



Report of a Colloquium

# Advancing the Knowledge Economy in India:



## Evidence-base for Enterprise, Entrepreneurship Development & Livelihoods Promotion



*Organized by:*

**ISED Small Enterprise Observatory**  
Cochin, May 16, 2017



**Institute of Small Enterprises and Development**

ISED House, ISED Road, Cochin - 682028

E-mail: [info@isedonline.org](mailto:info@isedonline.org)

URL: [www.isedonline.org](http://www.isedonline.org)

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## FOREWORD

The twenty- first century has been marked by unprecedented changes in the global economy. Unlike in the previous centuries, the change has been influenced by two major streams: a) an explosion in the creation and transaction of information; and b) An accelerated use of information technology as a vital tool for such transactions. These changes have resulted in a significant division between the ‘old economy’ and the ‘new economy’. India also has been significantly influenced by this global trend.

Where the creation and processing of information gets progressively geared up, and knowledge creation and communication becomes the change agents, ‘time’ becomes a critical factor in the process of decision making. Public policy has to tune itself to such changes, by increasingly depending on evidence- base. The days of exclusive dependence on official data is gone. Today, there are several opportunities of sourcing data and information, in order to buttress decision making. I am happy that, while celebrating its China Jubilee, the ISED Small Enterprise Observatory has chosen such a vital topic for discussion.

Having a long experience of training civil servants of the country, I can say that, a culture of evidence- base is yet to pick up and gain momentum in our government circles. I hope, this report would throw some light upon this neglected area and would trigger a debate on the subject. Change cannot happen overnight. But Institutionalised efforts like that of the ISED Small Enterprise Observatory, matter a lot in the present environment.

New Delhi  
31 May 2017

**Kamal Nayan Kabra,**  
Chairman

## PREFACE

Social policies and interventions often take place based on assumptions rather than evidence. Evidence-based public programs are essential in order to ensure clear positive results. When developing new interventions or programs, it is important to utilize existing research to determine “how people make financial decisions, adopt new technology, use social networks to help survive crises, respond to incentives, decide how much education to acquire, etc.” This application of academic theory is needed to develop sample interventions. This type of important research allows program designers and implementers to determine the expected efficiency, effectiveness, and potential impact of a new program idea prior to its implementation.

Evidence-based social interventions maximize positive social outcomes and ensure that policies and programs are effective rather than harmful to the target population. An ‘Enterprise Observatory’ is a platform that constantly builds and supports evidence- base for enterprise development policy and strategies.

As rightly pointed out by Dr. Kamal Nayan Kabra, based on his long experience as a trainer of civil servants, evidence- based policy making is still a badly neglected area in the Indian context. While changes in the Indian economy are so fast, it is important that the country learns much better on best practices in government and governance elsewhere in the world.

This report summarises the conclusions and suggestions of a colloquium organised by the ISED Small Enterprise Observatory. The initiative happened in the context of the China Jubilee kick- off of the ISED Small Enterprise Observatory. I am happy to note that the colloquium has provided some sparks in the subject area.

I am thankful to all the distinguished speakers and delegates of the colloquium. The Ministry of MSME, Government of India, and the Department of Industries and Commerce, Government of Kerala have extended their support for this initiative. I am also specially thankful for the interest evinced by various State Governments, and public institutions. The names of State Planning Board , Directorate of Industries and Commerce, Kerala State Industrial Development Corporation, and MUDRA, deserve special mention.

Cochin  
31 May 2017

**P.M. Mathew**  
Director &  
Colloquium Coordinator





# Advancing the Knowledge Economy in India: Evidence Base for Enterprise, Entrepreneurship Development, and Livelihoods Promotion

ISED Scoping Paper

## 1.0. Introduction

Non-governmental and governmental organizations worldwide initiate meant for poverty reduction and livelihoods promotion. However, such programs are often designed and executed based largely on guestimates rather than evidence- base. MIT economist Esther Duflo compares the implementation of social programs that are not evidence based to the use of leeches by doctors in the medieval period. Doctors used leeches due to prevailing assumptions about the body and illness during that period. Sometimes the leeches worked, but they were oftentimes ineffective. In some cases, the leeches caused blood loss that exacerbated the patient's condition. Centuries later, evidence-based medicine and rigorous analysis became central to medical practice.

Evidence-based public programs are essential in order to ensure clear positive results. When developing new interventions or programs, it is important for implementers to utilize existing research to determine "how people make financial decisions, adopt new technology, use social networks to help survive crises, respond to incentives, decide how much education to acquire, etc." This base of theory and research allows program designers and implementers to determine the expected efficiency, effectiveness, and potential impact of a new program ideas.

Randomized evaluations are a type of impact evaluation. A randomized evaluation may also be known as randomized controlled trials, social experiments, random assignment studies, randomized field trials, and randomized controlled experiments. "If thoughtfully designed and implemented, it [randomized evaluation] can answer the questions, how effective was it? Were there unintended side-effects? Who benefitted most? Who was harmed? Why did it work or not work? What lessons can be applied to other contexts, or if the program was scaled up? How cost-effective was the program?

How does it compare to other programs designed to accomplish similar goals?"

Evidence-based social interventions maximize positive social outcomes and ensure that policies and programs are effective rather than harmful to the target population. An Enterprise Observatory is a platform that constantly builds and supports evidence base for enterprise development policy and strategies.

## 2.0. Components of "Evidence": Practical Tips

Evidence-based planning can be seen as the process by which decisions on the ways to address a problem are based on objective information so as to achieve the best possible results(s). It involves integrating the needs of the target community, best possible research evidence related to design experience, or sector expertise. It is not tied to a particular set of institutions, thus enabling the analysis of a range of actors (not just government) and the way they interact across policy issue, components of the processes and time.

The policy process involves the following four categories:

- **Agenda Setting:** awareness of and priority given to an issue or problem;
- **Policy Formulation:** the ways (analytical and political) options and strategies are constructed;
- **Policy Implementation:** the forms and nature of policy administration and activities on the ground;
- **Monitoring and Policy Evaluation:** the nature of monitoring and evaluation of policy need, design, implementation and impact.

For each different part of the policy process, there are specific issues regarding use of evidence. Evidence is drawn from a systematic exploration of relevant data and applying them to possible interventions or solutions. It is defined as a range of tangible/factual information



that can be used to support or contradict decisions made in respect of planning interventions. Using evidence at every stage of the policy cycle facilitates informed decision-making, and accelerates achievement of significant and sustainable change as a result of the intervention.

A pertinent question that arises in the context of Evidence Based Planning process is the availability of current data. In the case of enterprise development and livelihoods promotion in India, the usual problem faced is absence of the required information at one place and in reasonably good time proximity. In fact, data is generated continuously at a number of points where the existing entrepreneurs and potential ones come into contact with the stakeholder institutions. In the pre-digital days gathering, recording and compiling the information that occur at different points was near to impossible, because of the huge cost and manpower needed. Today, with information technology having been deeply rooted in all public offices down to the level of Grama Panchayats, there can be no excuse for not gathering the data. ISED Small Enterprise Observatory has identified several points of data origination, its content, and quality, and an indicative process of their maintenance.

### 3.0. Evidence is something more than “Data”

In the planning and day to day administration of development programmes, there is undoubtedly the need for solid evidence and information. In popular parlance, such evidence is called “data”. While most government agencies and development administrators complain on inadequate “data” as the reason for failure of programmes, the actual state of data often remains a mystery.

Official data is often supplied by official statistical agencies. The users of such data are both the Public sector and Private sector. While there is often much gap between demand and supply of data, this gap can be understood and bridged only by agencies and institutions that can actually visualize and estimate the data needs relating to policy and programme development.

We are living in a knowledge economy today. The data needs arise from the need for information and knowledge for designing and running programmes. Therefore, the task of such a realistic assessment can best be made by a knowledge platform called the ‘Observatory’. An ‘Enterprise Observatory’ is a knowledge platform that can visualize and co-ordinate data for the requirements of enterprise planners and administrators.

The work of an Observatory, however, is really complex. Its purpose is to support the development practitioner. First of all, it needs to understand the requirements of the planners and administrators. On the other hand, it should also understand the nitty-gritty of

data sources and data generation process, working both on the demand side and supply side. The task of the Observatory is essentially an exercise in match-making. The purpose and function of an observatory, touches upon diverse activities it dwells into, such as, data creation, data sourcing, data maintenance and communication, which are all important in an agenda of enterprise creation, entrepreneurship development and livelihoods promotion.

