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Small and Medium Enterprises (SMEs) and Inclusive Growth in the Globalization Era

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Abstract—

Micro, Small and Medium Enterprise (MSME) sector has been undergoing a metamorphosis in the era of globalisation for over two decades. Many developments of relevance to SMEs (Small and Medium Enterprises) have taken place within the country and internationally. Globalisation resulting in fierce competition in various product lines has forced the SME sector to adopt strategies in tune with the global trends. A number of programmes of cluster-specific and firm-specific approaches are being pursued by all India organisations with a wide network of institutions associated with various functions supporting the SME sector at different levels.

The paper reviews the progress of MSME sector from 2000-01 in particular, and discusses a few key approaches adopted in the sector. These include the following: Eleventh and Twelfth Plan approaches for inclusive growth, MSMED Act 2006, cluster development approach (CDA), National Manufacturing Competitiveness Programme (NMCP), Central Public Procurement Policy (CPPP) and Defence Production Policy. Conclusion and Suggestions are offered towards the end of the paper. Appendix I presents the websites of MSME and related organisations.

Key Words: MSMEs, Globalization, CDA, NMCP, CPPP.

1. INTRODUCTION

Micro, Small and Medium Enterprise (MSME) sector has been undergoing a metamorphosis in the era of globalisation for over two decades. Many developments of relevance to SMEs (Small and Medium Enterprises) have taken place within the country and internationally. Globalisation resulting in fierce competition in various product lines has forced the SME sector to adopt strategies in tune with the global trends. A number of programmes of cluster-specific and firm-specific approaches are being pursued by all India organisations with a wide network of institutions associated with various functions supporting the SME sector at different levels.

Database of MSME sector has been presented from the results of Fourth All India Census of MSMEs with reference year as 2006-07, and 73rd Round Survey (2015-16) of

National Sample Survey Office. The MSME sector contributes 8.7% of the country's Gross Domestic Product (GDP), 45% of the manufactured output, and 40% of the country's merchandise exports. Results of the 73rd Round of NSS are as follows: Out of 634 lakh (63.4 million) enterprises, (i) manufacturing accounts for 31%, trade 36.3%, and other services 32.6%; (ii) own account enterprises 84.2%, and establishments 15.8%; (iii) 51.3% of enterprises in rural areas, and 48.7% in urban areas.; (iv) more than 99% are in micro enterprises category, 0.52% in small, and 0.03% in medium category. (v) Gender-wise ownership reveals that males own 76.1% of enterprises, and females 23.9% of enterprises. Employment generation through these enterprises is as follows: (i) 55% in urban areas, and 45% in rural areas; (ii) MSME sector has created 111.3 million jobs - 360.41 lakh in manufacturing

(32.4%), 387.38 lakh in trade (34.8%), 364.85 lakh in others services (32.8%), and 0.07 lakh in electricity generation (0.01%) (iii) micro enterprises account for 1076.2 lakh jobs (97%), small for 31.95 lakh (2.9%), and medium enterprises 1.75 lakh (0.1). Female employees account for 23.9%.

Review of Literature

We have argued that structural transformation does not take place spontaneously as a result of the working of market forces (**Gerschenkron 1962**). As noted by economic historians such as Gerschenkron (1962) and Abramovitz (1986), technological under-development can persist in the absence of mechanisms to promote resource reallocation into more technologically intensive sectors. For Gerschenkron, state intervention is necessary to compensate for the inadequate supplies of capital, skilled labour, entrepreneurship and technological capacity encountered in technological followers seeking to modernize their production methods. As illustrated by the experiences of Taiwan and South Korea during their phases of economic transformation, transforming agrarian rural economies into competitive industrialized ones also requires adequate policies that enable rural communities to harness modern production and commercialization techniques in order to form strong and inclusive linkages with the national and the global economy (**Kay 2002; Kim 2016**). Transforming agrarian rural economies so that their populations are included in the benefits afforded by technology through diffusion of innovation equally requires state intervention.

The ability to mobilize financial and human resources on a large scale in order to shift production factors from low productivity to high productivity sectors was conceptualized in terms of 'social capabilities' by **Abramovitz (1986)**, and such capabilities are deemed by many scholars as critical for the success of

structural transformation (**Lall 1992; Cimoli and Porcile 2014; UNCTAD 2016**). Social capabilities include, according to Abramovitz, technical competence, experience in the organization and management of large-scale enterprises, financial institutions and markets capable of mobilizing capital on a large scale, the stability of government and its effectiveness in defining and enforcing rules that supporting economic growth, and the spread of honesty and trust among the population.

