

Debates on the SME Role

The SMEs sector, in most countries, is a key area of policy debate. In India, such debates have a longer history. There is the usual apprehension in some circles, especially among the SME Associations of India, that controls such as de-reservation would lead to a lost relevance for the conventional “small is beautiful” dictum. Of late, protests on those lines also have progressively come down. The “competitiveness” argument has become more fashionable. Both the de-reservefiles and de-reservephobes often leave out some of the relevant issues relating to survival and growth of SMEs in the emerging context of the new economy, i.e., an economy driven by information and communication technologies and where time is the critical constraint on which enterprises and markets have to work on.

India’s SME policy has the creditable record of being the first of its kind in the world. The sound political rationale, which germinated in the freedom movement and nurtured under the planning era, required a reinterpretation in the 1990s under a new policy regime. The crucial question then is not finding fault with the previous regime or eulogizing the present one but as to how we understand the economy and the relevance of SMEs against this background. In plain language, this is a question of public policy which needs to be addressed in terms of the essentials of public policy as such. A flowery usage such as “small is beautiful” does not convey much meaning unless they relate to this wider question of public policy.

The Essence of a Public Policy Debate

The cornerstone of any policy analysis is the theory of value conflict. (Fuller and Myers, 1941). A crucial question, which



Policy For Small and Medium Enterprises (SMEs)

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every policy analyst must confront, relates to the meaning of a public problem. For example, 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.

Value conflict theory centers on objective and subjective conditions. The objective condition is an empirical fact (e.g. 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). Fuller and Myers argue that social problems (public problems) go through a natural history of (i) awareness, (ii) policy determination, and (iii) 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 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.

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A social or public problem does not automatically lead to successful policy adoption. On the other hand, the values and interests of individuals or groups will continue to clash. Even after policies are adopted, value conflict continues in the implementation process as well as in 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 (Fuller and Myers, 1941).

Public policy is defined by Thomas Dye (1987) as “what government choose to do or 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. Politics is the driving force of what government does. It is the grease of the political system.

Development Policy in the 1990s

The 1990s had been characterized by the implementation of active liberalisation and globalisation policies in most parts of the world. In industrialized countries, this period witnessed the growth of an actively globalised SME sector. In UK, though globalisation of this sector was confined largely to services and not to manufacturing, the hegemony of multinational corporations in that country was significant in influencing public policy as a whole.

In the developing countries, the structural adjustment programme was instrumental in bringing in new policy options which were not thought of in the past. The structural adjustment programme implied a significant opening up of these economies which had their adverse effect on SMEs. This had been amply demonstrated by a study on structural adjustment programme carried out by the ILO.

The Economics of Small Industry Policy

Good economics and good politics need not always co-exist. But the complex economic factors are more crucial than the political compulsion of governance in the 1990s. In such a case of limited options, the policy analyst has to focus significantly on the world economic trend and its implications on national economies.

The 1990s have been characterized by two major developments in the world economy: (i) industrial restructuring and (ii) globalisation. It is important to examine these processes in detail.

Industrial Restructuring: A post-Fordist industrial paradigm has emerged in the wake of the economic troubles

of the 1970s and 80s. This crisis brought in a new paradigm of flexibility in the theory and practice of industrial organisation. In the industrialized countries, this implied automation, electronic information systems and robotization. Small enterprises were brought into the centre stage of industrial organisation. These firms became elements of semi-autonomous groups of producers, co-ordinated through a centralized information system. While in the industrialized countries such a change is relevant, its applicability in the context of developing countries has increasingly been called into question (Schmitz, 1989). Schmitz argues that this is relevant to the third world as well, and distinguishes a small enterprise variant and a large firm variant of flexible specialisation. In the former case, the small firms join together and establish a strong inter-firm division of labour; in the latter case, the large firms are decentralised and specialized internally or use specialized suppliers. In the former case, collective efficiency is the key word and in the latter case, it is possible to employ productivity techniques like just-in-time (JIT). Flexibility in a production system is a response to instability and uncertainty in the market (Salais and Storper, 1992). If the needed services or production inputs are not available on the market, the enterprises will either have to produce them itself, often with much reduced efficiency, or choose a technology which reduces its needs for external inputs. The choice of technology also depends on the structure of labour market and the choice of product depends on the size and structure of the market.

The emergence of the new forms of industrial organisation in the developed countries, obviously, have policy implications for the South. According to Best, the health of an industrial system depends on combining competition with cooperation. This can only be achieved by policy intervention. But, as rightly pointed out by Pezzini and Brusco, policy makers should not adhere to one single broad economic policy approach for the small firm. There are different kinds of small firms and different contexts and, therefore, there must be different policies adapted accordingly. In most developing countries a common “broad sweep” approach has been followed. This implies provision of various kinds of financial incentives, such as, subsidies, tax exemptions, aid to technological improvement, relaxation of social obligations. In the light of the emerging forms of industrial organisation and the specific experience of industrial districts, this policy approach is increasingly losing its relevance. Individual oriented incentives do not often help the individual units significantly. Moreover, the key problem for small firms appears not to be that of being small, but of

being isolated (Pyke *et al.*, 1992). More emphasis, therefore, should be given to the creation of organisational form under which the small firm can combine its advantages of flexibility with the support and stability that comes from larger networks.

Globalisation: Along with the new forms of industrialization, an important development having implications on SME policy is globalisation. Industrial globalisation refers to an evolving pattern of cross-border enterprise activities, including international investment, trade and strategic alliances for product development, production sourcing and marketing (OECD, 1997). International activities enable firms to enter new markets to exploit their technological and organisational advantages and to reduce business costs and risks. Opinion on the advantages of such globalisation is divided; some consider that it will open up new opportunities for outward expansion and growth but a much larger group consider that inward globalisation causes new competitive challenges. Studies have shown that the fastest growing international SMEs are those in niche markets and new industries. This category constitutes only about 20% all internationalized SMEs.