Data, by no means, is an abstract material; it has a purpose, both social and economic. In the development agenda of a democracy, social categories such as gender, age, caste, community etc. matter. In the economic sphere, the concerns often relate to enhancing domestic production, boosting exports, creating entrepreneurial base etc. Data, in its original form, simply cannot address all these complexities. Demystifying these complexities is the job of subject-specialist platforms like an Observatory.

Not only that data need to be generated, it has to be validated in the field. In the modern world, the driver of sustainable development is, creativity and enterprise of the people. Irrespective of the usual functions of a government department or a promotional agency, they are bound to promote ‘enterprise’. If so, they need and feel the role of data on a day to day basis. What are your pressing data needs? Unless such needs are articulated, the Observatory cannot do its job meaningfully. This colloquium is meant to learn from the grass root level experience.

### 4.0. Theme Areas

Several cross-cutting areas of governance and development practice influence enterprise, entrepreneurship development and livelihoods promotion. With a focus on Knowledge relating to the subject area, the issues need to be discussed against the following sub-themes:

- Local Economic Development
- Industry and Entrepreneurship
- Finance and Enterprise Development
- Gender and Enterprise Development

These four areas are expected to bring together various Ministries, Departments, agencies and development practitioners, under a single platform. Of course, this is an experiment in the country. Finance, and more specifically credit flow, is a crucial point significantly contributing to such a convergence.

There is, thus, a business case for financial institutions, enterprise promotion agencies belonging to various government departments, private sector, entrepreneurs, and development practitioners to meet and deliberate

on this vital subject. Let us circumscribe the emerging issues in the above four topical areas as follows:

#### 4.1. Local Economic Development

Since the amendment of the Panchayati Raj Act (73rd Constitutional amendment), we in India, vigorously argue for and practice decentralisation. It speaks more of the politics, like the Gram Sabha, women's participation Gram Sabhas, devolution of funds etc. But, what do we do as regards the practice of economic development at the grass root level? Unless the creativity of people are harnessed and channelised into capabilities that lead to income opportunities, economic development cannot be triggered. Opportunities of wage employment, by nature, have significant limits. Enterprise and entrepreneurship, however, are the game changers. For that, we need to know more than what we know today... Data, insights, and stories, in turn, get converted into fuel for income opportunities.

Conflicts have already come up, in India, between the local aspirations of people, on the one hand, and resource capabilities and the government's plans for development. (eg: strong conflicts in Tamil Nadu against developing local natural gas wells in populous villages). The lack of data/information on the local environment has been the basic reason for such struggles.

There has been many attempts to collect all-purpose data at the grass root level. Why for? But, what do we know of enterprise demography? What can be the mechanism by which we get access to data? ISED has put forward the idea of Udyami Panchayat- a mandatory platform of job creators at the panchayat level? What do you think of such an idea?

#### 4.2. Industry and Entrepreneurship

Industrialisation, traditionally, has been considered as the prime mover of economic growth. But, industrialisation has undergone several transformations. From Fordism to Flexible specialisation, and on to Hubanomics. What do these changes signify? Economic growth is associated with enhanced capital formation. But, the very nature of capital is changing. It all means that, entrepreneurship of the kind that developed in the 20th century and the one we are having today are different. What do we want to know of industry and entrepreneurship today? Does our age-old data system, like the ASI and the NSS data, provide us adequate insights? If not,, what else? And how do we go ahead with collecting new data that is more relevant and are need based?

Entrepreneurship creation is not an end in itself. Quality of entrepreneurship, and the quality of jobs it would create, need thorough studies based on data relevant to the areas where such development should take place.

Industrial development today does not mean the same old text -bookish stuff. Not only that the economy is getting increasingly diversified, services themselves are becoming increasingly diversified and integrated with industry. Business development services (BDS) itself is a particular growth engine. But in India, we are yet to pick up its role and relevance in the enterprise development strategies. What new data need to be generated in these areas, so that they can be passed on to the entrepreneurs and promotional agencies for their benefit?

#### 4.3. Finance for Enterprise Development

In the semantics of business, we speak much less of industry today, and much more of enterprise. How do they differ to the banker?

Business of the routine kind has come down in India, like the way it has happened globally. New high-risk subsectors, like IT, BT, and other knowledge based enterprises have come to the fore. Risk analysis and assessment have taken a central place in the domain of finance. This implies two major imperatives for the banker: a) the need for information/data from hitherto untapped sources; and b) subsector-based data/information and analysis. Does the Loan Factory concept and the Branch Manager's best judgement in the field go together, to the mutual benefit of the customer and of the bank? To what extent have we moved away from asset based lending to information based lending?

Broad basing of finance and its institutionalisation have become a generally acceptable principle with the launching of MUDRA scheme. But has MUDRA been adequately armed with the tools and techniques of information based lending? If not, what more do we need in terms of creating a strong information base for the micro enterprise sector?

While on the one hand, there is need for broad basing finance from a social angle, there is also the (rather conflicting) need for bringing down cost of credit, from a business angle. Decision making here is complex, and enhanced knowledge base alone can help to take calculated risks. What should be that added mile in information base?

The banking sector, over the last two decades, has tried to spread its wings and to broad base their business base. However, they are still not able to support knowledge enterprises, leaving the task to Venture Capital and Angel Funds. The new economy business is something which the mainstream banks in India fail to understand, though they increasingly embrace new technology for their day to day operations. Can we tap much of the hitherto untapped data at the branch level? Or is there need for generation of fresh data? Both seem to be important for banks to enhance their business as also to help the customers more effectively.

#### 4.4. Gender and Enterprise

There is much literature on Gender and economic empowerment of women in India. But 'Gender and Enterprise' is a totally neglected area. 'Gender and Enterprise' has internationally developed as an important constituency. Gender mainstreaming tools have been developed by international organisations like the ILO, UNIDO and the ADB. If at all gender has to be developed as a serious constituency, with the economic role of women, the Gender and Enterprise constituency has a great potential and need.

ISED, based on its studies in the past, has set up a 'Gender and Enterprise Observatory'. While the various States in India give increasing importance to the subject (eg: Kerala), what kind of data do we collect? What knowledge base is needed on gender? What is the data potential, based on the kind of data system, and the data origins in the country? How can the situation be improved?

#### 5.0. Towards Some Action Points

Based on the above grounds and understanding the colloquium was expected to move towards some action points. These action points were deliberated against the following key questions:

- 1) Having a variety of programmes being implemented by the union and the states, what are the main sources of data / knowledge base that we have on enterprise / industry / entrepreneurship / livelihood today?
- 2) Are these data and knowledge base adequate to:
  - a) make policies and programmes;
  - b) make plans at the national / State / Local government / company levels;
  - c) make quick mid-term corrections in plans / programmes / developmental activities;

- d) to properly guide entrepreneurs seeking help; and
  - e) advise entrepreneurs during a crisis situation.
- 3) If inadequate, what kind of data and information are a must / have an urgency ?
  - 4) How can a strong evidence- base be created, beyond the existing data sources?
  - 5) What should be done to gather and disseminate relevant data/information in a demand-driven manner by:
    - a) government Statistical Agencies;
    - b) government Departments and Public promotional agencies;
    - c) professional Institutions and research bodies;
    - d) banks and other financial institutions;
    - e) private consultants and non-governmental organisations.; and
    - f) entrepreneurs (through a periodic reporting system) and their Associations.
  - 6) Is there is a need for creating awareness among members of the legislative bodies, Parliament, State Assemblies, Local governments, on the present state and future imperatives for employment creation through enterprise development ?

Specifically in the context of Kerala, the ISED and the State Planning Board came together on a joint initiative on 'Database of the Kerala Economy' in 2002. The same initiative was repeated in a few other States as well. At the ISED, the experiments for evidence-based programme development continues. Today, such experiments have been managed by the Observatory under a national programme, 'Regional Enterprise Development Audit' (REDA). It is also important that the role of REDA is critically examined and evaluated from the point of view of shaping and implementation of programmes and schemes relating to enterprise development.



## Summary of Proceedings

### 1.0. Introduction

As part of the deliberations of the China Jubilee Kick-off Meet, of the ISED Small Enterprise Observatory, an expert panel deliberated on the role of evidence-base for enterprise, entrepreneurship development and livelihoods promotion in India. The following pages are devoted to summarize the proceedings of the same.

### 2.0. The Setting

Beyond the conventional fad of “data” in the parlance of bureaucracy, the term evidence base has, of late, become more popular in the semantics of public policy and practice around the world. In India the practice still continues to be essentially one of “self reliance”, wherein governments are comfortable with the beaten track. On the supply side, the statistical departments generate data; often the programme administering departments,

in turn, use such data. But the experience so far is largely of a mismatch between supply and demand.

