

Enterprise Development in Kerala: Present Scene & Expectations from Kerala Budget 2026-27

Pre-Budget Memorandum

Submitted to

**Hon'ble Minister of Finance,
Government of Kerala**



Institute of Small Enterprises and Development

PRE-BUDGET MEMORANDUM 2026

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1.0 The State of the Kerala Economy today

The economy of Kerala clearly demonstrates a strained situation, wherein the productive sectors show some degree of stagnancy. The macroeconomic figures brought out by the State Planning Board speak of a comparative picture of Kerala's growth rates in relation to that of other States. However, these macro figures, by themselves, cannot be useful in taking forward a strategy for the development of the State. Examined from the point of view of strategy, the picture emerging from the State, need to be analyzed in relation to the three aspects:

- 1) national policies that significantly limits the State's budgetary resources;
- 2) The state of the meso and subsectoral growth rates; and
- 3) The role of savings and investments as growth accelerators
- 4) The prevailing disturbing fiscal situation.

The Government of Kerala's white paper titled "*Kerala's Fiscal Health: A Status Report*" highlights severe structural strain on state finances. It reveals a massive outstanding liability of ₹5.07 lakh crore and a steep increase in accumulated losses for Public Sector Enterprises (PSEs) to ₹78,851 crore. The major findings of the Report relate to the following areas:

- **Critical Debt and Liabilities:** The state's total outstanding liabilities stand at ₹5.07 lakh crore (approx. 35.5% of GSDP), alongside inherited arrears (like unpaid dearness allowance) amounting to ₹48,733 crore.
- **Shrinking Fiscal Space:** Committed expenditures (salaries, pensions, and interest payments) devour nearly 77% of total revenue receipts.
- **Negligible Capital Expenditure:** Only 1.3% of the Gross State Domestic Product (GSDP) is spent on capital investment, which is well below the national average and severely compromises long-term growth and infrastructure.
- **Dwindling Welfare and Plan Allocations:** As funds have tightened, development expenditure has shrunk, with welfare allocations for Scheduled Castes, Scheduled Tribes, and minority communities significantly declining as a share of total plan expenditure.
- **KIIFB Overhaul:** The Kerala Infrastructure Investment Fund Board (KIIFB) faces accumulated obligations of ₹56,000 crore. The white paper noted that its borrowing costs are higher than government rates and pointed out political bias in its project allocations.

The key recommendations of the White Paper includes:

- **Reforming KIIFB:** The document advises against KIIFB independently raising external funds. It recommends that the Finance Department undertake all borrowings to reduce costs, and integrating KIIFB's institutional capabilities into standard government departments.
- **Public Sector Enterprise Revamp:** It proposes the disinvestment, privatization, or closure of potentially non-viable PSEs. It specifically suggests merging the Kerala State Beverages Corporation (Bevco) and Civil Supplies Corporation (Supplyco) into a single entity to balance civil supply losses with retail alcohol profits.

Utility Tariff and Subsidy Revisions: The paper calls for urgent structural reforms for major utilities (KSEB, KSRTC, and KWA) to stop them from being a massive drain on the state exchequer. It also suggests moving from production-based to targeted, consumption-based subsidies.

2.0.The State of the Enterprise System

While the imbalances of the economy are discussed by the Report in detail, the dynamics of the enterprise system, and its lop-sided growth needs much more elaboration. This is critical because, while there has been so many programmes and respective allocations geared to enterprise and entrepreneurship development, the outcomes remain badly neglected, and often do not go to the level of public scrutiny. There is lot of mystery around data base of the industrial economy, and there is also lot of mystery around available data. For the first time, the Department of Industries & Commerce, commissioned a comprehensive study,ie., Kerala Enterprise Development Report 2026, the findings of which draws a detailed picture of the industrial sector, policies and strategies. It was tabled in the State Assembly on May 5, 2017, many of the recommendations still remain to be implemented. Meanwhile, Government of Punjab has taken up some of its recommendations and has come out with the Punjab Right to Business Act 2020.

While the original understanding behind the above study was to have it on annual basis, providing updated data and insights, it was practically discontinued.Kerala Enterprise Development Report 2026 may be initiated urgently so that the findings become readily available before the discussions on the Union Budget 2027-28 starts.