For countries to succeed in transforming the structure of their economies, development of appropriate technological capabilities and other complementary factors is essential (**Kim 1997; Fagerberg and Srholec 2008**). The function of these social capabilities is closely related to the concept of 'absorptive capacity', which stresses the importance of accumulated technological knowledge together with the infrastructure and resources needed for firms to internalize and exploit external sources of knowledge (**Cohen and Levinthal 1990**).

Likewise, social capabilities are critical to for the local communities, development agencies, informal enterprises or local government agencies responsible for the learning, innovation and diffusion of new technologies including water, energy or health to exploit new sources of knowledge (**Cozzens and Sutz 2014; Joseph 2014; Swaans et al. 2014**). Building and accumulating these capabilities requires time, resources and a continuous process of learning (**Cimoli and Porcile 2014; Joseph 2014**). Gerschenkron (1962) for example, suggested that governments should set up large banks to foster capability building by providing access to financial capital needed for industrialization. The important role that the financial system may play in mobilizing a country's resources for structural

transformation initially advocated by Gerschenkron (1962) was confirmed by more recent research such as King and Levine (1993) or Levine (1997). As noted by Lall (1992), the technological capabilities required for industrialization – and we add, for sustainable and inclusive development of rural communities – must be guided by an incentive system and embedded in a conducive institutional setting in order to unleash their trans-formative forces.

Methodology

The study is based both on the primary and secondary data. The sources of secondary include the Annual Reports, Office Records, Performance and Review Reports of MSMEs'. In addition, the published and unpublished data from the sources like NISME, DIC-Krishna, Working Papers, Survey Reports of World Bank, IFCI, PwC, McKinsey, KPMG, also form the basis of secondary data. The published articles from the standard journals and the literature from reputed books, unpublished dissertations constitute the armory of the researcher in the form of secondary data.

Objectives of the Study

The objectives of the study include

- To identify key performance factors of MSMEs in India
- To study the performance of MSMEs in general
- To assess the role of MSMEs in Inclusive growth of Indian economy

Twelfth Plan Approach to Inclusive Growth¹

The World Bank has defined inclusive growth as that which equals economic growth, while sharing the benefits of growth to reduce poverty. Inclusive growth as a development strategy has been quite

¹ Government of India, Planning Commission (November 2011), *Faster, Sustainable and more Inclusive Growth - an Approach to the Twelfth Five Year Plan (2012-17)*, New Delhi.

successful in East Asia, where economic development has benefited the poor and the non-poor. This should prove equally relevant to India. Inclusive growth becomes an important agenda in India in view of the high growth numbers in recent years, and the need for distribution of economic benefits to the wider spectrum of people. Inclusive growth has emerged as an important development priority; and banks being the major financial intermediaries in the growth process, it becomes imperative that they too engage actively in promoting sustainable development strategies of inclusive growth.

The Eleventh Five Year Plan (2007-12) aimed at achieving faster and more inclusive growth. The Twelfth Plan (2012-17), as indicated in its Approach paper of November 2011 focuses on continuing the momentum, and **pursuing faster, sustainable and more inclusive growth**. Inclusiveness is a multi-dimensional concept. It refers to broad spread of benefits to all sections of population, particularly scheduled castes, scheduled tribes, backward classes, and other marginalised groups, and also protecting the environment. Nobel Laureate Amartya Sen refers to India as a fast growing economy with limited results in terms of broad-based social progress.

Role of MSMEs in Indian Economy

The Micro, Small and Medium Enterprises Development (MSMED) Under the Act, the enterprises have been categorised into those engaged in (i) manufacturing, and (ii) providing / rendering of services. Both categories have been further divided into micro, small and medium enterprises, based on their investment in plant and machinery (for manufacturing) or in equipment (in case of service enterprises) as shown in Table 1.

Table I: Investment Levels in the MSME Sector – Present and Proposed
(investment level in Rs. crore; one crore equals 10 million or 100 lakh)

Category of MSME	Manufacturing Enterprise – investment limit for plant and machinery		Service Enterprise – investment limit for equipment	
	Present	Proposed	Present	Proposed
Micro	up to 0.25	Up to 0.5	Up to 0.10	Up to 0.25
Small	> 0.25, up to 5	>0.5, up to 7	>0.10, up to 2	>0.25, up to 4
Medium	>5, up to 10	>7, up to 25	>2, up to 5	>4, up to 15

Table I refers to the details as given above regarding investment levels for manufacturing enterprises and service enterprises, as in vogue at present from 2007, and the current thinking on raising the investment levels in the near future, based on the recommendation made by Sri Prabhat Kumar Committee which submitted its report to the Ministry of MSME in January 2017. With the adoption of advanced technologies and advanced management practices, technology upgradation and technology transfer, and improvement in quality, challenges in the liberalised environment are bound to increase as experienced in recent years.

Table 2 presents the performance of MSMEs as per the Fourth Census of MSMEs (2006-07) and Economic Census 2005.

