

Chapter 3

SMEs IN INDIA: ISSUES AND POSSIBILITIES IN TIMES OF GLOBALISATION

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Abstract

With an impressive history of small firm development policy, in post-Independence India SMEs dominate the industrial scenario through its contribution to generation of employment and income as also tackling the problem of regional disparities. Given the imperatives of globalization, although in certain sectors strong external orientation could be observed even by the early 1980s, it is since 1991 that the small firm policy (and since late 2006, for the MSMEs, including the 'medium' for the first time) in India has been keenly pursuing policies that emphasize the importance of internationalization, trade and inter-dependence in the spheres of innovation, learning, market and business strategies. An examination of the performance of the small enterprises has been attempted here, underscoring the unimpressive performance and composition of exports and the widespread efforts at SME cluster promotion without a sound regional development perspective. Despite an elaborate and dynamic policy framework, the progress of Indian SMEs continues to be hindered by some of the basic constraints as poor credit availability, low levels of technology (hence, low product quality and limited exportability) and inadequate or no basic infrastructure, both physical and economic. It is too early to assess the impact and effectiveness of a plethora of new policy measures, announced very recently. Through a brief case of the garment sector some of the concerns (including terms of employment) regarding linking with global production networks have been presented. A case for proper implementation and following up of numerous schemes has been made, as also to develop policy-sensitive database for both SMEs as well as clusters. The challenge to policy lies in broad-basing benefits to SMEs across space and sector and also keeping the decent employment generation role of SMEs in focus.

INTRODUCTION

Small enterprise promotion has continued to remain an important and integral part of Indian development strategy much before the First Five-Year Plan, even dating back to 1938 when the National Planning Committee documents were being prepared. The concerted policy emphasis upon small firms as a vital vehicle of progress draws upon this sector's crucial historical role in generating substantial employment and income at the regional level and acting as a shock-absorber during periods of economic crisis. The small enterprise sector has continued to contribute immensely in creating large scale job opportunities across space and, in the process, helped reduce inter-regional and rural-urban disparities in growth. The remarkably diverse range of products manufactured in this sector (estimated to a staggering over 8000 distinct products), often available at affordable prices, has successfully catered to a calibrated yet vast domestic market. Certain products in this sector have also been consistently figuring in the export basket during the recent decades, although the export performance in the global market has been unimpressive.

After pursuing at least four decades of 'controlled' industrialisation – protecting infant industry and supporting an import-substitution strategy – in 1991, through the formal pronouncement of economic reforms of the Indian economy, the hitherto protected small enterprise sector began to come to terms with the imperatives of globalization. An increasing emphasis upon external orientation, competitiveness and networking with agencies within and beyond the sector and nation seemed to have been the bedrock of current policy paradigm; the recent policy framework corroborates this notable shift in focus. It may, however, be pointed out at this stage that till as late as October 2006, by when the Micro, Small and Medium Enterprises Development (MSMED) Act came to be legislated, the 'medium' category never had been formally defined; 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.

2. SIZE AND CONTRIBUTION

As per the most recent Third All India Census of Small Industries (GoI, 2004), the sector is dominated by smaller / tiny units. Of the total estimated size of the sector with over 10.5 million units (both registered and unregistered in both manufacturing and service enterprises), the tiny units account for 99.5 per cent of the so-called small-scale industry (SSI) units numbering over 4.4 million. In fact, as between the last two small industry censuses (the most recent one being for the year 2001-02 and the previous one for 1987-88), the average size of the firm in terms of employment has declined from 6.3 to 4.6, suggesting a rise in the smaller sized firms over the 15-year period.

Table 1: Definitional investment ceilings criteria for SSI in India, 1985-2006

Year	Upper limit of the historical/original value of plant and machinery (Rs. Million)				
	SSI	Ancillary	Tiny ¹	EOU ²	SSSE/ SSSBE ³
1985	3.5	4.5	0.2	-	0.2
1991	6.0	7.5	0.5	7.5	0.5
1997	30.0	30.0	2.5	30.0	0.5
1999	10.0	10.0	2.5	10.0	0.5
2001	10.0 ⁴	10.0	2.5	10.0	1.0
2006	10.0/ 50.0 ⁵	10.0	2.5	10.0	1.0/ 20.0 ⁵

Notes:

1 In 1980, these referred to the units located in rural areas or towns having a maximum population of 50,000 as per *Census of India 1971*. By 1985, the population limit increased to 0.5 million as per *Census of India 1981*. However, by 1991, the locational conditions had been dropped.

2 EOU – Export Oriented Unit; this category was introduced in 1991.

3 SSSE – Small Scale Service Establishment; introduced in 1985.

SSSBE – Small Scale Service and Business Enterprise; this category replaced SSSE since 1991.

4 Since October 2001, for 41 items of Hosiery and Hand Tools; since June 2003, for 23 more items of Stationery and Drugs and Pharmaceutical industry and since October 2004 for 7 more items of Sports Goods the upper limit of investment had been raised to Rs. 50 million.

5 Since February 2006, the investment limit for 69 new items of Food and Allied, Plastic, Chemicals, Glass and Ceramic and Auto Parts industries was raised to Rs. 50 million. Also for all items in the Drugs and Pharmaceuticals sector (*whether reserved or not*) the investment ceiling has been raised to Rs. 50 million. However, the Micro, Small and Medium Enterprises Development Act, 2006, being operational from 02 October 2006, fixed the ceiling for *all* small enterprises at Rs. 50 million and for SSSBEs at Rs. 20 million.