The globalisation of SMEs has a number of implications for policy at the local, national and international levels. There is a general agreement that globalisation is not reversible and moves by SMEs to globalize lead to further globalisation. For policy makers, this means that their own national SMEs will be increasingly subject to competitive forces from outside their domestic boundaries. This raises two policy questions. (i) how should national governments address these international issues? and (ii) what guidance can be offered in terms of best practices in each country?

The most well known argument for small industry had been based on the classical debate on economies of scale. The Marshallian concept of "Industrial Districts" focuses on scale as well as location. The Marshallian argument was based on the historical experience of the United Kingdom in the late 19th and early 20th centuries. Following these theoretical premises and based on the political and social experience of developing countries of the mid 20th century, the debates on SSI and its roles in the development process emerged. In India, the Quit-India Movement which commenced in 1942 provided the political underpinning for the economic doctrine of economies of scale. Enterprises of a small scale (symbolized by Khadi) were portrayed as a viable people-centered alternative to the large scale enterprises (symbolized by mill cloth), the embodiment of international capital and colonization. In fact, the largely politically motivated Indian

model of industrial development and the British experience, based largely on economic theorizing of the times, provides the international basis of a small industry policy.

The second world war witnessed a major watershed in the political history of the world, signifying the end of colonial rule and the liberation of several countries of Asia, Africa and Latin America from the colonial yoke. Most of these countries, under colonial rule, were driven into a stream of commercial farming from primitive agriculture. The process of commercialization of agriculture resulted in a significant process of land alienation. This also imposed an enhanced burden on the new governments in these countries to address to the problem of unemployment on a war-footing. It was this historical inevitability that marked the basis of a policy for small industry in most developing countries of the world. The content of a small industries policy is, hence, not historically neutral. In some countries like India, the historical need, to start with, was to protect local small industry from the large sector. In some other countries, the non-farm enterprises were even non-existent and, therefore, the imperative was just to attract some entrepreneurs to the stream of non-farm activities. In the third category of countries, mostly late-comers, both small and large enterprises had more or less equal base so that the task for the government was to have a developmental policy without being strictly protectionist or promotional. These three types of developmental strategies, however, are dependant on the stage of development of the country concerned as well as the several historical conditions.

Small industry policy, therefore, need to be more of a flexible nature, rather than a rigid one. The question of rigidity versus flexibility is, however, a question of the political and ideological foundations of the governments in power. Governments come and go and hence, policy changes as well. The advent of Thatcherism in the late 1970s implied major changes in the industrial policy regime in UK (which was reverted to some extent, subsequently under the Labour Party). Similarly, in India, the Rajiv Gandhi and Narasimha Rao era witnessed substantial changes in industrial policy which were not persued in the same degree by the subsequent governments led by Shri Deve Gowda and Shri I.K. Gujral.

Industrial policies in all countries today follow, in differing degrees, the global trend of globalisation and liberalisation. Under the new emerging era of globalisation, the signatories of WTO are forced to adhere to the WTO stipulations. While the developing countries try their best to resist major changes in the economic benefits they enjoyed so far, the

industrialized countries, try to get into several of the new opportunities which have been thrown open. Thus, the developments in the international economy pose opportunities and threats to both industrialized and developing countries. The theory and practice of flexible specialisation opened up several opportunities for the

industrialized countries internally as well as across the border. The continuous breaking up of the production process opens up significant opportunities for small enterprises. However, the inequality in information itself decides the inequality between large and small units, as well as within small units.

SME Sector & Union Budget

For the Year 2006-07

The Budget focused on agriculture, employment promotion, enhancing investment and augmenting infrastructure. While sharpening its emphasis on effective credit delivery to SMEs, some of the important measures relating to the SMEs announced in the Budget are given below :

- To encourage technological upgradation and vertical expansion of units, the Ministry of Small Scale Industries identified a further 180 items for dereservation.
- SMEs in the services sector are to be recognised and treated as the small scale enterprises in the services sector on par with the small scale enterprises in the manufacturing sector. The inclusion of service sector which contributes significantly to country's GDP, within SSI definition would allow a larger share of advances towards services and render flexibility to banks in managing priority sector mandates.
- Measures related to Credit Guarantee Fund Trust for Small Industries included :
 - increase in the corpus of the Credit Guarantee fund to Rs.2,500 crore in next five years
 - reduction of the one time guarantee fee from 2.5 percent to 1.5 percent for all loans and
 - extension of insurance cover to approximately 30,000 borrowers, identified as chief promoters. The sum assured would be Rs.2 lakh per beneficiary and the premium would be paid by CGTSI.

- The National Manufacturing Competitiveness Council finalized a five- year National Manufacturing Competitiveness Programme.
- The Cluster Development approach would continue for Handlooms sector with coverage of additional 100 clusters at a total cost of Rs.50 crore. It has been decided to constitute an Empowered Group of Ministers who will lay down the policy for cluster development and oversee the implementation.
- The support under Technology Upgradation Fund Scheme (TUFS) was enhanced from Rs.435 crore to Rs. 535 crore for next year. The Scheme for Integrated Textile Parks was launched in October 2005 with the intention of creating 25 textile parks. A scheme similar to TUFS is planned for the handloom sector to provide interest subsidy on term loans.
- Recognising the potential of food processing industry, the Budget proposed to treat food processing as a priority sector for bank credit. The Government also proposed to set up the National Institute of Food Technology Entrepreneurship and Management.
- The Budget further proposed to set up an expert body to look into the potential of India emerging as hub for Gems and Jewellery which offered considerable scope.

(Source: <http://indiabudget.nic.in/>)