The savings and investment position in Kerala demonstrates the need many corrective steps. While ,on the one hand, foreign remittances have remained by and large constant, the changes in the pattern of investment still remains undesirable. The capital goods sector remains still weak. The limited investments that have come into the consumer goods sector, are not sufficient to trigger an income acceleration. As such, the production base of the States' economy still remains weak. While the productive sectors, by and large, remain stagnant, and most of the consumer goods come from outside the State, the growth potential of the services sector also remains doubtful.

While the production base remains weak, as mentioned above, the changes in the consumption pattern, as revealed by the NSSO figures, gives much room for alarm. A fundamental question that emerges is, whether Kerala could meet its expanding demand base, with an appropriate response on the production base. The experience need to be examined in relation to the commodity basket of consumption. Most of the consumer goods enter into the State from outside .Besides, much of the items of daily consumption, such as vegetables, milk , eggs etc., find their way into the State from neighboring States, with obvious concerns relating to their quality and environmental hazards.



While the macro economic policy of the country is not adequately sympathetic to the rigidities of this sector , the political and ideological background of the government matters a lot in providing support to these enterprises. An area that has been badly neglected is, business development services, where, governments , based on their imagination and conviction can evolve innovative programmes meant for promotion.

3.0. Public Policy and Business Sustainability

Public policy, in all countries, focus on employment promotion. Given the 'redundant labour' phenomenon seriously constrains employment opportunities in the formal sector, governments increasingly resort to 'enterprise development', development of micro, small and medium enterprises, as a Keynesian solution today.

Clarity on approaches to sustainable enterprise development is often limited. It demands a mutually reinforcing policy framework that operates both at the macro and micro-meso levels. The focus on catch-words often in vogue are, "development' and "Investment promotion". But, the dynamics of the process and its details are often missed out. Such integrated policy approach is often missing in most cases. Kerala also is no exception, despite's significant achievements on the decentralisation front.

4.0. Translating Hard core Economic Rationale into Budgetary Sense

In ILO's definition of forms of 'work'. It gives a comprehensive definition of work , which can be used by to Finance Minister, as a beautiful operational tool. It says:

A "type of contract which a person's has with other persons or organizations when performing a particular job" when that is measured in a statistical survey or registered in other administrative files. The "type of contract" for a job is determined by the type of economic risks and authority which are involved when carrying out the tasks and duties of the job".

In the ILO's definition as above, out of the six categories, three constitute self employment. Based on such categorisation, the Budget need to act as a dynamic agent that triggers creative economic activity of the people(work).

5.0. Work and Work Process: Kerala's comparative Experience

The Budget simply does not speak Economics, it is more of a political document. Finance Ministers often fail to understand, what motivates the entrepreneur. It is something more than mere tax rates.

Self employment as the breeding ground of entrepreneurship-it is the lowest form of 'enterprise'(risk-taking). Look at the self-employment scene in India. At the national level here is a general tendency for the density of self employment to come down. Per Sq.km. self employment is very low in two States, via, Kerala and T. N. This is a pattern that is gradually catching up in other States as well. Why does it happen? Can the budgets do something to reverse this trend?

Public policy has a major role in giving the market signals for private investment at the bottom level. Much of the focus today- so called 'Investment approach,'(where focus is on top of the pyramid). While, it is assumed that large investors will get attracted to some of the incentives offered by the Government, and thereby will come with their large investments. Such large investments are expected to provide trickle down effects in the economy in two major forms; a) The creation of downstream link industries and self-employment activities; and b) Expansion of direct employment opportunities.

6.0. Budgeting Strategy: Need for Change

The more recent evidences on the investment scene indicate that , such a uni-linear process does not really happen to a significant extent. Therefore, there is need for a radical restructuring of the strategic approach to budgeting. Such a change involves a more broad-based initiative for building up business confidence. Experience so far, shows that, business confidence does not generally go up with respect to isolated fiscal incentives to particular sub-sectors. On the other hand, it is the predictability of business returns that influence investment decisions positively.

Investment decisions are made by INDIVIDUALS. Their achievement motivation(subjective) and expected rate of return(objective), lead to investment proposals. These aspects are often not factored into public policy(also not in Budgets).While additional resource mobilisation is critical, the options are limited. One option is the dependence on out of Budget sources, which also need to be done with extreme caution.

