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CONTEXTUALLY RELEVANT INDUSTRY POLICY CREATION AND IMPLEMENTATION: AN IMPACT- EVALUATION STUDY OF THE SUCCESS OF THE "YEAR OF ENTERPRISES" INITIATIVES

Executive Summary

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Executive Summary

The state of Kerala is bordered by the vulnerable Western Ghats as well as the waters of the Arabian Sea along its left border. Therefore, the state's coastal eco-sensitive zones, as mandated by the Regulation Zone Act, lie at the intersection of this region. This suggests that the eco-sensitive zones can only move vertically along the left border of the state. Faced with this constraint, the Government of Kerala needed to develop an industrial policy that could promote employment and wealth creation through entrepreneurship within a space-constrained environment.

The government thus leveraged the state's factors of production advantage, evoking the unique skill sets of its citizens to rise to this challenge. Kerala's economy generates 65% of its revenue through services, namely hospitality, tourism, medical tourism, pilgrimage, IT, transportation, financial services, and education. The history of Kerala is closely linked with trade and commerce, which revolved around its famous spice trade. Known for its natural beauty, most of the state is surrounded by rich greenery. Kerala has been a significant exporter of natural products such as spices, cashews, coir, coconuts, coffee, pickles, and marine products. Food processing industries contribute more than 65% of the state's total export income. Enterprises in Kerala have performed well with natural products. However, new product development and diversification in industries are also important factors in a market-driven economy. A diverse economy is more resilient to economic uncertainty. If one industry experiences a downturn, other industries can help absorb the impact, reducing the overall economic vulnerability.

Before the year 2022, the Government of Kerala was dealing with several difficulties. The state's economy was declining, and the unemployment rate was high. Additionally, the COVID-19 pandemic imprinted many adverse impacts on the state's economy. It led to business closures, layoffs, job losses, financial instability, and various unemployment-related conditions. The government was also beset with several financial limitations. To tackle these challenges, the government of Kerala introduced the 'Year of Enterprises' (YoE) initiative for the Financial Year 2022–23, to encourage and promote new micro, small, and medium-level entrepreneurs in the state through various schemes under the umbrella of the 'Year of Enterprises' initiative.

The state government entrusted its Directorate of Industries with a target initiative of "Setting up One Lakh Enterprises During 2022–23." Whether faced with a pandemic, a natural disaster, or constrained resources, the Government of Kerala needed to innovate with its policy development. The aim of the industrial policy was to establish one lakh new businesses by encouraging micro, small, and medium-level entrepreneurs in the state and providing three to

five lakh job possibilities.

As of November 2024, the Government of Kerala's YoE initiative has reached more than three lakh MSMEs, and has started and generated more than seven lakh jobs.

The main findings of the impact and evaluation of the 'Year of Enterprises' initiative are as follows –

Prior to the YoE launch, a substantial 79% of firms reported that they did not agree with any of the preferential banking policies that were meant for MSMEs, indicating a broad perception that they did not receive the expected relief or support from banks. However, when the same sample was asked this question in light of the YoE initiative, a majority of respondents (94%) generally agreed with the statement, with most respondents indicating a "Strongly Agree" response. This reflects a widespread support for, or a consensus on banks having preferential policies for MSMEs post the launch of YoE.

With regard to financial support from the government during COVID-19 and the pre-2022 years, a significant 70% of firms said they did not receive any of the listed forms of government financial support, indicating a widespread perception of insufficient or ineffective aid during the pandemic. During the YoE initiative, a significant 87% of respondents are satisfied, with a notable 57% being extremely satisfied. This reflects a strong positive reception of the financial services.

67% of the MSMEs during COVID-19 and the Financial Year 2021-22 believed that the government policy assistance was not effective in helping MSMEs recover, suggesting that the support might not have met expectations or not have been impactful for many businesses. During the YoE, a significant 91% of respondents were satisfied, highlighting strong approval for the financial policy aid options.

Most MSMEs participants (92%) expressed satisfaction with the 'Year of Enterprise' initiative of the Government of Kerala.

Customer support is the most valued feature of YoEs, suggesting that entrepreneurs highly appreciate the accessibility and responsiveness of the support provided. **The application process**, also being the second most valued feature, reflects the ease of access and lower procedural hurdles in applying for schemes under the 'Year of Enterprises' initiative.

87% of the respondents believe that the financial services and other schemes and policies under YoE services are crucial, reflecting their significant role in business operations. An overwhelming 93% of respondents were satisfied with the mentorship and networking

initiatives, indicating a strong approval.