The problem is graver in the case of enterprise development where sensitive aspects such as knowledge, creativity, and achievement motivation are the driving forces of income opportunities of ordinary people. Here, beyond data, one needs solid evidence to tackle day to day issues of governance. The legislative bodies like the Parliament and the State Legislatures need such rich insights to do their business efficiently and effectively. The executive also, given its complexity spread over various Departments and agencies, need such rich inputs that becomes strong evidence to bank upon. However, the country, today, does not have an effective system to provide that.

Where the ‘Knowledge Economy’ is the rule of the day, economies and societies cannot take day to day decisions





and progress without focusing on strong evidence base. While the knowledge economy provides umpteen opportunities of transacting in information, much of the valuable information that has been generated in the process of public programs and their implementation, as also the routine of business, go waste.

The Kerala Enterprise Development Report, prepared by the ISED Small Enterprise Observatory, under the Regional Enterprise Development Audit (REDA) program of the Institute, provided significant inputs for taking forward the discussions. Though the problems



Dr. P.M. Mathew

of enterprise development in Kerala have several peculiarities that are different from that of other States, it is important to note that, many of the tools and techniques that need to be developed and applied in the context of enterprise development are common for the whole country. Therefore, these issues are separately discussed .

### 3.0. Thematic Areas and their Relevance

The speakers included, experts from the State Planning Board, Government, financial institutions, industry, and the academia. While each of these expert focused on a specific area, some common findings and conclusions also emerge.

The term, 'evidence-base' is not much in the semantics of policy makers and academics in India. However, development practitioners, though a small community in the country, consider it as a vital area that is going to be crucial in the coming days, for the following reasons:

1. The Data system in the country is getting weak progressively, though there has been a substantial growth in the use of technology.
2. There is a significant mismatch between demand for and supply of data. The gap is getting widened over time, because the data needs of today are much different from those that were required during the past decade.
3. There has been an enhanced perception among government circles, that the data system in the country is costing heavily on the state budget. Therefore, there has been constant efforts to bring it down through cost cutting measures, such as outsourcing, and complete stoppage of some of the operations.
4. The enhanced cost consciousness has had its implication on the quality of existing data base. Quality has been progressively coming down.
5. In an era of technology acceleration, and an enhanced role of private sector, there is need for greater cooperation between the government and the private sector, in order to collect and preserve relevant data.
6. While the day to day operations of the government agencies and the private sector, creates substantial

data, there has not been adequate mechanism to collect and preserve such data at the origin itself.

7. The introduction of e-governance through programs like District e-governance Program, implies a potential access to many relevant data that were hitherto not collected properly. However, such decentralization of technology has not adequately helped to create appropriate knowledge base so far. It though India has a reasonably good official



M.K. Sukumaran Nair

statistical system, the country does not produce many of the internationally comparable data sets. For example, Business Demography, Start up and Entrepreneurship are key areas where international data is available today. However, in many of these cases, data on India remains either weak or nonexistent.

9. India has a great opportunity of private sector participation in the area of a knowledge base for enterprise development. However, this opportunity remains yet to be properly utilized.
10. The use of data today, in India, remains the domain of academicians. It is important that the development practitioners increasingly make use of such resources.
11. Bridging the gap between academics, government and development practitioners is a vitality that needs to be considered on a priority basis.

Given the above imperatives, the leadership role of the observatory is paramount. Unlike a program implementing department of the government, an observatory has a holistic view of data and information, essentially from the point of view of their usefulness for designing programs and implementing them.

The distinguished speakers included Mridul Eapen and Jayan Jose Thomas, Members, State Planning Board, M.P. Sukumaran Nair, Chairman, RIAB, Jiji Mammen, CEO, MUDRA, J.M.I. Sait, Former Country Director, UNIDO and Senior Fellow at ISED, and M.K. Sukumaran Nair, Director, Centre for Budget Studies, Cochin University of Science and Technology. The speakers generally underscored the serious gaps as they exist today, and suggested measures for improving the knowledge base on enterprise, entrepreneurship, and livelihoods.

The debates in the Colloquium were focused on four critical areas as follows:

- Local Economic Development
- Industry and Entrepreneurship
- Finance and Enterprise Development
- Gender and Enterprise Development

While these focal areas have specific aspects that needed close examination, there were also several cross-cutting issues that were deliberated threadbare. The broad contours of the discussion were as follows:

### 3.1. Local Economic Development

The perceptions and need for local economic development are critical in shaping the growth and direction of enterprise development in a regional context. ISED, from inception, has been articulating the case for decentralization in enterprise development strategies. In any economy, employment promotion is a critical area that demands close attention and articulation. However, an emotional or populist approach cannot contribute to sustainable income opportunities for the people. Creation of income opportunities is not a top-down process. While, on the one hand, opportunities should emerge on a progressive basis, these opportunities have to be the sign posts for people having some degree of achievement motivation. In the case of wage employment, people having the right achievement motivation should constantly strive and pursue better and more progressive opportunities, so that job quality itself will progressively grow up as a part of the market process. In the case of self employment, the right motivation has to come from the otherwise unemployed people, to search for self employment opportunities, and to pursue entrepreneurship as a career. The presentation by P.M. Mathew, Co-ordinator of the Colloquium, focused on this critical area, and argued for a new space for local economic development, as a central part of India's agenda of Panchayati Raj. He pointed out that, while 'ease of doing business' is a central part of India's growth agenda, local economic development strategies, and the signals given by such strategies, are crucial in taking forward the growth agenda.

M.K. Sukumaran Nair, economist, and Chairman of the Panel, highlighted the need for a strong knowledge base on the small enterprise sector,



M.P. Sukumaran Nair

as it is this sector that can contribute significantly to an autonomous path of employment promotion on a massive scale. Knowledge and 'real services' are the two key imperatives of small enterprise development. The fact that, ISED could visualise this two decades back, is path breaking in the history of MSME promotion in the country.

In the context of States where the public sector has a significant role, the public enterprises, beyond their core business, should provide signals both on social responsibilities and leadership in shaping enterprise development strategies. M.P. Sukumaran



Dr. Christy Fernandez

Nair, Chairman, RIAB, pointed out that, in order to meaningfully perform its leadership role, the public sector need to play a more innovative role of working on a sound knowledge base. An effective knowledge base requires that these enterprises will have to give a special thrust on appropriate collection and storage of relevant data.

P.M.Mathew added to Sukumaran Nair's perception that, though the public sector often performs some meaningful role, this role need to be properly documented. In a new regime of corporate sector management in India, where CSR is mandatory, the public sector enterprises should move forward, and should streamline their sustainable reporting systems, as per the guidelines of the United Nations Global Compact(UNGC). The experience in India so far is that such reporting is rather foreign to most corporate entities of India, including companies in the public and private sectors.

Christy Fernandez, a former senior bureaucrat in various Economic Ministries of the Government of India, and former Secretary to the President of India, pointed out that, the culture and practice of evidence-based policy making is rather weak in the Indian context. Even without sufficient evidence, a number of programs have been designed and implemented, thereby leading to several undesirable results. The challenge therefore, is to bring about a radical change in this prevailing culture. Though such cultural changes cannot happen in the short run, regular reporting exercises and communication initiatives, as practiced by the ISED Small Enterprise Observatory, can go a long way in improving the situation.

### 3.2. Industry and Entrepreneurship

For the last couple of years, there has been an enhanced interest and thrust on skill development and

entrepreneurship in the Country. Entrepreneurship education has found a place in the curriculum of Universities in India. There has also been important efforts to bridge the skill-gap and to enhance employability of the otherwise unemployed people. The Union and the State Governments also have several programs for promotion of industries and entrepreneurship. However, with all these efforts, there is a disjoint which needs to be corrected. There need to be a proper balance between start-up and growth of enterprises. It is also important to ensure that, while giving thrust on GDP growth, the interests of the small businesses are protected. Jayan Jose Thomas, Member of State Planning Board, highlighted his arguments on the basis of his experience as a Planner in the State of Kerala. According to him, despite the availability of data of the routine periodic type, planning and program implementation in Kerala are constrained because of lack of properly structured evidences. He cited the following examples:

- Data relating to Industrial Estates in Kerala
- The size of the current and potential workforce in the small and traditional industries (including coir, cashew and handloom) of Kerala.
- Data relating to the governmental machinery and public sector bodies for the support and promotion of traditional industries.