Source: Das (2008:217)

Table 2: Aspects of growth of SSI in India, 1990-2006

Year	Total SSI Units (in Million)	Fixed Investment (Rs. Million)	Production (Rs Million)		Employment (In Million)
			Current Prices	Constant Prices (1993-94)	
1990-91	6.79	935,550	635,180	682,950	15.83
1991-92	7.06	1,003,510	730,720	791,800	16.60
1992-93	7.35	1,096,230	855,810	935,230	17.48
1993-94	7.65	1,157,950	988,040	988,040	18.26
1994-95	7.96	1,237,900	1,222,100	1,091,160	19.14
1995-96	8.28	1,257,500	1,482,900	1,216,490	19.79
1996-97	8.62	1,305,600	1,684,130	1,353,800	20.59
1997-98	8.97	1,332,420	1,891,780	1,478,240	21.32
1998-99	9.34	1,354,820	2,129,010	1,594,070	22.06
1999-2000	9.72	1,399,820	2,342,550	1,707,090	22.91
2000-01	10.11	1,473,480	2,612,890	1,844,280	23.91
2001-02	10.52	1,543,490	2,822,700	1,956,130	24.93
2002-03	10.95	1,623,170	3,148,500	3,067,710 *	26.02
2003-04	11.34	1,702,190	3,645,470	3,363,440 *	27.14
2004-05	11.86	1,786,990	4,297,960	3,729,380	28.26
2005-06	12.34	1,881,130	4,978,420	4,188,840	29.49

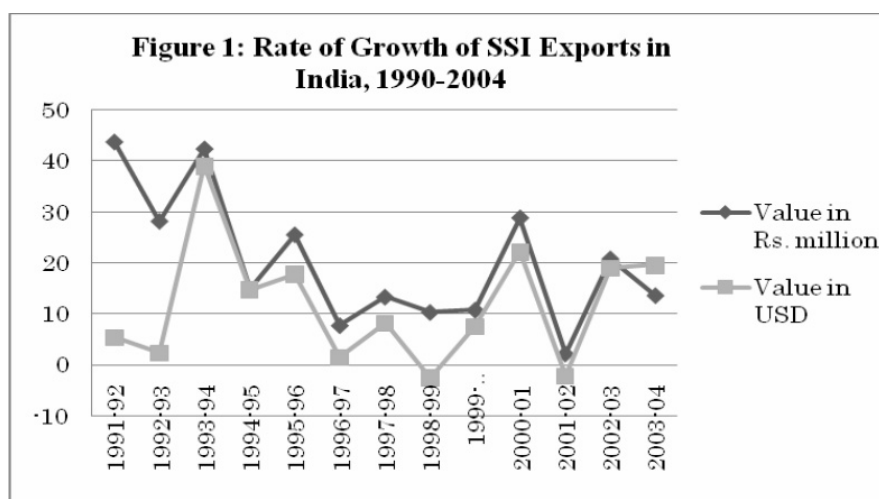
*Notes:** At 2001-02 prices, hence, strictly not comparable.

Figures in brackets show the percentage growth over the previous year.

Sources: Upto 2000-01 from <http://www.ssi.gov.in/ssi-eng-2004-05.pdf> and beyond from <http://msme.gov.in/ssi-ar-eng-2006-07.pdf> (accessed January 27, 2008).

Considering the preponderance (and rise) of smaller units, at least since the mid-1980s or so, the policy support seems to have been favouring relatively larger sized enterprises, as may be comprehended from Table 1. While such a massive raise in the investment ceiling (from Rs. 6 million in 1991 to Rs. 50 million in 2006) was supposed to dissuade small from being dependent upon concessional state funds, the measure also explicitly encouraged capital-intensive small enterprise development. Interestingly, as the size of employment has never been part of the criteria used for the official definition of small enterprises, the hike in investment ceiling in recent times could, gradually, render employment creation as a secondary or even non-issue for small enterprises.

Table 2 presents data on key variables concerning the small scale industries in India during the period 1990-2006. The figures (including their annual growth rates) do clearly indicate a consistently growing small enterprise sector, whether in terms of the number of units, output, investment or employment. The official data, nevertheless, have been subject to criticism on grounds of being ‘grossly inflated’ figures. If such bloated figures bring about a sense of complacency in policy circles, it is a matter of concern.



Source: Das (2006: 115)

This is especially the case with the performance of exports from the small firms sector. From Figure 1, it appears that exports from the SSI have not only fluctuated

heavily during the period of last 15 years or so, but also have suffered negative growth rates. Observers have commented that the share of exports from small enterprises to Total exports has been on the decline. Further, the composition of exports from small enterprises has remained practically the same during the period. As Table 3 establishes, about 90 per cent of value of exports have been contributed by the same six product groups during 1988-2003, the only additional product group in the latter period being that of electronics and computer software.

Table 3: Export of major product groups from the Indian SSI sector, 1988-2003
(Value in Rs. Million)

Sl. No.	Product Group	1988-91		2000-03	
		Value	%	Value	%
1	Readymade garments	31029	40.9	249751	33.0
2	Engineering goods	6573	8.7	94780	12.5
3	Basic chemicals, pharmaceuticals and cosmetics	10467	13.8	84642	11.2
4	Processed goods	3090	4.1	75970	10.0
5	Electronic and computer software	-	-	63850	8.4
6	Finished leather and leather products	15528	20.5	55025	7.3
7	Marine products	2681	3.5	28570	3.8
	Total	75932	100.0	756843	100.0

Sources: For the period 1988-91, estimated from Table 97, Government of India (1994: 189); and for the period 2000-03, estimated from Table 7.16, Government of India (2005: 183).

Given the vast range of products manufactured in the small scale sector, the nature of the export composition makes it amply clear that products from mostly tiny or smaller enterprises (which almost singularly dominate the SSI sector) have hardly improved quality or exportability through supportive interventions towards product / process innovations, diversification and larger market access. These items could easily be those falling under the so-called traditional / rural / artisanal (handicrafts and handlooms) / agro-based product groups. This state of affairs hints at the little impact of the policy instruments devised for upgrading technological capabilities of small firms as also promoting competitiveness and dynamic entrepreneurship, especially in rural and semi-urban areas.

3. CONSTRAINTS

As has been pointed out in many studies on small firm performance in India, some of the most persisting constraints facing the sector include poor / non-availability of loan finance; low levels of technology; inadequate physical and economic infrastructure; and a truncated policy of product reservation.

3.1 Loan finance

For decades, the most dominant constraint facing the small enterprise sector has remained access to loan finance, adequately and timely. This is despite clear instructions from the Reserve Bank of India (RBI) and the Ministry of Finance to encourage flow of funds (through what is called achieving 'priority sector' lending targets) from the commercial banks to small enterprises. As a national level study observed, "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 ways of direction and supervision of banks by the RBI and an absence of performance-based incentive system for proactive bankers (those assessing loan eligibility) have all constricted easy flow of loan finance to small firms. The situation has been much more difficult for the tiny enterprise sector; this is despite the strict RBI guidelines not to insist upon collateral against a loan.