Table 2: Performance of MSMEs as per the Fourth Census of MSMEs and Economic Census (2006-15)

Year	Number of MSMEs (regd. & unregd. – cumulative) (million)	Market value of fixed assets (Rs. billion)	Production at current prices (Rs. billion)	Employment (million)	Exports at current prices (Rs. billion)
1	2	3	4	5	6
2006-07	36.18	8685.44	13514	80.52	1825.38 (21.5)
2007-08	37.74 (4.3)	9204.60(6.0)	14352 (6.2)	84.20 (4.6)	2020.17 (10.7)
2008-09	39.37 (4.3)	9771.15(6.2)	15242 (6.2)	88.08 (4.6)	2965.88(46.8)
2009-10	41.08 (4.3)	10385.46(6.5)	16194 (6.2)	92.18 (4.7)	3911.59(31.9)
2010-11	42.88 (4.3)	11059.34(6.5)	17216(6.3)	96.52 (4.7)	5077.39(29.8)
2011-12	44.77 (4.4)	11827.58(6.9)	18343 (6.6)	101.17 (4.8)	6501.05(24.1)
2012-13	46.75(4.4)	12687.64(7.3)	na	106.14(4.9)	6973.18(10.7)
2013-14	48.85(4.5)	13637.01(7.5)	na	111.43(5.0)	8039.41(13.5)
2014-15	51.06(4.5)	14719.13(7.9)	na	117.13(5.1)	8495.73(5.7)

Sources: Annual Report 2015-16 www.msme.gov.in

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in the country's Gross Value Added (GVA) and Gross Domestic Product (GDP), at current prices for the last five years is given Table 3.

Table 3: Contribution of MSMEs in Indian Economy at Current Prices

(Figures in Rs. billion adjusted for FISIM at current prices)

Year end-March	MSME GVA	Growth (%)	Total GVA	Share of MSME in Total GVA (%)	Total GDP	Share of MSME GVA in GDP (%)
1	2	3	4	5	6	7
2012	25832.63	...	81069.46	31.86	87363.29	29.57
2013	29776.23	15.27	92026.92	32.36	99440.13	29.94
2014	33430.09	12.27	103631.53	32.26	112335.22	29.76
2015	36581.96	9.43	114817.94	31.86	124451.28	29.39
2016	39367.88	7.62	124586.42	31.60	136820.35	28.77

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation

The contribution of Manufacturing MSMEs in the country's total Manufacturing GVO (Gross Value of Output) at current prices has also remained consistent at about 33%, i.e. one-third, during the last five years.

Table 4: Exports from Micro and Small Enterprises (MSEs) in Relation to Total Merchandise Exports (2000-16 (at current prices)

Year	Total Exports (US \$ billion)	Exports of MSE products (US \$ billion)	% share of MSE in total exports	Growth of MSE Exports (%)	Growth of total exports (%)
1	2	3	4	5	6
2000-01	44.08	15.28	34.7	22.1	20.0
2001-02	43.83	14.94	34.1	-2.2	-0.6
2002-03	52.72	17.77	33.7	18.9	20.3
2003-04	63.84	21.25	33.3	19.6	21.1
2004-05	83.54	27.69	33.1	30.3	30.8
2005-06	103.09	33.94	32.9	22.6	23.4
2006-07	126.41	40.31	31.9	18.8	22.6
2007-08	163.13	50.20	30.8	24.5	29.0
2008-09	185.30	66.35	35.8	32.2	13.6
2009-10	178.75	82.49	46.1	24.3	(-3.5)
2010-11	251.14	111.40	44.4	35.0	40.5
2011-12	305.96	131.48	43.0	18.0	21.8
2012-13	300.40	128.16	42.7	-2.5	(-1.8)
2013-14	314.42	132.90	42.3	3.7	4.7
2014-15	310.35	138.94	44.8	4.5	-1.3
2015-16	262.29	130.65	49.8	-6.0	-15.5
2016-17	276.55	137.75	49.8	5.5	5.4
2017-18	303.53	140.75	46.4	5.4	9.8

Source: Economic Division (2000 to 2018), Economic Survey 2015-16 to 2017-18,

Estimated Number of MSMEs in the country

As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16 (Table 5), there were 633.88 lakh (63.4 million).