In a context where, there are serious constraints on resource mobilisation, the State Budget this year cannot think of such major incentives for attracting large private investments. The only option available is to broad-base such incentives, in such a way that it ignites the market sentiments in general. This essentially involves, streamlining economic governance in general, on a more rational footing. It is possible that in the industrial sector, all the existing schemes are reviewed and reorganized on a rational footing, on the basis of clear evidences on past performance.

Kerala's challenge, today, is on how to use the Budget as a tool for addressing the adverse impacts of several macro-economic policies: On the employment front,low 'self employment' and high 'casual labour' per sq. Km are Kerala's striking features today. This would naturally imply that, any unfair practice by the traders and manufacturers are likely to affect the consumers more seriously, than in any other State.

7.0.A Vision & Direction for the Budget

Kerala must ,undoubtedly, build up on its achievements of the past. The question is one of sustainability strategies. It has to continue with the ongoing broad based Welfare Programmes. But the State has to also ensure that the money does not leak out of the Kerala economy. The mechanism need to be buttressing local investor confidence. The preparation of an Annual Business Sustainability Report (to be tabled in the Legislative Assembly), needs to be initiated immediately.



Therefore, it is important to focus on the following strategic areas for a “hub& spoke model of harnessing entrepreneurial potential into sustainable projects and income opportunities.

7.1. Declaration of 'Entrepreneurship' as a State Resource

Entrepreneurship is a public good. However, for practical purposes, this “public good” approach do not often get reflected in programme design and implementation. The time demands two critical steps: a) a Kerala Entrepreneurship Resource Policy; and 2) convergence of all programmes of the Directorate of Industries & Commerce, renamed as “Samrambhaka Shakti” .The Rs. 5 lakhs youth scheme announced by Rahul Gandhi needs to be the entry-point of the Scheme.

7.2. Raising Entrepreneurs' Morale through “Enterprise Security”

Micro, Small, and Medium Enterprises (MSMEs) form the apex of an economic pyramid. When MSME risks rise disproportionately, they negatively impact dependent stakeholders—including banks, insurers, DFIs, and vendees—destabilizing the economy as a whole. De-risking MSMEs is, therefore, a collective responsibility of society. While the ultimate risk rests at the top (the MSME), the entire base depends on its stability. Any external risk (e.g., market volatility, supply chain disruptions, restrictive tariff regimes) that pushes MSME risk beyond calculated thresholds creates a domino effect, seriously jeopardizing the broader economy. Disproportionate risk at the apex directly translates into non-performing assets (NPAs) for banks, supply chain failures for vendees, and revenue losses for insurers.

.3. The "Promotion vs. Operations" Gap

This is an accountability question , as to the outcome of the variety of the variety of entrepreneurship promotion activities by the public promotional agencies.It is an area where the current developments demand immediate professional intervention. There is a distinct gap between the mere *promotion* of MSMEs and actual *MSME business operations*. Many supportive activities occur in the macroeconomy, but closing the gap requires targeted systemic interventions. The Government should set up a Study Group/ Research Project to look into the problem and make recommendations by October 2026.On the basis of the recommendations of the study, all the existing promotional programmes of the Department of Industries have to be restructured. Institute of Small Enterprises and Development offers its innovative model of “Enterprise Security”, and its operational model, the Punjab Right to Business Act 2020, as model initiatives for consideration. The Punjab Right to Business Act, 2020 is a state legislation designed to improve the 'ease of doing business' for MSMEs. It provides an enabling ecosystem of self-declaration, exemptions from certain regulatory approvals, and time-bound clearances to establish and operate in the state

7.4. “Entrepreneurial City” as Magnet of Enterprise Activity

The ISED Model of “Entrepreneurial City” refers to an urban centre that shifts away from traditional administrative management toward an aggressive, market-oriented strategy designed to foster continuous innovation, wealth creation, and a thriving business ecosystem. The “Entrepreneurial City” framework prioritizes several key focus areas to stimulate local economic growth:

- **Fostering an Ecosystem:** Providing the physical and social infrastructure necessary for startups, small businesses, and social enterprises to thrive.
- **Collaborative Leadership:** Mobilizing diverse stakeholders—including the government, academic institutions, and private businesses—to jointly identify and capitalize on market opportunities.
- **Sustainable Wealth Creation:** Acting as a catalyst for inclusive growth, job creation, and the reduction of regional disparities.