Further, it is observed that a particular problem of the Indian finance system is that there is no transparency regarding the financial conditions of SMEs. 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. Hence, securing

transparency of financial conditions, eventually, influences decisions on loan finance. Only recently, the credit guarantee system for SMEs has been introduced by commercial and other financial institutions. For instance, under the Credit Guarantee Fund Trust for MSEs (CGTMSE) life insurance cover for the chief promoters of enterprises is guaranteed. Moreover, a number of industry associations have signed MoUs with commercial banks and other financial institutions to offer collateral security to upcoming entrepreneurs for their credit requirements (Kondaiah, 1997: 7). The CGTMSE will function under the monitoring of the SIDBI. Unless the credit guarantee system is strengthened and streamlined smaller units would continue to suffer neglect in accessing the much needed credit for both inception and expansion.

An idea regarding credit flow to small and tiny units during the period 1990-2005 can be had from Table 4. A decline is discernible in case of the share of credit to SSI of the net bank credit (Figure 2). It has decreased from about 16 per cent in 1990-91 to just about 9 per cent in 2004-05. Considering the tiny sector, the decline in bank credit is obvious, since the mid 1990s. An abrupt jump in the share by 1999-2000 reflects the effect of change in the definition of the tiny sector in 1997 (from the

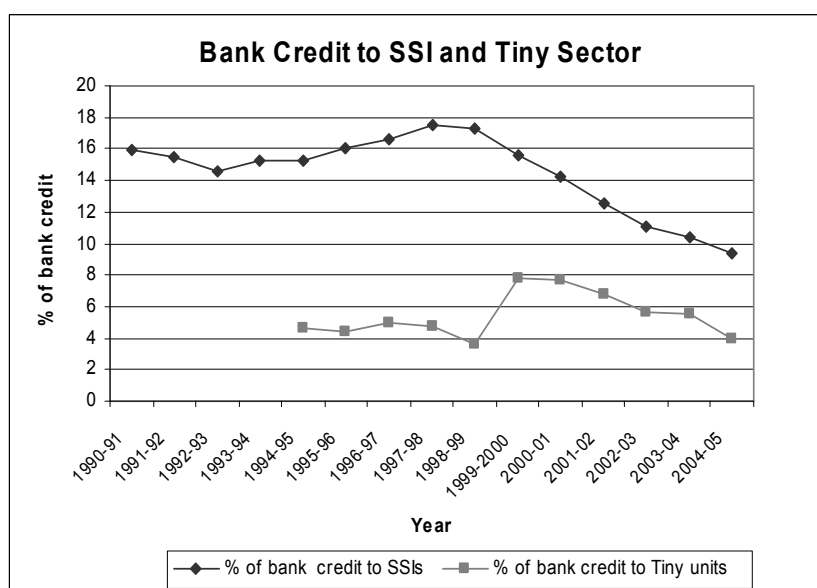
Table 4: Bank credit to SSI and tiny sector 1990-2005

(Rs. Million)

Year (as on end March)	Net Bank Credit	Credit to		Proportion of Credit of		
		SSI	Tiny Sector	SSI to Net Bank	Tiny to Net Bank	Tiny to SSI
1990-91	1,056,320	167,830		15.89		
1991-92	1,121,600	173,980		15.51		
1992-93	1,327,820	193,880		14.60		
1993-94	1,409,140	215,610		15.30		
1994-95	1,690,380	258,430	77,340	15.29	4.58	29.93
1995-96	1,843,810	294,850	81,830	15.99	4.44	27.76
1996-97	1,896,840	315,420	95,150	16.63	5.02	30.20
1997-98	2,182,190	381,090	102,730	17.46	4.71	27.00
1998-99	2,462,030	426,740	88,370	17.33	3.59	20.70
1999-2000	2,929,430	457,880	227,420	15.63	7.76	54.03
2000-01	3,408,880	484,450	260,190	14.21	7.63	53.70
2001-02	3,969,540	497,430	270,300	12.53	6.81	54.34
2002-03	4,778,990	529,880	269,370	11.09	5.64	50.84
2003-04*	5,588,490	582,780	308,260	10.43	5.52	52.89
2004-05*	7,187,220	676,340	280,630	9.41	3.90	41.49

Note: * Provisional

Source: <http://www.laghu-udyog.com/thrustareas/CREDIT.htm> (accessed December 30, 2007).



Source: Same as in Table 4

previous investment ceiling of Rs. 0.5 million to a five-fold high of Rs. 2.5 million), rather than a particular concern for the marginalized sector. In fact, by raising the definitional limit, again, relatively larger units got the advantage of access to capital. Nonetheless, even this segment received falling shares as years went by; by 2004-05 the proportion had dropped from about 7.8 per cent in 1999-2000 to less than 4 per cent.

A related serious issue is the growing ‘sickness’ (inability of enterprises to repay the loan finance) in the small scale sector. At least since 1991, the proportion of sick units in the total (SSI and non-SSI) units, typically, has remained above 98 per cent and the loan amount outstanding has risen from about Rs. 28 million in 1991 to Rs. 57 million in 2003. The amount has shot up despite an effort to grossly underestimate the number of sick units by adopting a ‘different’ definition of sickness in 2001. While every possible reason could be cited as factors causing sickness, it is often not clear as to the future of these ‘sick’ units, i.e., if these revived at all through policy efforts.

3.2 Infrastructure

Much of the potential of small firms to grow and nurture innovativeness is shaped by the kind of infrastructure, both physical and economic, available and can be accessed at reasonable costs. Unfortunately, the ramifications of infrastructural constraint faced by small firms remain one of the most neglected areas of enquiry. Moreover, the nature and

implications of such infrastructural absence or inadequacy could be deeply varied as between small enterprises located in urban areas and those in rural and semi-urban areas.

The only comprehensive study in recent years that attempted to capture the infrastructural problems facing small enterprises, across the country, came up with a range of facilities / components those severely limit the functioning and growth of small firms. As shown in Table 5, access to dependable supply of electricity emerged the most crucial issue blocking the rise of productivity and output of small firms in all the 12 states surveyed. Similarly, poor transportation facilities, especially in rural and semi-urban areas have been cited as constraints encountered by small enterprises; access to newer and larger markets has been severely restricted due to this. This crucial infrastructure includes improved roads, railways and port facilities.

