>
</tr>
<tr>
<td>1995–96</td>
<td>36470</td>
</tr>
<tr>
<td>1996–97</td>
<td>39248</td>
</tr>
<tr>
<td>1997–98</td>
<td>44442</td>
</tr>
<tr>
<td>1998–99</td>
<td>48979</td>
</tr>
<tr>
<td>1999–2000</td>
<td>54200</td>
</tr>
<tr>
<td>2000–01</td>
<td>69797</td>
</tr>
<tr>
<td>2001–02</td>
<td>71244</td>
</tr>
<tr>
<td>2002–03</td>
<td>86013</td>
</tr>
<tr>
<td>2003–04</td>
<td>97644</td>
</tr>
<tr>
<td>2004–05</td>
<td>124417</td>
</tr>
<tr>
<td>2005–06</td>
<td>150242</td>
</tr>
</tbody>
</table>


However, a look at the growth rates of exports reveals a different scenario altogether. Figure 3 traces the annual growth rates (drawn separately in rupee value and corresponding dollar value) of the value of exports from the SSIs for the period 1991–2006.

It is obvious that the values have been fluctuating heavily over the period and often the dollar values have remained far below those in rupee terms, suggesting that the export performance has been unpredictable and mostly unimpressive; the growth rates based upon rupee values could be misleading.

The small-scale sector has been accounting for over one-third of the total manufacturing exports since the early 1990s and the ratio of exports to production has also been on the rise during the 1990s through 2005–06. This positive development, however, has not augured well for the sector as a whole, particularly, the enterprises producing what are called ‘traditional’ goods, often based in rural areas.
In Table 4, the composition of exports from the small firm sector indicates an absence of diversification of the product range during the representative pre- and post-reforms periods; the only new entrant to the list has been ‘Electronic and computer software’. Six product groups, mainly, garments, engineering goods and pharmaceuticals have accounted for about 80 per cent of exports from this sector. The so-called “traditional” products (as cashew products, spices and lac) have been experiencing a falling share of about 5 per cent during the pre-reform period to 2.5 per cent in the triennial ending in 2005–06.

Promotion of products from rural areas and provision of marketing support to these and numerous other products in the sector have somehow missed the attention of the concerned state agencies in the globalization drive; the situation, incidentally, had never been better even during the earlier decades. As one looks into the various ‘new’ initiatives of the government, especially the various sub-schemes under the National Manufacturing Competitiveness Council, concerning building competitiveness, an explicit emphasis upon focusing on selected product groups which have potential for global competitiveness resonates partiality favouring the well-off sub-sectors and within those the bigger alert ones.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Readymade garments</td>
<td>31029</td>
<td>40.9</td>
<td>249751</td>
<td>33.0</td>
<td>272668</td>
<td>22.0</td>
</tr>
<tr>
<td>2. Engineering goods</td>
<td>6573</td>
<td>8.7</td>
<td>94780</td>
<td>12.5</td>
<td>232329</td>
<td>18.7</td>
</tr>
<tr>
<td>3. Electronic and computer software</td>
<td>--</td>
<td>0.0</td>
<td>63850</td>
<td>8.4</td>
<td>167609</td>
<td>13.5</td>
</tr>
<tr>
<td>4. Chemicals and allied products</td>
<td>905</td>
<td>1.2</td>
<td>14371</td>
<td>1.9</td>
<td>118679</td>
<td>9.6</td>
</tr>
<tr>
<td>5. Basic chemicals, pharmaceuticals and cosmetics</td>
<td>10467</td>
<td>13.8</td>
<td>84642</td>
<td>11.2</td>
<td>113451</td>
<td>9.1</td>
</tr>
<tr>
<td>6. Processed foods</td>
<td>3090</td>
<td>4.1</td>
<td>75970</td>
<td>10.0</td>
<td>112745</td>
<td>9.1</td>
</tr>
<tr>
<td>7. Finished leather and leather products</td>
<td>15528</td>
<td>20.4</td>
<td>55025</td>
<td>7.3</td>
<td>74927</td>
<td>6.0</td>
</tr>
<tr>
<td>8. Plastic products</td>
<td>477</td>
<td>0.6</td>
<td>18149</td>
<td>2.4</td>
<td>35460</td>
<td>2.9</td>
</tr>
<tr>
<td>9. Marine products</td>
<td>2681</td>
<td>3.5</td>
<td>28570</td>
<td>3.8</td>
<td>32208</td>
<td>2.6</td>
</tr>
<tr>
<td>10. Cashew kernel, cashew nut shell liquid**</td>
<td>3166</td>
<td>4.2</td>
<td>18398</td>
<td>2.4</td>
<td>23478</td>
<td>1.9</td>
</tr>
<tr>
<td>11. Woolen garments and knitwear</td>
<td>845</td>
<td>1.1</td>
<td>20886</td>
<td>2.8</td>
<td>18085</td>
<td>1.5</td>
</tr>
<tr>
<td>12. Synthetic and rayon textiles</td>
<td>114</td>
<td>0.2</td>
<td>13503</td>
<td>1.8</td>
<td>18521</td>
<td>1.5</td>
</tr>
<tr>
<td>13. Processed tobacco, snuff and bidis</td>
<td>165</td>
<td>0.2</td>
<td>6239</td>
<td>0.8</td>
<td>8797</td>
<td>0.7</td>
</tr>
<tr>
<td>14. Spices, spice oil oleoresins**</td>
<td>196</td>
<td>0.3</td>
<td>8657</td>
<td>1.1</td>
<td>6148</td>
<td>0.5</td>
</tr>
<tr>
<td>15. Sports goods</td>
<td>532</td>
<td>0.7</td>
<td>2812</td>
<td>0.4</td>
<td>4270</td>
<td>0.3</td>
</tr>
<tr>
<td>16. Lac**</td>
<td>165</td>
<td>0.2</td>
<td>1242</td>
<td>0.2</td>
<td>1629</td>
<td>0.1</td>
</tr>
<tr>
<td>Total</td>
<td>75932</td>
<td>100.0</td>
<td>756843</td>
<td>100.0</td>
<td>1241004</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Notes:** Figures in brackets are respective column percentages.