While there are several all-purpose studies available in the State, there is still need for focused studies that can help the planner, and the nodal Department.

### 3.3. Finance

Jiji Mammen, Chief Executive Officer of MUDRA, highlighted on the serious gap between supply and demand of vital finance related data, which often constrains program implementation in the financial sector. While finance is a point of convergence. He cited the example of MUDRA. The articulation on financing MSMEs in India, all along, had been focusing on small and growth oriented enterprises; much less was talked about micro and tiny enterprises, classed as 'own-account enterprises'. The need for support to this bottom strata of self employed persons comes out of the necessity for survival; they mostly belong to the category of "necessity entrepreneurs". These 'necessity driven entrepreneurs' are not basically growth oriented. Growth is not often an item in their agenda, and it cannot be so until they are in business for a while



Jiji Mammen

to perceive an opportunity to grow or to diversify.

MUDRA has provided a long-awaited opportunity to this class of 'necessity entrepreneurs'. Now the main issue with the implementation of the scheme is its monitoring and ensuring that the loans provided are used for the purpose for which they are given. This being an impossible task for the Refinance Agency or the Banks, the suitable mechanism rests with the MFIs and cooperative banks through which the disbursements have been made.



Mridul Eapen

Another dimension of the implementation of MUDRA is recovery of the loan. The scheme contains Credit Guarantee by the NCGT to the extent of 50%. Adverse selection of borrowers and lack of monitoring would spell disaster for the NCGT. While too much caution cannot be exercised in selection, for obvious reasons including the visibility gained by the banks concerned on account of large number of loans dispensed, there must be a mechanism by which the final disbursing agencies submit a monitoring report, subject to test check by the bank concerned, so that the dispensing agency remains accountable for a part of the likely NPA.

Involvement of the local governments at ward level, could also provide some check as to the genuineness of the loan requirement. The mechanism for monitoring is incorporated in the Policy to ensure that the concerned agencies accept the responsibility in that behalf.

The wide publicity given to the MUDRA scheme, especially as a PM's flagship programme, has the effect of strengthening the demand side of the loan, which normal supply side initiatives alone could not have achieved. With the same zeal, a provision for the upgrading of the lower levels of loans to higher grade by incentivising the borrowers towards growth in terms of quality improvements, mechanisation, horizontal expansion or vertical diversification, through an appropriate intervention by the Business Development Centre, would result in converting the 'necessity driven enterprises' into 'opportunity driven' ones. The monitoring reports should be able to identify the growth potential of the borrowers.

Unless there is strong knowledge base relating to the flow of finance in the economy, both micro level planning, and day to day implementation of programs will become difficult. In this context, Mammen highlighted the role of knowledge platforms like the ISED Small Enterprise

Observatory. While the concept of knowledge-brokering, of late, has become prominent in many developed countries, in India it has a great relevance. Mammen pointed out that, the role of ISED as an institution, can take forward the function of knowledge brokerage, to the benefit of the financial sector. Mammen explored and urged the ISED Small Enterprise Observatory on the following lines:

- On the lines of MIX Market for Micro finance data, can the Observatory be a depository of MSMEs at industry level which can validate the data and supply to the users?
- Can the Observatory also be a platform providing transactional level data to be used by the financing institutions?

While Mammen's perspective was wholeheartedly supported by the audience, reservations were raised by some of the delegates regarding the problem of data availability from the original sources. It was pointed out that, where data is not simply available from the original sources, it would be difficult for knowledge institutions to carry out their work. There was also another view point that, at least in some cases, data are available, but are not properly collected and interpreted for the requirements of a knowledge stream. The role of ISED in the context is critical.

### 3.4. Gender

Globally, 'Gender and Enterprise' (G&E) has emerged as a vibrant constituency of policy and practice. Most of the agencies of the United Nations have developed tools and techniques relating to some of the related aspects in this area. Beyond the conventional focus on numerical analysis and gender based segregation of data, this implies a major qualitative change.

The ISED Small Enterprise Observatory has, from time to time, highlighted the need for development of 'Gender and Enterprise' as a vital constituency. The Ministry of Women and Child Development, Government of India, has appreciated the role of the Institute in this vital area, and requested its services to develop the concept of 'Gender and Enterprise Observatory', a concept developed by the Institute. Subsequently, a 'G&E Observatory' was set up by the Institute as a part of the ISED Small Enterprise Observatory.



Dr. J.M.I. Sait

Based on the above experience, the ISED Small Enterprise Observatory considers it as critical to introspect on a



gender-sensitive knowledge base that can throw some light on and provide leadership to gender-based enterprise development activities.

The debates in this focal area, as the colloquium saw it, was in terms of, what is being done today in relation to economic empowerment of women, and what better could be done in relation to the entrepreneurial role of women. Mridul Eapen, Member, State Planning Board, articulated the gender case, in relation to the Time-use Studies at the household level, as brought out by the



Dr. Jayan Jose Thomas

NSSO reports. According to Eapen, what is intriguing is, why despite a much lower burden of the most onerous tasks within household work, women in Kerala are increasingly exiting the work force. Is it a discouraged worker effect or are the specified activities in the data unable to capture specifically women's domestic work in Kerala.

- Hence it makes economic and business sense to increase women's work participation rates. One area which is emerging as a fast growing area (despite overall low participation rates) is the MSME sector in terms of number of units, employment and income generation. Capital cost is relatively lower, and it also helps in industrializing rural/backward regions, and disadvantaged social groups such as SC/ST, women youth etc.

Despite the above initiatives in many States, and especially in Kerala, women self help groups and their

enterprises have not been successful in scaling up their activities. This scaling up problem, while being a crucial issue that needs solutions from a practical angle, requires solutions. She raised the question as to what the ISED Small Enterprise Observatory could contribute in this regard.

While Eapen raised a critical issue of practice, the solutions were pointed out to be not too easy. Mathew pointed out that there is need for two-step approach. On the one hand, it is necessary to appreciate that most small enterprises are deprived of 'real services' of a good quality that can help them during their life cycle. 'Real services' are those escort services needed for starting and growing an enterprise, such as, advice, mentoring, and documentation. A continuous flow of such real services, presupposes, gender disaggregated data on what the entrepreneur actually needs, at a particular stage of the life cycle of his enterprise. Such knowledge base has to be built up. On the other hand, the delivery of such services, in turn, will generate fresh data, which also need to be collected and preserved, for better learning and follow up. Data at these two levels are likely to provide a solid base for planning women enterprises.

While the relative level of economic empowerment of women vary from State to State, it is important to understand and analyse the ground level processes on the basis of a strong knowledge base. In Kerala, for instance, the self-help group movement and a publicly funded poverty eradication Mission such as Kudumbashree, have proved their track. The next step is to enter into the core areas of business, For this, the capabilities required are altogether different. The colloquium felt that the proposed new Department of Women's Development should focus on these least attended areas.



## Conclusions & Recommendations

### 1.0. Introduction

The Colloquium organized by the ISED Small Enterprise Observatory, in connection with its China Jubilee Celebration, provided a new dimension to the debates on evidence-base in enterprise promotion and planning. The debates were concentrated on four focal areas, ie, Local Economic Development, Industry and Entrepreneurship, Finance for development, and Gender and Enterprise. The speakers focussed on a critical review of the present practices, as also the potential for creating evidence-base that lead to enterprise promotion. Based on detailed deliberations of the colloquium some important conclusions emerged. The purpose of this section, in this context, is twofold. First, to summarise the conclusions; and secondly, to come out with some recommendations that are helpful to policy makers and programme implementing agencies.

### 2.0. Conclusions

The following are the major conclusions :

1. There is a significant mismatch between demand and supply of data relating to enterprise development in the country.
2. The mismatch in data is explained largely in terms of improper management of the official statistical system in the country. Statistical data generated is much less need based. Therefore, the available data often fail to meet the requirements.
3. There is significant escape of data from original sources where they emerge. Much of such data, that could have been collected and used for practical purposes, therefore, go waste. This need to be prevented.
4. Data conflict is a serious problem. The official statistical agencies often fail to resolve such conflicts.
5. There has been an overemphasis on program data and their maintenance. Such data are often mixed up with other scientific data, for analytical purposes. This is likely to lead to wrong conclusions.
6. The creation of evidence- base for planning and program design has not been adequately attended in the Indian Context.
7. Many public agencies are reluctant to part with data. Such secrecy need to go.