In addition to the generic infrastructure that boosts the local economy in general, there is need for enterprise specific infrastructure, viz., provision of common effluent treatment plants (CETPs), well-developed industrial estates / parks, common testing / quality check facilities, etc. Even provision of potable water to small enterprises was considered an important infrastructure that could add to productivity rise.

3.3 Product reservation

This rather long-standing and unusual policy of reserving certain products to be exclusively produced by the small scale sector has come to be interpreted as a bottleneck to productive efficiency of the small enterprises. A long list of over 800 products (the list revised frequently, often on political considerations and without convincing reasons) seemed to have lost its original purpose of creating local employment using locally available resources within a 'protective' policy framework. Analysing the effect of this highly controversial policy, scholars have pointed out the issue of technical inefficiency of products manufactured under reserved category as compared to the non-reserved products (Sandesara, 1993; Balasubrahmanya, 1995; and Morris *et al.*, 2001). Studies have also referred to the impracticality and even irrelevance of the policy of reservation. "Some of the standard issues raised relate to the following: a. frequent changes (adding / deleting) in the products listed were not

Table 5: Status of infrastructure for SSI in Indian states

States	No. of Firms	All Infra-structure	Power	Transportation	Port Facilities	Industrial Estate Facilities	Communication Facilities	Pollution Locally	Water Supply	Congestion in Nearby city	Lack of CETP and Safety	Industrial Security	Other
Assam	45	57.7	8.7	6.9	2.4	6.9	7.4	3.0	6.0	4.0	4.1	7.2	1.2
Bihar	40	47.3	8.0	4.8	1.1	5.2	6.1	4.1	4.5	3.6	3.2	5.8	0.8
Gujarat	70	39.1	9.2	5.2	1.5	3.3	4.6	3.1	5.8	1.2	2.3	2.7	0.2
Karnataka	56	52.8	9.8	5.4	1.7	5.2	7.7	4.1	5.8	3.1	3.7	5.9	0.4
Kerala	167	48.8	9.7	5.9	2.9	5.0	6.0	3.3	5.6	2.4	3.1	4.5	0.4
Maharashtra	231	51.0	8.4	5.3	1.8	6.1	6.5	3.9	5.4	3.2	3.0	6.7	0.5
Orissa	135	54.9	9.1	7.1	2.4	6.7	6.9	3.5	5.7	3.1	4.1	5.9	0.5
Punjab	42	60.8	8.7	6.7	3.2	5.8	7.7	5.3	7.1	4.8	4.1	6.6	0.7
Tamil Nadu	118	49.4	9.0	6.9	1.9	4.7	7.4	3.0	5.0	2.7	2.4	6.4	0.0
Uttar Pradesh	102	29.3	8.2	5.1	0.7	1.2	3.5	3.0	3.5	1.9	1.0	1.1	0.1
West Bengal	180	36.1	6.6	4.9	1.2	2.9	4.4	2.6	3.7	3.0	1.8	4.0	1.2
All States	1186	46.7	8.5	5.8	1.9	4.7	6.0	3.4	5.1	2.9	2.8	5.1	0.5

Notes: Estimated on the basis of simple average of firms' responses to a scale: 10 – very important; 5 – important; and 0 – unimportant. For all infrastructure, the score is the aggregate of the scores of each of the infrastructural areas.

Source: Based on Table 6.6 of Morris *et al.* (2001: 226).

always justified and supposed to have been influenced by political vested interests; b. a lackadaisical approach to the policy marked its broad-basing, as surveys found that producers engaged in manufacturing ‘reserved’ items had no clue about the policy; c. certain items continued to be produced by the medium and large scale firms as they had been doing so prior to the specific products were reserved; and d. the quality of reserved products was often not satisfactory” (Das, 2006: 116-117). Being a politically sensitive subject, it took much time and efforts to phase out the system; by March 2007 the list had a much reduced number of 114 products reserved.

4. RECENT POLICY FOCUS: AUGMENTING NETWORKS, COMPETITIVENESS AND EXPORTABILITY

With the recent pronouncement of the ‘landmark’ MSMED Act, 2006, the Indian government has explicitly recognized the dynamic role to be played by the MSMEs in an increasingly globalised world. The clear thrust of the recent policy initiatives has been three-fold: i) enhance competitiveness through encouraging an innovative ethos amongst firms and being quality conscious; ii) increase links with multiple stakeholders with a view to benefit from networks both nationally and globally; and iii) strive for a larger market presence beyond the domestic. The policy attaches importance to networking with stakeholders both upstream and downstream in the entire global value chain, from raw material procurement to processing/manufacturing to marketing to customer services. For one thing, the Act has identified the category of ‘medium’ enterprises as a vital section in the manufacturing stream and, for the other, it has taken special note of distinct roles to be played by what are termed business service enterprises.

In addition to the MSMED Act, a plethora of contemporary policy initiatives in various spheres, particularly concerning SMEs, can be identified. It is important to state at this stage that these policy measures are fairly nascent in origin and there hardly exists any basis to be euphoric about their effectiveness. Rather one needs to be extremely cautious in extrapolating their impact, given that in the past many such policy measures with ample potential hardly have been translated into enhanced performance of the

MSMEs. Poor monitoring of implementation and effect of various small firm policies has been an issue of concern.

For the present purpose, it may be useful to discuss, briefly, the major policy initiatives in recent times aimed at rendering the SME sector dynamic.

4.1 Area I: Building competitiveness

In the policy circles there has been a growing recognition of both the criticality and possibility of enhancing SME competitiveness through reducing cost of production, improving product/service quality and targeting niche markets. The most explicit such initiative has been the creation of the National Manufacturing Competitiveness Council (NMCC), which would, basically, identify and focus on certain clusters and firms in certain promising sub-sectors. The interventions would include technology upgradation, design and IPR protection, marketing and sales promotion strategy and skill upgradation etc. Table 6 provides a list of the sub-schemes under the National Manufacturing Competitiveness Programme (NMCP).

