

# The missing middle in Indian MSMEs

To fill the gap, policy should help units move up the enterprise ladder

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**T**he “missing middle” is a near-continuous phenomenon in the history of Indian MSMEs. According to the fourth census (2006-07) of the 11.5 million manufacturing MSMEs, as many as 99% are micro and less than 1% are small and medium. Although MSMEs were defined differently during the fourth and the third (2001-02) census, if we broadly equate tiny with micro and small-scale industries with small and medium, the share of small and medium units has hovered at around 1-2% during this period.

At such a marginal level, it is not the numbers, but the reasons for this sub-optimal result and the policy initiatives that could give a big push to this frontier that are the moot issues. In a recent three-country study (of India, Egypt and the Philippines), the German Development Institute (Bonn) came out with some interesting results. They argued that entrepreneurial success depends on the enterprise (age, size, sector, informality) and the entrepreneur (human capital, motivation), support of the personal and professional networks, and a conducive business environment. While finance is an issue when it comes to the need for expansion, marketing is a more important issue, with entrepreneurs managing finance mostly through the market. Interestingly, it was also found that growth-oriented MSMEs showed such behaviour early.

Moving away from the traditional thinking—of assigning such responsibilities to the government, i.e. a unidirectional approach—we propose a two-pronged approach of assigning responsibilities to both the government and the private sector, based on their respective comparative advantages. Strategi-

sanal clusters of excellence and target those. Targeting clusters of excellence is only a strategy to create a growth cycle that will lift other centres of production.

Second, while on the one hand champion clusters should be linked through subcontracting by organising buyer-seller meets (BSMs)—with suitable stakeholders within these clusters as also other follower clusters—the champion clusters should be linked with the clusters outside India as well.

Third, growth must be rewarded. We definitely recognise excellence but only that of a few—say, just the top three. Here the thinking must get innovative. Lakhs of units that will grow and graduate from being micro to small, from small to medium and from medium to large by the existing definitions should be supported by providing tax benefits. They can also be supported in generating and maintaining additional employment/exports for a continuous period of, say, 3-5 years.

Four, the units should be motivated for spreading learning and enhancing not only their own turnovers but also that of supporting units. The more a

**While the govt should promote a conducive business environment and take care of the developmental issues, upgrading enterprise and entrepreneurial characteristics and building professional network should be assigned to the private sector with market-linked incentives**