Table 5: Estimated Number of MSMEs (Activity-wise)

Activity category	Estimated no. of Enterprises (in lakh)								
	Rural			Urban			Total		
	All	OAE	Estt.	All	OAE	Estt.	All	OAE	Estt.
1	2	3	4	5	6	7	8	9	10
Manufacturing	114.14 (35.1)	104.98	9.17	82.50 (26.7)	63.16	19.34	196.65 (31.0)	168.14	28.51
Trade	108.71 (33.5)	101.87	6.84	121.64 (39.4)	92.83	28.82	230.35 (36.3)	194.70	35.66
Other services	102.00 (31.4)	90.08	11.93	104.85 (33.9)	80.64	24.23	206.85 (32.6)	170.72	36.16
Electricity	0.03--	--	--	0.01--	--	--	0.03--	--	--
All	324.90 (100)	296.96	27.94	309.02 (100)	236.63	72.39	633.92 (100)	533.59	100.33

As per the Survey, it is seen that 31% of MSMEs were found to be engaged in Manufacturing activities, while 36.3% were in Trade, and 32.6% in Other Services. Again out of 633.92 lakh estimated number of MSMEs, it is established that 324.9 lakh MSMEs (51.25%) were in rural areas, and 309 lakh MSMEs (48.75%) were in urban areas.

Table 6 depicts the distribution of different categories of MSMEs in rural and urban areas. Estimated number of MSMEs

and employment for ten leading states is given in Table 10.

Table 6: Distribution of MSMEs Category-wise in Rural and Urban Areas (Numbers in lakh)

Sector	Micro	Small	Medium	Total MSMEs
1	2	3	4	5
Rural	324.09(51.4)	0.78(23.6)	0.01(20.0)	324.88(51.3)
Urban	306.43(48.6)	2.53(76.4)	0.04(80.0)	309.00(48.7)
Total	630.52(100)	3.31(100)	0.05(100)	633.88(100)

Note: Figures in parentheses indicate percentage share in the respective column totals.

Employment

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, the definition given to a worker is as follows: A worker is understood as a person working within the premises of the enterprise. This definition includes working owners, persons who are in the payroll of the enterprise, unpaid family members who help in the entrepreneurial activities, and other helpers and apprentices. However, in case of Self Help Groups (SHGs), active members of SHGs were not considered as workers for the survey. Entrepreneurs of the enterprises and SHG active members associated with the enterprises are considered as owners of the units. As per the survey, there were 11.13 crore workers engaged in unincorporated non-agricultural enterprises (excluding construction) in the country. Among the workers, 55% were in urban areas, and 45% in rural areas. MSME sector has been creating 11.13 crore jobs (360.41 lakh in Manufacturing, 387.38 lakh in Trade, and 364.85 lakh in Other Services, and 0.07 lakh in Non-captive Electricity Generation and Transmission in rural and the urban areas across the country. Tables 7-9 show the distribution of employees category-wise.

Table 7: Estimated Employment in MSME Sector in Rural and Urban Areas (Broad Activity Category-wise)

Activity category-wise	Employment (in lakh)								
	Rural			Urban			Total		
	All	OAE	Estt.	All	OAE	Estt.	All	OAE	Estt.
1	2	3	4	5	6	7	8	9	10
Manufacturing	186.56 (37.6)	141.54	45.01	173.86 (28.3)	85.15	88.70	360.41 (32.4)	226.70	133.72
Trade	160.64 (32.2)	141.14	19.50	226.73 (36.9)	127.97	98.77	387.38 (34.8)	269.11	118.27
Other services	151.42 (30.4)	98.53	52.89	213.43 (34.8)	96.47	116.96	364.85 (32.8)	195.00	169.85
Electri-City	0.06 (0.01)	0.03	0.02	0.02 --	--	0.01	0.07 (0.01)	0.04	0.03
All	498.67 (100)	381.25	117.42	614.04 (100)	309.59	304.45	1112.71 (100)	690.84	421.87

Table 8: Distribution of employment in rural and urban areas for MSMEs, Category-wise (Number in lakh)

Sector	Micro	Small	Medium	Total
1	2	3	4	5
Rural	489.30(45.5)	7.88(24.7)	0.60(34.3)	497.78(44.9)
Urban	586.88(55.5)	24.06(75.3)	1.16(65.37)	612.10(55.1)
Total	1076.19(100)	31.95(100)	1.75(100)	1109.89(100)

Note: Figures in parentheses indicate percentage share in the respective column totals.

Table 9: Distribution of Workers in Male, Female Categories for Rural and Urban Areas (in lakh)

Sector	Female	Male	Total
1	2	3	4
Rural	137.50 (51.9)	360.15(42.6)	497.78 (44.9)
Urban	127.42(48.1)	484.54 (57.4)	612.10 (55.1)
Total	264.92(100)	844.68 (100)	1109.89(100)

Note: Figures in parentheses indicate percentage share in the respective column totals.