Table 6: Sub-schemes under NMCP

#	Sub-Schemes under NMCP
1	National Programme on Application of Lean Manufacturing
2	Promotion of ICT in Indian manufacturing sector
3	Mini-Tool Rooms to be set up (by the Ministry of SSI)
4	Technology and Quality Upgradation Support for SMEs
5	Support for Entrepreneurial and Managerial Development of SMEs
6	Design Clinic scheme to bring design expertise to the manufacturing sector
7	Enabling manufacturing sector to be competitive through quality management standards and quality technology tools
8	National campaign for investment in Intellectual Property
9	Market assistance/SMEs and technology upgradation activities (the Ministry of SSI in co-operation with TIFAC/CSIR)
10	Marketing Support/Assistance to SMEs

Source: <http://www.nmcc.nic.in/NMCP.aspx> (accessed January 28, 2008).

The following four major areas have been proposed to be covered for appropriate intervention, based on the diagnostic studies and discrete requirements of the enterprises or cluster or industry:

- Manufacturing and engineering
- Marketing

- Financial and general management
- Information technology

The action plans would be implemented on a Public Private Partnership (PPP) basis with provision for fund sharing by the firms and the government. As has been clarified in the official website, “the government assistance would not be in the nature of subsidy but for implementing the concrete interventions identified to improve competitiveness.” It also intends to link these initiatives with the existing schemes which promote competitiveness.

Another effort to encourage competitiveness in the SMEs has been the Visionary Leaders for Manufacturing Programme (VLMP), under the Indo-Japan Cooperation Agreement signed in December 2006. The target group of the VLMP has been to create a critical mass of 300 ‘visionary’ managers, executives, CEOs and entrepreneurs through imparting advanced training and exposure of ‘best practices’ from Japanese experience. These trained business leaders would help transform Indian manufacturing by underscoring industry-academia linkages and other business practices that increases competitiveness.

4.2 Area II: Promoting innovativeness and awareness about quality

A key area of worry for SME development has been ensuring a business environment that generates an innovative ethos and a serious concern for product/service quality. While it is well recognized that product/service quality determines marketability, especially, in the global arena, Indian SMEs, with exceptions, are yet to gear up to face the challenge. While in certain sectors FDI in technology and services has been on the rise and are welcome as well, its broad-basing has remained a major issue; sub-contracting relations with MNEs has not been an automatic and unconditional mechanism to enhance innovativeness in domestic firms. Recent policy measures have attempted to address this issue of facilitating greater number of SMEs to improvise the level technology through accessing support from the recently created Technology Bureau for Small Enterprises (TBSE). This SIDBI arm has collaborative arrangement with the Asian and Pacific Centre for Transfer of Technology (of the UNESCAP) that would help enterprises to strengthen their capabilities to “develop, transfer, adapt and apply technology; improve the terms of transfer of technology; and identify and

promote the development and transfer of technologies relevant to the region” (<http://www.apett.org/>). This would provide a good opportunity for SMEs to establish business collaboration with foreign firms as also to access professionally-managed acquisition of foreign technology.

Amongst various measures initiated to upgrade quality, an insistence upon obtaining ISO certification has been somewhat well responded to; with the provision of reimbursement of 75 per cent of costs in acquiring the certification, on an average, annually over 3000 enterprises have been availing this service close to 15 years now. Further, for aspiring MSEs, schemes to reimburse part of the expenses to units opting for bar coding and credit-linked capital subsidy for technology upgradation have been launched. A provision has been made to provide financial assistance by state governments (upto 50 per cent of total costs) to Entrepreneurship Development Institutes (EDIs) those creating training infrastructure. Similarly, government would partly contribute setting up of mini tool rooms and testing centres by industry associations. The emerging mechanism of providing microfinance for microenterprises is also visualized as a preliminary step in ‘preparing’ them to grow up with stronger technological abilities.

4.3 Area III: Enabling SMEs to participate in global value chains and markets

For Indian SMEs, participating in the global value chains to upgrade the technological capability and, quintessentially, expanding global market access have not been easy as constraints exist in terms these firms being WTO-IPR regulations compliant, awareness regarding appropriate steps involved in an international sub-contracting, familiarity with complex bureaucratic procedures in external trade and, not less importantly, conducting business through e-commerce. Contrary to previous ‘protective’ regime, there has been substantial relaxing of FDI norms that has, in fact, resulted in increasing interest of MNEs to invest in India, particularly, in the sphere of garments, automobiles, electronics, chemicals, etc. Although in its formative stages, government efforts are on to facilitate networking between SMEs and foreign firms. Advisory and other services are being made available to SMEs to link with global production networks (GPNs) towards activities such as joint procuring of inputs, joint selling and undertaking and benefiting from joint market research. Some of the steps in this direction include

starting of a number of business support services as awareness and training programmes for familiarizing firms with systems of patenting, norms under the IPR regime; the establishment the National Intellectual Property Organisation (NIPO) has been an effort in that direction.

So far as participating in external markets are concerned, there have been the Market Development Assistance (MDA) schemes of both the Ministry of Commerce and Ministry of MSME which offer funding support for participation in international fairs, study tours abroad, trade delegations, publicity, etc. Further, in its recently (April 2006) revised MDA scheme, the Ministry of Commerce has underscored the following aspects of business promotion by Indian SMEs abroad

(<http://commerce.nic.in/mda-guidelines.pdf>):

- Assist exporters for export promotion activities abroad
- Assist Export Promotion Councils (EPCs) to undertake export promotion activities for their product(s) and commodities
- Assist approved organizations/trade bodies in undertaking exclusive nonrecurring innovative activities connected with export promotion efforts for their members
- Assist Focus export promotion programmes in specific regions abroad like FOCUS (LAC), Focus (Africa), Focus (CIS) and Focus (ASEAN + 2) programmes.
- Residual essential activities connected with marketing promotion efforts abroad.

As is well recognized, greater use of the information and communication technology (ICT) has emerged as the *sine qua non* of business networking and growth, both at home and abroad. Given that India has an added advantage in this aspect, policy efforts are being directed towards making the best use of this technology.

5. CLUSTER DEVELOPMENT: THE CELEBRATED STRATEGY OF MSME GROWTH

With the launching of the cluster development programme in India by the UNIDO in 1997, promoting clusters as a strategy to enhance the competitiveness and to participate in the global value chain has been almost a celebrated strategy countrywide. The surge of various cluster schemes can be observed since 2000 onwards. Numerous Government and quasi-government documents have acknowledged cluster development as the most important initiative to improve the performance of the MSMEs in the country. For instance, the Draft 11th Five Year Plan document states that “A cluster approach can help increase viability by providing these units with infrastructure, information, credit and support services of better quality at lower costs, while also promoting their capacity for *effective management of their own collectives* (emphasis ours)” (Planning Commission, 2006: 35).”

