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SME & MSME

Driving the Growth of the Indian Economy through a globally competitive MSME Sector

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MICRO, Small and Medium Enterprises (MSMEs) are a fundamental part of the economic fabric in developing countries such as India, and they play a crucial role in furthering growth, innovation and prosperity. MSMEs contribute 38% to India's GDP, 40% share of exports and 37% share of the manufacturing output. This bears testimony to their salience in the social and economic restructuring of the nation. MSMEs are increasingly contributing towards employment generation, especially in the rural areas. The number of people employed by MSMEs grew to 117.1 million during FY15 recording a growth of 5% since FY07.

With features such as a large and rapidly multiplying stock of human resource, a large manpower of scientists, engineers and technicians, rich agricultural and mineral resources, a strong footprint in entrepreneurship and rising disposable income and living standards driving up domestic demand, India is well poised to be-

come a key player in the global economy. MSMEs are the very fuel that will drive this growth engine. Given the enormous potential of this sector, CII envisions an increase in its contribution to India's GDP to 50% by 2024.

The product range of the Indian MSME sector spans over 8,000 products from traditional and handicraft products to hi-tech items. Indian MSMEs occupy significant market shares in industries such as food processing, retail trade, textiles & apparels, auto components, hospitality, service sector, etc. Moreover, dynamic global trends such as e-commerce, digital marketing, digital payments, cloud technology, internet of things, etc are also opening up vistas of opportunity for enhanced SME participation. MSMEs are also an integral part of various supply chains by acting as ancillary units supplying various products and components to government departments, PSUs and multinational companies. Indian MSMEs offer unique advantages such as innovative capabilities in niche manufacturing and advanced engineering and a ca-

capacity to provide high quality final and intermediate products with minimal costs of production. MSMEs can also be crucial in supporting the indigenisation drive of the Indian government. Many prominent global Original Equipment Manufacturers (OEMs) are increasingly looking at India for establishing long term supply relationships.

In spite of their significance, these enterprises face an assortment of challenges and constraints. Some of these include poor access to finance, shortage of skilled manpower, technological obsolescence, regulatory issues, poor adaptability to changing trends, lack of access to international markets, and inadequate infrastructure. Failure to address these challenges will check MSMEs from realising their true growth potential.

Identifying lucrative global business opportunities and forming successful global business alliances is the dream of every SME. Apart from the crucial enablers of financial access and world class technical capabilities, SMEs generally require guidance on assessing the global potential of

their products and services, identifying suitable markets, developing strategies to penetrate new markets, and singling out avenues for business partnerships, technology transfers, joint ventures, etc. Accelerated market access initiatives and linkages can provide a strong boost to exports from the Indian MSME sector.

SMEs in India are also hampered by an inability to obtain financial capital for growth and expansion. Local financial systems do not sufficiently cater to their needs and these enterprises face strongly unreasonable lending conditions. Banks on the other hand face information asymmetries and lack access to key data points for assessing the credit worthiness of MSMEs. This underscores the need to develop a robust digital infrastructure for making comprehensive data available to financial institutions on MSME borrowers for an easier assessment of their credit worthiness, which is one of the focal points for CII's policy advocacy initiatives for MSME finance. CII has also been successfully operating the CII Finance Facilita-

tion Centre to partner with banks and other financial institutions for addressing the financial needs of MSMEs.

Further, rapidly evolving novel technologies are presenting SMEs with unprecedented opportunities to expand their markets, enhance their productivity and propel their growth. But SMEs encounter a host of hurdles in the uptake of technological solutions. In order to leverage technology, CII has recently launched the CII Technology Facilitation Centre for the technological upgrade of Indian MSMEs.

The Indian government has been spearheading a series of business reforms. The focus of the government has been on the simplification and digitalisation of business processes, streamlining of regulatory requirements, etc. Indian States too have emerged as equal partners in policy reforms. The Government must also be lauded for promoting the sustainable growth of MSMEs through a host of schemes. Some of the latest initiatives include the Zero Effect Zero Defect Scheme to promote manufacturing excellence

amongst MSMEs while minimising the adverse effect on the environment, the National SC/ST Hub for building the capacity and enhancing the market linkages of the underprivileged sections, the bill to amend MSME definitions, labour market reforms, etc. The Ministry has also launched the MSME Databank to create an online repository of MSMEs and their products.

A technologically vibrant and internationally competitive SME sector should be encouraged for a sustainable contribution to national income, employment and exports. There is a need to build synergies and draw upon the respective strengths of various stakeholders including the government, industry bodies, financial institutions, academic and research institutes, etc in order to create a framework conducive to the robust growth of Indian MSMEs. With continued policy interventions targeted at MSMEs, the sector can emerge as a key growth driver for India.

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