### 3.0. Recommendations

The broad recommendations that emerged from the discussions were as follows:

1. There is need for a regular reporting at the National and State level on enterprise and entrepreneurship. This role, meaningfully performed by the ISED, need to be continued.
2. Business demography and credit flow are critical areas that demand closer attention and analysis.
3. There is need for providing necessary policy support to platforms like the ISED Small Enterprise Observatory.
4. Entrepreneurship Development Clubs in educational institutions need to be developed as vibrant platforms. These clubs need to be integrated with relevant knowledge platforms, such as the Observatory, so that there could be a meaningful linkage among academics, knowledge systems, and the industry.
5. There need to be radical changes in the present system of university teaching and research, so that these become more integrated with the field level situation of enterprise development.
6. The State level Bankers Committees(SLBCs) have to be made a more dynamic platform, so that



- they work closely with specialised knowledge institutions. Similarly, such knowledge institutions should be adequately represented in the SLBC and the relevant RBI committees.
7. The State and the Union Governments should treat specialised knowledge platforms and BDS providers, on par with Incubators. Unless the services of these agencies continuously flow into the Incubators, the incubators will become another form of educational institutions.
  8. Banking data, as also the data emerging from various government departments, including the District Industries Centres, need to be properly stored and made available for the work of the knowledge institutions.
  9. Business development services and knowledge services for small enterprises need to be completely exempted from service taxes.
  10. The State and the Union Governments should initiate steps to come out with a Monthly Statistical Abstract of the state of MSMEs and entrepreneurship in the country. Where the government department concerned is not able to do it, the task should be entrusted to a professional agency.
  11. The Government of India should promote and support an independent annual reporting on the 'State of Entrepreneurship Development' in the country.



## Annexure

# Enterprise Development in Kerala: From Analysis to Action

(Kerala Enterprise Development Report 2016, ISED-2016, Paper Back, Pages 296)

### 1.0. Introduction

The 'Kerala Model of Development', for its sustenance, needs to explore alternative paths and strategies. The budgetary position of the economy, as pointed by the 'White Paper' that was tabled before the Legislative Assembly last year, brings out this imperative in clear terms. Kerala is facing not only a fiscal crisis, but a more deeper development crisis, and the Government is striving hard to overcome them.

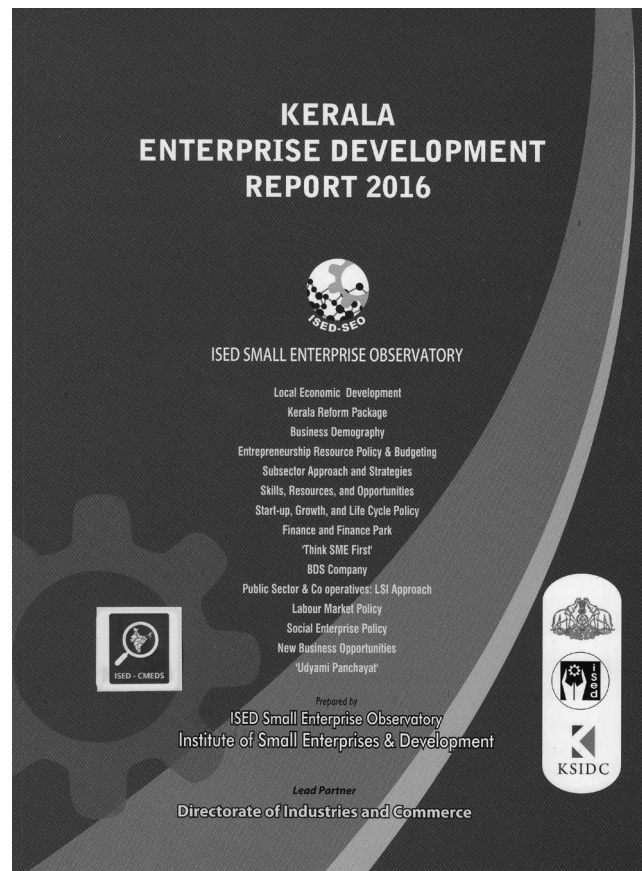
### 2.0. The Enterprise Development Track: Where are we now?

While ensuring full employment is a social issue, it is as well a political responsibility of the government. Kerala has eminently handled the political part of it by ensuring wage employment opportunities to the extent possible through public interventions. The job creation role of the private sector, still remains much to be desired. Wage employment has been generated through the mechanism of functional training and supportive subsidies. These measures, however, have not provided substantial encouragement for employment generation through the self employment route. According to estimates by the ISED Small Enterprise Observatory, based on the Labour Bureau data, the share of self employment in Kerala, in relation to the workforce participation rate stands at 29 per cent; the corresponding share at the national level is 50 per cent. Even the legacy subsectors such as Coir, Handloom and Handicrafts have not matured into sustainable employment providers. Their skill base have progressively got eroded as a result of occupational out-migration. Besides, the share of the private sector, except in the 'new economy' sectors like information Technology, also remain relatively small.

### 3.0. Structural Issues

The enterprise scene of the State is heavily tilted towards public sector manufacturing and services, and collective

forms of entrepreneurial activities. The traditional emphasis has been: (1) to provide training opportunities for self-employment promotion; (2) to protect workers from the feared exploitation by private enterprises; and (3) to organize micro, and small enterprises into viable groups through co-operative initiatives. Though these initiatives and the resultant structure served the then purpose, they have become inadequate to meet the new and emerging challenges. The public sector, including the Government, have reached a point of saturation, where additional job creation is improbable or extremely marginal.



The 'Kerala model' has given rise to a population with higher longevity and better general and technical education. While this background leads to rising individual aspirations, they do not get translated into capabilities and income opportunities. Until the 1970s, the major avenue available for realisation of such aspirations was either self employment or migration within the country. The accelerated Gulf migration, however, opened up a new opportunity which helped to bypass the entrepreneurship route. This 'Bypass System' of income opportunities has a long-run negative impact on the local economy, as it implies a leakage from the local entrepreneurship stream. Bridging this leakage, is, therefore, the key challenge of public policy today. It is also going to be a sustainable crisis mitigation strategy. The policy debates on Kerala's development, however, have not yet addressed this issue sufficiently.

The entrepreneurial base of Kerala remains less significant compared to the national scene in terms of micro level performance indicators. Tiny nature, dominance of family labour, small capital base, limited growth, limited diversification and innovation, are some of the characteristic features. A longitudinal analysis by the ISED (2011) has provided significant insights into an entrepreneurial demoralisation effect, which needs immediate policy correction. At the policy level, however, these internal weaknesses have not gained attention.

As a combined result of the various factors as above, the motivation to undertake self employment projects has progressively come down. Such silent developments are not often captured by indicators such as 'ease of doing business'. This also includes, perceptions on investment climate, for example, perceived labour problems, bureaucratic attitudes, financial crunches and non-cooperative attitude of the financial institutions, and above all, the age old 'fear of failure' characteristic of Kerala psyche.

Policy interventions, which were mostly financial support and cash subsidy based, have not been able to enthuse the new generation into innovation and risk taking. Nevertheless, the need for other forms of institutional and non-institutional support are being severely felt with a mindset change to venture into worthwhile projects. There is lack of a reasonable flow of 'real services' or business development services', though Kerala has gone ahead with significant institutionalisation of enterprise promotion.. This is not to ignore the long strides made at the micro level by popular schemes like Kudumbasree or Akshaya. Here again, there is not enough growth perspective built in.

#### **4.0. Beaten Track Solutions**

Kerala's enterprise development strategies fall broadly

within the paradigm of 'Path Dependency'. Path dependence theory was originally developed by economists to explain technology adoption processes and industry evolution. 'Path dependency' makes one to argue that, investment leads to economic growth, and a natural trickle-down effect. It also argues that , 'micro privatisation', spontaneously, leads to positive employment effects. Such an easy route to enterprise promotion, has the danger of ignoring knowledge inputs, and focusing on well-known, 'easy' and 'convenient' schemes, without following the painful path of experimentation and innovation. A review of the reports of the Five Year Plan Working Groups and Task Forces, on the one hand, and the Administration Reports of the Industries and Commerce Department, indicates such a gulf between planning and public governance.

#### **4.1. Pre- facto Policy Announcements**

Pre-facto policy announcements are often sweeping political statements, which emerge through an election manifesto, or resolutions of a political party, or imagination of a charismatic political leader. While a public commitment has already been made, post-facto efforts are made to fulfil such promises, often with disastrous consequences. However, there are also cases where political parties make such announcements on the basis of some serious consultative processes.