Table 10: Distribution of Enterprises and Employment in Ten Leading States (2015-16)

Sl. No.	State/UT	Estimated No. of MSMEs		Employment	
		No. (in lakh)	Share in Col.3 (%)	No. (in lakh)	Share in Col. 5 (%)
1	2	3	4	5	6
1	Uttar Pradesh	89.99	14.2	165.26	14.9
2	West Bengal	88.67	14.0	135.52	12.2
3	Tamil Nadu	49.48	7.8	96.73	8.7
4	Maharashtra	47.78	7.5	90.77	8.2
5	Karnataka	38.34	6.0	70.84	6.4
6	Bihar	34.46	5.4	53.07	4.8
7	Andhra Pradesh	33.87	5.3	55.99	5.0
8	Gujarat	33.16	5.2	61.16	5.5
9	Rajasthan	26.87	4.2	46.33	4.2
10	Madhya Pradesh	26.74	4.2	48.80	4.4
11	Sub-total of Ten States	469.36	74.0	824.47	74.3
12	Other States UTs	164.52	26.0	285.42	25.7
13	All India	633.88	100	1109.89	100

The Micro Sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons, which accounts for 97% of total employment in the MSME sector. Small sector with 3.31 lakh, and Medium sector with 0.05 lakh estimated MSMEs provide employment to 31.95 lakh (2.88%), and 1.75 lakh (0.16%) persons of total employment in the MSME sector, respectively. Out of 1109.89 lakh employees in MSME sector, 844.68 lakh (76%) are male employees, and the remaining 264.92 lakh (24%) are females. Table 9 shows the gender-wise distribution of employment in MSMEs. State-wise distribution of enterprises and employment in ten leading states is given in Table 10.

PM launches Historic Support and Outreach Initiative for MSME Sector

The Prime Minister Narendra Modi launched a historic support and outreach programme for the Micro, Small and Medium Enterprises (MSME) sector on November 2, 2018. As part of this programme, the Prime Minister unveiled 12 key initiatives which will help the growth, expansion, and facilitation of MSMEs across the country.

Five key aspects have been covered for facilitating the MSME sector. These include access to credit, access to markets, technology upgradation, ease-of-doing business, and a sense of security for employees. The 12 announcements will address each of these five categories.

More than 1.5 lakh suppliers are now registered on government-e-marketplace (GeM), out of which 40,000 are MSMEs, and that transactions with more than Rs.14,000 crore have been made so far through the GeM.

Being a part of GST, and being an honest tax payer will become the strength of MSMEs. Firms registered on the Goods and Services Tax (GST) portal would be able to

avail themselves of this facility on the portal itself. They will be asked whether they want a loan.

The key problems identified as follows

- Access to Credit
- Access to Markets
- Technology Up-gradation
- Ease-of-Doing Business (EDB)
- Cluster Development Approach
- Dimensions of Manufacturing Competitiveness

The MSMEs Development Act, 2006 has been designed to solve the constraints and problems faced by SMEs, and enable the enterprises to avail of greater market opportunities arising from globalisation in the World Trade Organisation (WTO) administered foreign trade.

(i) Marketing Support and Assistance to MSMEs through Bar Coding (Bar Coding)

Bar code is a series of parallel vertical lines (bars and spaces), that can be read by Bar Code scanners. It is used worldwide on the product packages, as price tags, carton labels, and even on credit card bills. Bar Coding has become a pre-requisite for all suppliers and buyers in today's digitalised market, and Indian MSEs will have opportunities to grow by adopting it. Bar Coding enables higher price realisation at the exporter's end, instead of at the buyer's end; and helps promote Indian value-added products globally. Using international digitalised numbering standards represents a small but significant step in accessing global and ever growing domestic markets (LUS, February 2010, pp. 12-13).

(ii) Support for Entrepreneurial and Managerial Development of MSMEs through Incubators (Business Incubator)

The concept of business incubation is relatively new for MSMEs. The Incubator scheme makes available a new window for supporting and nurturing business based on new ideas. The idea is to promote development of knowledge-based technological innovative ventures, and to improve the competitiveness and survival strategies of MSMEs.

Under the scheme, 100 'Business Incubators (BIs)' are to be set up under technology (host) institutions over a 4-year period at 25 per year; and each BI is expected to help the incubation of about 10 new ideas or units. For this service, which includes the provision of laboratory / workshop facilities and other assistance / guidance to young innovators, each BI will be given between Rs.4-8 lakh per idea / enterprise nurtured by them, limited to a total of Rs.62.5 lakh for 10 units. In addition, Rs.4 lakh will be provided for the upgradation of infrastructure, orientation / training, and administrative expenses, resulting in a total of Rs.66.5 lakh for promoting 10 enterprises.

(iii) Setting up of Mini Tool Room and Training Centres (Mini Tool Room)

Mini Tool Room and Training Centres will be promoted on Public-Private Partnership (PPP) Model for providing technological support to MSMEs by creating capacities in the private sector, for designing and manufacturing quality tools, and for providing training facilities in related areas. Total project cost for the scheme for the 11th Plan period is Rs.210 crore including GoI's contribution of Rs.135 crore. Implementation is planned in three ways: (a) Private Partner (Centre PPP Model); (b) SPV set up by the states in partnership with private partners (State PPP Model); and (c) State or state agency other than NGOs (Centre-State Model). The objectives of Mini Tool Rooms are as follows (LUS, December 2010, pp. 9-16).