The new enterprise development/ industrialisation strategy need to have the concept of “ Entrepreneurial city as its focal point.

The concept of “Aero-entrepreneurial City”, as it has been founded and developed by the ISED Small Enterprise Observatory, implies a sustainable development concept, built around the globally accepted and prevailing model of 'Hubanomics'.

Globalisation is becoming increasingly choosy on the flow of investments and location decisions. Rather than looking for the cheapest of destinations, investments increasingly tempt to get located in regional hubs. The unifying factor for such regional convergences is knowledge and skills. Therefore, regional trade hubs, creativity hubs, innovation hubs, and manufacturing hubs, are all capitalized on the power of specialized, clustered knowledge and talent. More than simple supply and demand, hubanomics is the new phase of globalisation.

Within the emerging paradigm as above, global corporations themselves have their particular strategies. For example, Diageo, the world largest producer of spirits has its own logistic hubs, where the company does customization, centralizes its inventories, and reduces its stock holding. Astra Zeneca, the pharmaceutical giant, claims to have three types of manufacturing facility: 1) global sites from where products are launched all over the world; 2) regional hubs in China, America, and Europe, from where operations take place once a particular scale is reached; and 3) market access sites, meant essentially for overcoming specific regulations and rigidities in particular countries.

Operation based on a hub is becoming the new trend for businesses. The operational strategy involves three stages: 1) harmonization; 2) standardization; and 3) movement to the hub. For most multinational companies, their business strategy proceeds on this three-stage approach.

The new theory argues that global business will be increasingly distributed both in terms of production and consumption. This implies that, there need to be new business models to deliver local value through such hubified activity.

The notion of a 'hub' is a key delivery and conceptual model that will assist the development and delivery of a company's global engagement plan and its ambitions.

As production and consumption get increasingly more distributed, hubs will characterize the next wave of globalisation. These hubs will specialize to support the needs of growing regional trade, emerging city states, online communities of choice, and the next generation of flexible workers and entrepreneurs. From the point of view of development of enterprise and entrepreneurship, this emerging trend has much significance. The concept of hub is that of vibrant centre of knowledge, art, science, politics, technology, religion, skills, exploration, and economic growth that would lead to the development of hinterland around them.

The world economy is turning to be increasingly multi polar rather than as power blocks. A major facilitator has been the enhanced role of the new economy, facilitated by the micro-electronics revolution. Multiple mega cities are going in many countries. R&D hubs are



sprouting globally, which in turn move closer to the needs of different markets. On lines of the Silicon Valley, several such models have been replicated around the world. This is the essence of theory of hubanomics.

From the point of view of public policy, there are several challenges and opportunities offered by hubanomics. The challenge for business, governments, and communities is to develop new ways to tap in to the power of specialized and clustered knowledge and talent to position themselves for success and long-term advantage. It also implies that new models of business and governance also need to be developed in tune with the emerging paradigm of hubanomics in such a way that global assets and hub's strength can contribute to deliver local value.

For SMEs, the emerging paradigm offers both opportunities and threats. On the opportunity side, there is a possibility of reaping benefits through spillover effect of the hubs. Governments will have to increasingly play a catalytic role in helping SMEs to tap such benefits. Strengthening business development services, and creation of a social capital base can help to improve the situation. On the side of threats, knowledge remains too difficult to be accessed by the SMEs. Technologies become increasingly disruptive so that, by the time a new technology is adapted it becomes obsolete.

7.4.1. Kerala Maritime Entrepreneurial City Network

A 'Maritime Entrepreneurial City' is an urban hub that serves as an epicentre for the blue economy, fostering innovation in ocean tech, renewable energy, sustainable shipping, and marine biotechnology.

Leading global examples demonstrate different approaches to marine entrepreneurship:

- **Singapore:** Widely ranked as the world's top maritime city, it thrives as an entrepreneurial tech hub. Through initiatives like the Smart Port Hackathon, it backs startups focused on maritime decarbonization and green AI tech.
- **Oslo, Norway:** Known as a premier global centre for sustainable ocean technologies. Home to the Ocean Innovation Norwegian Catapult Centre, it provides startups with facilities to test new green shipping and aquaculture solutions.
- **Busan, South Korea:** A leader in maritime technology, partnering with tech firms to build autonomous water taxis and floating city prototypes like Oceanix Busan, which test circular-economy business models on the water.
- **Rotterdam, Netherlands:** Serves as Europe's premier testbed for port logistics innovation. The PortXL accelerator program is housed here, connecting maritime startups with corporate investors.
- **Tanger Med, Morocco:** A fast-growing logistical powerhouse, this Special Economic Zone (SEZ) connects Africa to European trade routes by pairing a massive transshipment port with a dynamic industrial and startup ecosystem.