* End-year of three yearly averages.

** Classified as ‘traditional’ products, the rest being ‘non-traditional’.

Sources: For the period 1988–91, estimated from Table 97, GoI (1994: 189); for the period 2000–03, estimated from Table 7.16, GoI (2005: 183); for the period 2003–06, estimated from Table 7.10, GoI (2008b: 176).

The industries chosen to be promoted are food processing, garments, engineering, consumer goods, pharmaceuticals, capital goods, leather and IT hardware. The question of providing basic business infrastructure to the huge number of enterprises in non-metro regions and connecting them to the mainstream marketplace have not been an issue of concern. There remains a major lesson to learn from the Chinese strategy of the state playing a vital role in creating a dynamic business environment (including
building physical and economic infrastructure) for networking between manufacturers and traders who are otherwise disadvantaged by distance and limited local market.

5. Credit: The Classic Constraint

At a time when the new policy initiatives for the MSMEs are raring to globalize, the Achilles’ heel has been poor or no availability of adequate and timely credit to numerous small and tiny units. Even as the ‘priority’ sector lending includes small enterprises as a vital recipient, the reluctance to serve them is apparent from the data for the period 1990–2007, as given in Table 5 and also represented in Figure 4.

Table 5: Bank Credit to SSI and Tiny Sector, 1990–2007

<table>
<thead>
<tr>
<th>Year (as on end March)</th>
<th>Net Bank Credit (Rs. Million)</th>
<th>Credit to SSI (Rs. Million)</th>
<th>Share in Net Bank Credit (%)</th>
<th>Credit to Tiny Sector</th>
<th>Share in Net Bank Credit (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990–91</td>
<td>1,056,320</td>
<td>1,67,830</td>
<td>15.9</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>1991–92</td>
<td>1,121,600</td>
<td>1,73,980</td>
<td>15.5</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>1992–93</td>
<td>1,327,820</td>
<td>1,93,880</td>
<td>14.6</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>1993–94</td>
<td>1,409,140</td>
<td>2,15,610</td>
<td>15.3</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>1994–95</td>
<td>1,690,380</td>
<td>2,58,430</td>
<td>15.3</td>
<td>77,340</td>
<td>4.6</td>
</tr>
<tr>
<td>1995–96</td>
<td>1,843,810</td>
<td>2,94,850</td>
<td>16.0</td>
<td>81,830</td>
<td>4.4</td>
</tr>
<tr>
<td>1996–97</td>
<td>1,896,840</td>
<td>3,15,420</td>
<td>16.6</td>
<td>95,150</td>
<td>5.0</td>
</tr>
<tr>
<td>1997–98</td>
<td>2,182,190</td>
<td>3,81,090</td>
<td>17.5</td>
<td>102,730</td>
<td>4.7</td>
</tr>
<tr>
<td>1998–99</td>
<td>2,462,030</td>
<td>4,26,740</td>
<td>17.3</td>
<td>88,370</td>
<td>3.6</td>
</tr>
<tr>
<td>1999–2000</td>
<td>2,929,430</td>
<td>4,57,880</td>
<td>15.6</td>
<td>227,420</td>
<td>7.8</td>
</tr>
<tr>
<td>2000–01</td>
<td>3,408,880</td>
<td>4,84,450</td>
<td>14.2</td>
<td>260,190</td>
<td>7.6</td>
</tr>
<tr>
<td>2001–02</td>
<td>3,969,540</td>
<td>4,97,430</td>
<td>12.5</td>
<td>270,300</td>
<td>6.8</td>
</tr>
<tr>
<td>2002–03</td>
<td>4,778,990</td>
<td>5,29,880</td>
<td>11.1</td>
<td>269,370</td>
<td>5.6</td>
</tr>
<tr>
<td>2003–04*</td>
<td>5,588,490</td>
<td>5,82,780</td>
<td>10.4</td>
<td>308,260</td>
<td>5.5</td>
</tr>
<tr>
<td>2004–05*</td>
<td>7,187,220</td>
<td>6,76,340</td>
<td>9.4</td>
<td>280,630</td>
<td>3.9</td>
</tr>
<tr>
<td>2005–06</td>
<td>10,177,037**</td>
<td>8,24,340</td>
<td>8.1</td>
<td>361,870***</td>
<td>3.6</td>
</tr>
<tr>
<td>2006–07</td>
