



Complementary Action to Megaprojects through the Promotion of Small and Medium Enterprises: Ensuring Positive Impacts for the Local Economy

By Arthur Cessou

For more than a decade, metropolitan Chennai (ex-Madras) has been the site for major international projects, encouraged by the regional Government of Tamil Nadu, in order to make the city region a global economic hub. Large-scale production platforms, built around international investment projects (Ford Motors, Hyundai, Saint Gobain, Nokia, ...), have been erected, one of the most significant examples being the Mahindra World City in the South of the city. Parallel to this development, but less dramatically, Tamil Nadu has initiated since the early 2000s a significant reorientation of its policies in favour of micro, small and medium enterprises (MSMEs). The development of this sector is gaining increasing importance in efforts to promote economic and industrial development.

Megaproject building in Chennai has raised concern about the real benefits for the population and the local economy. New specialisations have emerged, particularly in the fields of IT technology and the automotive industry, but policy-makers are under pressure to show proof that public investments are creating new jobs, and not only for a minority of educated people. Moreover megaprojects can have negative impacts on local enterprises, which are affected by the current industrial restructuring process. It is therefore expected that the government will provide support to small units in this phase of transition.

A renewed interest for small firm clusters

Since the 1980s a series of studies has revived the interest of policy makers for small scale of production. The promotion of micro, small and medium enterprises (MSME) is shown to be an effective way to fight against poverty by creating jobs at a lower cost. Moreover, within a capitalist production mode characterized as flexible and concentrated, MSMEs grouped in clusters have a high responsiveness to fluctuations in demand, which can make them more resilient in times of crisis. Finally, unlike multinationals often disconnected from their place of location, the small-scale sector is often the backbone of the local economy. Its ability to build balanced and profitable relationships with transnational corporations (TNCs) in the region, in terms of demand or technology transfer, is thus a key factor to measure the real impact of the implementation of TNCs on the local economy.

The interest for MSMEs is not something new in India or in Tamil Nadu. However, policy in this area has experienced a significant shift since economic liberalization started in the 1980s. This process gradually put an end to measures in favour of MSMEs, notably a system of 'reservations' that protected them from competition from large firms. It was not until the



early 2000s that policy-makers took cognisance of the new challenges facing MSMEs in a more liberalised economic environment. One important change is the growing share of small firms in the service sector, whereas support measures to MSMEs have been until recently designed for industrial and manufacturing structures.

In Tamil Nadu, policy in this area is managed by a diverse set of actors situated at different spatial scales: in addition to the regional government, the national government is involved through various programs such as the Cluster Based Development Program (CBDP) promoted by the MSME Development Institute, which often delegates the implementation of these programmes to the regional agencies; these are namely the Small Industry Development Corporation Ltd (SIDCO), in charge of the industrial parks reserved for MSMEs and the Tamil Nadu Industrial Investment Corporation (TIIC) in charge of the financial aspect. Finally there is a network of entrepreneurs' associations, dedicated to a particular sector of activity or joining diverse firms within an industrial park.

It should be noted that this last category, associations of private sector actors, are relatively weak, which acts as an obstacle to dialogue with state actors and ultimately to growth in the sector. One explanation for this situation might be that prior to liberalization small scale industries were under the very close supervision and control of SIDCO and therefore had very little incentive to organise themselves in autonomous organizations.

Survival MSMEs, ancillary units and niches

We can establish a typology of three main types of MSMEs, on the basis of their needs. In order to meet their differing needs, policy-makers have to design specific schemes.

- Firstly, there are micro-enterprises that require minimal investment and generate only low incomes. This is a major type, given that between 2007 and 2013 more than 71% of the registered MSMEs in Chennai region were such micro enterprises. These are often family businesses struggling to survive, and which do not necessarily strive to grow. This includes in particular food vendors and some repair and mechanical maintenance units. Promotion of this category is more related to the fight against urban poverty through programs of micro-credit and support to micro-enterprises or self-employment. Hence, the objective is primarily social rather than economic.
- Next come the MSMEs engaged in subcontracting for larger firms. It is through these relationships that the impact of megaprojects for the local economy will pass, for instance through an increase in demand, through technological transfer or the acquisition of skills. Promoting and protecting smaller firms in this context is a difficult task for public authorities, insofar as these firms are highly dependent on business relations with their customers, over which the state has little scope to intervene. Policies focus on promoting technological upgrading and thus the ability of small firms to innovate through an easier access to credit and training for its workforce. In the case of Tamil Nadu, it appears that the labour market is overcrowded with engineers whereas there is a lack of semi-skilled workers. A major policy implemented by the Government of Tamil Nadu is the physical grouping of companies and their subcontractors in specialized industrial zones (e.g., an industrial park dedicated to subcontractors in the automotive sector). Following the cluster concept, physical proximity is here supposed to encourage synergies between suppliers – in terms of competition and cooperation - and links with large firms, although these linkages can not be considered as automatic.
- Finally there are MSMEs engaged in niche production or marketing their products directly, without resorting to larger structures. These have either a strong competitiveness and / or a relatively small market with high entry barriers. For