Technology convergence and infusion are revolutionizing the Blue economy by integrating disparate technologies and embedding them into business operations to drive growth and competitiveness. Technology infusion and its progressive absorption are vital for enterprise development. Government of India has appreciated this role since Independence, and has initiated major steps for laying down its S&T infrastructure in the blue economy, focusing on resource development, extraction, and ecosystem management. These roles have been performed by R&D institutions. While these agencies contribute significantly in their mandate areas, the sustainability of such initiatives depends upon their contribution to the market, and of the capability of the market to utilise them as handmaids.

There is need for a pragmatic approach to using the S&T inputs of the country on a real-time basis for enhancing and broad basing production and productivity to the best interests of the country. Translating S&T into income opportunities/entrepreneurship is a critical concern of the State. Science provides the innovation and knowledge, social relations establish networks and culture, and the market offers the opportunities and demand that allow businesses to grow and succeed. A strong interplay between scientific advancements, supportive social structures, and accessible market conditions, is essential for successful entrepreneurship development.

On lines of the above strategic imperatives, the ISED Small Enterprise Observatory, the Entrepreneurship and SME knowledge hub of Institute of Small Enterprises and Development, proposes 'Decentralised Smart Manufacture Framework' as the way forward for the country. Already shared and deliberated with the Ministry of MSME, this strategic approach has been well documented and discussed across the country. In order to take forward this framework into action, the concept of an 'S&T Knowledge Bridge' is relevant. The Observatory defines the enterprise ecosystem of the country in relation to the 'Tripod Effect Model' of science, social relations and market. The conceptual framework is expected to be empirically validated, in the context of S&T interventions in ocean research, in relation to the role of the scientific community, institutions, and research output, relating to the blue economy.

The "Tripod Effect model" combines the Resource-Based View (RBV), Industry-Based View (IBV), and Institution-Based View (IBV) to explain how an enterprise's ecosystem is shaped by its internal resources, industry dynamics, and external institutions, respectively. The components—science (or knowledge/resources), social relations (or institution-based view), and market (or industry-based view)—reflect these core frameworks that interact to shape the complex environment of an enterprise. This is an innovative approach in entrepreneurship research.

The "tripod" concept highlights that a sustainable entrepreneurial ecosystem requires a dynamic interaction between scientific progress, strong social connections, and robust market mechanism. Each pillar supports the others; for example, scientific advancements might create market opportunities, which then need social networks, to be successfully exploited within the market context.

To analyse a technology-to-entrepreneurship convergence model, a comprehensive methodology can combine quantitative and qualitative approaches, drawing on established frameworks from innovation, technology management, and entrepreneurship research. The specific methods chosen depend on the research questions, but a mixed-methods approach is generally best for capturing the complex dynamics involved. These details, as also the finer aspects of the methodology will have to be worked out.

Fostering the inter relationship between technology capabilities and entrepreneurial demands is vital for ensuring the role and relevance of technology as a facilitator of sustainable development. As such, this study proposes a techno- entrepreneurial interface and convergence in the blue economy of Kerala need to come out through a comprehensive study.



The study needs to be focused on the experience of the fisheries sector. The idea that an institution must own and drive the translation of a concept into strategies is a core principle of organizational effectiveness and strategic management. An institution, with its structured resources and collective authority, provides the necessary framework for a concept to become a concrete, actionable plan with lasting impact. In India, two types of institutions are involved in the process: 1) policy institutions ; and 2) Resource development and management institutions.

To progress from an initial concept to a fully developed strategy, an organization typically moves through four main stages: definition of vision and mission , strategic analysis, strategy formulation, and strategy implementation and evaluation. This is a continuous, iterative process, not a one-time event, requiring flexibility and adaptation to new information. Entrepreneurship is the vital area that can ensure sustainability of the blue economy. Blue economy entrepreneurship involves creating sustainable, profitable, and innovative businesses that rely on and support the health of oceans, rivers, and lakes. Entrepreneurs in this field apply creativity and practical skills in diverse sectors like sustainable aquaculture, marine biotechnology, eco-tourism, and renewable marine energy to create economic value while protecting vital aquatic ecosystems and contributing to human well-being.