The acknowledged traditional benefits of clustering, identified in the literature on agglomeration economies, include the following:

- Information / knowledge spillover at the enterprise level
- Sharing of inputs, services and technology
- Multi-skilling of labour improves job opportunities
- Attracts both customers as well as suppliers / wholesalers

The advent of globalization, however, has opened up newer spheres of networking and business spread. In addition to the above benefits, especially during the last 15 years or so, a range of advantages has been found to be associated with clusters. As listed in popular documents (e.g., Ecotech Research & Consulting, 2004: 5), some of these include:

- Increased levels of expertise. This provides sourcing companies with a greater depth to their supply chain and allows for the potential of inter-firm learning and co-operation.

- The ability of firms to draw together complementary skills in order to bid for large pieces of work that as individual units they would be unable to compete for.
- The potential for economies of scale to be realised by further specialising production within each firm, by joint purchasing of common raw materials to attract bulk discounts or by joint marketing.
- Strengthening social and other informal links, leading to the creation of new ideas and new businesses.
- Improved information flows within a cluster, for example, enabling finance providers to judge who the good entrepreneurs are and business people to find who provides good support services.
- Enabling the development of an infrastructure of professional, legal, financial and other specialist services. Clustering is one of the key drivers of economic growth in localities, cities and regions. However, adopting a cluster approach is not the only way of encouraging regional economic growth. Informal networking, developing supply chains and improving workforce skills all have a part to play in improving competitiveness and creating growth.

Some even claim that cluster development could be an approach to eradicate poverty as well. Cluster development has also attracted much attention in the policy circles as it has potential for broad-based networking amongst the government, private sector, academia and various support / service agencies, both within and outside the country. Some dynamic and modern sectors as garments, pharmaceuticals, IT based industries, leather goods and machine tools seem to have benefited extensively through following the cluster approach and there is redoubled enthusiasm to extend these advantages to the traditional and artisanal clusters spread across the country.

Given the vast range of goods produced in clusters, levels of technology and markets accessed, a recent policy-oriented study (Das *et al.* 2007: 12-13) has classified the clusters into: i) high-tech clusters (mostly knowledge-based and It-linked); ii) traditional manufacturing clusters (non-high-tech and non-micro sectors like leather goods, ceramics, garments, etc.); and iii) low-tech, poverty-intensive micro enterprise clusters (including handicrafts, handlooms and other labour intensive micro enterprises).

Table 7: Typology of clusters: significance to the national economy

Parameters	Micro enterprise Clusters	Traditional Manufacturing Clusters	High-tech Clusters
Number of Clusters	6000 (93.6%)	388 (6.1%)	20 approx. (0.3%)
Estimated Share of Employment (by cluster typology)	80%	14%	6%
Average Wage levels	Low	Medium	High
Likely growth rate (2002-07)	Negative or marginally positive	Positive (10-15%)	Positive (20-30%)

Source: Das et al. (2007: 12)

Despite major limitations of obtaining cluster-specific data, information on some key variables has been compiled in Table 7. There is, however, no useful database concerning the so-called service clusters.

It is important to note here that there exist a number of government schemes/programmes to support various requirements of MSMEs, including provision of industrial estates, marketing support and concessional credit. Nevertheless, these schemes, typically, address the need at the enterprise level. The cluster approach, contrarily (and as mentioned earlier) focus on a range of activities, that concern collective issues, whether provision of common facility centres, cluster specific transport infrastructure, linking to the external markets, or encouraging participation in trade fairs. The most important advantage, however, is the potential of networking with an array of stakeholders in the business that widens scope for both enhancing product/process quality and operating gainfully in a larger market space. The synergy of collective action improves manifold as enterprises in the similar product line pursue certain common business goals.

Table 8 presents details of most schemes/programmes focusing on cluster development in India. These discrete initiatives have often defined clusters differently and are being implemented by a diverse set of agencies, including central government ministries, state governments, international agencies and other specialised institutions. These schemes, as may be seen from the table, have diverse agenda and support instruments and focus upon a specific group of products/clusters in different parts of or entire country.

Table 8: Schemes / programmes of cluster development institutions in India

#	Agency	Year of Inception of Scheme	Typology of Clusters assisted	Clusters assisted (2006-07)
<i>Central Government</i>				
Ministry of Textiles				
1	Scheme for Integrated Textile Parks (SITP)	2005-06	Textiles (Handlooms & Powerlooms)	30
2	Baba Saheb Ambedkar Hastshilp Vikas Yojana Scheme (AHVY) – DC (Handicrafts)	2001-02	Handicrafts	684
3	Integrated Handloom Cluster Development Scheme (IHCDP) - DC (Handlooms)	2005-06	Handlooms	21
4	Textiles Committee of India	2002	Textiles (Handlooms & Powerlooms)	23
Ministry of MSME				
5	Micro and Small Enterprises Cluster Development Programme (MSECDP)	1998	Traditional manufacturing & microenterprise	90
6	National Small Industries Corporation Ltd. (NSIC)	2002-03	Traditional manufacturing	30
7	National Programme for Rural Industrialisation (NPRI)	1999-2000	Microenterprises	100
8	Scheme of Fund for Regeneration of Traditional Industries (SFURTI)	2005-06	Microenterprises	100
9	Ministry of Commerce and Industry Industrial Infrastructure Upgradation Scheme (IIUS)	2004-05	Traditional manufacturing	26
<i>Other Institutions</i>				
10	NMDFC Micro Financing Scheme through the Cluster Development Approach	2005-06	Microenterprises	5
11	SBI Project UPTECH	1987-88	Traditional manufacturing and microenterprises	28
12	SIDBI Technology Upgradation Programme (TUP)	1991	Traditional manufacturing and microenterprises	45
13	SIDBI- Financing and Development of SMEs	2006-07	Traditional manufacturing and microenterprise	3
14	NABARD Cluster Development Programme	2003-04	Microenterprises, Handloom and Handicrafts	48
15	NMCC- Project Vikas with Support from Microsoft	2006-07	Traditional manufacturing	7