government, the strategy adopted is to create specialized spaces where firms can share expensive equipment and infrastructure, such as the pharmaceutical industrial estate of Alanthur created in the early 1970s.

Which tools for which purposes?

To promote the development of MSMEs, governments have a range of tools whose scope is more or less extensive.

- a) The first type of policy instrument is similar to that for the establishment of major projects, i.e., to create industrial parks, where plots are divided and sold to entrepreneurs and where basic infrastructure, electricity, water and so forth, is provided. This instrument has been a key component of Tamil Nadu's industrial policy over the last 50 years and today SIDCO manages 73 industrial estates across the State. However, by the early 2000s most industrial estates were not well maintained; their infrastructure was in very poor condition and an important share of the units were not running. Major renovations and upgrades have occurred since then through the model of Public-Private Partnership (PPP). This has transpired in part as a result of initiatives by private companies exasperated by the poor management of authorities, whose financial resources are insufficient for the task. In most of the industrial estates scattered around Chennai and designed to accommodate MSMEs, the management and maintenance of basic infrastructures have been then delegated to enterprises coming together within a Special Purpose Vehicle (SPV). These SPV are formed with the units of the estate, most of the time those already engaged in the estate association. However, they often outsource a part of their task to specialized companies from the outside.
- b) Another type of tool available for the authorities are tax exemptions and financial incentives. These range from reduced cost of plots in industrial parks, discounts on the price of energy or on the interest rates charged for certain types of loans. Such measures are designed to be consistent and complementary with other policy tools. Indeed, the creation of industrial parks aims to manage territorial development by controlling the location of industries (regulation dictates that industrial estates should be built at least 50 km from Chennai city centre), and to promote specialization in strategic sectors. Financial incentives such as those proposed by the Tamil Nadu Industrial Investment Corporation Ltd (TIIC) are subject to location in an area qualified as "less developed" or an industrial park, or because of their specialization in a thrust sector, etc..
- c) Finally there are other policy measures that the national and regional governments have announced with regard to MSMEs but whose implementation remains limited. As long as policy-makers continue to treat MSMEs as a homogeneous group, and define the various sub-categories (micro, small, medium) only on the basis of their fixed capital investments, these policies cannot reach their various goals. Such restricted definitions even encourage entrepreneurs to maintain their firms at an artificially smaller size in order to continue to receive subsidies. An alternative approach, for instance, is the Chinese Tang model, which defines appropriate financial support to MSMEs according to their stage of business development.

Conclusion: Different goals imply different but consistent policies: proposition for a three-fold orientation

In general, we can consider that policies in favour of MSMEs are based on three main considerations: the benefits to the national economy in terms of diversity and

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Chance2Sustain examines how governments and citizens in cities with differing patterns of economic growth and socio-spatial inequality make use of participatory (or integrated) spatial knowledge management to direct urban governance towards more sustainable development.

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employment; the need to sustain the sector in a global market dominated by multinationals through adapted technical and financial support; the link between support for the smallest companies and targeted policies for the poorest sections of the population.

Furthermore it is now commonly recognised that competitiveness of small units is enhanced when they are gathered in specialized spaces as clusters. Another important criteria is the availability of a qualified workforce which depends on the quality of the educational system as well as the quality and quantity of technical and industrial training institutes.

Following recommendations arising from the specialised literature (Humphrey & Schmitz, 1996), public policies in support of clusters of MSMEs should encompass the following features:

- First, they must be demand oriented by promoting linkages between MSMEs and large firms, unlike more conventional public policies that focus on the issue of inputs by providing technical, financial or training supports.
- Second, these policies must be collective in the sense that they foster MSMEs as a group, through associations and other networks.
- Finally, they must be cumulative to enable companies to develop their ability to grow themselves out of these policies.

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