Translating the abstract concept of the blue economy into concrete, actionable strategies requires a multi-pronged approach that balances economic growth, social equity, and environmental sustainability. This involves national policy frameworks, targeted sectoral initiatives, innovative financing, and active community participation.

Given the current vulnerability of the blue economy on account of the adverse developments in the trade regime, on the one hand, and the immense unexploited potential of Kerala's blue economy, real time strategies alone can help to protect the economic interests of the State, creating brokered knowledge, and ensuring its continuous flow is the imperative of the times.

'Brokered knowledge' refers to the practice and product of knowledge brokering, where intermediaries (knowledge brokers) bridge the gap between "knowledge producers" (like researchers) and "knowledge users" (like policymakers or business leaders). This process facilitates the transfer, translation, and dissemination of knowledge, often by adapting technical or complex information into accessible formats and building relationships to ensure that valuable information is shared and applied effectively to foster innovation and solve problems.

Knowledge brokers in the fisheries need to act as crucial intermediaries, bridging the gap between various stakeholders to improve communication, foster collaboration, and integrate different types of knowledge for more effective and equitable management. They operate in the spaces between fishers, scientists, managers, and policymakers, translating complex information and building trust. It is high time that a 'Brokered Knowledge Framework' be designed for the interests of ground level programme design and implementation, and scientific studies take place.

7.4.2. Regional Capability Centre for Marine Fabrication

While the concept of Global Capability Centre (GCC) is an indicator of the manufacturing might and market power of countries, the Cochin Shipyard has already demonstrated its prowess in the ship building industry." Ship building-to-Ship breaking is Kerala's potential tomorrow. In order to harness this potential, the idea of a Regional Capability Centres (RCC), on lines of the GCC model needs to be explored. A feasibility study may be undertaken during the current year.

7.4.3. Aero-entrepreneurial City

The concept of an 'Aero-Entrepreneurial City' for Kerala was developed by the Institute of Small Enterprises and Development, jointly with the Kerala Financial Corporation. The concept is most relevant in the context of Kerala for several reasons, including market opportunities, strategic constraints, and the need for engaging the private sector into potentially capital-intensive programmes and thereby ensuring regional development and infrastructure development on a win-win basis. The concept, as it has been founded and developed by the ISED Small Enterprise Observatory, implies a sustainable development concept, built around the globally accepted and prevailing model of 'Hubanomics'.

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The Union Budget 2026-27 identifies cities as India's engines of growth and proposes mapping CERs based on specific growth drivers. While global cities thrive on integrated regional planning, Indian cities often face "infrastructure stress" despite producing 60%–70% of GDP.

8.0. Key Challenges Before the Budget 2026

The forthcoming State Budget faces a vicious circle involving five inter-related problems: 1. Tax revenue squeeze; 2. Mounting non-plan expenditure; 3. Price- rise of essential commodities; 4. Limited base of PDS; and 5. Drastic fall in investor confidence, and a standstill in infrastructure sectors. Solutions to these problems are not that easy. They belong, broadly, to three areas: a) enhancement of revenue base (tax and non-tax); b) improving economic governance system in general-not only tax regime-less of "administration", and more of 'evidence- base'; c) proper targeting of Plan funds- rationalize all enterprise related programmes and schemes of various departments.

9.0. Critical Constraints

While seeking such solutions, there are 3 three critical constraints that stand out: a) Widespread price manipulation by traders, following the GST roll- out; b) High adulteration of essential commodities; c) Inadequate coverage and weaknesses of PDS; and d) A fall in investor confidence at the grass root level.

Of these, from the angle of sustainability, the critical factor is, the fall in the investor confidence itself, a scientific measure of which is the TEA rate. Despite the usual claims of the line-Department, the district-wise TEA rate indicates a rather confusing picture of what the routine programmes of the Government of Kerala achieve, in terms of investment promotion and employment. The Total Early Age Entrepreneurship (TEA) rate show a tendency to fall further. Monitoring the impact of the routine schemes of investment promotion and employment creation, on scientific lines,, need to be a major thrust of the Budget hereafter.