<td>13,087,875**</td>
<td>1,047,030</td>
<td>8.0</td>
<td>443,110</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Notes: * Data for these two years are ‘Provisional’.
** Estimated based on the value and proportion of credit to the SSIs for the respective years.
*** In the absence of data for the absolute value, average of the corresponding figures for the preceding and succeeding years has been used.

The proportion of credit to SSIs (as percentage of net bank credit) has been on the decline since 1997–98 and has touched a low of a mere 8 per cent in 2006–07. Such figures for the huge tiny sector (for the period 1994–95 to 2006–07) have been hovering around a low level of 4 to 5 per cent till 2004–05, with the exception of a jump from 3.6 per cent to 7.8 per cent from 1998–99 to the subsequent year. The fall has continued and touched 3.4 per cent in 2006–07, the lowest so far. It is beyond comprehension as to how with repeated and clear admonitions from the Reserve Bank of India (RBI), particularly, not to insist upon the collateral from tiny units, the priority sector lending has failed to cater to the most crucial needs of loan finance to small and tiny enterprises.

As observed by a national-level field-based study of small firms, ‘there are strong structural underpinnings to the inadequate flow: the organizational structure of banks, and processes within them, have taken them far from task orientation, and have created a specific bias against small loan portfolios’ (Morris et al., 2001: 11). The study also points out that the manner of discretion and supervision of commercial banks by the RBI coupled with the fact that there does not exist a performance-based incentive system for proactive bankers assessing loan eligibility, the small firms and, especially, the tiny units find it hard to access the requisite loan finance.
The poor disbursement and management of credit to MSMEs have been linked to the fact that there is no transparency regarding their financial condition. ‘It could well be that some enterprise owners themselves may not grasp their financial conditions well. Under the condition, it is natural that banks hesitate to give loan to small-scale units. In fact, there is evidence to establish that a fairly significant proportion of loans given to small enterprises in the past have compounded the problem of non-performing assets (NPAs). Unless fairly detailed information on small firms is available, banks would hesitate to take risk. They might, in fact, prefer relatively larger (including the now medium) enterprises in order to comply with the RBI regulations’ (Das, 2008a: 75).

Unlike in many developed nations where SMEs have enjoyed a strong credit guarantee support, it is only very recently that in India this issue has received some attention. The newly introduced Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), being monitored by the Small Industries Development Bank of India (SIDBI), insures life of the chief promoters of the enterprises. Also there have been efforts by some industry associations who have signed memorandum of understanding (MoU) with commercial banks and financial institutions to provide collateral security to upcoming entrepreneurs for their credit requirements (Kondaiah, 2007: 7). Nevertheless, the provision of credit guarantee to micro and small enterprises (MSEs) and, particularly micro units, whether for starting or expanding business is still in a nascent state and its broad-basing poses a major challenge to the existing financial system.