- to improve the competitiveness of the MSMEs engaged in manufacturing activity by creating capacities in the private sector for designing and manufacturing quality tools;
- to bridge the gap between demand and supply of trained manpower in the industry; &
- to encourage Research and Development, and optimisation of cost and quality of delivery, leading to enhanced competitiveness of the manufacturing sector.

(iv) Building Awareness on Intellectual Property Rights (IPRs)

The objective is to create and enhance awareness about IPRs among units in the sector so as to enable them to take appropriate measures for protecting their ideas and business strategies, and also avoiding infringement of the intellectual property belonging to others. IP refers to legal rights that result from intellectual activity in the industrial, scientific, literary, and artistic fields to preserve the innovations and R&D efforts of individuals and companies. The scheme provides for financial assistance for taking up the following identified initiatives on a cluster basis: (a) Awareness / sensitisation programmes on IPRs; (b) Pilot studies in selected clusters / groups of industries; (c) Interactive seminars / workshops; (d) Specialised training; (e) Assistance for grant of patent / GI registration; (f) Setting up of IP Facilitation Centre; and (g) Interaction with international agencies (LUS, February 2011, pp.11-20).

(v) Application of Lean Manufacturing Techniques (LEAN)

The focus is on helping MSMEs adopt Lean Manufacturing (LM) techniques so as to enhance their productivity, efficiency and competitiveness by reducing or eliminating manufacturing waste, and streamlining the system through application of various LM techniques, The MSME-

Development Institute at the state level has nominated the nodal officer for coordination with NPC at the local / field level. Awareness programmes will be conducted in the clusters. Consultant's fee for each cluster up to 80% will be borne by GoI, and 20% by the beneficiary enterprises (LUS, November 2009, pp.6-8).

(vi) Quality Management Standards (QMS) and Quality Technology Tools (QTT)

This was launched during 2008-09, with a budget provision of Rs.40 crore for 4 years. The scheme aims at improving the quality of products in the MSME sector, and inculcating quality consciousness among units of the sector. The major activities envisaged under the scheme are: (a) Introduction of appropriate modules for technical institutions with a target coverage of 2000 technical institutions; (b) Organising awareness campaigns every year for MSMEs; (c) Organising competition-watch (c-watch) every year in the two sectors; (d) Implementation of QMS and QTT in 100 selected MSEs every year; and (e) Monitoring at least two international study missions per year.

(vii) Energy Efficiency and Quality Certification Support (Energy)

The focus is on sensitising enterprises and spreading an awareness about the need and benefits of adopting energy efficient technologies and using different quality certification measures for reducing emission of green house gases (GHGs), and improving the quality of products at reduced costs so as to improve the competitiveness of the enterprises in the global arena. The activity will be implemented through SIDBI which will function as the implementing agency. Both technical and overall project appraisal by SIDBI / other Bank will be taken into consideration prior to the sanction of assistance in the form of grants by the Ministry of MSME. About 390 units will be

supported for implementing EETs in MSMEs in potential clusters under this activity. While 25% of the project cost will be provided as subsidy by GoI, the balance amount is to be funded through loan from SIDBI / other banks /financial institutions. The minimum contribution as required by the funding agency will have to be made by the MSME. Besides reducing energy cost, the activity will also enable the implementing enterprises in obtaining credits, which are tradable in the National and International Commodity Exchanges. Clusters for setting up the Carbon Credit Aggregation Centres (CCACs) for introducing and popularising Clean Development Mechanism (CDM) will be identified on the basis of the CDM implementation potential in the cluster or applications received from the stakeholders.

(viii) Marketing Assistance and Technology Upgradation (Modern Marketing

Techniques)

Competitiveness in marketing is sought to be improved through Marketing Assistance and Technology Upgradation Scheme, by using the latest techniques and technologies suitable for specific product groups on a cluster basis. The broad activities under the scheme include technology upgradation in packaging, development of modern marketing techniques, competition studies, state / district exhibition, corporate governance practices, marketing hubs, etc. Under the scheme introduced in 2010, ten product groups have been identified for studies on packaging. Further, 140 units have been identified for participation in industry fairs and exhibitions (LUS, February 2011, pp. 7-10).