#### **4.2. Industrial and Commercial Policy**

The Industrial Commercial Policy of the State governments in the country often provide all- inclusive statements of purpose, but the specifics of policy and strategies , are remain vague. A review of such Policy statements in Kerala , from time to time, have demonstrated such experience.

#### **4.3. Subsidies and Concessions for Institutions**

Public institutions have a specific purpose of translating public policy into strategies and actions. While these institutions are the creation of particular circumstances, they often fail to live up to the changing circumstances. Therefore, it often happens that, policies are tailored to the needs of the existing institutions, rather than changing the functions of the institutions to the emerging objective situation and needs. While the conflicts in such a situation are conspicuous, governments take the easy route of supporting such institutions for the (often irrelevant) work they are comfortable with.

#### **4.4. Infrastructure Development**

Infrastructure of the right kind, obviously, is vital for sustainable enterprise development in Kerala. However, the appropriateness of infrastructure developed in the State, from time to time, and their relevance to sustainable development of enterprise and entrepreneurship, needs critical analysis. While public

policy also speaks of the inactions of the government, it is also important to examine the correspondence between the actual infrastructure needs and what has been created in the past.

#### 4.5. Centrally -sponsored Schemes

Centrally sponsored schemes and their relevance to particular States have been widely debated in the past. It is a fact that, while most State governments go by the easy route of tapping all available Central funds. A review of available public documents, especially the memoranda submitted to the Finance Commission and the Planning Commission, from time to time, give the impression that the State could have better articulated its case for enterprise development since 1980s, on the basis of its creditable track and achievements in the past. It is important to note that, when the country shaped a development paradigm based on microelectronics in the year 1991, Kerala, the pioneer in the area, could not articulate its legacy meaningfully.

#### 5.0. Alternative Policy Approaches

There are three clear points of view with respect to Kerala's industrialization. According to the first line of argument, Kerala's industrial backwardness is associated with the high incidence of labour unrest and the active role of trade union movement in the State (Albin, 1990; Oommen, 1979; Thamby, 1990). The second line of argument finds that Kerala's industrial slowdown is due to its weak industrial structure, which offers very little potential for inter-industry interlinkages (Subrahmanian, 1990, 2003; Subrahmanian & Pillai, 1986; Thomas, 2003a). Path Dependency approach (Thomas, Jayan Jose, 2005) is a third line of argument that tries to explain why and how did a weak industrial structure emerge and persist in Kerala. It argues that, with the policy decision in the 1930s, industrial structure in Kerala came to be locked into a pattern that offered very little potential for inter-industry inter-linkages and industrial growth.

While strong inter-industry linkages is a sine qua non for sustainable enterprise development, the economists' approach, as above, has several constraints, as it is demonstrated by the practice of enterprise development in many developing countries (Harper, 2002; Mathew, Harper and Pillai, 2012; Mathew, 2011). Inter-industry linkages take shape out of two sources: 1) public action; and 2) through market forces. In contexts where the market forces are relatively weak, public action has to play a crucial lead role. The latter has happened in Kerala until the mid-1970s. In the pre-Independence period, this positive role was performed by the princely State of Travancore. During the early three Five Year Plans (1951-66), the initiatives of the Government of India (especially the Industrial Estate Programme) was seriously taken forward by the Government of

Kerala. Seventeen Major Industrial Estates were set up during the period. The foundations of the Engineering industry, which was considered to be the then 'Mother Industry', was set up during the period, 1956-57, along with a network of Industrial Training Institutes (ITIs), which provided the complementary and vital training opportunities. These initiatives were taken forward with full seriousness during 1967-69, under the trio, EMS Nambudiripad-T.V. Thomas-Krishna Kumar combine. Kerala's "Ten Thousand Industries" campaign, and the Mini Industrial Estate Programme, implemented with the active support of the Panchayats, were significant examples of public action for promotion of private sector and entrepreneurship. The major public investments in the electronics sector. in the form of KELTRON, in the year 1973, was path-breaking. Thus, the direction given by public action, and the affirmative policy support given through self employment promotion initiatives, were instrumental in a significant morale boosting among the unemployed youth. Had such a morale been sustained, it would have helped to reduce the burden of public action, in the context of the present crisis.

#### 5.1. Bypass Model of Kerala Development

The major global developments in the domain of industry, during the past one century, has been the significant shifts in industrial organisation and work processes, from the so-called paradigm of 'Fordism' to 'Flexible Specialisation'. The traditional concept of the 'factory' has undergone rapid changes, from production at site to global production. In the area of technology, Micro electronics has become the critical change agent that determines production, productivity, and industrial structure in the contemporary era. It also offers pathways to a new economic order, the so-called 'new economy'. Kerala has understood and appreciated these global changes, way back from the early 1970s itself, and have taken some important early steps to catch up with the rest of the world. However, the successive governments did not take forward these early initiatives.

The period since mid-1970s mark a major departure, both in public action for enterprise development, as also the private initiatives. Public action got weakened, and the focus of enterprise development initiatives began to be confined to tapping the Centrally Sponsored Schemes (CSSs), with limited ideas of local economic development. The entrepreneurship scene underwent a qualitative change, with much less focus on the so-called 'opportunity entrepreneurship'. While labour export (especially to the Middle East) got accelerated, on the one hand, and stories of labour militancy came up in the air, a large number of potential entrepreneurs began to consider international migration as a next best alternative (or even the first choice) as an income opportunity. Field studies by the ISED have shown that

, the acceleration of the flux between self employment and international migration has turned Kerala into a major 'entrepreneurship crisis', for the past 15 years. As such, the key question that needs answer today is this: Who owns entrepreneurship in Kerala?

The flux in the labour market, as above, have their negative implications on the macroeconomic perceptions on Kerala's development. Such perceptions surface in two major forms: First, it assumes that, provided there is no major crisis in the emigrant economies, Kerala's pattern of migration is not likely to be affected adversely. Secondly, it is also assumed that, depending extensively on the services sector, and of external remittances, can as well be a model in itself, which Kerala can safely pursue. While, of late, both the above perceptions have been increasingly questioned, the solutions are, by no means, easy.

The 'Bypass Model', as above, has serious limitations, which need to be clearly understood. It is an unsustainable model. It is like a bypass surgery in the human body. In a coronary bypass surgery, once the patient has recovered, the symptoms of angina will be gone or much better. You'll be able to be more active, and you'll have a lower risk of getting a heart attack. But the post-operation risks are, fever, heart attack, infection and bleeding at the incision, memory loss, pain, reactions to anaesthesia, and stroke.

## 6.0. Moving Beyond 'Investment': 'Inclusive Entrepreneurship Development' Approach

There is need for a new development approach and alternative strategies for sustainable enterprise development in Kerala. Policy prescriptions for a way out from Kerala's development crisis, so far, have focused on an 'investment approach'. The rationale behind an 'investment approach' is that, more doses of investments will help to solve the problem. This goes to the conventional theories of underdevelopment, wherein, capital scarcity is identified as the cause and consequence of 'underdevelopment', and a way out is sought in terms of greater doses of infusion of foreign capital. In the context of Kerala, the debating point still continues to get pegged on, whether such new infusion of capital be from the NRIs, or from the MNCs. The receptivity of capital in the local economy still remains to be a critical aspect to be addressed. In fact, the problems of receptivity have often been explained away in terms of "issues" such as "labour problem" and 'environmental problems'. There are some fundamental flaws to this line of argument. Two arguments stand out: 1) The average propensity to invest among the Keralites is very low; and 2) Even among the possible Keralite investors, there is a serious commercial orientation, which has the tendency to attract social costs, such as environmental hazards; 3) For the outside investor, the signals available on 'ease

of doing business' is not satisfactory, as every piece of political or social development in the State spread all over the world through its vibrant media base. This necessitates the need for an alternative approach and agenda for presenting Kerala before the rest of the world.