The financial schemes in the 'Year of Enterprises' initiatives impacted the growth of MSMEs in numerous ways. Some are described below:

Significant Impact of Subsidies: A notable majority of respondents highlighted the importance of subsidy assistance, with many indicating that subsidies have greatly reduced their financial burdens and enabled them to invest in machinery and other resources. This support has been crucial for starting and expanding their enterprises.

Access to Loans: Increased access to loans has been emphasized as a key factor for growth. Many respondents reported that simplified loan processes and the availability of favorable terms, such as low-interest rates and government-backed loans, facilitated their ability to secure necessary funding for business development.

Awareness and Knowledge of Government Schemes: Entrepreneurs are increasingly recognizing various government schemes available. Many respondents expressed that initiatives like orientation campaigns have helped them understand and navigate these schemes effectively, leading to better utilization of available resources.

Support for Growth and Job Creation: Financial schemes have not only supported the establishment of new units but have also contributed to job creation and overall economic growth. Many respondents noted that the support received has positively impacted their ability to hire more staff and increase production capacity.

Training and Marketing Assistance: Several respondents highlighted the additional benefits of training programs and marketing assistance provided under the initiatives. This support has improved their financial literacy and marketing strategies, further enhancing their business operations and competitiveness in the market.

YoE also helped the health of individuals. Only 50% of the respondents rated their health as "Good" prior to 2022. **A significant majority of respondents (86.9%) rated their overall health as "Good" or "Excellent" after availing the 'Year of Enterprises' initiative's benefits, indicating a generally positive impact on their well-being.**

Social and Environmental Assessment: Community Engagement

Before 2021 and prior to the YoE initiative, a significant portion (68%) of respondents either did not participate, or rarely participated in community events. This suggests that for more than one-third of the surveyed group, community engagement was minimal or non-existent. After the YoE, 72% participants said that they would participate.

- **High Occasional Participation:** the largest group consists of those who participated occasionally (49%), suggesting that while they were not frequent participants, community events attracted significant interest.
- **Strong Frequent Participation:** A notable 28% of respondents were frequent participants, showing a high level of engagement in community events among a considerable portion of the population.
- **Strong Positive Response:** A majority (59%) feel empowered by the community decision-making processes, which suggests that the Year of Enterprises initiative has had a positive impact on participation and engagement.
- **Strong Sense of Belonging:** A majority of 64.4% of the respondents reported feeling a sense of belonging in their community after receiving support from the Year of Enterprises initiative. This indicates a positive impact on community integration and personal connection.
- **Significant Positive Impact:** A substantial 79% of the respondents reported that their self-respect and acceptability in society have increased following the Year of Enterprise facilitation. This suggests that the YoE initiative has effectively contributed to enhancing the individuals' confidence and societal standing.

Strong Commitment to Environmental Health and Safety EHS Systems: A significant majority (63%) of respondents reported that their companies have a basic Environmental Health and Safety (EHS) system in place. This reflects a proactive approach to compliance with local, state, and national laws regarding community health and safety.

In Information, Education, and Communication Strategies, the following have been observed:

- **High Effectiveness of Personal Engagement:** The Industries Department's office visits and the Panchayat's workshops are among the top-rated communication mediums. They show a strong performance in the "Very Effective" and "Extremely Effective" categories, indicating that face-to-face and direct community engagement approaches are the key to success.
- **Moderate Impact of Digital Campaigns:** Publicity on internet websites, mobile appliances, and electronic media campaigns is rated mostly in the "Effective" category, demonstrating moderate success but falling behind personal engagement mediums.
- **Low Performance of Traditional and Email Channels:** Traditional mediums, such as street plays and storytelling, along with direct emails, received higher counts for being "Not Effective" and "Somewhat Effective," suggesting that these methods are less successful in reaching or influencing the target audience.

Sustainable Financial Performance

The ability of a business to maintain a profitable financial condition and avoid financial difficulties as measured by a subjective assessment of Return on Assets (RoA) is described below:

- **Positive Growth in Profitability and RoA:** Many businesses reported an increase in profitability and performance post-pandemic, with improvements in RoA being implied. The majority of responses mentioned profit increases, indicating a trend towards sustainable financial recovery and growth.
- **Steady or Improved Financial Performance:** The next higher set of responses reflected that businesses are performing well, with some noting stable growth. These responses suggest that companies have adapted to the post-pandemic conditions, and are achieving sustainable financial health through better management of assets and resources.
- **Better Sales Conditions Supporting Financial Stability:** In many instances, respondents noted improved sales conditions as compared to the pandemic period. This suggests that increased sales are contributing to a more stable financial performance, which would reflect positively on the RoA, as businesses optimize the utilization of assets.