Unless the issues, as above, are addressed meticulously through strong administrative and political steps, they are likely to affect consumers and producers alike. Naturally, the exiting businesses will open another window of imports from China, a trend that has already been in motion. Market manipulations and unfair practices cannot be checked by regulatory measures alone. There is a need to explore new voluntary and motivational tools.

Promotion of 'Responsible Business' practices (bringing in a voluntary standards regime) could be explored. Of course, scientific studies are needed on the subject. Implementation of National Voluntary Guidelines (NVGS) for MSMEs, legislation need to get the importance it deserves. For example, think of a 'Collective Efficiency' model for small hotels.

10.0. Bridging the Big Gap: Some Measures

The direct interventions by the Government have only limited scope in the present context. There need to be a meticulous effort to build up business confidence at the base of the business pyramid.

The thrust of the Budget need to be three pronged: First, Introduction of a Business Sustainability Policy-Manufacturing on an Enclave Model (eg: Industrial Corridor) which should work along with a decentralised LED model. Secondly, while there should be an effort to question Kerala's unique welfare schemes, wrapping such welfare schemes with sustainability- a Social Enterprise Policy& Social Enterprise Fund. Improving governance through a strong social audit system need to be the *sine qua non* for ensuring that hard-earned resources are productively used. Thirdly, strengthening of consumer movement can play a big role. Activating Consumer Grievances Redressal Forums, and support to Consumer Guidance Societies can play a big role in cultivating responsible business practices. Broad basing and strengthening PDS is vital. Support to CSR Hubs, having a clear programme at LSGI level, need to be explored as a new initiative.

Improvement of economic governance through evidence-based policy making is important in the present juncture. While the quality of public services are enhanced, making people willing to pay more as taxes, there is an opportunity of enhancement of basic taxes and fees: for example, meticulous e-governance at LSGI level, effective collection of professional tax and fees, are some steps that can be easily attempted at. Rationalisation of electricity and water charges need to be explored, and many of the exemptions given to particular consumer categories can be re-examined, and abolished, if needed. Kerala Start-up Policy to be restructured, into an Integrated Business Start-up Policy, with specific focus on key components, and specific Budgetary allocations. In this context, it would be advisable to examine the Tamil Nadu experience.

11.0. Reform Measures & Proposals

We propose the following reform measures on a priority basis:

1. Entrepreneurship Resource Policy of Kerala(by October 2026)
2. Restructuring the “ Samrambhaka Sabha”, with full representation of entrepreneurs in Gram Sabha(Udyami Panchayat Model).
3. Kerala “Right to Business Act 2026”(Model: Punjab Right to Business Act 2020).
4. State Enterprise Commission(with judicial powers)
5. Restructuring of PSUs- PSU Asset Monetization Programme
6. Kerala Regional Capabilities Centre(KRCC) Programme(Restructuring Kerala Start-up mission, involving EDCs and IEDCs, KELTRON)



11.1. Positive Externalities Subsidies

- 1) Social Enterprise Subsidy (based on State Social Enterprise Policy) eg: Cochin Social Enterprise Policy-by Kochi Municipal Corporation.
- 2) Insurance inclusion policy for MSMEs
- 3) Skill Development subsidy (to private institutions)
- 4) Skill twinning subsidy (Fostering Partnerships)
- 5) Budget contribution to State CSR Pool (Corporate, PSUs, & State Government).
- 6) LED-CSR Pool (LSGIs, MSMEs, Corporate, State Government)
- 7) Employee Volunteering Subsidy
- 8) Introduction of a Business Development Services (BDS) Voucher Scheme

11.0. Conclusion

The more recent changes in the Centre-State financial relations, in addition to the many complexities, as outlined by various expert committees in the past, drastically reduces the financial resources of the States. However, the challenge today, is to strive for translating such constraints into opportunities. A major opportunity relates to enhancing productivity in Government, which is the largest employer in Kerala. Enhanced efficiency in economic governance would have a far reaching impact on confidence building at the grass root level. By now, the people understand the constraints of the State Government. Though, aspirations are always high in a society where the size of the middle-class is swelling day by day, it is such sincerity of the Government, as reflected through a properly stream-lined economic governance system that can show the way forward for Kerala.



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