16	NEDFI Cluster Development Programme	2004-05	Microenterprises	9
<i>State Governments</i>				
17	Margin Money Scheme for Cluster Development Activities (Government of Kerala)	2003	Traditional manufacturing and microenterprises	17
18	Grant Assistance to Cluster Development Activity (Government of Kerala)			
19	Gujarat Industrial Policy – 2000, Scheme for Assistance to Cluster Development	2000	Traditional manufacturing and microenterprises	19
20	Integrated Cluster Development Programme (Traditional products of Khadi & Village Industries, sericulture and crafts & handloom products) (Government of MP)	2004-05	Microenterprises, (Handlooms, Handicrafts)	6
21	Craft Village Scheme (Silpigram Yojana) (Government of Orissa)	2004-05	Handicrafts	30
22	Cluster Development Programme (Government of Rajasthan)	2005-06	Handlooms and Handicrafts	15
<i>International Organisations</i>				
23	UNIDO Cluster Development Programme, Delhi	1996	Traditional manufacturing and microenterprises	20
24	UNIDO Cluster Development Programme, Orissa	2005		
25	UNIDO Consolidated Project for SME Development in India	2007		
26	Boosting Employment through Small Enterprise Development (ILO)	2000	Handicrafts	2
	Total			1358

Source: Das et al. (2007: 21-22).

5.1 Clustering in India: Some Key Attributes for Policy Purposes

In order to distinguish cluster policy from policies for MSMEs, it is important to recognize that the quintessential cluster concept is multi-dimensional and encompasses aspects such as the sub-sector, space and its various linkages with agencies / institutions both internal and external to the site of production. Whereas the sub-sector represents the activity/services *per se*, space relates to the regional dynamics within which it works on location; the spatiality of clustering is not merely a reference to the *place*, that is, say, rural or urban, but indicates the level of local development that determines the cluster's access to both social and economic infrastructure. The variety of internal and external

linkages (whether in terms of intra-community ties, business associations, technology sharing, support from specialized institutions, trust, networking, cooperation, etc.) suggests the extent to which the sub-sectoral/regional policy and institutions are able to articulate the demand for developmental intervention or determine the path of the progress of the cluster.

The performance of a cluster, including its potential to move up in the value chain and be innovative, depends crucially upon these factors. These amply indicate the nature of policy intervention cluster promotion shall entail. Although a cluster is a meso-level entity, it is obvious that a combination of macroeconomic, sectoral and regional/ local policy instruments would effectively address complex and multiple issues facing its growth and competitiveness. In order to appreciate the need for a multi-pronged approach to promote clusters, it is essential to recognize the following key dimensions of clustering in India, first, market access and, second, the nature of informal processes (concerning product quality, technology, adherence to legal norms, labour use, etc.) that characterise the cluster dynamics.

Clusters in India cater to varied and substantial markets at local, regional, national and international levels; the sheer vast size of the domestic market necessitates distinct strategies to promote them. It is natural that the market for certain products could be limited by the locality or culture-specific need or absence of cost-competitiveness due to high material or transport cost; in such cases supportive interventions need to be made towards product diversification and upgrading local technological capabilities of these clusters. Exploring ways of rendering the products geared towards a high value adding export market through linking with the global value chains, thus, becomes an important policy focus. This is especially challenging as one deals with the specific cases of what may be classified as poverty clusters.

It needs to be acknowledged that a large number of industrial clusters in India often derive advantages through functioning in an informal / illegal manner as exemplified through poor labour standards, inferior input use, copying trademarks / designs, flouting of fiscal / environmental regulations, etc. These practices could, in the short run, enhance the net profit of the enterprise or even the cluster as a collective, but needs to be curbed / regulated through policy instruments.

6. CASE OF THE GARMENT SECTOR: NETWORKING AND CHALLENGES UNDER GLOBALISATION

With a long tradition of textiles in India, the garment sector, expectedly, has emerged as one of the most dynamic and forward-looking businesses in the SME domain. In fact, it has remained the foremost item in the manufacturing export basket from the SSI sector, accounting for a huge one-third of total value of exports during the recent decade or so. This sector began to emerge as a prominent activity by around the early 1980s, in response to growing urbanization and a fast rising middle class that derived major part of their income with the boost in the services sector. In addition to this, a gradual exposure to fashion trends (as promoted through fast advancements in the mass media, including the television and films). Moreover, there was growing demand for traditional Indian garments mostly from the upper class consumers based both in the country and also the south Asians in the US, Europe and Canada, in particular. Indian garment manufacturers began entering into the export market and with the specific advantage of low labour costs, by the turn of the century, the Indian garment sector had risen as a player to reckon with in the global market. The MFA regime had also ensured market access through the preferential quota system. An idea about the growing but heavily fluctuating exports from this sector can be obtained from Table 9.

Table 9: Exports of garments from India, 2001-06

Year	Value of exports			Growth (%)
	Articles of apparel and clothing accessories (knitted or crocheted)	Articles of apparel and clothing accessories (not knitted or crocheted)	Total	
2001-02	88898.36	149920.50	238818.86	-
2002-03	115502.99	162210.25	277713.24	16.27
2003-04	124148.99	162730.58	286879.56	3.30
2004-05	118676.99	176701.03	295378.01	2.96
2005-06	141282.35	240648.58	381930.93	29.30

Source: DGCIS, Kolkata as quoted at [http://www.aepcindia.com/trade/Year%20wise%20India's%20RMG%20exports\(Rs\).htm](http://www.aepcindia.com/trade/Year%20wise%20India's%20RMG%20exports(Rs).htm) (accessed December 28, 2007).

6.1 Challenges and Strategies

Based on cost competitiveness, though a section of the Indian garment manufacturers graduated to be integrated into the global market through customer driven commodity chain, the dismantling of the MFA regime (since the beginning of 2005) has posed huge challenges in accessing or improving their share of the global market. Faced with stiff competition from China, Vietnam, Bangladesh, Sri Lanka and Indonesia the Indian apparel sector has been concerned about focusing on higher productivity, economies of scale, advanced technology and an efficient supply chain to raise its market presence.

There is a special emphasis on product differentiation based upon unique designs, embroidery and workmanship to cater to niche markets both in the domestic and global arena. Increasing participation in the global market has also brought home the significance of maintaining lower cost, consistent quality of the product, frequent seasonal changes in designs and punctuality in delivery schedules.