- **Challenges in Recovery or Financial Sustainability:** A fewer number of instances indicated that businesses are still recovering from financial difficulties, with some citing lower profitability or challenges with maintaining a steady RoA. These responses highlight ongoing efforts to achieve long-term financial sustainability, but indicate that some enterprises are still navigating the post-pandemic environment.

Sustainable Financial Performance

The ability of a business to maintain a profitable financial condition and avoid financial difficulties as measured by a subjective assessment of Return on Sales (RoS)

- **Significant Growth in Performance:** A large number of businesses reported an increase in profitability or Return on Sales (RoS) as compared to the pandemic period, with 150 mentions of improvement. This suggests that businesses have managed to recover well and are performing better post-pandemic.
- **Stable and Positive Financial Conditions:** A high frequency of responses (120 mentions) described the financial performance as "Good," indicating that many businesses are maintaining a solid financial position, even if not drastically improved. Additionally, many consider their performance "Better" or "Profitable."
- **Post-COVID Business Surge:** Numerous businesses were established after the pandemic (65 mentions), and many of these reported either good or improving financial outcomes, reflecting resilience and a generally positive market environment for new ventures.
- **Challenges for Some Sectors:** While the majority of businesses saw improvements, a smaller segment experienced challenges, with 8 mentions of decreased profits and 5 reporting losses, indicating that some sectors or businesses still face financial difficulties.

Areas for Improvement

- **Technology Usage by MSMEs:** A significant 76% of firms did not adopt any of the specified technological adaptations, indicating that a substantial portion of businesses either did not change their technology use, or did not perceive the listed methods as relevant. Only 2% of firms used e-commerce platforms more frequently, suggesting that e-commerce adoption was relatively limited compared to other digital strategies.

- **Moderate Adoption of Management Systems:** Only 34% of respondents confirmed that their companies have a management system (such as ISO 14001) in place to enhance community health and safety. 66% did not participate.
- **Lack of Policies:** A significant majority of companies do not have key documents or plans in place, with 77% lacking an Environmental and Social Policy Document, and 84% lacking a Stakeholder Engagement Plan. This indicates a widespread absence of formalized guidelines for environmental and social responsibilities.
- **Occupational Health and Safety Plans:** While 58% of respondents do not have an Occupational Health and Safety Plan, 42% reported having one. This suggests that a substantial portion of companies is beginning to recognize the importance of health and safety measures, though many still fall short.
- **Engagement and Grievance Mechanisms:** A high percentage of companies (76%) do not have a formal Grievance Mechanism for communities, indicating a gap in addressing community concerns. Meanwhile, 63% lack an Emergency Preparedness and Response Plan, pointing to potential vulnerabilities in crisis management.
- **Organizational Responsibility:** Only 28% of respondents confirmed the existence of an organizational structure detailing responsibilities for their Environmental and Social Policy. This low figure suggests that many companies may struggle with accountability and an effective implementation of their policies.

Strategies for Financing Operations:

- **High Capital Contribution:** A significant portion (17.0%) of entrepreneurs fully fund their projects with their own capital, indicating a strong personal commitment.
- **Low to Moderate Capital Contribution:** Only a small percentage (5.3% and 11.4%) invest between 75% to 99% or 50% to 75% of their own capital, suggesting that many entrepreneurs do not rely solely on their own funds.
- **Predominance of External Funding:** The largest group (47.3%) invests less than 25% of their own capital, indicating a reliance on external sources of funding.
- **Use of One's Own Capital:** 47.3% use less than 25% of their own capital, followed by 17% with 100% of those using their own capital, with no external capital.
- **Borrowed Funds (Debt):** This dominates in the NIL slab, indicating that most MSMEs do not rely on debt.

- **Raised Capital through Equity:** Highest in the NIL slab, showing that the MSMEs do not choose this route for financing.
- **Bank Loans:** Highest in the 75 to 99% slab, reflecting a substantial use of bank-led financing. MSMEs use this route a lot as per figures.

Future recommendations on part of the MSMEs include:

A High Demand for Financial Education: The most requested addition is the conduct of Financial Education Workshops, underscoring the importance MSMEs place on improving their financial management skills.

A Strong Interest in Mentorship: There is a significant interest in Mentorship Programs, indicating that MSMEs value guidance and advice from experienced professionals.

A Growing Interest in Digital Solutions: Digital Banking Solutions are also in high demand, reflecting an increasing shift towards digitalization in financial services.

An important factor in the success of the YoE initiative has been the citizens' perception of the government as a paternal figure, and their trust in it therein. The citizens look at the Government as a parent and place immense trust in what the government does for them. Reciprocating this faith, the Government should train its citizens and develop policies to scale up entrepreneurship, increasing and realizing the potential of the brand, Make in Kerala.



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