6. Cluster Promotion: Grossly Inadequate

A discussion on Indian MSMEs since the turn of the century cannot but include, at least, a brief note on fostering industrial clusters that has emerged as the almost-panacea in the policy circles. This is despite not having even a comprehensive and policy-sensitive database on clusters in India, a basic requirement for a large-scale intervention. Over a decade now, since the cluster development program of the United Nations Industrial Development Organization (UNIDO), in 1997, formally initiated the Indian government into this activity there has been a spurt (particularly, since 2000) of schemes/programs by various Central ministries, State governments, financial institutions, non-government organizations and even international development agencies.
A stocktaking of these initiatives suggests the prevalence of as many as 26 schemes/programs covering an estimated 1358 clusters, both traditional and modern (Das et al., 2007: 21–22). The concern, however, is that in the absence of a national cluster development policy (efforts at such a policy are underway) and the overwhelming perusal of a predominantly sectoral approach to clusters the opportunity to facilitate MSME growth has been severely constrained. This has implied a highly diverse set of approaches and instruments which are typically partial or inadequate, and reflect the syndrome of path dependence of the implementing ministry or agency.

At least three vital issues involving the clusters have received no or little attention in these interventions. First, there is hardly any sustained endeavour towards strengthening the domestic market through establishing/improving linkages between producers, suppliers of raw materials, labour and various layers of markets, whether local, regional national or global. The role of the state in creating/developing both the retail and wholesale distribution systems is yet to be thought about as part of the Indian cluster development strategy.

Second, the gross neglect of provision of quality infrastructure, both physical and economic, remains a serious lapse in the MSME cluster development approaches. By, unfortunately, missing out on the spatial dimension of clustering these so-called cluster development initiatives have not only exhibited naivety and limited understanding of the concept per se, but also have been largely irresponsible to the chronic bottlenecks plaguing the MSEs, especially.

Third, the celebrated strategy of cluster development has chosen to keep silence on the most vital factor of production, namely, the labour, clearly, not a dimension neoliberalism dares to deal. The absence of this concern has been blatant and almost strategic, even in the debates at the global level (Das, 1999 and 2005). That in a country where industrial clusters are often no more than informal production regimes and workers’ toil goes “invisible” or “unaccounted”, the cluster development instruments cannot afford to maintain mum on this question.

7. Concluding Observations

Despite the prognosis that the small enterprises would, eventually, give way to the scalar advantage of the large, in India — a labour-surplus and vast domestic-market-based economy — the MSEs continue to dominate the industrial sector. Their
remarkable contribution in terms of generating large-scale employment (across skill categories) and tackling regional disparities in growth has been recognized in the concerned circles. At least since the days of the National Planning Committee (set up during the immediate pre-Independence decade), it has been emphasized that in India’s economic development process the MSEs would play a crucial role and, hence, need to be promoted on a sustainable basis by addressing on the vital issues facing the sector, as, for instance, constraints in accessing loan finance, inadequate basic infrastructure, poor innovation resulting in substandard product quality and neglect of the labour, i.e., their safety at workplaces, social security and improving factor productivity.

This rather limited exercise on the performance of the MSMEs during the times of neoliberal reforms and an unprecedented excitement over getting connected to the global market has examined such aspects as the crisis in credit, unimpressive exports, falling labour productivity and the poverty of understanding and promoting industrial clusters. An aspect that emerges from the analysis is that there remains much to be done for the MSMEs as a whole, and the otherwise omnipresent but unfortunately sidelined tiny enterprises, in particular. Surely, a small number of enterprises in selected sub-sectors in urban regions have done exceedingly well and benefited from globalization; but the MSEs have performed dismally. With an overwhelming accent on globalizing this sector, a variety of structural constraints facing the MSEs for long have fallen out of policy focus; this could adversely affect the goal of broad-basing advantages of development. There is nothing interesting to write home about.
References:


<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>Author(s)</th>
<th>Date</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>140.</td>
<td>Economic Growth, Labour Markets and Gender in Japan</td>
<td>Uma Rani</td>
<td>July 2003</td>
<td>Rs. 45</td>
</tr>
<tr>
<td>141.</td>
<td>The Guiding Visible Hand of Participatory Approaches to Irrigation Management</td>
<td>R. Parthasarathy and Jharna Pathak</td>
<td>August 2003</td>
<td>Rs. 30</td>
</tr>
<tr>
<td>142.</td>
<td>Competition and Response in Small Firm Clusters: Two Cases from Western India</td>
<td>Keshab Das</td>
<td>September 2003</td>
<td>Rs. 30</td>
</tr>
<tr>
<td>143.</td>
<td>Target Free Approach for Family Welfare in Gujarat: A Review of Policy and Its Implementation</td>
<td>B.L. Kumar</td>
<td>October 2003</td>
<td>Rs. 40</td>
</tr>
<tr>
<td>145.</td>
<td>Tribal Education in Gujarat: An Evaluation of Educational Incentive Schemes</td>
<td>B.L. Kumar</td>
<td>June 2004</td>
<td>Rs. 45</td>
</tr>
<tr>
<td>146*</td>
<td>Objects and Accomplishments of Participatory Irrigation Management Programme in India: An Open Pair of Scissors</td>
<td>R. Parthasarathy</td>
<td>July 2004</td>
<td>Rs. 40</td>
</tr>
<tr>
<td>147.</td>
<td>Decentralisation Trajectories with Multiple Institutions: The Case of PIM Programme in India</td>
<td>R. Parthasarathy</td>
<td>August 2004</td>
<td>Rs. 30</td>
</tr>
<tr>
<td>148.</td>
<td>Linking Conservation with Livelihood: Lessons from Management of Gir-Protected Area in Western India</td>
<td>Amita Shah</td>
<td>September 2004</td>
<td>Rs. 40</td>
</tr>
<tr>
<td>149.</td>
<td>Primary Health Care in Gujarat: Evidence on Utilization, Mismatches and Wastage</td>
<td>B.L. Kumar</td>
<td>October 2004</td>
<td>Rs. 40</td>
</tr>
<tr>
<td>150.</td>
<td>Schools and Schooling in Tribal Gujarat: The Quality Dimension</td>
<td>B.L. Kumar</td>
<td>November 2004</td>
<td>Rs. 35</td>
</tr>
<tr>
<td>151*.</td>
<td>A Review of the Pharmaceutical Industry of Canada</td>
<td>N. Lalitha</td>
<td>December 2004</td>
<td>Rs. 35</td>
</tr>
<tr>
<td>152.</td>
<td>Micro Determinants of Human Fertility: Study of Selected Physiological and Behavioural Variables in SC and ST Population</td>
<td>Satyajeet Nanda</td>
<td>January 2005</td>
<td>Rs. 35</td>
</tr>
<tr>
<td>153.</td>
<td>Outward Foreign Direct Investment from India: Recent Trends and Patterns</td>
<td>Jaya Prakash Pradhan</td>
<td>February 2005</td>
<td>Rs. 35</td>
</tr>
<tr>
<td>154.</td>
<td>Drinking Water Supply: Environmental Problems, Causes, Impacts and Remedies – Experiences from Karnataka</td>
<td>Puttaswamaiah S.</td>
<td>March 2005</td>
<td>Rs. 35</td>
</tr>
<tr>
<td>155*.</td>
<td>Potable Water for the Rural Poor in Arid Rajasthan: Traditional Water Harvesting as an Option</td>
<td>Keshab Das and Pritee Sharma</td>
<td>March 2005</td>
<td>Rs. 30</td>
</tr>
<tr>
<td>156.</td>
<td>Attracting Export-Oriented FDI: Can India Win the Race?</td>
<td>Jaya Prakash Pradhan and Vinoj Abraham</td>
<td>April 2005</td>
<td>Rs. 30</td>
</tr>
</tbody>
</table>


162*. Puttaswamaiah S., Ian Manns and Amita Shah, “Promoting Sustainable Agriculture: Experiences from India and Canada”, October 2005. Rs. 35. (OS)


* Also published elsewhere     OS  Out of Stock
About GIDR

The Gujarat Institute of Development Research (GIDR), established in 1970, is a premier social science research institute recognised and supported by the Indian Council of Social Science Research (ICSSR), New Delhi and the Government of Gujarat.

The major areas of research at the institute include:
- Natural Resources Development and Management
- Poverty, Employment and Human Development
- Industry, Trade and Infrastructure

In Natural Resources Development and Management, the studies relate to agriculture, irrigation, watershed, forestry and common property resources. The research on Poverty, Employment and Human Development focuses on demography, labour, migration, informal sector, nutrition and health, gender relations, drinking water, poverty issues that related to disparities in quality of life, education and social sector, livelihood and social security issues. The focus of research related to Industry, Trade and Infrastructure relates to various dimensions of small enterprises development, industrial clusters, WTO, intellectual property rights, agricultural trade, and rural and urban infrastructure.

Being integral as they are to the above themes, research often focuses on aspects of Policies, Institutions and Governance. The institute also undertakes collaborative research and has a network with NGOs, international organisations, governments, and academic institutions.