(ix) Promotion of Information and Communication Technology Tools (ICT Tools)

The scheme envisages that SME clusters, which have quality production and

export potential, shall be identified, encouraged and assisted in adopting ICT applications to achieve competitiveness in the national and international markets. The activities planned under the scheme include: identifying target clusters for ICT intervention, setting up of E-readiness infrastructure, developing web portals for clusters, skill development of MSME staff in ICT application, preparation of local software solution for MSMEs, construction of e-catalogue, e-commerce, etc. and networking MSME cluster portal on the national level portals in order to outreach MSMEs into global markets. The scheme launched in 2010 will initially be implemented in 100 clusters (LUS, February 2011, pp. 7-10).

(x) To Bring Design Expertise through Design Clinics (Design Clinic)

The scheme brings design experts on a common platform to enable MSMEs to access expert advice and solutions for their real time design problems, resulting in continuous improvement and value addition to the existing products. It also aims at developing value added cost effective solutions. The scheme introduced in 2010 comprises of two major parts – design awareness, and design project funding. The design awareness stage comprises activities like seminars, workshops, diagnostic studies of clusters. In design project funding, projects of students, consultants / designers, and consulting organisations are assisted by GoI by providing 60% of the project cost by way of grant. The scheme will initially be implemented in 200 MSME clusters (LUS, February 2011, pp. 7-10).

Conclusion and Suggestions

The experience of recent years reveals that SMEs can gain through product innovation, diversification, and strategic diversion from slow growth traditional products to high value added growth products, and adoption of aggressive marketing strategies. Directions for the future can include:

formation of consortia, cluster associations, and strategic alliances with their counterparts in other countries resulting in technological linkages, and financial tie-up. Special attention needs to be paid to promote research and development, quality assurance, innovation and incubation, and application of information technology tools. SMEs need to be supported with conducive policy environment for enabling them to make greater contribution to exports in a large way to achieve concrete results. Special focus has to be built on micro level planning of exports based on a smaller selective number of niche products (and services), niche locations including export clusters, and niche markets than has been attempted so far. While the government will have to play a crucial supportive role in carrying out the above exercise, the prime movers in the act will have to be exporting units themselves. Through periodic applied research and evaluation studies, it is important to make an assessment of the impact of certain policies on various product groups and in different regions of the country, and evolve new strategies relevant for coping up with the challenges of inclusive growth. SMEs in the competitive environment need to plan for globalisation as part of their strategy to enhance competitiveness, and not as a reaction to venture into new markets. Based on the experiences of recent years in the country and the recommendations of various studies, including the Prime Minister's Task Force on MSMEs, whose recommendations are currently being implemented, a few suggestions are made for improving the environment for SMEs in the globalisation context. Institutional framework and policy specifications are important factors in helping the evolution and success of SMEs.

1. Promoting Entrepreneurship and Skill Development: Private sector organisations and non-governmental organisations

(NGOs) need to be involved to a greater degree with appropriate trainers' training programmes to equip them to shoulder the responsibility on PPP mode. The corporate sector may take the lead role in infusing enterprise education, skill upgradation, and management induction programmes. Promoting synergy is necessary to achieve integration in order to attain the desired goals by involving public sector and private sector organisations. Encouragement should be given for private corporate sector to establish business incubation support network, as also institutional framework and policy framework for business-turn around, for the benefit of SMEs.

2. Upgradation of Clusters and Creation of Value Chain: SMEs can achieve high level of competitiveness if they work in a cluster environment ensuring complementarities, common activities, and institutional stability. Collective innovations should flow from these efforts. Through strengthening of linkages and creation of value chain, clusters can be upgraded. These can include linkages among firms, strengthening the local position within the value chains, building cluster-specific skill centres to develop cluster-specific labour force, strengthening the linkages with the local suppliers, and facilitating greater level of interactions among the stake-holders of clusters.

3. Strengthening Sub-contracting Relationships within the Region / other Parts of the Country / Other Countries: Sustainability and growth of SMEs would largely depend on their capacity to become part of the strategies of larger firms in the national and global arena. This is particularly important for technology oriented and export-oriented SMEs, which serve as sub-contractors for large enterprises in sectors such as IT, biotech, pharmaceuticals, light engineering,

electronics, and automobile components. SMEs should be equipped to meet the global standards and delivery mechanisms.

4. Focused R&D Institutions for SMEs:

There is need for focused institutions encouraging R&D activities in the SME sector in a coordinated manner. They may identify thrust areas for research, new areas for technology application, opportunities for commercialisation of R&D, and hand-holding of SMEs in their R&D intensification. This can lead to higher level of technology intensive firms coming up in various product lines in thrust areas.

5. Linking SME Strategy with Regional Trading Arrangements:

Linking the SME development strategy with regional trading arrangements would encourage learnings from regional and cross-continental peer groups. Multi-national corporations (MNCs) may be encouraged to assist SMEs to upgrade them to meet quality standards that may be required by them. They should become SME-friendly by developing suitable tendering policies.