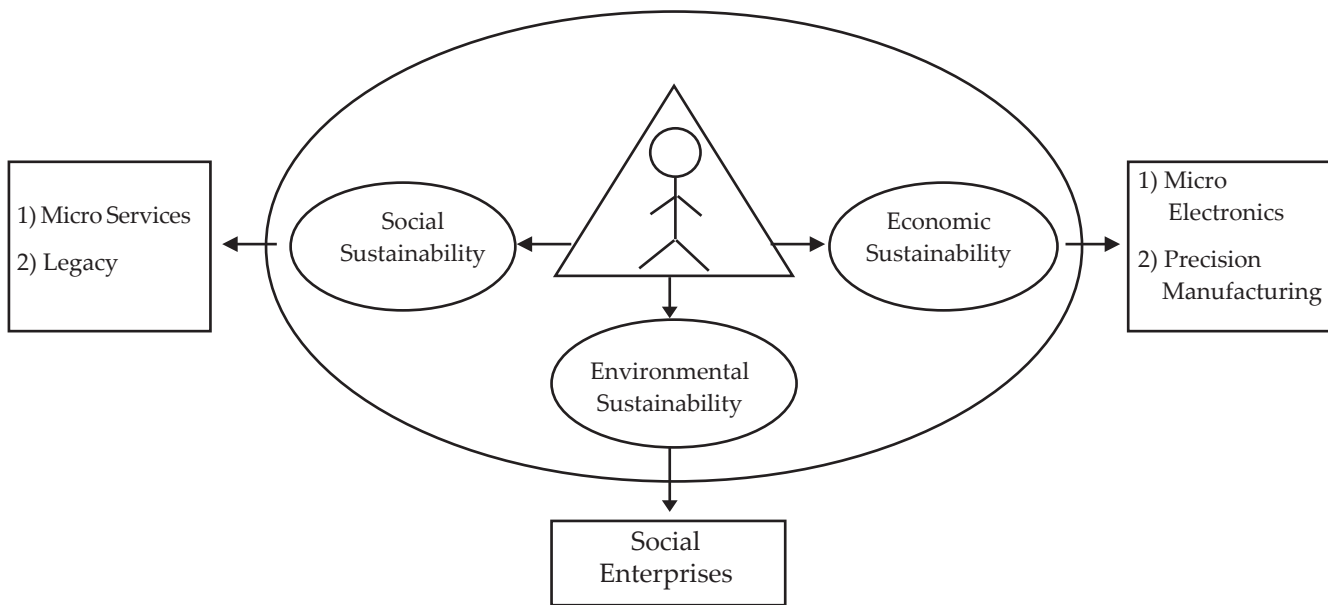
Receptivity simply does not mean 'social receptivity', economic receptivity is equally important. Unless the basic propensity to invest is enhanced and broad based through public action, it would be extremely difficult to attract investments from outside. The famous quote of Monetarist economist Milton Friedman, on the social responsibility of business, is equally relevant to Kerala as well:

"There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud".

Unless public action for investment is rightly set, and the social responsibility of business are locally set, it would be too unrealistic to expect any meaningful investment from outside. If at all something comes, it would, in all probability, belong to Friedman's category of "deception or fraud".

We, therefore, propose an alternative approach to investment promotion and enterprise development in the State: 'Inclusive Entrepreneurship Development approach'. The term 'inclusive', implicitly assumes that the existing approach is 'exclusive'. In an exclusive approach, the solutions to social problems heavily demand public action. In a developing economy, while public action has a key role in several sectors and domains, unless it leads to creation of capabilities, sustainable development would be constrained. Between the 'welfare state' and the 'developmental state', public action need to set a right balance. Determination of this balance is dependent on historical and spatial specifics. While the existing policy modes continue to be partially relevant, major changes to ensure the development of "inclusive entrepreneurship" need to be articulated. Such a new approach would call for institutional changes as well as policy approaches. Decentralisation of economic development strategies, or more specifically, a thrust on local economic development, is the best strategic approach one can think of in this context.

Given the tax revenue-based economic approach of the States which has already proved disastrous, as we have seen in today's financial crisis of Kerala, there is less hope for continued budgetary support for enterprise development initiatives. The policies need to be oriented towards "industry generating funds for its own growth and sustenance". In other words, the policies must create a conducive environment for the enterprises to be born, nurtured, and grown as entities in their own right. The



role of the public institutions should be oriented towards creating a knowledge base, disseminating the same to the public, and coordinating the facilitation process.

Despite all claims of Kerala, entrepreneurship is a critical resource that remains little nourished and poorly conserved in this State. The beginning of a sustainable development policy for the State need to be the official acceptance of the above premises of entrepreneurship as a critical resource. What follows need to be the design of a resource policy for entrepreneurship. Without having these basic building blocks in place, public programmes for enterprise development, and schemes like Parks, Investment Meets, start-up promotion, and incubation, are likely to be counter-productive. Like the 'right to education', the 'right to entrepreneurship' must become the driving force, whereby the entire system involving public and private channels must work in a synchronized manner. The policy should encourage implementation of Panchayati Raj in its true sense, whereby the local population develops and owns businesses suitable for its environment. The concept and ethos of 'inclusive entrepreneurship' implies that, entrepreneurship should grow beyond the limited group businessmen as a class; it must be understood and nurtured as a common property resource of the State. The spirit of such an approach need to be nurtured through an agenda of Local Economic Development(LED), with the development of MSMEs as its central point. Such an agenda goes very much with the spirit of decentralised development in Kerala, and is likely to be more acceptable to the common man.

## 7.0 The Way Forward

There need to be a multi-pronged approach while shaping the future enterprise development policy and strategies of Kerala. This approach need to be discussed in relation to seven core areas:

### 7.1. Administrative Reforms

1. Strong and effective knowledge base to be built up on enterprise and entrepreneurship. This need to be based on a concrete Entrepreneurship Policy.
2. Need based and effective infrastructure to be ensured. Considering the limited availability of land for infrastructure creation, a new system of Infrastructure Audit must be introduced.
3. Responsible Governance and Smart Governance: The basic purpose of e-governance is to deliver government services at the door step of the citizen. While this aim has been partially met in respect of utility payments and land record searches, much remains to be done especially in respect of MSME - such as procurement, registration and renewal of license at LSG level. Broadbasing e-governance tools need immediate attention.
4. Department of Industries and Commerce has to be redesignated as 'Department of Enterprise Development'; this is crucial to meaningfully address issues of Innovation, start-up and growth. Simultaneously, responsibilities of each stakeholder department of the Government should be demarcated. The District Industries Centres need to restructure and redesign their Business Development Services(BDS) portfolio.
5. The State Planning Board must come out with an Enterprise Data Policy, leading to the generation of demand-driven data. The Policy should focus on data sources, data collection, disintegration, processing and dissemination strategies, interlinking different tiers of government.
6. A 'Responsible Business' agenda for the public sector and cooperatives is vital. This could be a





major step in enhancing the 'ease of doing business' rank of Kerala, and for its branding on the basis of 'responsible business' indicators.

7. Development of 'Social Enterprise' as a new constituency: The immediate steps should be: 1) announcement of a Kerala Social Enterprise Policy; and 2) setting up of a 'Social Enterprise Division within the Directorate of Industries and Commerce; and 3) Establishment of a 'Social Enterprise Fund', with the active participation of the State Government and the LSGs.

### 7.2. Approach to Entrepreneurship Development and Missions

8. Kerala Model of "Think Small First" Movement (TSFM): With emphasis on decentralized planning and execution, the TSFM maxim need to percolate down to the level of LSGs, with Local Economic Development and Local Procurement as its corollaries. Larger units, including the PSUs should be inducted into the agenda, as an important State-sponsored CSR window.
9. Kerala Enterprise Commission: In order to ensure an appropriate knowledge base, and to ensure a think-tank role on enterprise and entrepreneurship development, the Ninth Five Year Plan Task Force has recommended the setting up of this Commission. Considering the enhance complexities on the enterprise development front, the modalities of such a Commission has to be re-examined.
10. 'Micro Enterprise Observatory: In view of the limitations of the public knowledge creation institutions, integrated data collection, organization and dissemination into usable knowledge bands could be developed as an ongoing system in association with the private sector sources. This need to be on a PPP mode.
11. The Government should come up with an Entrepreneurship Resource Policy and Entrepreneurship Audit system. This presupposes recognition of entrepreneurship as a critical State level resource . This should form the basis for alternative Inclusive Entrepreneurship Strategy' outlined above.
12. Evolve a Mission mode programme for furthering the start up activities by pooling the CSR resources of the corporate entities within the State, beginning with the State and Central PSUs. CSR resources need not be limited to money contributions. PSUs and other corporate bodies in the State have strong technological knowledge base which can be of immense benefit to the start-ups. This includes market experience, technical knowhow, business processes, and so on, which would reduce the take-

off time for the start- ups, instead of remaining idle or underutilized within the entities.