As observed by industry experts, the only way to achieve these competitive advantages for the sector is to enhance supply chain efficiencies through proactive networking with different stakeholders in the business. There have been suggestions that even competing nations (as India and China) could collaborate in jointly sourcing/sharing raw materials (cotton or silk) and designs for both finished garments and accessories. Further, as both the US and EU manufacturers do not consider imports from India as a threat (unlike from China, which has been a matter of concern for these major buying nations in the West), the Indian garment sector, it has been highlighted in informed deliberations, must work towards acquiring higher levels of technology and enhance the capabilities of existing specialized institutions providing training in textile design.

In order to cater to global demand, both in terms of volume and quality, the need for larger investment in both machinery and skill formation has been felt across the industry. This necessarily implied that much of the business can, eventually, be handled by relatively larger (mostly medium) enterprises and would not be feasible for the capital-strapped small units to pursue. It is in this context that there was severe criticism of the government policy of to include garments as a reserved item (for the small sector, exclusively).

Observing the progress of the sector in accessing newer markets through adapting to new technology and changing customer preferences, the central government has responded positively to a set of special requirements needed for its wider global reach. In a major move to support the private sector, the central Ministry of Textiles, during the last quarter of 2005, had signed a Memorandum of Understanding (MoU) with the Infrastructure Leasing and Financing Society (INFLS) to set up as many as 25 apparel parks across the country. While the central government offered to invest Rs. 400 million per park, the INFLS would enter into agreements with a 'Special Funding Vehicle' comprising promoters for different parks. Each park was proposed to be set up with an investment range of Rs. 1000 million–Rs. 4000 million depending upon the market response. Initial few parks were to commence in the states of Gujarat, Andhra Pradesh and Tamil Nadu. In addition to these initiatives, some state governments also have plans to promote similar apparel manufacturing facilities.

6.2 Key Constraints Facing the Garment Sector

Given the vast opportunities available to the Indian garment sector what are the major bottlenecks that confront its progress. The nature of the garment manufacturing is such that it involves substantial human skills, often for a majority of the processes women workers are preferred. As argued by entrepreneurs, this sector offers possibilities for massive employment, including in rural and semi-urban areas, where investing in a sewing machine at the household level could multiply job opportunities. Even with low levels of education, about six months of training would suffice for a worker to earn subsistence income. As hardly even 2 per cent of the working population in India is engaged in this industry, there remains tremendous scope for large number of workers to find employment in this sector (as, for example, is the case in neighbouring countries as Pakistan and Bangladesh). Nevertheless, much of the employment would be seasonal in nature, depending upon swings in demand in certain periods of the year.

While the promise for mass employment is flagged by the achieving entrepreneurs, there have been serious concerns expressed by various labour and social organizations. It is argued that in the post-MFA regime, with foreign buyers looking for cheaper options, labour cost cutting would be most widely and easily adopted in the Indian conditions. With an estimated 3.5 million workers engaged in this sector there is

widespread incidence of contractualisation, informalisation and casualisation of the workforce. Instances exist to indicate that even stipulated minimum wages are not earned by many workers in this sector. Apart from large scale violation of labour laws, their informal status renders their work 'invisible' and social security benefits do not accrue to them. It seems essential that the networking efforts must include representatives of labour cause as important stakeholders. This would not only enhance labour productivity, but also upgrade the production system as a whole.

Further, the emphasis upon external orientation of this sector has also to encounter nagging issues in the export process itself. Most manufacturer-exporters have found the nitty-gritty of complex bureaucratic procedures involved in exports a major hassle; there is growing insistence upon shifting to simpler and liberal export procedures, including providing for a 'single-window' authority. There are other problems as long transit time in Indian ports, which run counter to shorter lead-time required by buyers, especially in the Us and European countries. Moreover, the provisioning of special economic zones (SEZs) (for promoting this sector, in this case) has not yet been politically a smooth process, as it involves the complex issue of transfer of land, often fertile, from the poor and needy at unreasonable terms of exchange.

7. CONCLUDING OBSERVATIONS

The SMEs the world over have been undergoing crucial changes in response to the manifold imperatives of globalization. The potential of neo-localism having been much emphasized, the SMEs in developing countries have often been split between national strategies and objectives of promoting this vital and most promising sector and the demands of a globalizing business environment. In India, the historical role of SMEs in creating ample opportunities for employment for the teeming millions has come to occupy secondary status in the face of novel strategies to ensure external orientation, achieving manufacturing competitiveness and emerge notable global player.

While there is much merit in recognizing the relative advantages and disadvantages of participating in a fervent global market, it is equally important to take stock of the ground realities that indicates a poor and inadequate infrastructure base for

SMEs; this situation is particularly worse in rural areas as even in small towns, where a major proportion of MSMEs function. Of the most vital infrastructure bottlenecks, access to adequate, reliable and reasonably priced power remains a challenge for SMEs progress and competitiveness. Further, poor transport network (whether roads, railways or ports) have emerged as important constraints to the development of SMEs in a dynamic fashion.

Despite decades of small industry policy making, even during the reforms period, there has been a definite decline in the access to credit by the small (and within it the so-called tiny sector) enterprises. It is clear that there is no dearth of capital available but there remain serious implementation snags, including complex and unhelpful procedural requirements, which, ultimately result in dwindling access to loan finance. The situation is similar when it comes to the intractable product reservation policy.

Given the large scale attempts to promote industrial clusters in the SME sector, it needs to be underscored that, despite the potential of neo-localism, cluster promotion in the Indian context must move beyond the 'sectoral' bind; a comprehensive regional development strategy needs to be woven into the cluster development policy.

While a plethora of new measures have been initiated in the recent MSMED Act, much would again depend upon how these function on ground. External orientation and a global outlook for the SME sector must first address persisting basic constraints facing the sector. The garment case brings out this point in some detail. In fact, as the Indian SMEs are looking forward to a newer and larger market space, with its numerous advantages of skills, raw materials and large domestic market as well, networking with various stakeholders both within and outside the country is a worthwhile attempt. To the extent such networking contributes to mutual benefit in terms of technology and market, the new initiatives are welcome. But complacency in such issues as employment creation and neglect of the vast segment of small and tiny units operating within a 'low-road' syndrome could be a major roadblock to the sector. If globalization and external orientation, including being connected to the global production networks or value chains, fail to be broad-based and, essentially, turns advantageous to a small section of a limited sectors of production, the strategy needs a serious rethink.

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