6. Increasing SMEs' access to Finance:

The screening methodology of financing institutions needs to consider non-financial parameters and management competencies, while evaluating loan proposals of SME units. Export-Import Bank of India, Mumbai in collaboration with International Trade Centre, Geneva has implemented an unique enterprise management development services programme, which is an IT-based tool, loan.com to enable SMEs to prepare business plans with international market in focus. This is implemented as a pilot project for SMEs at present, and needs to be extended to more regions. The working group on credit flow to SMEs under the chairmanship of

7. Pro-active Role of Industry Associations / Cluster Associations:

It is

suggested that the key associations at the state level / cluster associations at the cluster level should take the lead in implementing various programmes in the interest of their members. Pro-activeness from their side will enable the institutions concerned to perform in an appropriate manner, review the performance of a programme in various locations periodically, and bring out lessons for the future. Periodic monitoring and review of implementation of programmes is to be pursued regularly. Interaction across states is also necessary.

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APPENDIX I

Select Websites of National Organisations and others of relevance to MSME Organisations and MSMEs

1. Ministry of MSME, New Delhi – www.msme.gov.in
2. Development Commissioner (MSME), New Delhi – www.dcmsme.gov.in; and www.smallindustryindia.com
3. State level MSME Development Institute, e.g., for Hyderabad – www.msmehyd.ap.nic.in
4. National Small Industries Corporation (NSIC), New Delhi – www.nsic.co.in; web portal for MSMEs – www.nsicindia.com; and International portal of NSIC – www.nsicpartners.com
5. Small Industries Development Bank of India (SIDBI) – www.sidbi.com; and Web portal on information on technologies – www.techsmall.co
6. National Bank for Agriculture and Rural Development (NABARD), Mumbai – www.nabard.org
7. Export-Import Bank of India, Mumbai – www.eximbankindia.in
8. Reserve Bank of India, Mumbai – www.rbi.org.in
9. Industrial Development Bank of India, Mumbai – www.idbi.com
10. Department of Commerce, Ministry of Commerce and Industry, New Delhi – www.commerce.nic.in; and Special Economic Zones (SEZ): all India – www.sezindia.nic.in
11. Ministry of Textiles, New Delhi – www.texmin.gov.in
12. Ministry of Food Processing Industries, New Delhi – www.mofpi.nic.in
13. Commissioner of Industries, Andhra Pradesh, Vijayawada (near Government Press) – www.apind.gov.in; and SEZs of Andhra Pradesh – www.apsez.com
14. Khadi and Village Industries Commission (KVIC), Mumbai – www.kvic.gov.in Under the Union Ministry of MSME

15. National Institute for Micro, Small and Medium Enterprises (ni-msme), Hyderabad – www.nimsme.org
Under the Union Ministry of MSME
16. Entrepreneurship Development Institute of India (EDI), Gandhi Nagar (Gujarat) - www.ediindia.org
promoted by Financial Institutions
17. National Institute for Entrepreneurship and Small Business Development (NIESBUD), Noida (Uttar Pradesh) – www.niesbud.nic.in Under the Union Ministry of Skill Development and Entrepreneurship (MSDE)
18. Indian Institute for Entrepreneurship (IIE), Guwahati (Assam) - www.iie.gov.in Under the Union Ministry of Skill Development and Entrepreneurship (MSDE)
19. World Trade Organisation (WTO), Geneva – www.wto.org
20. Global Information Network for SMEs covers information on SMEs in various countries – www.gin.ne.ip

margin between rates applied to savers and borrowers. The supposition is that savers would receive a lower interest rate and borrowers pay a higher interest rate if all financial services had explicit charges.

4. Gross Value of Output (GVO): Manufacturing Output is defined to include the ex-factory value (i.e., exclusive of taxes, duties, etc. on sale, and inclusive of subsidies, etc., if any) of products and by-products manufactured during the accounting year, and the net value of the semi-finished goods, work-in-process, and also the receipts for industrial and non-industrial services rendered to others, value of semi-finished goods of last year sold in the current year, sale value of goods sold in the same condition as purchased, and value of electricity generated and sold.

ANNEXURE

1. Gross Value Added (GVA): It may be noted that estimates of GVA had been prepared at factor cost in the earlier series (base year 2004-05), while these are being prepared at basic prices in the new series (2011-12). GVA estimated by production approach (GVA= Output-Material Inputs), and GVA estimated by income approach: (GVA= Compensation of Employees + Operating Surplus + CFC).
2. Gross Domestic Product (GDP): GDP is derived by adding taxes on products, net of subsidies on products, to GVA at basic prices.
3. FISIM stands for Financial Intermediation Services Indirectly Measured. In the System of National Accounts, it is an estimate of the value of the services provided by financial intermediaries, such as banks, for which no explicit charges are made; instead these services are paid for as part of the