### 7.3. Entrepreneurship Support

13. 'Udyami Panchayat'(Samrambhaka Panchayat): This idea need to be developed and perfected as powerful tool for decentralised enterprise development. (Single Window to be abolished gradually). Udyami Panchayat shall work in coordination with the local Panchayat and shall have local entrepreneurs as members. This will ensure better local participation in local development articulation, and encourage ownership of the projects by the beneficiaries. Detailed feasibility studies are needed.
14. Migrant Local Development Fund: This Fund is meant to benefit returning migrants, with voluntary contribution from NRKs, for eventual Local Entrepreneurship Development through Udyami Panchayat. The idea has been developed on the basis of learnings from the return migrant rehabilitation programmes. On the one hand, the migrants should recognize the social support provided by their neighbourhoods and their responsibility to pay back through a contribution for local economic development; on the other, there has to be resources to rehabilitate them in suitable self-employment. Public funds cannot fully support their rehabilitation for various reasons including financial crunch. Moreover, the migrated local persons need to assume ownership for the local economic development of their origins.

Restructuring enterprise promotion: In place of the ongoing Enterprise Support Scheme(ESS), new sub-sector focused programmes have to be introduced. In order to bring in the element of decentralised planning, a Local Economic Development(LED) component has to be brought in.

15. An integrated 'Gender and Enterprise' strategy to be introduced.
16. Export for Growth, Export for Survival Strategy(2016-2021): Export development does not appear as a meaningful component of the enterprise development initiatives of the Government of Kerala today. A culture of export sensitivity has to be brought in through the above strategy. The details of the Programme need to be designed through a detailed study.
17. Guarantee of electricity and water(24x7): Kerala has a natural advantage of enhancing the 'ease of doing business' score through this strategy. This should for part of the new Industrial and Commercial Policy.
18. Enterprise Work-space Guarantee-Japanese Model:

A new package of Enterprise Space Guarantee has to be announced. This should be done through an integrated package of pooling all unused land( including land in the possession of PSUs, Panchayats and public institutions),and scientific restructuring/management of all existing work spaces, such as Industrial Estates, Business Parks etc.. The exercise initiated in respect of the Kochi-Palakkad Industrial Corridor, announced by the Kerala Budget 2016, can be broad based through such a strategy.

19. New Methodology for Industrial Potential Identification: ISED has developed 'TEA Mapping' as a new methodology. The Model is worth examination in the context of decentralised enterprise development strategies at the LSG level.

#### 7.4. Skill Development and Start up

20. The one single commodity conspicuous by its absence in the state is BDS. Creation of a professional services company under Section.25 of the Companies Act 2013 exclusively to provide Business Development Services, preferably on a cost sharing basis.
21. Start-up Mission& Growth Mission:The functions of the Directorate of Industries and Commerce should be restructured on a Life Cycle mode. Skill development exercises continue without a clear focus and in a fashion scantily related to the requirements of enterprise development. Start-up needs and the skill development programmes may be brought under the purview of a mission whereby the two aspects could be synchronized.
22. Start-up Campaign: Greater role and responsibilities for DICs is envisaged. Reorientation of DICs from being administrative arms, to be mentors and BDS providers at a sub-professional level and where the company proposed above cannot reach.
23. Entrepreneurship Resource Policy:The concepts of skill and entrepreneurship are still in an evolving stage, leading to policy conflict . This necessitates a reinterpretation of the skills-employment-entrepreneurship-start up nexus beyond institutionalization and programme development. The articulation should crystallize into a 'resource approach to entrepreneurship' where there should emerge a convergence of policies and strategies that can ensure promotion and conservation of entrepreneurship. Beyond the conceptual stage, the skill development schemes should be refashioned with focus on self employment, entrepreneurship and start up promotion, and entrepreneurship innovation and growth.
24. 'School Entrepreneurship Development Programme:

Creation of a compulsory mind-set output in the primary years and as a business orientation in the Secondary and Higher Secondary years. Instead of loading business related lessons to the already overloaded curricula, attitude development through achievement motivation should be aimed at through extra- curricular activities in a manner similar to cultural development programmes such as kala melas etc.

25. Development of a Regional Innovation System: Utilizing Kerala's network of IT infrastructure,R&D institutions, and incubation facilities, a Regional Innovation System, with 'Precision Manufacturing' as its focal area, need to be developed.Kochi can be the centre of this Knowledge Hub.
  26. Kerala Legacy, Skills, Infrastructure(LSI) Model: A new business model for public sector management with emphasis on Social Responsibility outreach for Local Economic Development.
  27. Weaker Sections: Re-orientation of the SC/ ST/marginalised communities development programmes to identify their particular knowledge base and latent capabilities that can be channelized through entrepreneurship development with a sharper LED focus, relevant to their environment and aspirations, until they become ready for integration with the mainstream.
- #### 7.5. Finance and Funds
28. Broad-basing the cooperatives to consolidate the rural and urban micro-financing and enabling them to assume larger stakes in the development of rural enterprises. The proposed Kerala Bank may assume leadership in local economic development through micro financing
  29. Finance Park: Establishing a collective efficiency platform for banking and non-banking financial institutions through establishment of inter-linked Finance Parks.This will help to bring down the cost of credit and ensure better transparency as a tool against accumulating NPAs.
  30. Growth support Fund at KSIDC: Growth of existing MSME units receives less attention compared to start-ups. Continued sustainability and eventual growth into higher levels is an essential requirement for economic development. The purpose of the Fund should be based on a strategic plan.
  31. Hub of Funds: Establish a Local Development Fund and link the programmes of institutions like MUDRA, SIDBI, Ministry of Rural Development, KVIC etc. There is no established linkage in the activities of these institutions, although all of them have same objective of alleviation of poverty

through enterprise development with local economic development in focus. An integrated Fund and activity approach is worth considering.

32. SBMO Mutual Benefit Scheme: Institutionalize the KVVES - Kerala Vyapari Vyavasayee Ekopana Samiti - model of mutual benefit scheme by linking SBMOs with identified banks, preferably with upcoming Kerala Bank. The scheme provides a 'self help model' which can be replicated by other associations. Refinancing or participating in such funds by banks, under CSR, would be beneficial in avoiding NPA situations caused by short term cash crunch.

#### 7.6. Lead Sector Strategy

33. Subsector Development Strategy: Experience has shown that a 'one size fits all' approach to enterprise development gives only partial results. Subsectors being enclaves of growth linkages, the focus of policy formulation should be trained upon individual subsectors or their logical groups. State Planning Board may consider undertaking detailed subsector analyses.
34. Precision Engineering Mission at Cochin: Kerala with a high population density and inadequacy of land is especially suited environmentally for Microelectronics. The Mission should provide the synergy of IT base, microelectronics infrastructure, and research capabilities, tuned into a Precision Engineering Valley.
35. Pre-press Mega Cluster: This should cover the whole State, to reap advantages of Pre-press capabilities already available in the State and the home-based working possibilities, with Kochi as the first nodal point for procurement and distribution of work. The huge demand for pre-press is now being met by states like Maharashtra and Tamilnadu. Kerala can obtain a reasonable share of the global demand as well.

#### 7.7. Entrepreneurship Culture and Voluntary Regulations

36. ED Modelling: There is considerable variation in business culture of various regions in the State. Identifying and consolidating the good practices in each region can produce a higher overall level of good business practices. Appropriate Entrepreneurship Development models have to be developed by the EDIs for capturing this potential.
37. Ethical Business Standards: The National Voluntary Guidelines on CSR provides for voluntary standards in MSMEs. (Non-regulatory) Food and Cleanliness Standards for non-star restaurants and food joints by establishing a 'Responsible Food Mission, in association with the Tourism Industry and led by Kudumbasree or Indian Coffee House, is proposed. Food joints is one of the fast growing areas in the state. With greater emphasis being placed by the LSGs and the people on safer and cleaner food a standardization process is necessary. Government can provide broad guidelines and industry norms which can be adopted by the restaurants and food joints on a voluntary basis, and in accordance with market forces which would ultimately compel such adoption. Recognition of enterprises which adopt standards in line with the guidelines by the Tourism department will be a booster for adoption.

#### 8.0. Conclusion

The Bypass model, as discussed in the earlier pages of this document, explains, Kerala's approach to enterprise development. The Bypass model implies essentially a convenience approach, where in answer to the most difficult questions are sought through shortcuts. This is manifested best in the actual practice of the economic governance of enterprise development in the state. Unless a set of actionable strategies are seriously debated, beyond the oft-repeated Kerala model of development, solutions are not likely to come through easily. The prime concern of this document is to arrive such solution.



**Institute of Small Enterprises and Development**

ISED House, ISED Road, Cochin - 682028

E-mail: [info@isedonline.org](mailto:info@isedonline.org)

URL: [www.isedonline.org](http://www.isedonline.org)